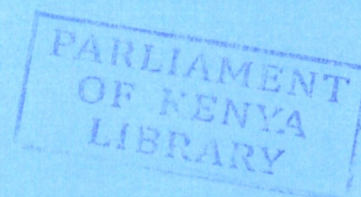


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

**REPORT**



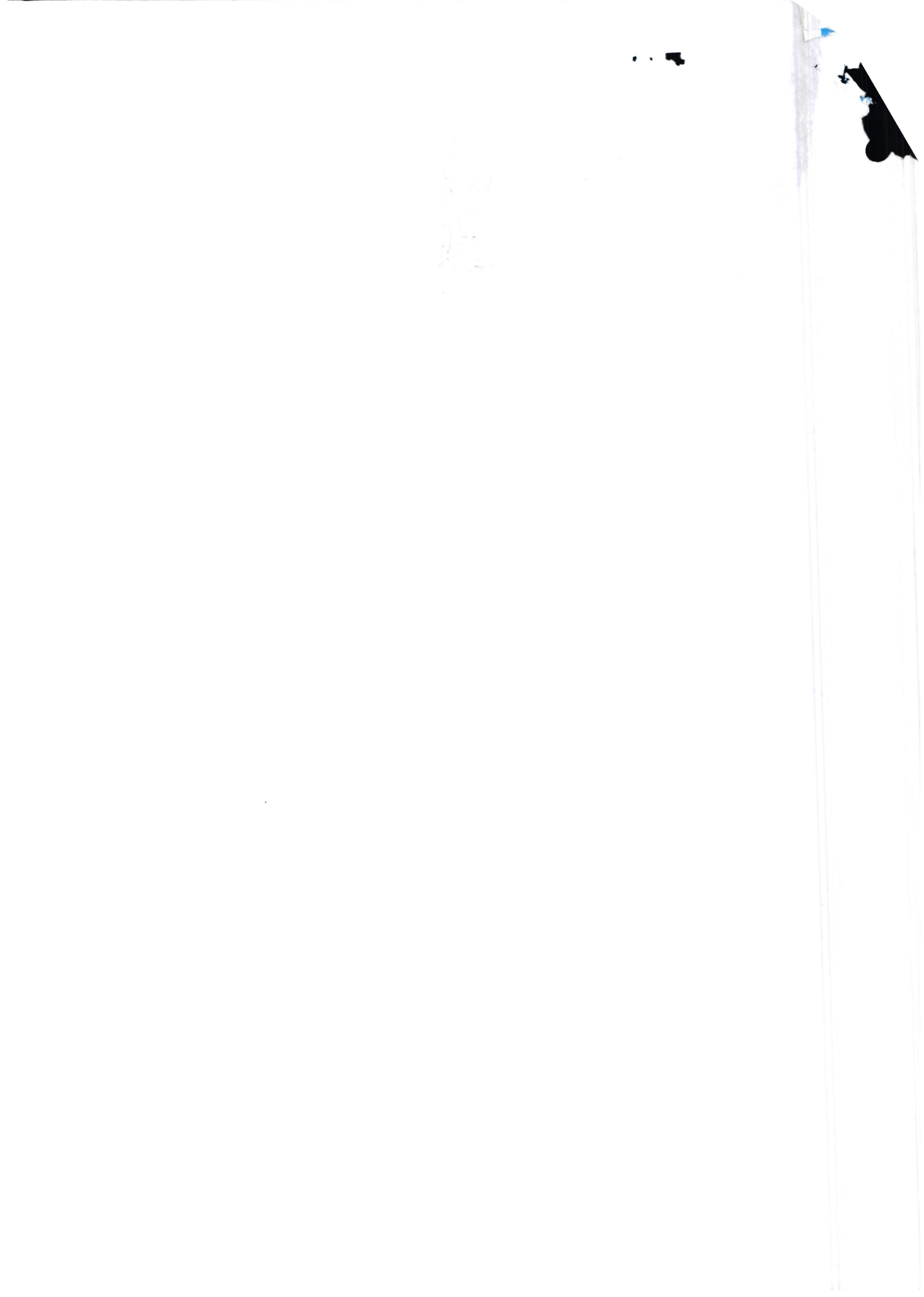
**OF**


**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYATTA NATIONAL HOSPITAL**

**FOR THE YEAR ENDED  
30 JUNE 2018**



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 26 JUN 2019	
DAY: Wednesday	
TABLED BY:	Hon. Aden Duale (OM)
CLERK AT THE TABLE:	Habiba Suleiman



## KENYATTA NATIONAL HOSPITAL

### ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public-Sector Accounting Standards (IPSAS)

**We Listen, We care**

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Kenyatta National Hospital  
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**Abbreviations And Acronyms**

AEE	Association of Energy Engineers
BSC	Balance scorecard
CCU	Critical Care Unit
CIArb	Chartered Institute of Arbitrators
COC	Corporate Outpatient Clinic
COMESA	Common Market For Eastern And Southern Africa
COSO	Committee of Sponsoring Organisations of the Treadway Commission
COYA	Company of the Year Awards
CPC	Corruption Prevention Committee
CS K	Certified Secretary
CSR	Corporate Social Responsibility
DBR	Daily Bed Return
EAKI	East Africa Kidney Institute
EMC	Executive Management Committee
ENT	Ear Nose and Throat
ERC	Energy Regulation Commission
ERM	Enterprise-wide Risk Management
ERP	enterprise resource planning
EU	Europe Union
GSU	General Service Unit
HBP	High Blood Pressure
HMIS	Hospital Management Information System
ICT	Information and Communication Technology
IHRM	Institute of Human Resource Management
IMF	International Monetary Fund
IPPF	International Practise Professional Framework
IPSAS	International Public Sector Accounting Standard
KEMRI	Kenya Institute Of Medical Research
KMC	Kenya Meat Commission
KMTC	Kenya Medical Training College
KRA	Kenya Revenue Authority
KURA	Kenya Urban Roads Authority

KIM	Kenya Institute of Management
KPCC	KNH Prime Care Centre
LeHHO	Leading High Performing Health Organization Program
LIMS	Laboratory Information Management System
MITIPS	Mycobacterium Tuberculosis Infections in HIV
MOH	Ministry of Health
MOPC	Medical Outpatient Clinic
MTP	Medium Term Plan
NACC	National AIDS Control Council
NASCOP	National AIDS and STIs Control Programme
NHIF	National Hospital Insurance Fund
NLC	National Land Commission
NQCL	National Quality Control Laboratories
NSSF	National Social Security Fund
OED	Operation Ear Drop
OFID	Fund for Economic Development
OPEC	Organisation Of The Petroleum Exporting Countries Fund
PACT-COE	Partners in Advanced Care & Treatment Centre Of Excellence
PFM	Public Finance Management
POPC	Paediatrics Outpatient Clinic
PPP	Public Private Partnership
QHC	Quality Healthcare
SCAC	State Corporations Advisory Committee
SDA	Seventh Day Adventist Church
SDGs	Sustainable Development Goals
SFD	Saudi Fund for Development
SLDP	Strategic Leadership Development Program
SOPC	Surgical Outpatient Clinic
TA	Transaction Advisor
UHC	Universal Healthcare
UoN	University of Nairobi
USIU	United States International University

## **About Us**

### **Preamble**

Kenyatta National Hospital (KNH) is a State Corporation established through Legal Notice No. 109 of 6th April 1987 with the following mandate:

- (a) To receive patients on referral from other hospitals or institutions within or outside Kenya for specialized health care;
- (b) To provide facilities for medical education for the University of Nairobi and for research either directly or through other co-operating health institutions;
- (c) To provide facilities for education and training in nursing and other health and allied institutions;
- (d) To participate, as a national referred hospital, in national health planning.

The Hospital has a bed capacity of 1,800 beds and attends to 80,000 inpatients and 600,000 outpatients annually on average. With 50 wards, 24 operating theatres and 24 consultant clinics it is the public Hospital of choice in Kenya and beyond.

KNH offers quality specialised healthcare to patients from the Great Lakes Region, Southern and Central Africa. These services include open heart surgery, neurosurgery, orthopaedic surgery, reconstructive surgery, burns management, critical care services, new born services, ophthalmology (cornea transplant), oncology, palliative care and renal services (including kidney transplantation), among others.

The Hospital provides training facilities for the University of Nairobi (College of Health Sciences) and the Kenya Medical Training College (KMTTC). The institution also works closely with the Kenya Medical Research Institute (KEMRI), Government Chemist, National Radiation Protection Board, National Public Health Laboratories Services (NPHLS), National AIDS and STIs Control Programme (NAS COP), National AIDS Control Council (NACC), National Blood Transfusion Services (NBTS) and African Medical and Research Foundation (AMREF), among others.

#### **Vision**

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A world class patient-centred specialized care Hospital

#### **Strategic Destination**

---

A Multi-specialty centre of excellence offering services that meet international certification standards

#### **Mission**

---

To optimize patient experience through innovative, evidence based specialized healthcare; facilitate training and research; and participate in national health policy formulation

#### **Core Values**

---

Customer focus	Professionalism & integrity	Equity and equality
Accountability	Security and safety	Teamwork and Team
Spirit		

## Key Management

KNH day to day management is under the following key organs:

### **i) Board of Management**

Guided by the Board charter and other statutory provisions, the key responsibilities for the Board are;

- a) Determine KNH mission, vision, purpose and core values.
- b) Set and oversees the overall strategy and approve significant policies of the Hospital.
- c) Ensure that strategy is aligned with the purpose of the Hospital and legitimate interests and expectations of stakeholders.
- d) Ensure that the strategy of the Hospital is aligned to the long-term goals on sustainability so as not to compromise the ability of the future generations to meet their own needs.
- e) Approve the Hospital structure.
- f) Approve the annual budget of the Hospital.
- g) Monitor the Hospital performance and ensure sustainability.
- h) Enhance the corporate image of the Hospital.
- i) Ensure availability of adequate resources for the achievement of the Hospital objectives.
- j) Hire the Chief Executive Officer, on such terms and conditions of services as may be approved by the relevant government organ(s) and approve the appointment of senior management staff.
- k) Ensure effective communication with stakeholders.
- l) Protect the assets of the Hospital.

### **ii) Chief Executive Officer**

Takes overall responsibility in the day to day running of the Hospital on behalf of the Board of Management by;

- a) Providing visionary and transformational leadership
- b) Overseeing the implementation of the Boards resolutions
- c) Support to Board of Management for effective oversight
- d) Evaluate the hospital long term healthcare service effectiveness
- e) Review and recommend appropriate actions for strategic operational plans and policies
- f) Review performance improvement activities and patient's safety efforts
- g) Identify, evaluate and implement the scope of services, practice and governance of the hospital

Kenyatta National Hospital

h) Prudent management of resources

i) Formulating long-term strategies and business plans

j) Monitoring and evaluating performance

k) Ensuring effective communication within the Hospital

**iii) Executive Management Committee (EMC)**

The team consists of the CEO, directors and deputy directors. EMC holds meetings on a weekly basis and is responsible for:

a) Support to Board of Management for effective oversight

b) Evaluate the hospitals long term healthcare service effectiveness

c) Review and recommend appropriate actions for strategic operational plans and policies

d) Review performance improvement activities and patient's safety efforts

e) Identify, evaluate and implement the scope of service, practice and governance of the hospital

f) Prudent management resources

**iv) Clinical Committee**

The Committee meets on a weekly basis under the Chairmanship of the Director Clinical Services. Its members are all divisional heads and heads of clinical departments together with the head of facilities and head of administration.

The purpose of the Hospital Clinical Committee is to support and empower clinical function to perform the best and most efficient multidisciplinary patient care. The goals of the Clinical Committee include overcoming barriers defined by clinicians and leadership through the development of staff and systems changes.

The Committee is responsible for:

a) Review the weekly ward round report

b) Review and reprioritize the utilization of Hospital clinical resources

c) Set performance targets for clinical units

d) Review various research findings and related policy documents

e) Review clinical audit reports and follow-up on implementation of recommendations

**v) Finance and Administration Committee**

The team comprises of the heads of hospital administrative units chaired by the Director in charge of Corporate Services. The committee meets on a weekly basis and has the following terms of reference:

Kenyatta National Hospital

- a) Oversee the implementation of EMC and Clinical meeting resolutions
- b) Review and recommend performance management systems including related standards of OPI, ISO and performance contracts.
- c) Oversee implementation of the hospital governance structure
- d) Review challenges experienced by departments in the implementation of strategic plan
- e) Coordinate and prioritize hospital upcoming activities
- f) Resources management

**vi) Budget Implementation Committee**

The team is chaired by Director Corporate services and consists of Deputy Directors and HoDs. The committee meets fortnightly and has specific terms of reference which include to:

- a) Review and consider cash flow plans for the Hospital and ensure that approval of any changes to the initial cash flow plan is communicated to the Ministry of Health.
- b) Review the utilization of cash limits and consider any changes as may be required.
- c) Review the utilization of Donor funds allocated to KNH and recommend corrective action.
- d) Advise the Chief Executive officer on any challenges related to the Budget implementation with recommendation on ways of mitigating the challenges.
- e) Review and recommend reallocation of expenditures.
- f) Review and approve submission of expenditure returns, IPPD, pending bills and A-I-A returns for KNH and recommend action to be taken.
- g) Facilitate participation of KNH in the Health Sector Working Group.
- h) Oversee preparation of the Hospital Budget and ensure timely submission to The National Treasury.
- i) Review periodic circulars from the Government in relation to the Budget and ensure Hospital Compliance.

## Fiduciary Management

The key management personnel who held office during the period ended June 30, 2018 and had direct fiduciary responsibility were:

**Table 1: Key Management**

No.	Name	Designation
1	Lily Koros Tare	Chief Executive Officer (On Leave Wef 2 <sup>nd</sup> March 2018)
2	Dr. Thomas Mutie	Ag. Chief Executive Officer (Wef 3 <sup>rd</sup> March 2018)
3	Dr. Bernard M. Githae	Director - Clinical Services (On Leave Wef 2 <sup>nd</sup> March 2018)
4	Dr. Peter W. Masinde	Ag. Director Clinical Services (Wef 3 <sup>rd</sup> March 2018)
5	CPA Carylus Odiango	Director - Corporate Services
6	Dr. Evanson Kamuri	Ag. Director - Kenyatta Prime Care Centre
7	Mrs. Rosemary Mutua	Ag. Deputy Director Nursing Services
8	Dr. Thomas Mutie	Deputy Director Medical Services
9	Dr. John Ong'ech	Deputy Director Surgical Services
10	Dr. Elizabeth Odera	Deputy Director Diagnostics Services & Health Information
11	Dr. Paul Etau	Ag. Deputy Director Medical Services (Wef 3 <sup>rd</sup> March 2018)
12	Dr. Tom Menge	Deputy Director Pharmaceutical & Nutrition Services
13	Eng. Richard Binga	Deputy Director Facility Services
14	Mr. Elphas K. Choge	Deputy Director Human Resources
15	CPA Erick Omondi	Deputy Director Risk & Audit
16	Mr. Job Makanga	Deputy Director Planning & Strategy
17	Mrs. Rose Njoroge	Deputy Director Supply Chain (On Leave Wef 5 <sup>th</sup> June 2018)
18	Mr. Abdalla Ofula	Ag. Deputy Director Supply Chain (Wef 5 <sup>th</sup> June 2018)
19	CS. Calvin Nyachoti	Deputy Director Corporation Secretary
20	CPA Michael Kihuga	Deputy Director Finance (On Leave Wef 5 <sup>th</sup> June 2018)
21	CPA Twitty Wasonga	Ag. Deputy Director Finance (Wef 5 <sup>th</sup> June 2018)

## Fiduciary Oversight Arrangements

The overall oversight responsibility of the Hospital rests with the Board of Management which has four committees as below:

- a) Clinical Research and Standards Committee
- b) Human Capital, Finance and Administration Committee
- c) Corporate Strategy and Enterprise
- d) Risk and Audit Committee

Kenyatta National Hospital

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+254 0730 643 000, +254 0709 854000,  
Fax: +254 20 2725272,  
Email: knhadmin@knh.or.ke,  
Website: www.knh.or.ke

**Bankers**

National Bank of Kenya Limited Hospital Branch,  
P. O. Box 30763 - 00100,  
Nairobi, Kenya.

Kenya Commercial Bank Limited,  
Moi Avenue Branch,  
P. O. Box 30081 - 00100,  
Nairobi, Kenya.

Equity Bank Limited,  
Equity Centre Branch,  
P.O. Box 75104 - 00200,  
Nairobi, Kenya.

**Independent Auditors**

Auditor-General,  
Office of the Auditor-General,  
Anniversary Towers, University Way,  
P. O. Box 30084 - 00100,  
Nairobi, Kenya.

Principal Legal Adviser  
State law office,  
The Attorney General,  
Harambee Avenue,  
P. O. Box 40112 - 00200,  
Nairobi, Kenya.

## **Board of Management**



**Mr. Henry K. Rotich, EGH**  
**Cabinet Secretary, The National Treasury**

Mr. Henry K. Rotich is the Cabinet Secretary for the National Treasury a position he has held since May 2013. Prior to his elevation as a Cabinet Secretary, Mr. Rotich was the Head of Macroeconomics at the Ministry of Finance, since March 2006. Before joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya since 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi as an Economist. Mr. Rotich has also served as a Director on several Boards of State Corporations, including; Insurance Regulatory Board; Industrial Development Bank; Communications Authority of Kenya; and Kenya National Bureau of Statistics.

He holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University, USA; a Master's Degree in Economics and a Bachelor's Degree in Economics, both from University of Nairobi, Kenya.

**Mr. Peter Kiplangat Tum, OGW**  
**Principal Secretary, Ministry of Health**

Born in 1962, Mr. Tum is the Principal Secretary, Ministry of health. Prior to this appointment, he was Chief Executive Officer of Kenya Medical Training Centre (KMTTC). He previously served as the Principal KMTTC Nakuru, Campus Head of Medical Engineering Department KMTTC Nairobi Campus and Senior Principal Lecturer.

He holds a Masters degree in Energy Management, Bachelor of Industrial Technology and Post-graduate Diploma in Medical Electronics.



**I.G. (Rtd.) Dr. David Mwole Kimaiyo, MGH, CBS**  
**Chairman, KNH Board of Management**



Born in 1960, Dr. Kimaiyo is the Chairman of the KNH Board of Management. He previously served as Inspector General of the Kenya Police; Senior Deputy Secretary in the Ministry of National Heritage; Director of Operations of the Kenya Police; Coordinator of the Kenya National Focal Point on Small Arms and Light Weapons; and Commandant General Service Unit (GSU). Dr. Kimaiyo holds a Ph.D. in Sociology & Criminology; Master of Science in Criminology and

Kenyatta National Hospital

Criminal Justice; Master of Theology; Bachelor of Theology; Bachelor of Arts Degree in Criminology and Criminal Administration; Diploma in Business Management & Administration; and Diploma in Business English.

**Dr. Daniel Reuben Mukiri Githegi**  
**Independent Non-Executive Director**

Born in 1961, Dr. Githegi is a Consultant Cardiologist and Physicians, Aga Khan University Hospital. Dr. Githegi is also Lecturer and serves as a company doctor for various corporations.

Dr. Githegi holds a postgraduate Medical Diploma-MRCP (UK) and Bachelor of Medicine and Bachelor of Surgery.



**Dr. Helen Jane Chebet Yego**  
**Independent Non-Executive Director**



Born in 1958, Dr. Yego is the Deputy Registrar of Moi University Eldoret West Campus. She has previously served as Principal Administrative Officer at Moi University; Provincial Director of Adult Education for Rift Valley Province and Graduate Teacher in various secondary schools.

She holds a Doctorate in Education (Social Education and Ethics); Master of Economics and Social Studies, Bachelor of Education (Arts) and post-graduate Diploma in Community and Adult Education.

**Dr. Richard Thuo Kamau, HSC**  
**Independent Non-Executive Director**

Born in 1958, Dr. Kamau is a Pharmaceutical Specialist and a Health Service Governance Advisor. He possesses over 25 years' experience in medicine management, teaching and training. He consults in various Committees on reforms in the pharmaceutical sector in Kenya and has served as Lead Consultant in World Bank Funded Projects as well as Board Director of Kenya Medical Supplies Agency.

He holds a Master's degree in Public Health, Diploma in Business Management, and a Bachelors degree in Pharmacy.





**Mrs. Gracie Mullei**  
**Independent Non-Executive Director**

Born in 1954, Mrs. Mullei is the Executive Director and Co-Founder of Women Enterprises International. She has previously served as a Micro Enterprise Development Consultant for GEO Trust in Malawi and Ghana; Director at World Servants International; Director at World Vision International; Lecturer at Daystar University; and has taught in various Secondary Schools for over 10 years.

Mrs. Mullei is Chairman of Kaliani Health Centre and also serves in the Boards of National Council for Population and Development; Living Water International Kenya and various School Management Boards. She holds a Masters of Art in Christian Ministry and a Bachelor of Education.

**Mr. Robert Mungai Mburu**  
**Independent Non-Executive Director**

Born in 1961, Mr. Mburu is the Director of Choice Microfinance Bank. He possesses over 20 years' experience in financial management having worked as the Managing Partner, Mburu Mungai and Associates Audit Firm; Financial Manager at Tana and Athi Development Authority; and Chief Accountant at Metal Box (K) Limited. Mr. Mburu is the Chairman for Cretum Properties Limited, a position he has held since the year 2007.



He holds a Bachelor of Commerce in Accounting and is a Certified Public Accountant of Kenya.

**Prof. Fredrick Namanya Were, EBS**  
**Ag. Principal, College of Health Sciences- UoN**



Born in 1958, Prof. Were is the Dean of School of Medicine and acting Principal. College of Health Sciences. He is also an Adjunct Professor of Newborn Medicine at the Aga Khan University (East Africa) and Chief Research Adviser of The Kenya Paediatric Research Consortium. He also provides clinical services at Kenyatta National Hospital, Aga Khan University and Avenue Hospitals in Nairobi as lead consultant in newborn medicine.

Professor Were served as a National Chairman of The Kenya Paediatric Association (2002-2012) and Committee member of the World Association of Perinatal Medicine (2008-2011) among many others. He continues serving as member of the International Paediatric Association as standing committee member, International Society of Tropical Paediatrics as President, Eastern African

Paediatric Association as president and Network for Education and Support in Immunisation (NESI) as Chair of the Oversight committee. He has published over 100 papers in the areas of newborn medicine and health systems. Alongside membership in the SAGE he also participates in several national and regional committees on immunizations (NITAG, TAG, Polio Certification). He holds a Doctorate in Medicine (MD) in Paediatrics, Fellowship in Neonatology, Masters of Medicine (M.MED Paediatrics), and Bachelor of Medicine and Surgery (MB CHB).

**Prof. Michael Kibet Kiptoo**

**Chief Executive Officer, Kenya Medical Training College**

Born in 1971 Prof. Kiptoo the Chief Executive Officer, KMTC. Prior to his appointment at KMTC, Prof. Kiptoo was an Associate Professor at the South Eastern Kenya University (SEKU) School of Health Sciences in Kitui County. He possesses a wealth of knowledge in health, gained in more than 17 years he served in various capacities at Kenya Medical Research Institute (KEMRI) and the South Eastern University.

Prof. Kiptoo holds a Doctorate in Immunology; Master of Science (MSc) in Immunology; and Bachelor of Science. He is a member of the Kenya Society of Immunology.



**Mr. Peter Wellington Odundo, HSC**

**Alternate to Principal Secretary, Ministry of Health**

Born in 1959, Mr. Odundo is the Chief Finance Officer at the ministry of Health. Mr. Odundo has also served as Chief Finance Officer in the Ministries of Agriculture Livestock & Fisheries; Education, Science & Technology; Home Affairs; Office of the Vice President and the Directorate of Personnel Management. He has also served as Under Secretary in the Ministry of Planning & National Development s as District Officer in the Office of the President.

Holds a Master in Business Administration (Finance) and Bachelor of Arts in Economics & Sociology and post-graduate Diploma in Public Financial Management.



**Mr. Martin Stewart Obiero Gumo, HSC**

**Alternate to Cabinet Secretary, the National Treasury**

Born in 1954, Mr. Gumo is the Senior Deputy Director, Macro and Fiscal Affairs at The National Treasury. He has served in the Public Service for 33years during which time he served as member of the National Budget Technical Team for 15 years. He has also been a leading negotiator in East African Cooperation and COMESA Customs Union issues. Mr. Gumo also participates in community development projects and has experience in Management and Public Finance.

He holds a Masters of Science in Finance, Bachelor of Commerce (Accounting) and is a Certified Public Accountant (Kenya).





**Lily Koros Tare**  
**Chief Executive Officer, KNH**

Born in 1973, Lily Koros Tare is the Chief Executive Officer of Kenyatta National Hospital (KNH). Prior to joining KNH, she worked as the Director, Management Services at the Commission for Implementation of the Constitution and as the Hospital Administrator for AIC Litein Hospital and Moi Teaching and Referral Hospital respectively. She holds an Executive Masters in Business Administration (Finance), Bachelor of Commerce (Administration) and Postgraduate Diploma (International Leadership in Hospital Management).



**Dr. Thomas Mutie**  
**Ag. Chief Executive Officer**

Prior to his appointment he was the Deputy Director Medical Services in Kenyatta National Hospital. He has 32 years working experience as a medical doctor.

He holds a Master of Science (M.Sc.) Gastroenterology from the University of London, Bachelor of Medicine and Surgery (MBChB), Postgraduate (M.Med) Internal medicine, Certificate in tropical medicine from the University of Nairobi. He is a member of the Kenya Medical Association, Chairman - Gastronomy Society of Kenya, Deputy Director Nairobi Gastroenterology Training Centre, member European Society of Gastro Intestinal Endoscopy and European Association Studies for Liver.

Dr. Mutie also holds certification in Corporate Governance, Strategic Leadership Development Programme, Innovation in Healthcare (INSEAD- France) and Disaster Management (Israel).

**CS Calvin Mogute Nyachoti**  
**Deputy Director & Corporation Secretary**

Born in 1982, CS Nyachoti is the Corporation Secretary and Deputy Director, Legal Services at Kenyatta National Hospital (KNH). Prior to joining KNH, he worked as a Senior Legal Officer at Retirement Benefits Authority; and Senior Associate Advocate at Maangi Kitonga and Company Advocates. He also serves as an adjunct Lecturer for Riara University and College of Insurance is the Chairman of the Chartered Institute of Arbitration (Kenya Branch); Council Member, Institute of Certified Secretaries and Chairperson, Local Authorities Pension Trust.

CS Nyachoti holds a Masters in Business Administration (Strategic Management), Masters in Law (International Environmental Law), Bachelor of Laws, and Post-graduate Diploma in Law. He is a Fellow of the Chartered Institute of Arbitrators (CI Arb) and a Certified Secretary-CS (K).



## Management Team



### **Lily Koros Tare - Chief Executive Officer**

Prior to her appointment she was the Director, Management Services at the Commission for Implementation of the Constitution. She has also worked as the Hospital Administrator for AIC Litein Hospital and Moi Teaching and Referral Hospital respectively.

She holds an Executive Masters in Business Administration (Finance), a Masters in Business Administration in Health Management, a Bachelor's degree in Commerce (Administration) and a Postgraduate Diploma in International Leadership in Hospital Management.

**Responsibilities:** Provision of visionary and transformational leadership in the management of the hospital: oversee the implementation of the Boards resolutions; prudent management of resources; and formulation of long term strategies and business plans.

### **Dr. Thomas Mutie - Ag. Chief Executive Officer**

Prior to his appointment he was the Deputy Director, Medical Services in Kenyatta National Hospital. He has 32 years working experience as a medical doctor. He holds a Master of Science (M.Sc.) Gastroenterology from the University of London, Bachelor of Medicine and Surgery (MBChB), Postgraduate (M.Med) Internal medicine, Certificate in tropical medicine from the University of Nairobi. He is a member of the Kenya Medical Association, Chairman - Gastronology Society of Kenya, Deputy Director Nairobi Gastroenterology Training Centre, member European Society of Gastro Intestinal Endoscopy and European Association Studies for Liver.



Dr. Mutie also holds certification in Corporate Governance, Strategic Leadership Development Programme, Innovation in Healthcare (INSEAD- France) and Disaster Management (Israel).

**Responsibilities:** Provision of visionary and transformational leadership in the management of the hospital: oversee the implementation of the Boards resolutions; prudent management of resources; and formulation of long term strategies and business plans.

**Dr. Peter W. Masinde - Ag. Director Clinical Services**

He has worked as a Surgeon for 25 years.

He is a holder of MBChB, MMED ENT Surgery Head and Neck Specialist. Has been Chairman of the Hospital Tender Committee for 4 years and also served as the Chairman of KNH Performance Contract Steering Committee for 11 years. He is a member of Kenya Ear, Nose and Throat Society and the Kenya Medical Association.



**Responsibilities:** Developing work plans and budgets for the Division for approval; overseeing the execution of the approved Division work plans and budget; overseeing performance management in the Division; identifying procurement needs of the department and participating in various committees in the Institution.

**CPA Carylus Odiango - Director, Corporate Services**



Until his appointment, he served as the Deputy Director, Finance and Administration. He has over 30 years working experience in financial management, audit, consultancy and general management attained after working in audit, consultancy, commercial, not for profit and state corporation sectors.

He holds an Executive master's in business administration (Leadership and International Business Development), Masters in Business Administration (Strategic Management) from Kenyatta University and Bachelor of Commerce (Accounting) from the University of Nairobi. Mr. Odiango is a Member of the Institute of Certified Secretaries of Kenya, Institute of Directors Kenya and the Institute of Certified Public Accountants.

**Responsibilities:** Developing intervention programmes; spearheading strategic planning in the Hospital; providing technical and professional guidance to the Divisional Heads and coordinating performance Management initiatives.

**Dr. Evanson Kamuri - Ag. Director, Kenyatta Prime Care Centre**

Prior to his appointment he was the head of unit infection control at Kenyatta National Hospital. He has over 19 years of medical experience. He holds a Masters of Science in Clinical Dermatology (London), MBA in Strategic Management (Nairobi), Bachelor of Medicine and Surgery from the University of Nairobi. He is the President, African Society of Dermatology and Venereology, the Chairman Kenya Association of Dermatologists and a member of the Kenya Medical Association.



**Responsibilities:** Provides leadership while creating a positive and productive culture is involved in the planning, direction and coordination of day-to-day operations to deliver the best quality of patient care is overall in charge of setting standards to drive operational excellence.



**Mrs. Rosemary Mutua - Ag. Deputy Director, Nursing Services**

She holds a Diploma in Advanced Nursing and a Diploma in Public Health, Certificate in Leading High Performing Health Organization Program (LeHHO) and Strategic Leadership Development Program (SLDP). She is also a Kenya Registered Midwife and Nurse. She has been the Deputy Chief Nurse Administration. She has 14 years' experience in nursing leadership.

**Responsibilities:** Formulation, review and interpretation of KNH health care policies relating to nursing services; ensuring to Nursing Statutory and regulatory requirements; facilitating development and review of training programs for nurses in the Hospital.

**Dr. John Ong'ech - Deputy Director, Surgical Services**

Prior to his appointment he served as the Senior Assistant Director Surgical Services and as the Assistant Director Reproductive Health at Kenyatta National Hospital. He has 22 years' experience and has also served as a Medical Officer in the Ministry of Health.



He holds a Master in Public Health - International Health, Master of Medicine in Obstetrics and Gynecology, Bachelor of Medicine and Surgery and a Certificate in International Research, Leadership and Management. He is a member of the Kenya Medical Association, Kenya Obstetrical and Gynecological Society and America Public Health

Association. He was recognized as Manager of the Year in November 2013 during Company of the Year Awards (COYA).

**Responsibilities:** Provision of the needed transformation leadership of the division to cope with citizen's expectations in line with the constitution of Kenya; providing administrative direction to the various Heads of Departments in the surgical services division; ensuring the provision of high standards of quality healthcare to the clients of the Hospital.

**Dr. Elizabeth Odera, OGW - Deputy Director, Diagnostic Services and Health Information**

She was awarded National Recognition OGW in 2013.

She holds a Master of Medicine (Pathology), Postgraduate Diploma in Endocrinology, a Bachelor in Surgery and Medicine. She is a member of Clinical Chemists Association of Kenya, Association of Clinical Pathologists of Kenya and African Federation of Clinical Chemistry.

**Responsibilities:** Developing work plan and budgets for the Division for approval; overseeing the execution of the approved Divisional work plans and budget; overseeing performance management in the Division; participating in the development and review of the Institution's strategic plan and participating in various committees in the Institution





**Dr. Tom Menge - Deputy Director, Pharmaceutical Services**

Joined KNH in August 1995 and was appointed the Chief Pharmacist in April 2015.

He is currently the Chair of the National Pharmacists Association of Kenya (HOPAK) and is a member of the Governing Council of the Pharmaceutical Society of Kenya.

**Responsibilities:** Providing transformational leadership in line with citizens' expectations as per the constitution; coordinating quality improvement initiatives and clinical governance; developing work plans and budgets for the division and setting performance targets.

**Dr. Etai Ekwom**

**Ag. Deputy Director, Medical Services**



Prior to his appointment, he was the HoD Medicine. He has worked as a medical practitioner for 18 years. He is a holder of MBChB), MMed; EILLAR European Certificate of Rheumatologist and Member of the British Society of Rheumatology.

**Responsibilities:** Developing work plans and budgets for the Division for approval; overseeing the execution of the approved Division work plans and budget; overseeing performance management in the Division; identifying procurement needs of the department and participating in various committees in the Institution.

**Eng. Richard Binga - Deputy Director, Facilities and Services**

Prior to his appointment he was the Chief Maintenance Officer, Kenya Utalii College/Hotel. He has also served as the Unit Mechanical Engineer in the motor vehicle, plant and equipment maintenance workshop, the National Police Service, General Service Unit.

He holds a Bachelor of Science Mechanical Engineering and Postgraduate Diploma in Project Planning and Management from the University of Nairobi. He is a member of the Association of Energy Engineers (AEE, USA), a Corporate Member of the Institute of Engineers Kenya, a registered professional engineer by the Engineering Board of Kenya and an Energy Regulation Commission (ERC) Class A Licensed Energy Auditor.



**Responsibilities:** Providing transformational leadership and direction; participating in the preparation of the performance contract; reviewing maintenance and replacement policies and monitoring maintenance function

**Mr. Elphas K. Choge - Deputy Director, Human Resources**

Prior to his appointment he served as the HRA Manager at Kenya Meat Commission (KMC). He was previously Head of HR and Senior Assistant Commission Secretary in-charge of HR United States International University (USIU) and Commission for University Education (CUE), respectively.

He has over 19 years' experience in Human Resource Management. Holds an MBA degree in Human Resource Management (Kenyatta University), Post-graduate Diploma in Education (Kenyatta University), BA (UEA) and Diploma in Human Resource Management (KIM). He is a full member of the Institute of Human Resource Management (IHRM) and Kenya Institute of Management (KIM).



**Responsibilities:** Undertaking staff recruitment, training and development programs, selection and staff retention; monitoring performance management and reward system.

**CPA Erick Omondi - Deputy Director, Risk and Audit**

Prior to his appointment, he was the Head of Audit and Risk at ICPAK. He has also served as the head of Internal Audit in the Insurance sector for a couple of years and in a local consulting firm for years. He has over 13 years of professional experience in internal audit and risk.

He holds an MBA (Corporate), Bachelor of Commerce (Accounting). He is a member of the Certified Public Accountant, Certified Public Secretary and CISA.

**Responsibilities:** Strategy development and planning of the department, implementation of departmental and hospital policies, review and approve risk matrix and how they are being managed, ensure proper communication and promote team spirit in the department.



**Mr. Job Makanga - Deputy Director, Planning and Strategy**

Prior to his appointment he served as a Head of Facilities and Support Services at Aga Khan Hospital - Mombasa. He has over 14 years work experience ranging from Private to Public sector, six of which he worked as a General Manager in the Hospitality Industry (Government Institutions).

He holds an MBA (Strategic Management), a Bachelor of Science Hospitality and Institutional Management and is a Certified Balance Score Card Professional. He is a member of the Kenya Institute of Management and Association for Strategic Planning (Global).

**Responsibilities:** Developing work plans and budgets for the Division for approval; overseeing the execution of the approved Divisional work plans and budgets; overseeing performance management in the Division; participating in the development and review of the Institution's strategic plan and participating in various committees in the Institution.



**Mrs. Rose Njoroge - Deputy Director, Supply Chain Management**



Prior to her appointment, she headed the supply chains for the Safari Park Hotel and Casino and the Tribe Hotel in the Private Sector and worked for the World Vision -Sudan, International Committee of the Red Cross

- Logistics Centre. She has over 15 years of result-oriented experience in strategic Supply Chain Management across organizations in the Private Sector and Non-Governmental Organizations.

She holds an MBA (Strategic Management), Bachelor of Science, Graduate Diploma in Purchasing and Supplies (CIPS - UK) foundation stage, Certificate in Corporate Governance, Certificate in Strategic Leadership Development Program and Performance Measure Process (PuMPR) Certification.

**Responsibilities:** Reviewing procurement evaluation reports and provide professional procurement or asset disposal; interpretation, implementation and enforcement of the Public Procurement regulations.

**CS Calvin Nyachoti - Deputy Director, Corporation Secretary**

Prior to joining Kenyatta National Hospital, he served as a Senior Legal Officer with the Retirement Benefits Authority having come from private practice years earlier.

He holds a Masters in Law, an MBA in Strategic Management, a Bachelor of Law, and Postgraduate Diploma in Law (KSL). He is also a Certified Secretary - CS (K) and a fellow of the Chartered Institute of Arbitrators.

**Responsibilities:** Developing work plans and budgets for the Division for approval; overseeing the execution of the approved Divisional work plans and budgets; preparing a draft board management papers for approval and participating in the development and review of the Institution's strategic plan.



**CPA Michael Kihuga - Deputy Director, Finance**



Prior to his appointment he was the Director, Finance at Kenyatta National Hospital. He has over 20 years' experience in Finance. He has also worked in Oserian Development Company as Management Accountant and in Moi Teaching and Referral Hospital as a Chief Accountant.

He holds an MBA (Finance), Bachelor of Education Economics and Mathematics. He is a Certified Public Accountant and a Certified Public Secretary.

**Responsibilities:** Coordinating the preparation of budgets; providing administrative direction as head of the division and provision of transformational leadership to achieve the vision and mandate of the Hospital.

## **Chairman's Statement**

It is my pleasure to present the Hospital's 2017/18 annual report and Financial Statements. The Board of Management is proud of the achievements realized by the hospital in this period towards "A world class patient centred Specialized care Hospital". Considering the scale and complexity of operations of this largest referral hospital in Kenya, I am particularly impressed by the "can do attitude" of staff coupled with their commitment to delivering the best possible service to patients.

KNH as the public Hospital of choice in Kenya and beyond, offers quality specialized health care to patients from the Great Lakes Region, Southern and Central Africa. These services include open heart surgery, neurosurgery, orthopaedic surgery, plastic surgery (reconstructive surgery), burns management, critical care services, new born services, ophthalmology (including cornea transplant), oncology, palliative care and renal services (including kidney transplantation), among others. Building on the gains made in the previous years, reinforced by clear systems and processes as well as enabling environment, the year 2017/18 reaffirmed our strong sense of purpose in delivering high quality, personalized care with sharp edge of innovations.

### **Regulatory environment**

Management and operations of the hospital is guided by the existing legal, policy, and institutional frameworks that govern health sector to ensure efficient and effective delivery of services in the Hospital. The Kenyan Constitution 2010 under the Bill of Rights provides the right to the highest attainable standard of health including reproductive health care and emergency medical treatment.

In addition, the Health Act 2016 establishes a unified health system that coordinates the inter-relationship between the national government and county government health systems, provides for regulation of health care services and health care service providers, health products and health technologies for connected purposes. It also provides for Health financing; Research; E-Health; Human organs and tissue transplant; Traditional and alternative medicine; Mental; Environmental and Public health; Standards of health; Reproductive health; and Emergency treatment. With this in mind, and the strategic placement of KNH in the health sector, the Board is committed to ensure continued quality service delivery to the citizens.

### **Sector Alignment**

The Hospital's operations are also influenced by various global, regional and national strategies aimed at promoting, restoring, and maintaining the Health care service delivery. Out of the seventeen Sustainable Development Goals (SDGs), four (Goal 2- Zero hunger; Goal 3- Good health and well-being; Goal 5 Gender equality: and Goal 17- Partnerships) have direct impact on the Health Sector of which KNH has a role to play.

In addition, the African Union Agenda 2063 Aspiration 1 targets "A Prosperous Africa based on inclusive Growth and Sustainable Development". The Hospital has identified programs and activities that are geared towards achieving the SDGs and realization of the Africa Agenda on Health. This provides a framework for expanding access to quality health care services.

At the National level, universal healthcare (UHC) is one of the big four agenda. The agenda aims to provide affordable healthcare for all households through NHIF scheme. The Kenya Vision 2030 aims at creating a globally competitive and prosperous country by providing a high quality of life for all its citizens. Under the social pillar, the overall goal of the Health Sector is to provide equitable, affordable and quality healthcare to all citizens. The Vision is implemented through five-year medium-term plans. The third Medium Term Plan 2018-2022 (MTP III) for Health sector has identified eight (8) key priority areas. KNH has selected priority projects and programmes under the MTP III relevant to its mandate and aligned to the Big 4 plan especially Universal Healthcare Coverage for implementation.

### **Strategy and Performance**

During the period under review, the hospital completed the implementation of the 3rd KNH Strategic plan 2013-2018 and developed the 4th KNH Strategic plan 2018-2023 for seamless transition. This new strategic plan has considered the provisions of UHC and factored in initiatives that will help KNH play its role in realizing the anticipated results of this agenda. The evaluation of the 2013-2018 strategic plan shows that the hospital has exhibited continuous improvement in performance over the years. Further, I am happy to report that the Management not only achieved most of the Performance targets pursuant to the Performance Contract with the Ministry of Health, but also put emphasis on the measures that are directed at realizing the KNH Vision.

KNH has maintained compliance with ISO 9001:2008 standard and initiated process to transit to the new ISO 9001:2015 standard. Retaining the certificate demonstrated that we are on course to quality objectives through continual improvement of our quality

management systems. With a team of dedicated management and staff, there is no doubt that we shall attain the ISO 9001:2015 standard.

The hospital has continued to experience challenges and changing business environment which calls for continuous improvement of the quality of services to the customers. In response to this, the Board remains focused on providing resources and supporting initiatives that will sustain KNH in a leadership position in the healthcare sector.

#### **Acknowledgement**

On behalf of the Board, I would like to thank all our stakeholders especially the Ministry of Health, The National Treasury and development partners for the support they continue to accord the hospital without which our achievements would not have been realized. As we move into a new year, I would like to express my gratitude to KNH staff, specialists, team leaders and the Board, who take such pride in their work, and who exemplify our hospital's mission and values each day.

Finally, I strongly believe that our strategy and the staff in place will consistently drive our growth in the future as has been the case over the years



I.G. (Rtd.) Dr. David Kimaiyo, MGH, CBS  
Chairman - KNH Board of Management

## **Chief Executive Officer's Statement**

I am pleased to present the Hospital's annual report and financial statements for the year 2017/18. The report highlights the hospitals operational and financial performance as well as our strategic direction.

### **Operational Performance**

The hospital provides specialized healthcare services. To meet our patients' needs, we have specialists in all disciplines of medical practice who ensure our customers receive safe, timely, equitable, efficient, effective and patient-centred services. In 2017/18 the hospital attended to 491,117 patients of whom 80,000 were inpatients. This was an increase of 5% outpatients and 13% inpatients attendance in comparison to the previous financial year. During the year, the surgical team successfully reattached a severed hand, removed a dagger that was lodged in the jaw of a patient and demonstrated clinical effectiveness by reduction of mortality rate at the critical care units from 29% in 2016/17 to 20.9%.

### **Centres of excellence**

The hospital established centres of excellence in the following areas: Cancer, diabetes and Endocrinology; Gastroenterology; Infectious Diseases; Cardiology; HIV medicine; Renal and Nursing School. This is in a bid to provide excellent specialized services and improve quality healthcare. The centres of excellence will also provide one stop services for the increasing cases of diseases referred.

### **Embracing Technology to Advance Patient Care**

The use of ICT is a priority for KNH as reflected in Kenya's ICT Master Plan and need to automate systems to enhance efficiency in services delivery. Towards this, the hospital carried out a business reengineering with the view of aligning all hospital processes in readiness for automation. This process culminated in the development of specifications for robust hospital information management system and corresponding enterprise resource planning (ERP) systems. Recognizing the importance of specialized laboratory services, the Global Funds through the Ministry of Health and AMREF has sponsored installation of Laboratory Information Management System (LIMS) in order to enhance efficiency in laboratory diagnostic services. The completion of this project will guarantee high-quality, effective and efficient laboratory services.

### **Patient Safety**

KNH has embarked on all aspects of patient safety which is an integral component of health service delivery. KNH is focused to reduce hospital acquired infections and medical errors, reduction of falls and occurrence of venous thrombosis. The Hospital has created the department of Quality Healthcare (QHC) whose operations encompass patient safety, clinical governance, infection prevention & control, as well as monitoring and evaluation. The hospital also developed protocols SOPs and guidelines for patient management. Further, the hospital in collaboration with University of Nairobi (UoN) and Ministry of Health (MoH) held inaugural patient safety symposium and also carried patient safety survey that is being used to address patient safety concerns.

### **Effective Communication**

KNH is putting great emphasis in improvement of communication with our patients, their families and other stakeholders in an effective and timely manner. To this end, we have continued to train our employees on customer care and effective communication while upholding the highest standards of care. In an effort to provide timely and accurate information, we have established mechanisms for receiving and resolving customer feedback in line with our motto: *We Listen, We care*. Further, we have strengthened customer care services and process improvement with a view to enhance patients-care giver engagement. The current customer satisfaction index stands at 74%.

### **Financial Review**

The recurrent grant from the National Government for the financial year 2017/18 totalling Kshs.7,335 Million being funding for personnel emoluments was received except for Kshs.10 Million. Capital grant for the period was Kshs. 492 Million: Cancer Treatment Centre- Kshs.250 Million; Surgical Day care Centre- Kshs.42 Million: and Renal upgrade- Kshs.200 Million. Out of this capital grant, only Kshs.246 Million was transferred to the hospital during the year.

In order to meet the cost of operations and maintenance, the hospital relies on internally generated revenue, the largest component being cost sharing revenue. During the year under review, the hospital generated Kshs. 5,206 Million against a target of Ksh. 6,261 Million. This is a growth of 23% over and above the previous year's internally generated revenue.

Despite the growth in revenue, the Hospital recorded a deficit of Kshs. 1,091 million in the year under review. The performance deficit is attributed to medical service contracts loss

(Kshs. 268 million) and provision for bad and doubtful debts (Kshs 1,077 million) for indigent patients' medical bills. Further the funding gap for employee costs by the National Government has widened. During the year under review, the funding gap stood at Kshs. 1,750 million for which the hospital used internally generated funds to bridge and consequently this has continued to adversely affect the financial sustainability.

#### **Acknowledgment**

The thousands of patients served are a living testament to the care, love and support offered every day by the outstanding commitment of our staff. We are grateful to our stakeholders and sponsors for their kindness, compassion, support, dedication and contributions to KNH.



**Dr. Thomas Mutie**  
**Ag. Chief Executive Officer**

## Corporate Governance Statement

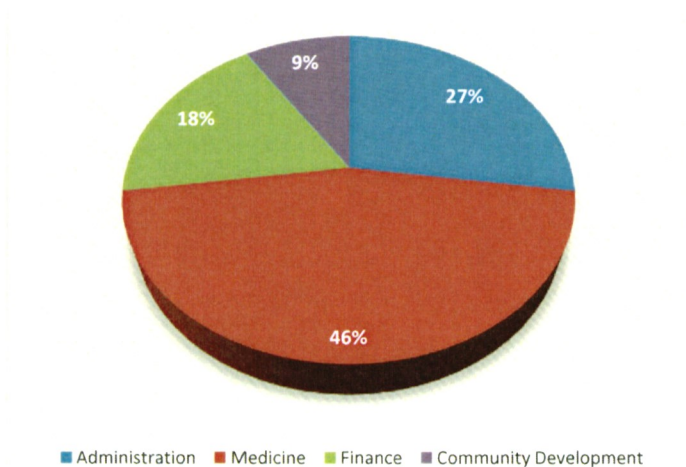
### Introduction

Commitment to good corporate governance is fundamental in ensuring sustainable stakeholder value and meeting their expectations. Our structures, procedures and processes are anchored on accountability, transparency, responsibility and fairness which are the tenets of good corporate governance. Through the Board of Management, Kenyatta National Hospital remains steadfast in complying with statutory requirements and the Code of Governance for State Corporations (Mwongozo Code 2015) among others.

### The Board of Management

The KNH Board of Management is constituted in accordance with the provisions of the State Corporation Act, Chapter 446 of the Laws of Kenya and Legal Notice No.109 of 1987 and is composed of eleven members of whom six are Independent Non-Executive Directors including the Chairman; four are Non-Independent Directors and an Executive Director who is the Chief Executive Officer. Constitution of the Board considers diversity in gender, age, ethnicity and culture. In addition, the current Board of Management has diverse skills and experience in the fields of medicine, finance, community development as well as administration. External specialists and independent professional advisors are consulted when need arises.

**Figure 1: Board Diversity**



### Appointment of the Board

The Chairman of the Board is appointed by H.E. the President and the five (5) independent non-executive Directors are appointed by the Cabinet Secretary, Ministry of Health. They each serve for a maximum of two terms of three (3) years. Names of all members and changes thereto are published in the Kenya Gazette.

### Board of Management Composition

The members of the Board of Management who served during the year are as shown below:

**Table 2: Board Composition**

Board Member	Board Position	Appointment date	Retire Date
I.G. (Rtd.) Dr. David Kimaiyo, MGH, CBS	Chairman	18/04/2018	
Mr. Mark K. Bor, CBS	Chairman	18/03/2016	17/04/2018
Mr. Henry K. Rotich, EGH	Cabinet Secretary, The National Treasury		
Mr. Martin S.O. Gumo	Alternate to CS, NT	28/06/2016	
Mr. Julius Korir, CBS	Principal Secretary, Ministry of Health		27/03/2018
Mr. Peter K. Tum, CBS	Principal Secretary, Ministry of Health	28/03/2018	
Mr. Peter K. Tum, CBS	Chief Executive Officer, KMTC	08/05/2015	27/03/2018
Mr. Peter Odundo	Alternate to PS MOH	28/06/2016	
Dr. Daniel R.M. Githegi	Non-Executive Member	17/05/2015	16/05/2018
Dr. Richard T. Kamau	Non-Executive Member	17/05/2015	16/05/2018
Dr. Helen J.C. Yego	Non-Executive Member	17/05/2015	16/05/2018
Mrs. Gracie K. Mullei	Non-Executive Member	31/05/2016	
Mr. Robert M. Mburu	Non-Executive Member	31/05/2016	
Prof. Fredrick Were	Ag. Principal, College of Health Sciences - UoN	28/05/2017	
Prof. Michael Kiptoo	Chief Executive Officer, KMTC	28/03/2018	
Mrs. Lily Koros Tare	Chief Executive Officer, KNH (Substantive)	10/02/2014	On leave w.e.f 02/03/2018
Dr. Thomas Mutie	Ag. Chief Executive Officer-KNH	03/03/2018	

The Board of Management biographies are shown on pages 11 to 15

#### Role of the Chairman

The Chairman is responsible for the strategic leadership of the board and is pivotal in creating conditions for the overall effectiveness of the board, promotes an open environment for debate and ensures all members are able to speak freely and contribute effectively. He ensures that the Board plays a full and constructive part in the development and determination of the Hospital's strategies and policies. The chairman ensures that board meetings are held as and when necessary and members are supplied with accurate, timely and sufficient information to enable them to discharge their duties effectively.

### **Role of the Board**

The responsibility of driving good corporate governance and stewardship of the Hospital is vested in the Board of Management supported by Board Committees and the Corporation Secretary. The Board, through its Committees provides strategic direction while the Chief Executive Officer assisted by the Executive Management Committee is accountable to the Board for implementing the strategy. Board members are expected to be responsible, prudent and skilful while carrying out their fiduciary duties on behalf of the Hospital.

The roles and responsibilities of the Board as set out in the Board Charter include:

- i) Establishing the Hospital's strategic direction and priorities, and adopting business plans proposed by management for the achievement of the strategic objectives
- ii) Monitoring and evaluating the implementation of strategies, policies, management performance criteria and business plans.
- iii) Providing oversight in financial reporting to the Government and communication to stakeholders.
- iv) Ensuring availability of adequate resources for the achievement of the Hospital's objectives.
- v) Safeguarding Hospital assets by instituting appropriate internal control systems.
- vi) Reviewing succession planning for the management and making senior executive appointments, organizational changes and remuneration issues.
- vii) Overseeing business affairs of the Hospital in light of emerging risks and opportunities.
- viii) Ensuring the Hospital complies with all relevant laws, regulations and codes of best business practices.
- ix) Approving annual budgets.

The Board provides oversight to Management and ensures that staff operates within the Code of Conduct and Ethics, Leadership Integrity Act, and the "Mwongozo" Code of Governance for State Corporations.

### **Board work plan and meetings**

A work plan that contains an annual schedule of meetings of the Board and its committees is prepared in advance. The Chairman, in conjunction with the Chief Executive Officer and the Corporation Secretary, sets the agenda for each Board meeting which is circulated at least seven days prior to meeting.

In the year under review, the Board held a total of 12 meetings to consider pertinent issues relating to strategy, business performance and sustainability of the Hospital.

**Table 3: Board and committee meeting attendance**

Name of Director  Total No of meetings	Board meetings	Board Committees			
		Clinical Standards & Ethics	Human Capital Finance & Administration	Corporate Strategy & Enterprise	Risk & Audit
	12	3	4	3	6
I.G. (Rtd.) Dr. David Kimaiyo, MGH, CBS	11/12				
Mr. Mark K. Bor, CBS (term revoked 17/4/18)					
Mr. Henry K. Rotich, EGH	7/12				4/6
Mr. Martin S.O. Gumo (Alternate)					
Mr. Peter K. Tum, CBS	10/12		4/4	3/3	
Mr. Peter Odundo					
Dr. Daniel R.M. Githegi	9/12	2/3			
Dr. Richard T. Kamau	12/12			3/3	
Dr. Helen J.C. Yego	10/12	3/3			6/6
Mrs. Gracie K. Mullei	12/12		4/4	3/3	
Mr. Robert M. Mburu	11/12				6/6
Prof. Fredrick Were	10/12	3/3	4/4		
Prof. Michael Kiptoo	4/12	1/3			1/6
Mrs. Lily Koros Tare	12/12	3/3	4/4	3/3	
Dr. Thomas Mutie					

### Board Committees and Responsibilities

To enhance efficiency and effectiveness, the Board constituted 4 standing committees with clearly defined terms of reference relating to key areas of operation. The committees operate on delegated authority without diluting the Board's accountability. Members to the committees are appointed taking into consideration the necessary skills and experience.

When deemed necessary, the Board can constitute an ad hoc committee to consider specific issues which are not under the mandate of existing committees. The Chief Executive Officer is the secretary to all the Board committees except the Audit and Risk Committee where the Deputy Director, Risk & Audit performs this function.

## Board Committees and Roles

### Members

Prof. Fredrick Were  
(Chairman)  
Dr. Daniel B.M Githegi  
Dr. Hellen Yego  
Ms. Lilly Tare

### Clinical Research & Standards Committee

- i) Identifying health care service problems in the hospital and ensuring that they are resolved;
- ii) Review any changes on policy issues on standards, quality assurance and research;
- iii) Liaise with the Medical Advisory Committee on matters of quality health care delivery; and
- iv) Undertake comprehensive quarterly evaluation of standards, quality assurance programs in the hospital based on health professional's handbook on quality management in health care in Kenya.

### Human Capital, Finance & Administration Committee

- i) Monitoring the Hospital annual budget and overseeing the Hospital's financial management.
- ii) Monitoring the Hospital annual procurement plan and overseeing procurement of goods and services with a value of KES.50 million and above.
- iii) Establishing human resource policies and corporate organizational structure;
- iv) Appointment, promotion and disciplinary issues of senior staff;
- v) Establishing remuneration structure for the staff;
- vi) Developing succession plan for senior staff; and
- vii) Reviewing performance of the staff pension scheme.

### Members

Mr. Peter Odundo  
(Chairman)  
Mrs. Grace Mulei  
Prof. Fredrick Were  
Ms. Lilly Tare

### Members

Dr. Richard Kamau  
(Chairman)  
Dr. Hellen Yego  
Mrs. Grace Mulei  
Ms. Lilly Tare

### Corporate Strategy Enterprise Committee

- i) Reviewing the Five-Year Corporate Strategic Plan and oversees the annual implementation of the Hospital's strategy.
- ii) Advising the Board on strategies to enhance performance of the Hospital;
- iii) Monitoring major projects under implementation and directing strategies for improving customer service;
- iv) resource mobilization and forging partnerships/linkages;
- v) Overseeing realization of the targets set out in the Board's Performance Contract.

### Risk and Audit Committee

- i) Reviewing quarterly, half-yearly and annual financial statements before submission to the Board;
- ii) Reviewing the performance, objectivity, and independence of external auditors;
- iii) Consideration of audit findings by the external auditors;
- iv) Monitoring and reviewing the effectiveness of the Hospital's internal audit function;
- v) Reviewing the Hospital's internal control and ensuring quality, integrity, effectiveness and reliability of the Hospital's risk management framework; and
- vi) Ensuring adherence to the code of ethics and integrity in financial transactions of the Hospital.

### Members

Mr. Robert Mburu  
(Chairman)  
Mr. Martin Gumo  
Prof. Michael Kiptoo  
Dr. Hellen Yego  
CPA. Eric Omondi

### The Board Charter and Manual

The charter defines the Board's roles and responsibilities as well as functions and structures in a way that supports the members in carrying out their strategic oversight functions. It helps the Board in directing the Hospital to maximize the long-term value of service provided for all stakeholders. The Board manual spells out important governance arrangements including the following:

- i) Appointment, skills requirement, gender mix and capacity development for Board Members;
- ii) Functions and responsibilities of the Board, the Chairman, Chief Executive Officer, and the Corporation Secretary;
- iii) Conduct of Board and Committee meetings;
- iv) Directors' Code of Conduct; and
- v) Terms of reference for all Board Committees.

### Evaluation

The Board has implemented a process for assessing its effectiveness as a whole and for assessing the contribution by the Chairman and each Member to the effectiveness of the Board. The Board undertakes regular annual self-assessment to improve its members' individual and collective performance for continuous growth and sustainability of the Hospital. The evaluation covers the Board as a whole, its committees, individual members, the Chairman, the Chief Executive Officer, and the Corporation Secretary.

### Board of Management Evaluation

During the year, the Board carried out a self-evaluation exercise assisted by the State Corporations Advisory Committee (SCAC) who designed and implemented the process. The Board self-evaluation questionnaire was based around the five main principles of the Code,

namely: leadership, effectiveness, accountability, training and relations with stakeholders. The Board identified no material areas for improvement, but confirmed the need to address the training, which is currently receiving attention as indicated in the Board work plan.

### **Board Committees Evaluation**

The results of the self-evaluation of the Board committees, together with the Committees' proposed recommendations, were discussed by the Board. Details of the results of the performance evaluation of the Board's committees and actions planned for the next year are set out in the individual committee reports.

### **Chairman Evaluation**

The Chairman met with the Non-executive members to appraise the performance of the Chair, taking account of the views of the Executive Board members and subsequently discussed the results with the Chairman. A high-level summary of the evaluation of the Chairman was presented at Board meeting.

### **Individual Board Members Evaluation**

The Chairman met with each Non-executive Board members to discuss their contributions and performance, together with their training and development needs and presented his feedback to the Board of management. The Board concluded that the individual members have fulfilled their duties and provide a valuable contribution to the effective functioning of the Board of Management.

### **Corporation Secretary Evaluation**

As part of the annual evaluation of the Board, the Corporation Secretary was also evaluated. The Board is of the opinion that the Corporation Secretary is competent and has the requisite qualifications and experience to effectively execute his duties.

### **Independence of Board of Management**

The Board considered the independence of the Independent Non-executive Members, upon recommendation of the Chair, taking into consideration all relevant relationships and circumstances. The Board considers all the other Non-executive Board Membersto be independent in character and judgement and free from any business or other relationship or circumstances that could potentially materially interfere with the exercise of their respective and collective independent judgement.

### **Key Board decisions**

In the course of the financial year, the Board made key decisions relating to the following:

1. Reviewed and approved the Five-Year Corporate Strategic Plan 2018-2023 to refocus on our strategic objectives and priorities in line with the changing business environment.
2. Sustainable asset creation through approval of capital budget for infrastructure development.
3. Ensuring financial sustainability by approving the Hospital's financing requirements, budget and procurement plan for the next financial year and the Annual Report and Financial Statements.
4. Succession planning by recruiting and filling vacancies at senior management level.

### **Board capacity development**

To ensure that all directors remain informed, continual training and updates based on skills and competency requirements are conducted. A detailed induction programme is conducted for newly appointed Directors to enhance their understanding of the nature of the Hospital's business, performance and strategy. Each year the Board prepares a training calendar where specific training needs are identified and scheduled. During the year, Members attended various capacity building programmes focusing on leadership, governance, finance and other relevant areas.

### **Accountability and audit**

The Board prepares annual financial statements which reflect a true and fair view of the Hospital's financial position as at the end of each fiscal year. The Board of Management ensures that suitable accounting policies supported by reasonable and prudent judgments and estimates are consistently applied. The Board also ensure that financial statements for each financial year are audited.

During the year, the Board ensured that the Hospital maintained proper, reasonable and accurate accounting records showing and explaining the transactions and financial position of the Hospital in compliance with the Public Finance Management Act No.18 of 2012 and the prescribed accounting standards.

The Hospital Financial Statements are audited by the Office of the Auditor-General. The Auditor-General is an independent office whose role and responsibilities are defined under the Constitution of Kenya. The Board in furtherance of its duties, ensures that the process, structure and internal controls are maintained and adhered to and has internal risk and audit staff to carry out such functions.

The Board may also appoint independent audit consultants through a competitive open tendering process. During the year under review, the Board engaged the services of PKF Consulting Limited to carry out the systems audit to review the Hospital's patient safety profile, standard operating procedures and treatment guidelines.

### **Internal Controls**

The Board through the Audit and Risk Committee ensures that the Hospital has defined procedures for internal controls to ensure the integrity of the assets of the Hospital and the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the Hospital remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal control, the Board takes into account the results of all the work carried out by the Internal Risk and Audit team. A comprehensive management accounting system is in place providing financial and operational performance measurement indicators. Weekly meetings are held by Executive Management to monitor performance and to agree on measures for improvement.

Management is constantly updating and activating any changes in legislation or regulations pertinent to the Hospital and liaises with the Ministry of Health on such changes. They participate in workshops and lobby either individually or as an industry for changes which are considered prudent or likely to affect the Hospital.

### **Internal Audit**

The Internal Audit function reports to the Board through the Audit and Risk Committee. Internal Audit is independent of both business management and of the activities it reviews. Internal Audit provides assurance that the design and operation of the Hospital's risk management and internal control system is effective. A risk-based audit approach is used to ensure that the annual audit Work Plan targets the higher risk activities in each business unit or function. All audits are conducted in a manner that conforms to international professional practice framework.

### **Code of Business Conduct & Ethics**

Kenyatta National Hospital is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders. A formal code of ethics has been approved by the Board and is fully implemented to guide the Board, management, employees and stakeholders on acceptable behaviour in conducting business. All Board members and

employees of the Hospital are expected to avoid activities and financial interests that could undermine their responsibilities to the Hospital.

In addition, the Board applies a Conflict of Interest policy. A Director with an actual or potential conflict of interest in relation to a matter before the Board is required to disclose such interest and excuse himself or herself from the Board for discussion relating to the matter in question, such conflicts are registered.

### **Transparency and Disclosure**

The Hospital is committed to ensuring that the Government and other stakeholders are provided with full, accurate and timely information about its performance. This is achieved by the distribution of the Hospital's annual report. Periodically, there are press releases announcing other major Hospital developments which are of importance to the public.

### **Remuneration of Board of Management**

During every Board meeting, members are entitled to a sitting allowance, lunch allowance (in lieu of lunch being provided), accommodation allowance and mileage reimbursement where applicable within government set limits for state corporations. The Chairman receives a monthly honorarium. Details of member's emoluments during the year are shown on note fifteen (15) in the notes the financial statements.

### **Whistle blowing policy**

This Policy is a commitment by the Hospital to prevent retaliation against whistle blowers; encourage employees/stakeholders with ethical concerns to discuss them internally rather than externally; and create an environment within which employees/stakeholders have the opportunity and desire to behave ethically and responsibly.

The whistle blowing policy is communicated to all staff and covered during staff trainings. The Hospital undertakes to investigate complaints of suspected fraud and unethical behaviour in an objective manner and has put in place arrangements by which staff of the Hospital may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective for such arrangements is to ensure independent investigation of matters raised and to allow appropriate actions to be taken. All such investigations are undertaken by Corruption Prevention Committee (CPC) secretariat that reports their findings to the Hospital corruption prevention committee.

The Board recognizes the difficulties one may face in voicing concerns and thus assures them of support and confidentiality during the investigation process. Harassment or victimization for reporting concerns under this Policy is not to be tolerated since due protection is accorded to an individual who raise concern in good faith. The Hospital has established three reporting channels through which anonymous reports on unethical/fraudulent behaviour is made without fear of retaliation from suspected individuals namely a hotline, email or corruption reporting boxes. The policy also extends to the public who wish to report similar matters on the hotline or the Hospital's website.

### **Corruption Prevention Policy**

The Board is committed towards zero tolerance to corruption. The Hospital has a Corruption Prevention Committee chaired by the CEO and comprising of deputy directors who implement the prevention strategies. The Board is committed to conduct its affairs with integrity and transparency; enforce anti-corruption programs in the pursuit of personal and corporate integrity in all activities; provision of required resources for the effective implementation of this Policy and attendant programs and strategies; review and revise the Policy in response to changes in law, reputational demands and business environment; take responsibility for the implementation and monitoring of various anti-corruption programs and strategies.

### **Communication and Marketing Policy**

Corporate Communication and Marketing Policy is the Hospital's blueprint that set direction and describes processes for creating, communicating, and delivering information to customers and managing customer relationships for the benefit of stakeholders.

While the Hospital recognizes that communication is of importance in leveraging corporate image, privacy, health and well-being of patients and their families, staff, volunteers takes precedence over obligations to the media and the public. Considering the need to strategically manage media relationship, facilitate effective internal communication and promote the Hospital services, the staffs adheres to this Policy when interacting with members of the public or the media. This is the first important step towards forging a positive and integrated relationship with clients and stakeholders.

### **Looking forward**

As we progress towards becoming a high performing organization, the Board remains focused on ensuring that the Hospital attracts and retains high performing, committed and motivated staff to enable the Hospital to achieve its objectives. We will continue to foster

positive relationships with the various unions and other stakeholders to ensure that all staff work for the advancement of the Hospital. We will focus on ensuring our policies enable objective and robust performance management while ensuring our staff has a positive working environment.

## **Management Discussions and Analysis**

### **Clinical Performance**

KNH continues to provide a wide range of highly specialized healthcare services to Kenyans, patients from within East and Central Africa Region and globally. Specialized services include, specialized outpatient clinics, inpatient care, day care procedures for surgery, renal, endoscopy, cardiology, ENT, ophthalmology, dental amongst other services and specialized accident and emergency that receives emergency, disaster victims and referred patients. The hospital also provides clinical support services that include nuclear medicine, laboratory, pharmacy and radiology.

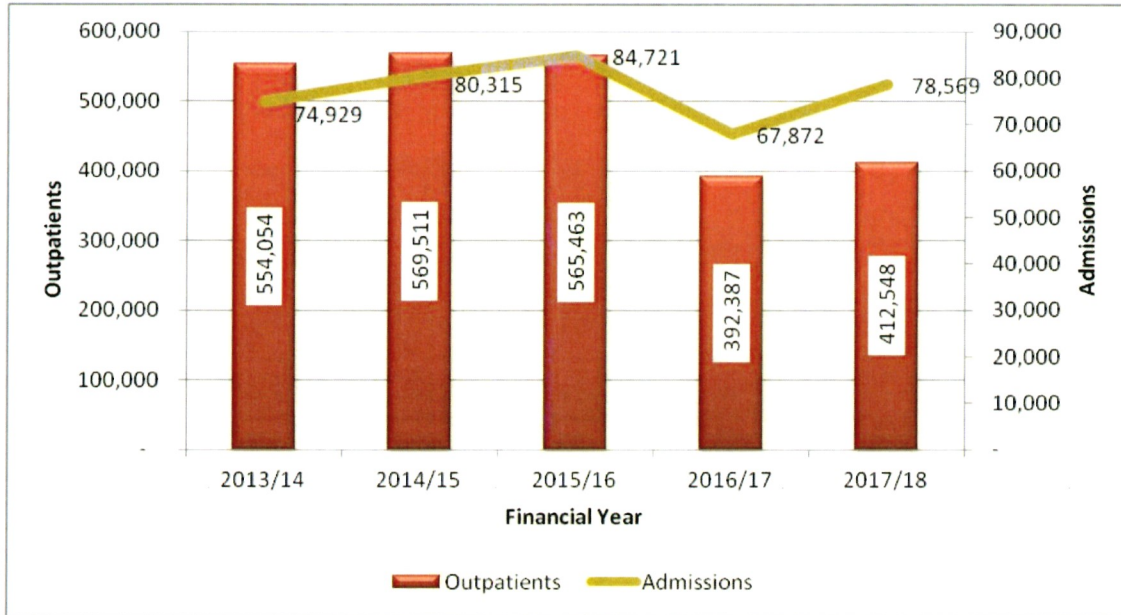
The hospital strives to ensure that the clinical services provided are safe, timely, appropriate, innovative, effective, evidence-based and in line with modern technological advances. Clinical governance continues to be strengthened to improve patient safety and ensure quality healthcare. In addition, the hospital plays a leading role nationally in the management of disasters and emergencies. The hospital patient attendance continues to increase despite the many challenges i.e. budgetary constraints and frequent industrial actions.

#### **Overall patient attendance**

The average patient attendance for the year 2013/14-2015/16 was 560,000 outpatients and 80,000 in-patients. There was a sharp decline in the outpatient attendance of 31% and 20% in the in-patients in the year 2016/17. This was attributed to the effect of the prolonged industrial action (both nurses and doctor's strike) and closure of walk in casualty (in pursuit of our mandate to offer referral, emergency and specialized service). In the year 2017/18 there was a marginal increase of 5% in the number of outpatient attendance and 16% in the in-patients; this is due to resumption of near normal activity level after the decline in FY 2016/17.

The Hospital's patient attendance analysis over the last five years is as depicted in the chart below.

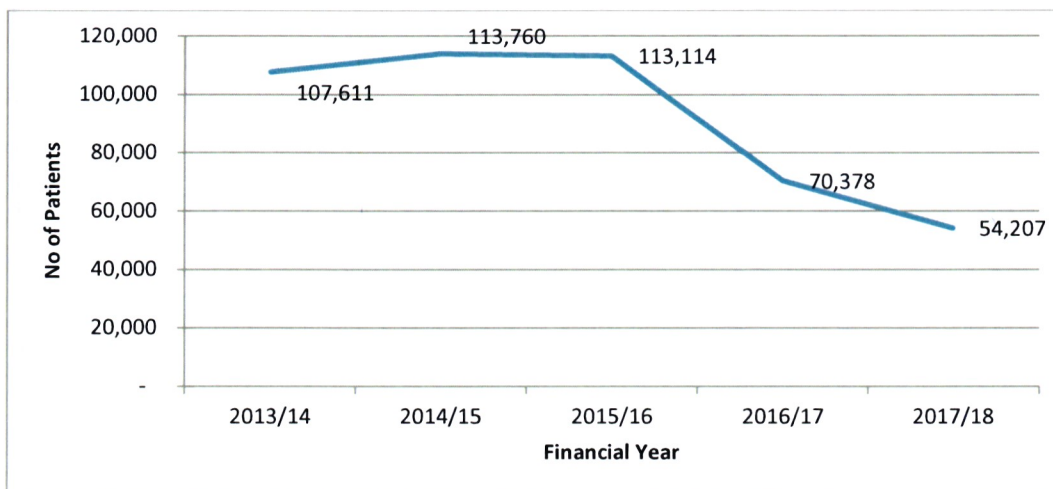
**Figure 2: Overall patient attendance**



**Accident & Emergency (A&E) Services**

Accident & Emergency is the entry point to the hospital, both for referral and emergency treatment of patients. There has been reduction in numbers over time as a result of restructuring the A&E that included closure of the walk-in outpatient clinic in April 2017. This was done with a view of aligning hospital activities with its core mandate as a referral hospital. In addition, the hospital has improved on triage where the A&E only attends to referred and emergency patients. The trend over the last five years is shown in the chart below.

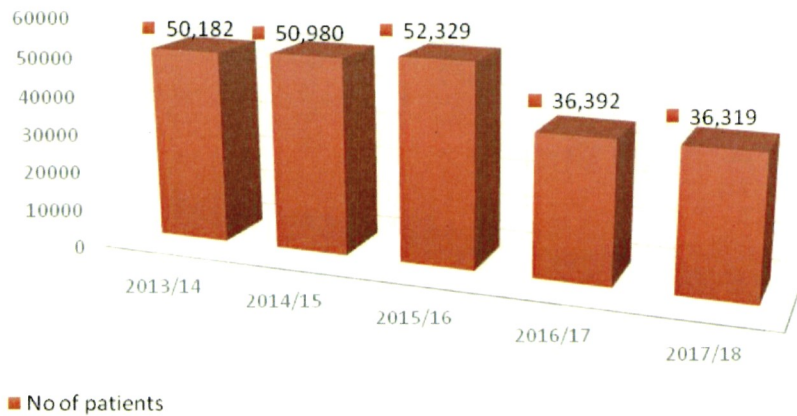
**Figure 3: Accident & Emergency attendance**



### Paediatric Emergency Services

Paediatric emergency services are dedicated to paediatric referrals and emergency cases of children aged below 12 years. In the recent past, the numbers have come down due to restructuring and improved primary health care services in Nairobi and its environs as depicted in the chart below.

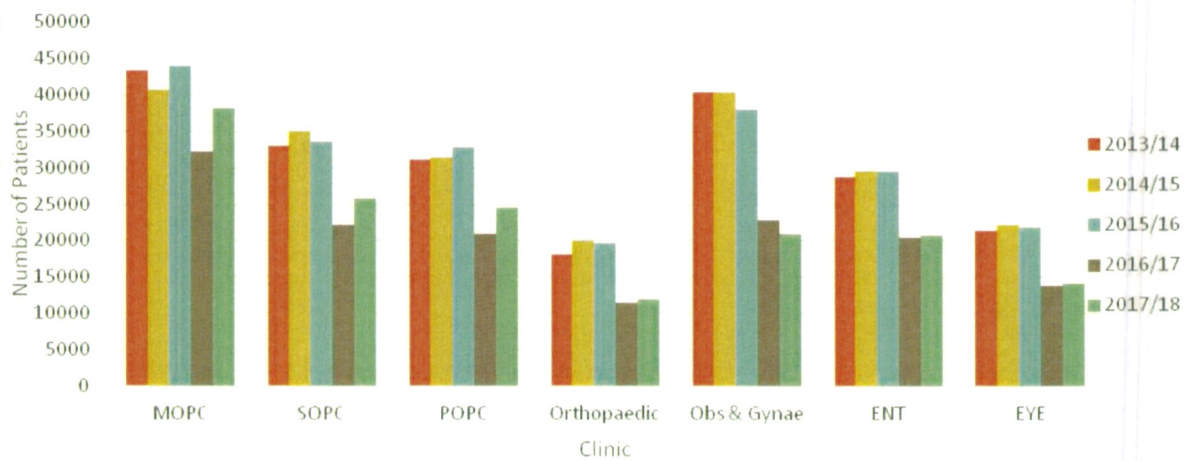
**Figure 4: Pediatrics Emergency attendance**



### Specialized clinics Attendance

KNH runs 28 specialist clinics to review, treat and follow up on patients with various conditions that require the specialists' intervention. The clinics are run throughout the year with specific emphasis on patients' progress. The chart below shows patient attendance trend in the major specialty clinics.

**Figure 5: Specialized clinics attendance**

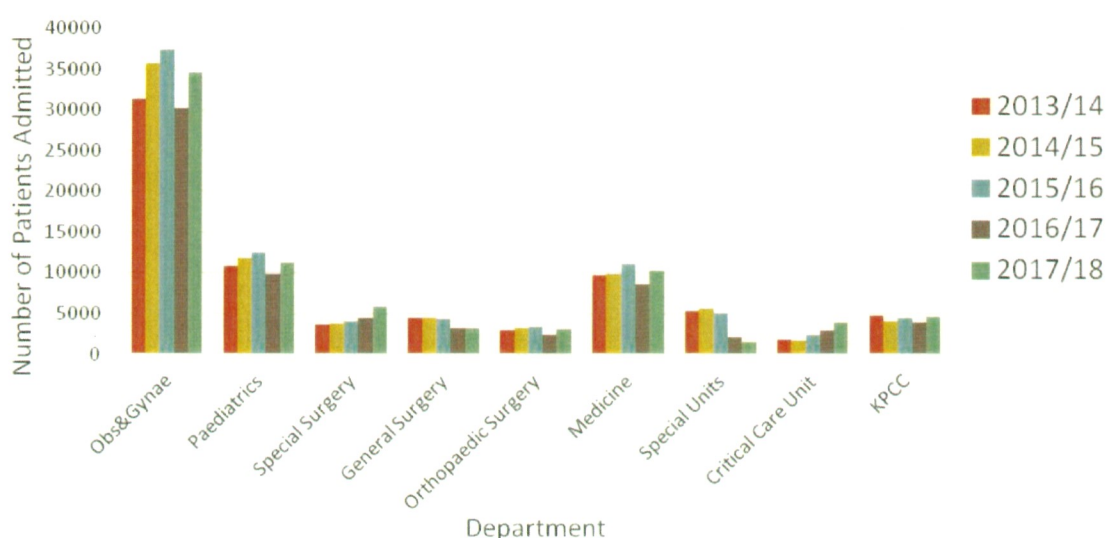


<b>Key:</b>	<b>MOPC</b>	-	Medical Outpatient Clinic (includes Cardiac, renal, gastroenterology, infectious and tropical diseases, Diabetes and endocrinology, Rheumatology, Haemato-oncology and Neurology)
	<b>SOPC</b>	-	Surgical Outpatient Clinic (includes urology, breast, Thyroid)
	<b>POPC</b>	-	Paediatrics Outpatient Clinic (includes Cardiac, renal, gastroenterology, Diabetes and endocrinology, Rheumatology, Haemato-oncology and Neurology)
	<b>Obs&amp; Gynae</b>	-	Obstetrics &Gynaecology (including specialized antenatal, Gynaecology oncology)
	<b>ENT</b>	-	Ear, Nose and Throat

### Inpatient Admissions

KNH admits a very large number of patients who require specialized treatment. Some of these patients are referred from other facilities while others are admitted from Accident & Emergency and Paediatric Emergency Units. A minimal number of the admissions are done from the specialized clinics. The high number of admissions in Obstetrics & Gynaecology (Obs & gynae) is attributed to the free maternity program, an initiative by the National Government to ensure safe delivery for mothers. The chart below shows the trend of admissions by specialty.

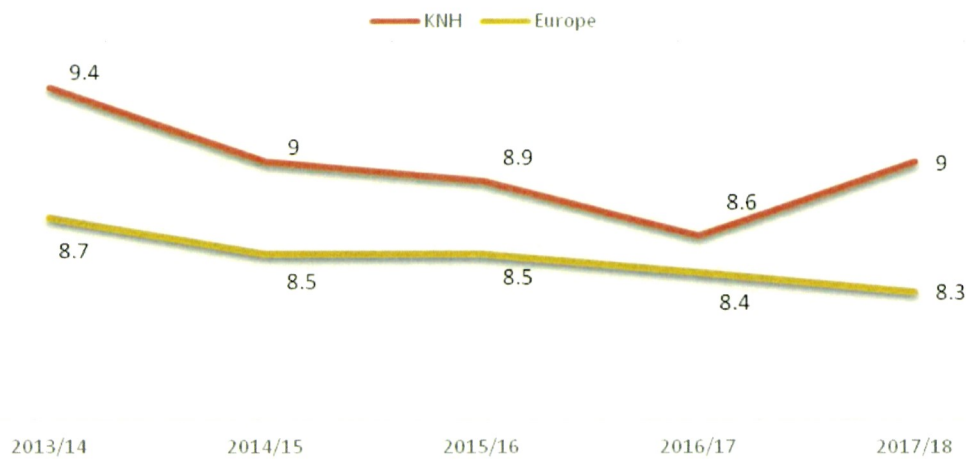
**Figure 6: Admissions by specialty**



### Average Length of Stay

The average length of stay (ALOS) is an indicator of efficiency in the provision of inpatient health care in the hospital. Generally, the average length of stay in the hospital has been falling (between 2013/14 to 2016/17). However, in the year 2017/18 there was a prolongation due to the industrial actions by various cadres of health personnel. The KNH ALOS compares closely with other world class health institutions. The chart below depicts KNH ALOS as compared to hospitals in Europe Union (EU) countries in the last five years.

Figure 7: KNH ALOS in comparison with the average ALOS of EU Countries



Source: World Health Organization - European Health Information Gateway

### Bed occupancy rate.

In the year 2013/14 to 2017/18 the bed occupancy rate averaged 108%. This was attributed to the specialized and quality healthcare services offered in the hospital that attracts clients from across the country and beyond. The flip side of this is overstretching of the hospital facilities and congestion of patients in the wards. It is notable that there is a decline in FY 2016/17 as a result of the industrial action by various cadres of health workers that disrupted healthcare delivery in the hospital. Near normal bed occupancy resumed in FY 2017/18 as shown in the graph below;

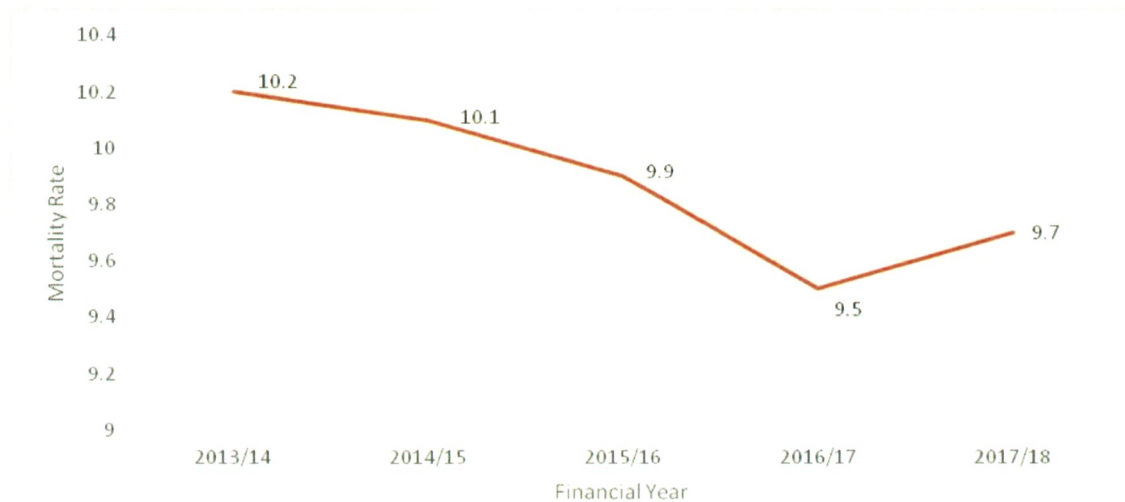
**Figure 8: Bed occupancy**



**Mortality Rate**

During the period under review the death rate averaged 10%. This is attributed to the critically ill patients referred to and managed in the hospital. The overall country’s crude death rate in the year 2017 was 6.70 per 1000.

**Figure 9: Mortality Rate**



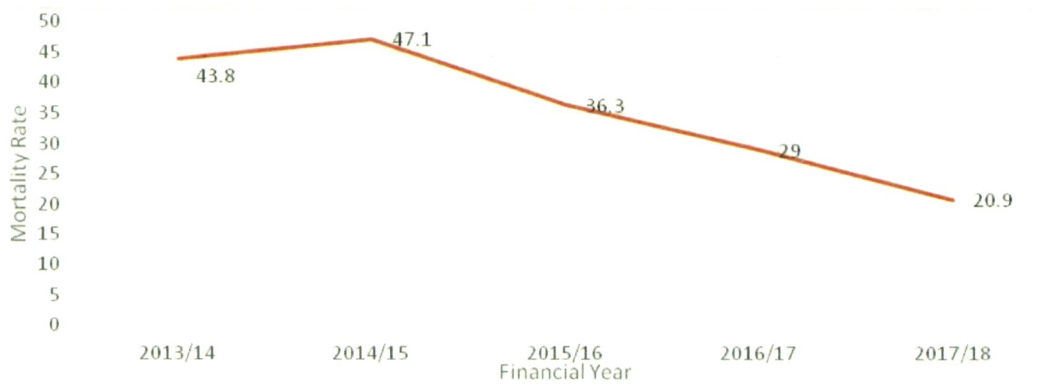
**Clinical effectiveness**

Clinical effectiveness is the application of the best knowledge, derived from research, clinical experience and patient preferences to achieve optimum processes and outcomes of care for the patients. This involves deliberate actions and frameworks of informing

changing and monitoring and evaluation of clinical practice. The hospital being a centre of excellence has ensured quality improvement and clinical effectiveness especially in the highly specialized areas like the critical care unit (CCU).

Mortality rate in CCU over the last five years has declined notably as depicted in the chart below. The decline is attributed to the measures put in place that include: establishment of satellite CCUs (medical and pediatric); establishment of treatment protocols; embracing modern management of critical patients; acquisition of critical care equipment and training of staff in specialized critical care.

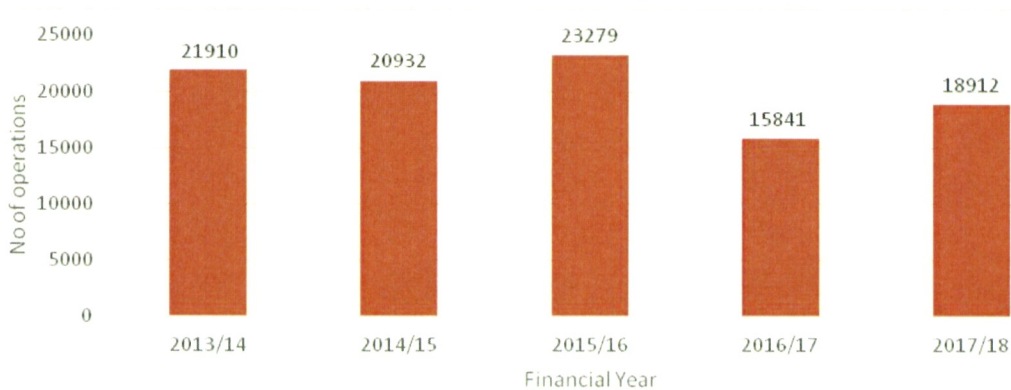
**Figure 10: Mortality rate in CCU**



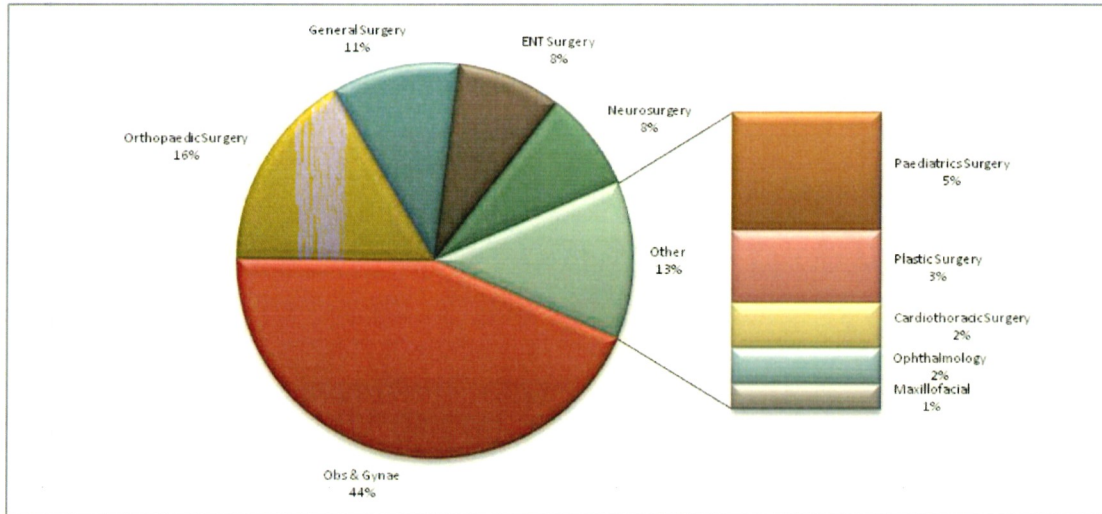
### Operating theatres

Theatre activities during the five-year period are depicted in the figure below.

**Figure 11: Surgical theater utilization**



**Figure 12: Surgical operations by Specialization 2017/18**



**KNH Prime Care Centre (KPCC)**

KPCC is a strategic business unit established to augment budgetary requirements of the hospital. The centre offers both inpatient and out patients health care services (Corporate outpatient clinic).

**Corporate Outpatient Clinic (COC)**

The Corporate Outpatient Clinic provides is a centre for patients who are able to pay slightly more to enjoy premium healthcare services.

The number of patients attended at COC has been increasing over the years with a remarkable growth recorded in FY 2017/18 of 128% as compared to FY 2016/17. This is attributed to enhanced marketing of the centre that has resulted to Corporate Bodies choosing COC for provision of outpatient services for their staff. In addition, diagnostic services have been enhanced resulting in improved turnaround time in service delivery. COC also offers international vaccination at affordable charge and therefore attracting large numbers of clients seeking this service.

The chart below depicts the COC attendance for the last five years.

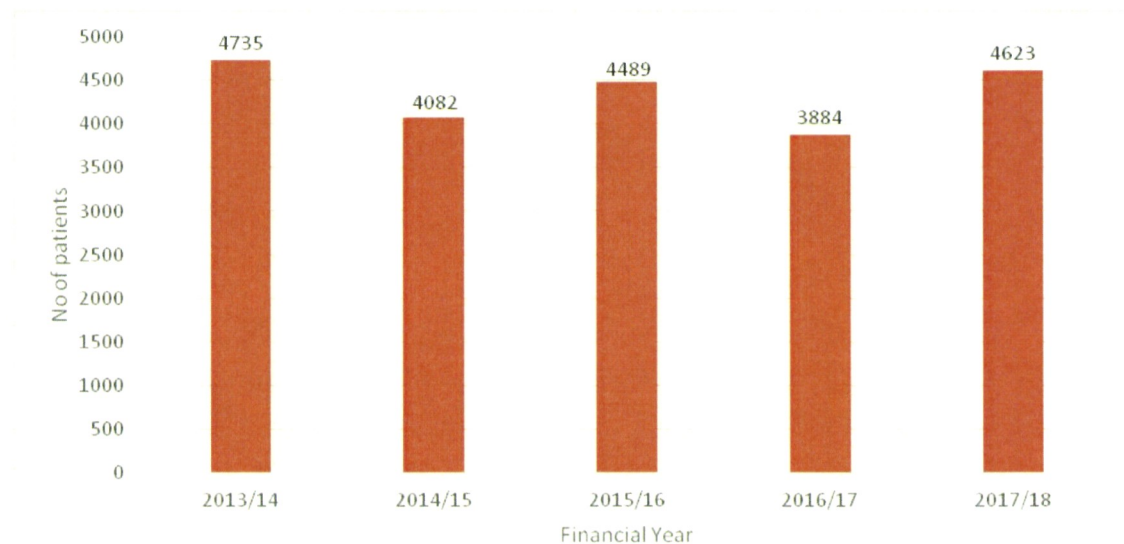
**Figure 13: Corporate Outpatient Clinic (COC) attendance**



**KPCC admissions**

The number of patients admitted in KPCC in the year under review increased by 19% as compared to FY 2016/17. The low number in FY 2016/17 was majorly attributed to industrial action by health workers that disrupted service delivery in the Hospital. The chart below depicts the trend over the last five years.

**Figure 14: KPCC Admissions**



**Patient Safety**

KNH has embarked on all aspects of patient safety which an integral component of health service delivery. The hospital is focused to reduce hospital acquired infections and medical errors, reduction of falls and occurrence of venous thrombosis. The hospital in collaboration with UON and MOH held inaugural patient safety symposium and also carried patient safety survey that is being used to address patient safety concerns.

**Infection Prevention and Control****Hospital Associated Infections**

The rates of Hospital Acquired Infections have continued to decline according to survey held in 2016/17 was 13% and has declined to 11.5% in the year of review.

**Antimicrobial stewardship**

The hospital has antimicrobial stewardship committee which has published guidelines on use of antimicrobials in the hospital.

**Clinical Projects**

Clinical projects are conducted to address gaps in usual clinical service provision. This is carried out by hospital clinicians and at times in collaboration with both local and international partners. The hospital has been undertaking these initiatives as a corporate social responsibility and has impacted positively in the care of patient. The table below shows the projects undertaken by the hospital and partners over the last five years.

**Table 4: Clinical Projects FY 2017/18**

PROJECT	FY					Total
	2013/14	2014/15	2015/16	2016/17	2017/18	
Arthroscopy Project	-	-	9	-	40	49
Cardiothoracic Project	-	-	14	-	15	29
Colorectal Project	-	6	-	-	-	6
Hepabobillus Project	-	-	1	-	-	1
Hernioplasty Project	-	66	-	-	-	66
Meak Project	42	-	-	-	-	42
OED Project	54	25	32	24	37	172
Open Heart Project	-	24	11	-	-	35
Operation Smile Project	-	11	7	-	10	28
Orthopaedic Project	10	35	10	24	24	103
Otology Project	-	5	-	-	-	5
Paediatrics Project	-	10	16	-	-	26
Plastic Surgery Project	32	26	6	35	22	121
Renal Project	-	-	-	-	18	18
Spine Project	-	2	6	-	-	8
Urology Project	77	8	80	8	12	185
VVF Project	254	371	120	360	200	1,305
<b>Total</b>	<b>469</b>	<b>589</b>	<b>312</b>	<b>451</b>	<b>378</b>	<b>2,199</b>

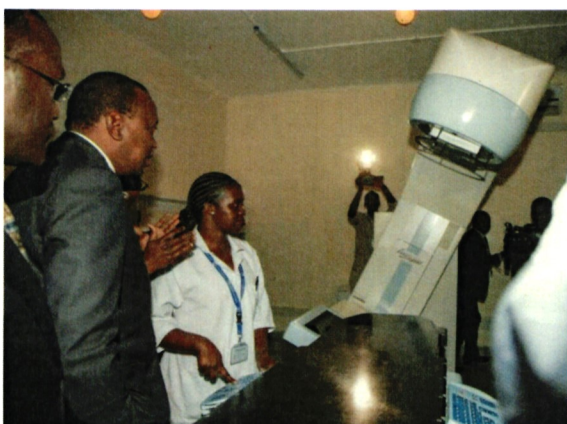
## Sponsorships and partnerships

### Mentorship on Cancer Treatment

A team of five Cancer specialists from United State of America conducted four day training to the KNH Oncology specialists between 24th and 27th July 2017. The visiting team was sponsored by Radiation AID (RADAID), USA

### Indian Government donated Telecobalt Cancer Therapy Machine

His Excellency the President Uhuru Kenyatta launched a new cancer treatment machine at Kenyatta National Hospital (KNH) on Thursday 24th August, 2017. The machine was donated by the Government of India. The new Advance Telecobalt Cancer Therapy Machine and Digital Radiotherapy Simulator treats between 70-100 patients per day.



### Donation of Laparoscopy Tower

Franciscan Health, USA donated to KNH a laparoscopy tower worth 25,000 US dollars (approx. KES 5 2.M) on 11th June 2018.



### Paediatric waiting bay

Postal Corporation of Kenya sponsored the establishment of Paediatric Emergency Unit patients Waiting Bay at a cost of 1.43 million. The project was commissioned on 31st May 2018.



### Kenya Pipeline Co. Donate ICU bed

The Kenya Pipeline Company Kenya donated an ICU bed at a cost of 4.5 M. The bed was presented and commissioned by KPC CEO Mr. Joe Sang on 30th May 2018.



### Ward Adoption of 3C

The Hospital has partnered with M/s Magnate Ventures Ltd. to renovate and maintain ward 3C for the next three years. The project is meant to modernize the dilapidated infrastructure, improve security features and internet connectivity. The scope of works includes the flooring, ceiling, walls, wood work, installation of CCTV and redoing the washrooms at a cost of Ksh.10M.



### Members of SDA Church Donate Blood

Youth members of the Seventh Day Adventist Church (SDA) Nairobi Station District donated over 180 units of blood.



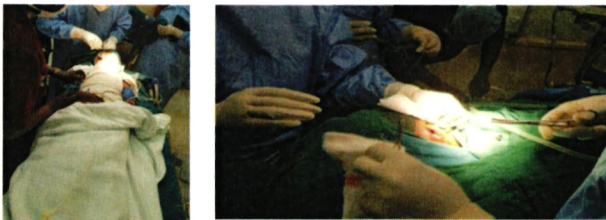
### Restoring hearing in children

KNH Ear, Nose and Throat (ENT) specialists' in collaboration with Jubilee Insurance under the hospice of Operation Ear Drop (OED) conducted surgeries to restore hearing for fifty two (52) children who had various hearing impairments. The five day project was conducted from 20th to 24th Nov 2017.



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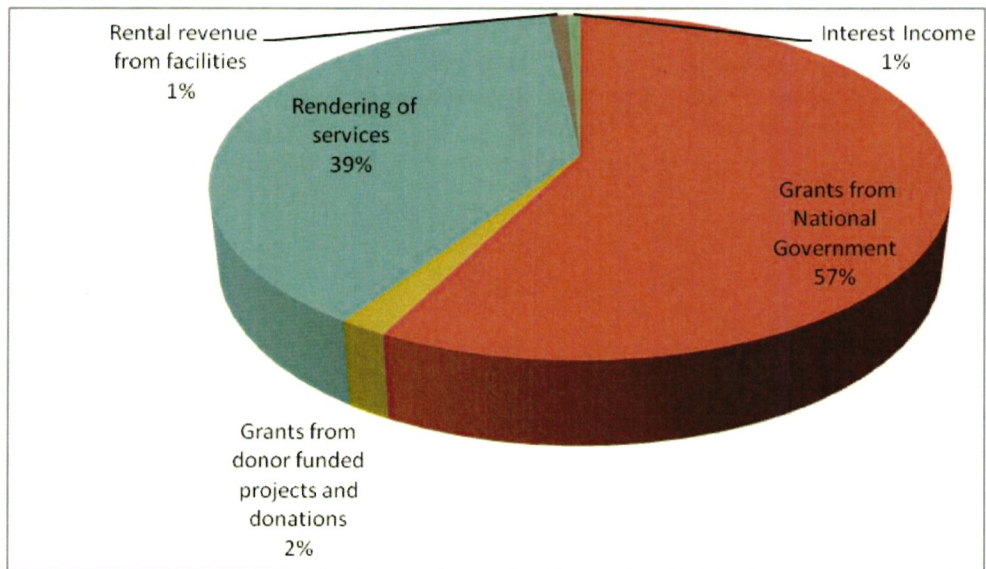


# Financial Highlights

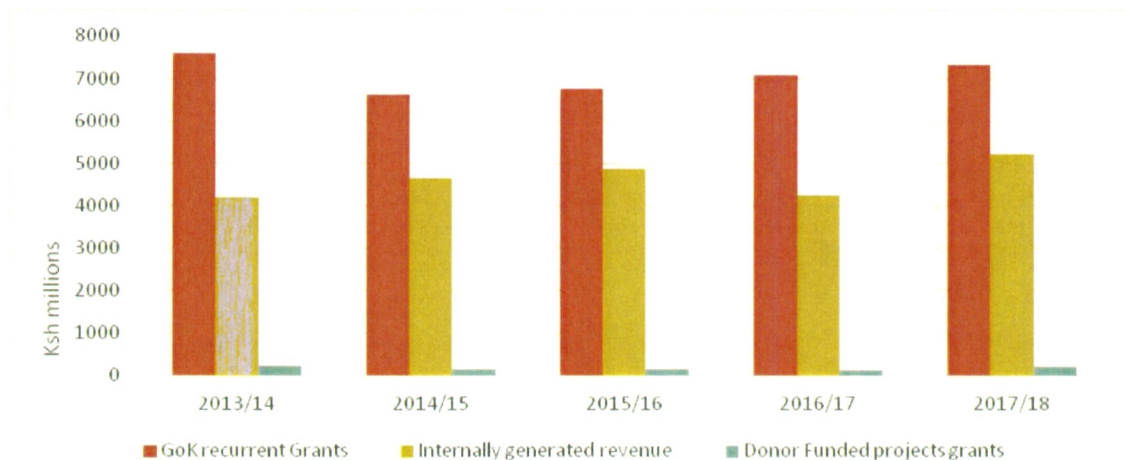
## Financial performance

The Hospital revenue comprises of grants from the National Government, fee charged for services rendered, rental income, public contributions and donations, grants from development partners and interest income. During the year under review, revenue grew by 11% from Kshs.11,460 million reported in the FY 2016/17 to Kshs.12,762 million. The sources of revenue for the year under review and the trend over the last five years are as depicted in the charts below:

**Figure 15: Revenue Sources FY 2017/18**

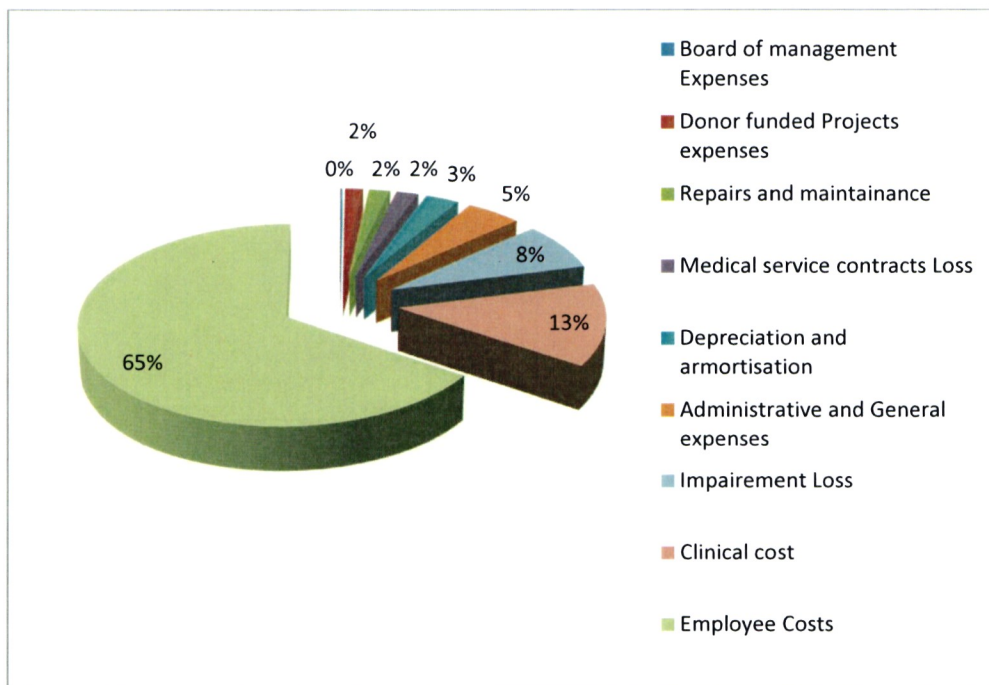


**Figure 16: Revenue Trend**

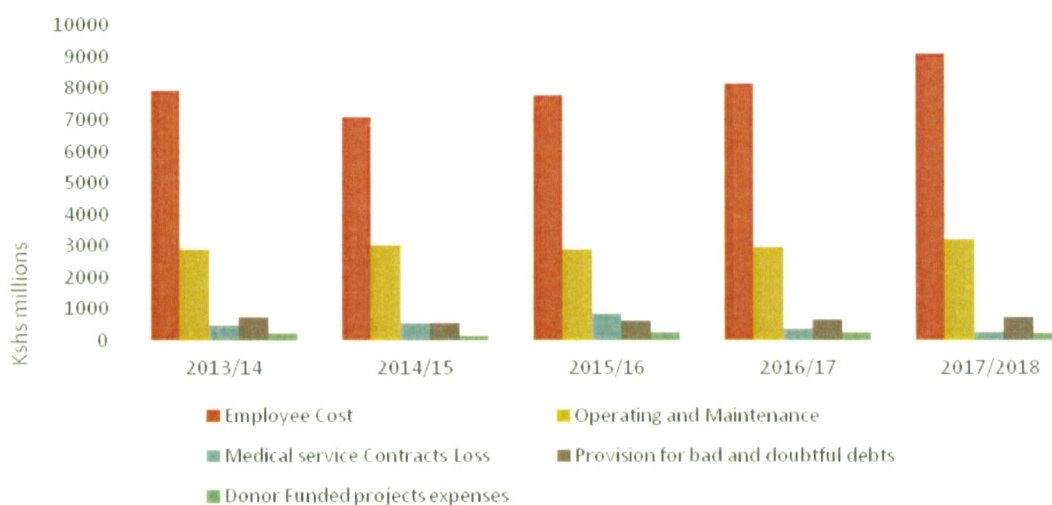


The revenue generated during the period was utilized to fund hospital expenditure that totalled Kshs.13,853 million. Funds utilization in the year under review and the expenditure trend are depicted in the charts below:

**Figure 17: Utilization of Funds FY 2017/18**



**Figure 18: Expenditure trend**



## Performance results

Despite the growth achieved in generation of revenue, the hospital recorded a deficit of Kshs. 1,091 million in the year under review. This is an increase of 21% from the previous year's deficit of Kshs. 905 million. The deficit performance is largely attributed to:

### i. Medical Service Contracts Loss

#### NHIF Contracts Loss

This loss arises in cases where the reimbursed rebates as per the existing medical service contracts being lower than the hospital's actual costs of offering services to patients. The terms of these contracts require the hospital to offer comprehensive healthcare services to the NHIF members without co-charging even where the actual cost of medical service offered is higher than the rebate amounts.

Cumulatively, the hospital has incurred losses totalling Kshs. 1.9 Billion over a period of eight (8) years. The table below shows the annual loss for the last five years.

**Table 5: NHIF contracts Loss**

	2013/14 KShs. (M)	2014/15 KShs. (M)	2015/16 KShs. (M)	2016/17 KShs. (M)	2017/18 KShs. (M)
NHIF contracts Loss	348	393	412	165	88

#### Free Maternity Program loss

The Government implemented Free Maternity program with effect from June 2013 for which the Ministry of Health reimburses the Hospital ksh.17,500 per delivery case. The cost of offering free maternity services includes the cost of maternity related complications that require specialized treatments in renal, intensive care unit and pre-term care. The cost also includes pre-natal and post-natal care. The average cost of medical bills per maternity case amounts to Kshs.39,000 and therefore reimbursement at the rate of Kshs.17,500 is not adequate to cover the costs of rendering maternity services to the Hospital.

Cumulatively, the hospital has lost Kshs. 1.09 Billion since implementation of the program. The table below shows the annual loss for the last five years.

**Table 6: Free Maternity Program loss**

	2013/14 KShs. (M)	2014/15 KShs. (M)	2015/16 KShs. (M)	2016/17 KShs. (M)	2017/18 KShs. (M)
Free maternity Program loss	134	163	416	201	177

ii. Provision for Bad and Doubtful debts

Some of the patients who are referred for specialized health care are from underprivileged background. Upon clinical discharge they are unable to settle their medical bills, and are released from the hospital on unsecured credit based on a commitment that they will settle their bills in the future. Efforts to collect the due receivables from this category of patients in the year are largely fruitless. Further, deceased patients whose bodies are not claimed by relatives are disposed as per Public Health Act. Outstanding bill balances for such cases amounted to Kshs. 369 million. Consequently, a provision for bad and doubtful debts is made for these impaired receivables annually. Cumulatively over the years, the provision for bad and doubtful debts amount to Kshs.6.531 Billion as at June 30, 2018. The annual provision for bad and doubtful debts made in the last five years is as shown below.

Table 7: Provision for Bad and Doubtful debts

	2013/14 KShs. (M)	2014/15 KShs. (M)	2015/16 KShs. (M)	2016/17 KShs. (M)	2017/18 KShs. (M)
Provision for bad & doubtful debt	741	557	624	658	1,077

**Liquidity Position**

The Hospital held a total amount of Kshs.851 million in cash and cash equivalents as at June 30, 2018. This amount is composed of funds designated for development projects that are ongoing (Kshs.572 million), conditional grants received for donor funded projects (Kshs.87 million). The balance of Ksh.192 million is available to meet current financial obligations among them payment to suppliers for which the amount owed as at June 30, 2018 stood at Kshs.643 million. The table below summarises the uses of the cash and cash equivalents held by the hospital as at June 30, 2018.

Table 8: Designation of funds held as at June 30, 2018

Details (Funds Purpose)	Amount Kshs. (M)
Burns Management Centre and Paediatric Emergency Centre	343
Renal Centre of Excellence - Upgrade of KNH's Renal Unit	100
Construction and Equipping of Day Care Centre	4
Construction and Equipping of Cancer Centre	125
<b>Sub-Total</b>	<b>572</b>
Conditional Grants for Donor Funded Projects	87
Hospital current financial obligations	192
<b>Total Cash and cash Equivalents Held as at June 30, 2018</b>	<b>851</b>

### Funding Gap

The government allocates grants to the hospital to cater for personnel emoluments, emergency relief and capital expenditure. Over the years, the funding gap between recurrent grant allocations towards employee costs has been growing and as a result, the Hospital bridges the underfunding through internally generated funds that is meant to cater for operational costs. Consequently, this adversely affects financial sustainability of the hospital. The funding gap on employee costs over the last five years is as tabulated below:

**Table 9: Employee Costs Funding Gap**

Details	2013/14 KShs. (M)	2014/15 KShs. (M)	2015/16 KShs. (M)	2016/17 KShs. (M)	2017/18 KShs. (M)
Recurrent Grant from GoK (Personnel Emoluments)	7,550	6,589	6,625	7,043	7,295
Employee costs	7,929	7,246	7,696	8,208	9,085
<b>Underfunding</b>	<b>(379)</b>	<b>(657)</b>	<b>(1,071)</b>	<b>(1,165)</b>	<b>(1,790)</b>

Equally, the funding towards capital expenditure over the years has not matched the hospital requirements and restrains the Hospital on acquisition and replacement of medical equipment that are required in the offering of quality healthcare. The table below shows the capital grants allocated to versus the hospital's capital requirements over the last five years.

**Table 10: Capital Requirements Funding Gap**

Details	2013/14 KShs. (M)	2014/15 KShs. (M)	2015/16 KShs. (M)	2016/17 KShs. (M)	2017/18 KShs. (M)
Capital Grant from GoK	394	236	488	685	246
Hospital capital requirements	1,236	3,856	3,314	2,438	2,970
<b>Underfunding</b>	<b>(842)</b>	<b>(3,620)</b>	<b>(2,826)</b>	<b>(1,753)</b>	<b>(2,724)</b>

## Material arrears in statutory and other financial obligations

### 1. Tax Liability

Kenya Revenue Authority (KRA) conducted an in-depth audit on KNH and issued an assessment on July 12 2014 of a tax liability of Kshs.592,860,909 relating to the period January 2010 to March 2014. KNH objected to the findings of KRA and on 5th June 2015, KRA issued a confirmed assessment amounting to Kshs.545,693,303. On 7th February 2017, the Hospital paid Kshs.18,022,978 representing the tax not under dispute in relation to withholding tax and VAT.

The hospital engaged KRA through the office of the Attorney General on the disputed assessment. Following a mediation meeting held on 23rd June 2017 at the Attorney General Chambers, KRA issued a revised assessment dated 19th July 2017 of Kshs. 170,590,114 comprising of principal tax of Kshs. 90,056,488, penalty of Kshs. 22,514,122 and interest of Kshs. 58,019,505. The Hospital paid the principal tax liability in the year 2017/18 and submitted an appeal for the penalty and interest totaling Kshs. 80,533,626 which is still outstanding as at June 30, 2018. The Hospital is waiting for KRA response on the appeal made.

### 2. National Social Security Fund Arrears

The outstanding amount relates to contribution arrears for the period April 2001 to November 2009 when KNH had sought for an exemption on complying with NSSF Act from the Ministry of Labour and Human Resource Development given the hospital had a better Pension Scheme. The Ministry declined the request for exemption in the year 2011 on the basis that NSSF was a universal social security pillar and was thus mandatory. The Hospital had by then accumulated arrears totalling to Kshs. 311.million excluding penalties. The hospital has been including this amount in the budget for funding to offset the arrears as all personnel related expenses are funded through the Government of Kenya recurrent grant. This amount has however not been funded and has thus remained outstanding.

In the FY 2016/17 and 2017/18, the Hospital paid Kshs. 24 million each year of the arrears awaiting Ministry of Health intervention. The outstanding amount as at June 30, 2018 is Kshs. 263 Million.

### **3. Defined Benefit (DB) Pension Scheme Deficit**

Actuarial valuation was done on the KNH Defined Benefit Pension Scheme as at June 30, 2014. The valuation showed benefits liability of Kshs. 8.6 billion against the schemes asset of Kshs.5.8 billion with an underfunding thereon of equivalent to Kshs. 2.8 billion. The underfunding of Kshs. 2.8 billion is to be paid by KNH as the scheme sponsor.

The Hospital has been requesting for funding of the deficit through the budgetary process and in the last three years, FY 2015/16 to 2017/18, an amount of Ksh.100 million per year has been allocated and subsequently disbursed to the scheme. However, the allocation of Ksh.100 million per year towards the DB scheme deficit is not sufficient.

The scheme is in the process of carrying out an actuarial valuation as at 30th June, 2018 for which remedial plan will be developed for consideration by the KNH Board of management. The hospital shall recognize in the books the updated deficit based on the latest valuation.

### **4. Spanish loan**

The Government of the republic of Kenya and the Kingdom of Spain signed a loan agreement on 29<sup>th</sup> July 2005 for a loan of Euros 14 million (Kshs. 1,199,862,823) in form of medical equipment for KNH. Though there was no on-lending agreement executed between the Hospital and the National Treasury, the Hospital recognized the assets (medical equipment) and the Spanish loan in the books.

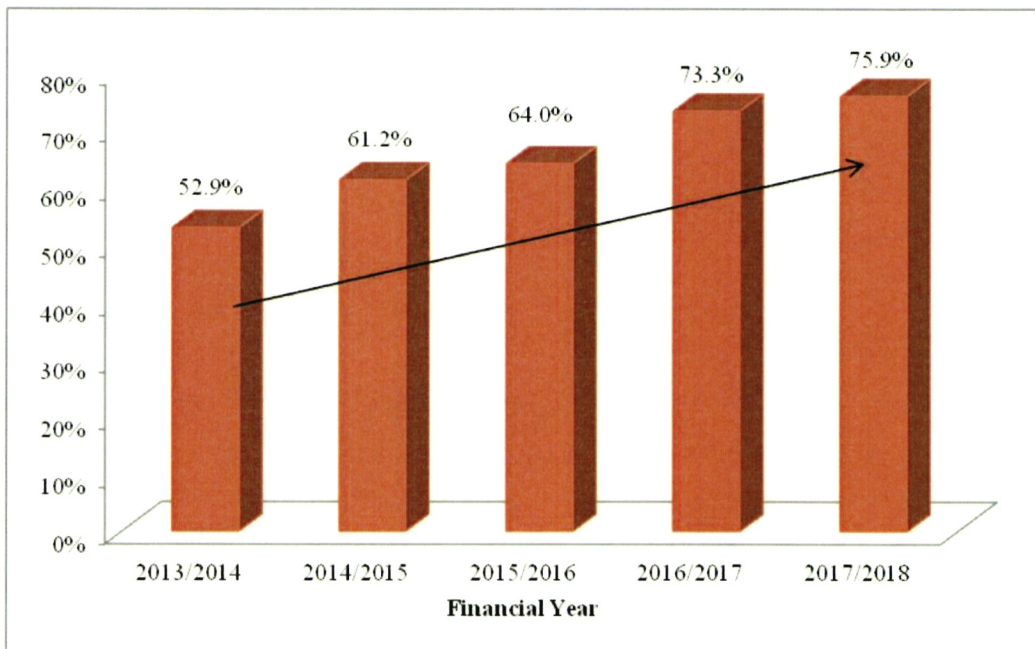
The Hospital through various correspondences to The National Treasury, has since January 2008, expressed its inability to service the loan due its poor financial performance over the years that has resulted in cumulative deficit of Ksh.2.9 billion as at June 30, 2018. The Hospital management has been consistent in their request for the Government to take over the loan and convert it into a grant. The request has not been granted so far and the loan remains outstanding in the Hospital books.

## Hospital Strategic Direction

### KNH Strategic Plan III (2013-2018)

This Strategic Plan, unlike the previous two, was developed through the Balanced Scorecard approach. Three strategic themes were identified each with a strategic result whose successful execution will enable the Hospital achieve its mission and vision. Annual targets have also been set and indicative budgets proposed for the activities to be implemented in the entire Plan period. The implementation status of the 2013-2018 strategic plan whose life span coincided with the end of the 2017/18 financial year is as follows:

**Figure 19: KNH Strategic Plan 2013-2018 Implementation status**



### KNH Strategic Plan IV (2018-2023)

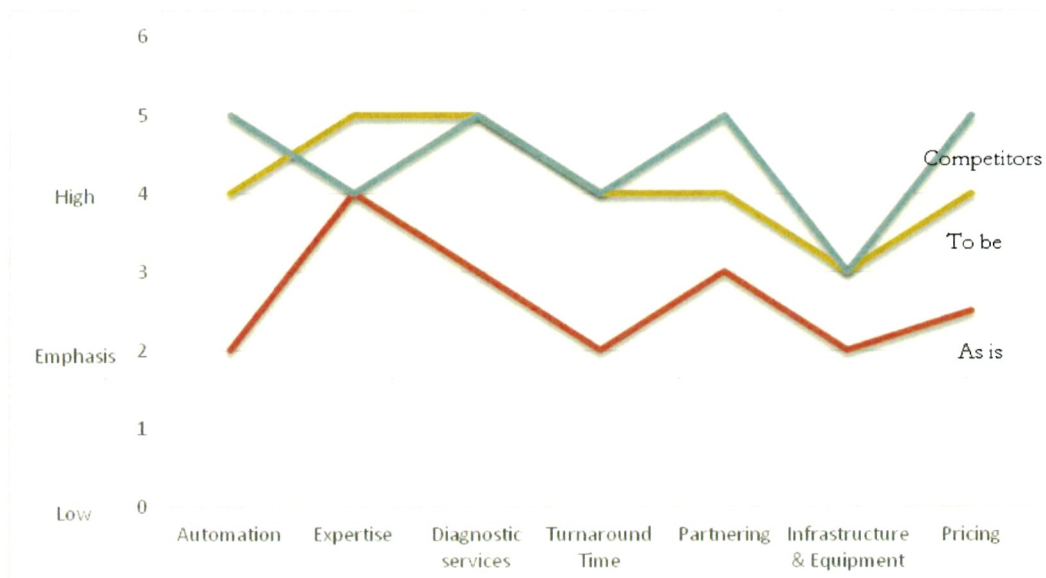
The 4<sup>th</sup> KNH 2018- 2023 was developed during this period. The Plan is also anchored on the Balanced Scorecard approach.

### Strategy Canvas

The strategy canvas illustrates the emphasis of critical elements (key differentiators) in positioning the organizations strategy within the service industry in efforts to create cost-effective strategy for delivering services. The Hospital has identified six differentiating factors: process automation, diagnostic services, turnaround time, customer care, infrastructure & equipment and pricing to look into ways of improving services and

delivering them to customers in effective and efficient way. The figure below illustrates the relationship of the key differentiators between the Hospital and the competitors.

**Figure 20: Strategy Canvas**



**Strategic Themes**

Three strategic themes were identified each with a strategic result whose successful execution will enable the Hospital achieve its mission and vision. These are:

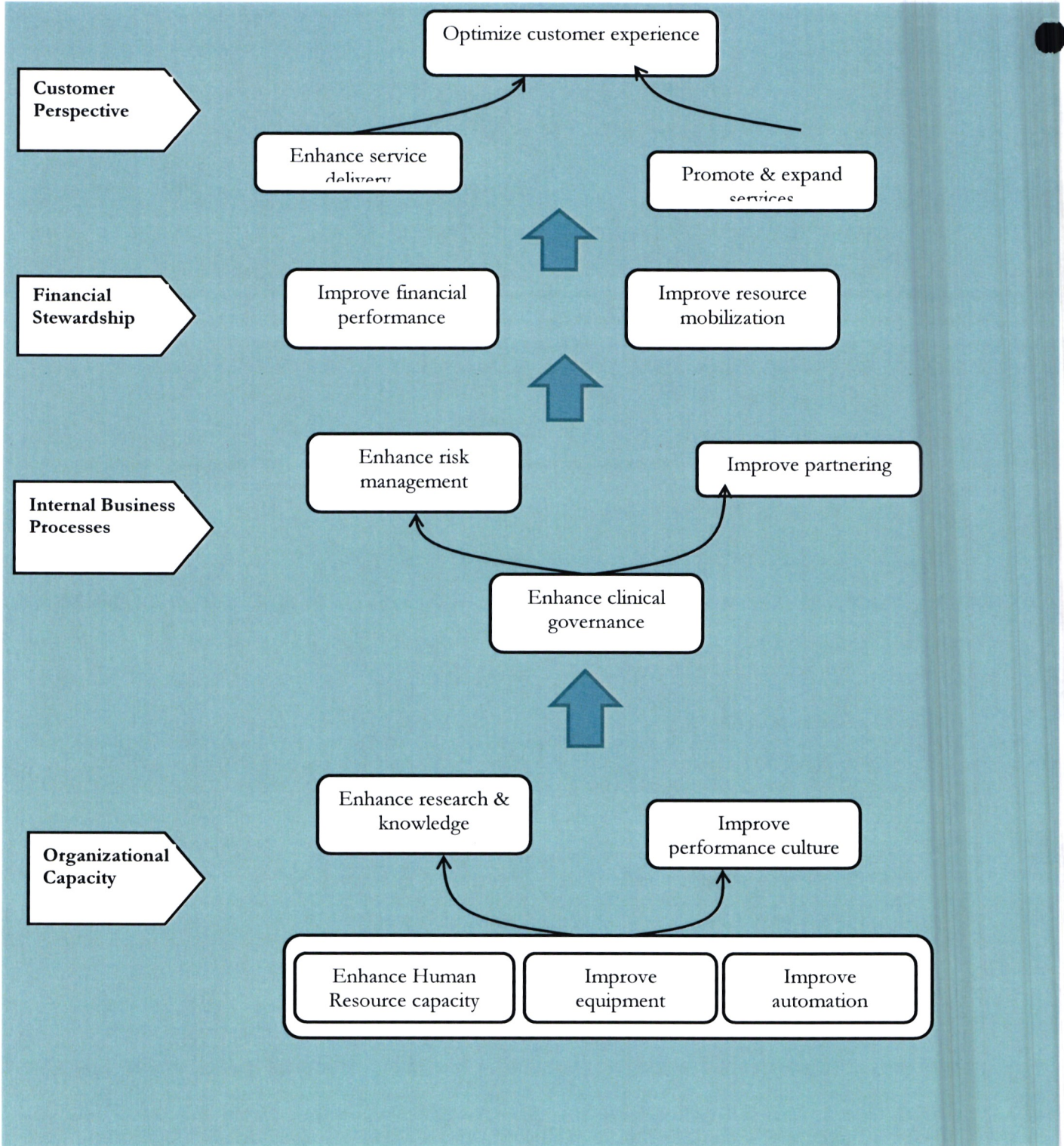
**Table 11: Strategic Themes**

	Strategic Theme	Strategic result
1.	Operational excellence	Seamless, effective and timely service delivery and efficient utilization of resources
2.	Excellence in clinical outcomes	Improved quality health care
3.	Business growth	Financial Sustainability

**Corporate Strategy Map**

The strategic themes are broken down into thirteen (13) strategic objectives which are linked to the identified initiatives, results and/or outcomes. This is presented in a strategy map. The Strategy Map gives a synopsis of the strategic focus at a glance. It shows a logical connection between the Balance scorecard (BSC) perspectives, themes and strategic objectives in relation to the Vision, Mission and Core Values. The map is a cause and effect diagram that shows how one perspective or objective, leads to the next and ultimately, delivery of the Vision and Mission.

Figure 21: Corporate Strategy Map



**Key Hospital Strategies and Policies**

As part of the implementation of the strategic plan, various strategies have been developed to operationalize the corporate strategic plan as follows:

**i) ICT Strategy 2017-2022**

The KNH Information and Communication Technology (ICT) Strategy 2017 -2022 defines the strategic direction to be taken by the Hospital in the improvement of ICT to support the Hospital's mandate. This strategy provides a roadmap for exploitation, development and deployment of ICT solutions in the Hospital. The total cost for implementation of this strategy over the five year period that is expected to fully automate the hospital is **Kshs. 1.518 Billion**.

**ii) KPCC Strategic Plan 2017-2022**

This Strategic Plan KPCC SPII-2017-2022 seeks to deepen the good results brought about by implementation of the first strategic plan while placing more focus in growing revenues and cost containment. The Plan will also help the Prime Care Centre to achieve its mandate of providing quality specialized healthcare at competitive rates; harnessing the potential for business opportunities in healthcare and related services; giving comprehensive pharmaceutical care and promoting medical tourism.

**iii) Plant and equipment replacement Plan 2017-2022**

The Plant and Equipment Replacement Plan is a five-year forecast of equipment replacement and infrastructure needs in Kenyatta National Hospital (KNH). This serves as a planning tool and is therefore structured to present a meaningful, long-range perspective of the Hospital's equipment and infrastructure needs for the next 5 years. In addition, details on individual pieces of equipment scheduled for replacement is provided to enable the Management and user departments make informed decisions of the Hospital's equipment needs. For effective implementation of the Plan, a total estimate of **Kshs 2.3 Billion** is required to clear current obsolescence of equipment while another **Kshs 1.7 Billion** is required over five year period to replace the equipment as they fall due. In addition, **Kshs1.9 Billion** is required for improvement of Infrastructure. The total cost requirement for implementation this plan is **Kshs. 5.9 Billion**.

**iv) Security and Safety Strategy 2017-2022**

This Strategy charts the direction to be taken by the Hospital in the improvement of security to support the Hospitals mandate. It sets out the key principles, strategies and initiatives that will be deployed by the Hospital in the next five years in a bid to exploit and leverage on the existing and emerging trends and methods of improving safety and security within the Hospital. The main aim of this strategy is to make security an integral part in providing a safe and secure environment for all patients, employees and those who come into contact with the Hospital services. The total financial requirement for

implementation of this strategy is Kshs. 891 Million over the five years excluding human resource cost for hospital security employees.

**v) Policy documents**

During this period the Hospital developed, reviewed and updated a total of twenty nine policy documents to align them to the strategic direction of the Hospital. Further, the hospital plans to review all existing policy and strategic documents in view of emerging issues and to align them to the President`s Big 4 plan especially Universal Healthcare in the FY 2018/19.

**vi) Human Resource Capacity Requirements**

A Summary report on staffing requirement in all areas of the hospital has been prepared. Budgetary requirement to fund the staffing deficiencies has been established. Urgent on the list is the recruitment of 808 nurses, 223 medical specialists, 145 medical officers and 280 administrative staff. The total cost per annum for these additional staff is Ksh.2.625Billion.

**Monitoring and Evaluation**

The Hospital has achieved the following in institutionalizing Monitoring and Evaluation at KNH:

- i. The Board of Management during its meeting in December 2017 approved the establishment of an M&E Unit under the Planning and Strategy Division
- ii. The CEO appointed an M&E Steering Committee in January 2018
- iii. Capacity Building for M&E leadership and committee is ongoing.
- iv. M&E has been incorporated as a major component in the Strategic Plan 2018 - 2023.
- v. Identification of M&E champions across the Hospital is ongoing.

The M&E Unit will coordinate all monitoring and evaluation activities across the hospital

## Key Hospital Projects

### 1. Burns Management Centre and Pediatric Emergency Centre (BADEA Project)

This project involves the construction of Burns Management Center and Pediatric Emergency Center. The Burns Centre will contain 82 general ward beds, 14 ICU beds and 6 HDU beds while the Pediatric Centre will contain 82 general ward beds, 24 ICU and 6 High Dependency beds. BADEA, SAUDI and OPEC Fund will partly finance the project through a concessionary loan. The GOK will meet the other balance.

#### Progress

- i. The tender was re-advertised, evaluated and awarded to M/s Vaghjiyani Enterprises at a cost of Kshs. 2,959,511,555.29. This does not include the cost of equipment and machinery required to operationalize the Burns Management Center and Pediatric Emergency Centre.
- ii. The site has been handed over and works have commenced.

### 2. Construction and Equipping of Cancer Center

This project involves the construction of a fully fledged state of the art Cancer centre of excellence with consultation and treatment rooms, radiotherapy, training and research facilities. The project is expected to cost approximately Kshs.2B and will be phased so as to ensure completion of the project in approximately five (5) years depending on the availability of funds. The project is funded by GoK.

#### Progress

The Tender was advertised on 06th March, 2018. It opened and closed on 04th April, 2018. It was evaluated and awarded on 20th April, 2018.

- i. The successful bidder under Lot 1 - M/s Jap International Limited was awarded Main works at cost of Kshs. 244,721,296.00. He was notified on 24th April, 2018.
- ii. Lot 2 -Mechanical works will be re-tendered.
- iii. Lot 3- Electrical Works was awarded to M/s M. J. Vekaria Electrical Ltd at a cost of Kshs.25, 993,190.00
- iv. The site has been handed and works have since commenced.

### 3. Renal Centre of Excellence - Upgrade of KNH's Renal Unit

The project is aimed at expanding the existing renal unit to provide adequate infrastructure to handle the increased number of renal transplantation needs. The upgrade will accommodate the equipment procured in the Phase I of EAKI. The project once completed will have two transplant theaters, a recovery room, and two wards each

to contain six (6) beds for either gender or cloakrooms. The GoK has allocated Kshs.200 million in the financial year 2018/19 for the project.

**Progress**

- i. The site was handed over to Ms Corban Limited on 9th January 2018 for a 12 months contract period
- ii. Work done is approximated at 15% with 17 weeks of the contract period having elapsed and is behind schedule by about six weeks due to the rainy weather.
- iii. Most of the equipment (phase one) has been installed and is in use in the existing renal Unit.
- iv. Designs and cost estimates for the room to accommodate the tissue typing machine are complete.

**4. Construction of 300-Bed Private Hospital**

The project involves construction and equipping of a 300-bed private hospital that will be a subsidiary to the Main KNH to be run on private business model. The objective is to attract clients who are able to pay for healthcare services which will generate revenue that will support those who are not able to pay for same at the main hospital. It will be built on the KNH land adjacent to the link road to Mbagathi road. The project will be financed through the Public Private Partnership (PPP) financing model.

**Progress**

- i. Ernst & Young was awarded the contract as the transaction advisor (TA) by the National Treasury. This includes carrying out of the feasibility study. The transaction advisory services are financed by the World Bank.
- ii. Inception meeting between the TA, PPP Unit and KNH was held on 4th April 2018.
- iii. A feasibility study has already been carried out.
- iv. Draft inception report was ready as at the close of the financial year.
- v. The Final feasibility report is expected in FY 2018/19.

**5. Construction and Equipping of a Day Care Center**

This project involves construction and equipping of a surgical day care to deal with surgical operations that require a short stay. The objective is to decongest the wards, reduce length of stay of patients in the wards and generate revenue to support health services in the main hospital. The construction of the facility will cost approximately of Kshs.202 million. Merali Foundation and KNH have donated Kshs.100 million and Kshs.60 Million respectively towards the project. The government has allocated 42M this financial period for the completion of the physical structure.

**Progress**

- i. The works done currently stand at 90%
- ii. Equipment required for the facility is approximated at Ksh.115Million and scheduled to be done in the FY 2018/19.

**6. Microwave Waste Treatment Project.**

KNH is a beneficiary of the Belgium Government's donation of modern medical waste treatment equipment due to the high volume of clinical/medical waste generated. The equipment is able to shred and microwave a minimum of 250kg of waste per hour. The Hospital awarded AMG Sagarin Limited for the construction of the housing and access road valued at Kshs.12,790,615 for a contract period of 20 weeks. This project once complete will generate revenue by incinerating waste from other facilities at a cost.

**Progress**

- i. The project is on- going and stands at 80%.
- ii. The construction is expected to be completed in October 2018.

**7. KNH Master Plan**

The Hospital aspires to scale to new heights of development and excellence by developing a master plan in line with Kenya's vision 2030. It is on this basis that Ms. Habitech were contracted for Kshs.89,436,000 through competitive bidding to develop a visionary and sustainable Hospital Master plan.

**Progress**

- i. The consultant presented an inception report to the Hospital management in March 2018
- ii. Consultancy works are ongoing

## Challenges

The hospital is faced with numerous challenges in fulfilling its mandate.

**i. Automation**

In a bid to ensure that KNH provides efficient and effective services as well as provide the desired platform for clinical linkages with other hospitals, a business process re-engineering was carried out in the year that culminated in development of specifications aimed at delivering a robust ICT platform. An international tender was floated to get the best implementation firm. This has been put on hold pending further consultations with various stakeholders with a view of starting the process a fresh in the FY 2018/2019. Notwithstanding this, automation as an enabler of service delivery remains a great challenge for KNH.

**ii. Underprivileged and Indigents medical bills**

Most of the patients treated at KNH are either from the informal sector or unemployed. Upon clinical discharge, some are unable to settle medical bills. They are released from the hospital on a commitment to settle their bills in future on unsecured credit. After the release, efforts to collect the due credit are fruitless. The total medical bills for indigent cases in 2017/18 FY was Kshs. 1,077 Million and cumulatively over the years amounting to KSh. 6.531 Billion.

**iii. Inadequate Development Budget Allocation to the Hospital**

Most of the hospital medical equipment requires upgrading and replacement to enhance efficiency for sustained provision of better services. Over the years, the allocation towards the capital expenditure has not matched the hospital requirements (detailed analysis are shown under financial highlights in the annual report).

**iv. Inadequate Employee costs Funding.**

The hospital operations and maintenance costs are funded from the internally generated revenue collected from rendering of services. Employee costs are funded by the GoK and over the years the gap between the annual allocations of the recurrent grant verses the employee costs has been widening (detailed analysis are shown under financial highlights in the annual report). Consequently the hospital has been bridging the funding gap through funds that are meant to meet operations and maintenance costs.

**v. Influx of Maternal and Neonatal Cases**

Due to the benefits that accrue to citizens from implementation of free maternity policy, neonatal cases that requires incubation services has put a constraint on the hospital`s existing facilities.

**vi. Publicity**

The hospital has been faced by the negative publicity arising from incidents and/or perceptions on certain occurrences within the hospital. This has affected the KNH corporate image.

**vii. Industrial Action**

Industrial action within the public health sector, adversely affect the delivery of service and revenue generation.

## Sustainability Report

The 2017-2018 Sustainability Report is our 2<sup>nd</sup> sustainability report and continues to reflect the hospital's performance as well as the hospital strategy and vision for the future. As a national teaching and referral hospital, we recognize that we must conduct our operations in a manner that considers the environmental and social impact to ensure the success and longevity of the business. We are committed to being transparent, candid and open about our business and this report is a reflection of that commitment.

At KNH, we have a pragmatic approach to sustainability. We focus on identifying and putting into practice initiatives and programs that deliver real world and lasting benefits under the three areas of our sustainability activities. These areas include; maintaining a sustainable supply chain, minimizing our environmental footprint and caring for our people.

### **Stakeholder engagement**

Engaging with stakeholders informs our decision making, strengthens our relationships and helps us deliver our commitments and succeed as a business. In order to achieve these goals, we recognise that we must work in partnership with other interested stakeholders who share our commitment and have a stake in our business.

We actively engage with Government, regulators, customers, suppliers, investors and individual citizens to create an environment that is supportive of solutions.

### **Materiality**

We recognize that material issues can directly or indirectly impact our ability to create long-term value for its customers, employees, stakeholders and society at large.

### **Maintaining a sustainable supply chain**

#### **Our Commitment**

KNH has over 2,000 suppliers that supply good and services. When we manage multi-billion shillings contracts and engage multiple service providers for our operations and projects, our own reputation as service provider is always a top priority. For that reason, we are focused on ensuring our suppliers comply with best practice and adhere to our contract agreement for all services and goods offered.

## **Minimizing our environmental footprint**

### **Our initiatives**

In our offices and clinical areas, we continue to encourage employees to help reduce energy consumption by switching off their computers and lights at the end of the day. We have OSHE committee in each department to identify ways to reduce our carbon footprint and help to implement initiatives across the hospital.

Apart from adopting energy efficient technologies we are also pleased to announce that we are currently in construction of microwave incinerator which is almost complete. Our target is to launch the microwave incinerator project by early 2019 and reduce our total product waste.

In packaging of medicine, we are using environmentally friendly bags. In medical waste, we are also using bags which are clearly marked for clinical waste, bottles and leftover foods. Staffs are also provided with personal protective equipment.

### **Social Capital**

#### **Our Initiatives**

We invest in providing the best working environment for our employees. Recognition and appreciation of our employees is a core part of this. Our employee Reward and Sanctions policy allows all employees to recognise their teammates for demonstrating one or more of our corporate value behaviours with a recognition letter. Directors and Head of units are also given to reward those employees who consistently go above and beyond what is required in their roles.

KNH promotes a healthy lifestyle and provides all employees with health cover at the hospital with their dependants with no limits which provide free annual health screening that helps to identify any problems early on.

Employees are encouraged and supported to continually build on their skills and knowledge. The hospital invests heavily in learning and development program for employees. These include courses on leadership, management and technical competencies relevant to each employee. We also offer a tuition program for employees seeking to further educate or advance themselves through formal programs relating to their current or prospective jobs.

We also have a policy on disability mainstreaming and a recruitment policy where at least a third is not of more than one gender or one regional representation. The hospital has also allowed staff to join unions for collective bargaining agreements

# Risk Management

## Introduction

The Board is accountable for the KNH risk management process and system of internal control. The Audit and Risk Committee is mandated by the Board to monitor the risk management process and systems of internal control of the hospital. The Board oversees the activities of the Audit and Risk Committee, the KNH internal and external auditors and the KNH risk management function as delegated to the Hospital's Audit and Risk Committee.

The KNH Enterprise-wide Risk Management (ERM) policy follows the international Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework, ISO 31000 and incorporates the recommendations of King IV of 2017, which defines the risk management objectives, methodology, risk appetite, process and the responsibilities of the various risk management role players in the hospital. King IV definition of risk consists of three parts, namely, uncertainty of events, the likelihood of such events occurring and their effect, both positive and negative. The ERM framework is subject to annual review and any amendments are submitted to the Audit and Risk Committee for approval.

The objective of risk management in KNH is to establish an integrated and effective risk management framework where important risks are identified, quantified and managed. The risk management process is implemented across the hospital. The priority risk items, together with key measures taken to mitigate these risks, are listed in the table below;

**Table 12: Major Risks Facing the Hospital**

Principal Risk	Description Of Risk	Mitigation Of Risk
Regulatory and compliance risk	<p>Adverse changes in laws and regulations impacting the hospital or the failure to comply with laws and regulations which may result in losses, fines, prosecution or damage to reputation.</p> <p>The risk includes ethical and governance risks that refer to unexpected negative consequences of unethical actions or the failure of the control and oversight mechanisms which were designed and implemented to uphold the ethical standards and controls of the organisation</p>	<ul style="list-style-type: none"> <li>• Proactive engagement strategies with stakeholders</li> <li>• Research and programs department created to conduct research and provide strategic input for reform processes</li> <li>• Active industry participation across all platforms</li> <li>• Legal Departments support operational management, monitor regulatory developments and, where required, obtain expert legal advice for the effective implementation of compliance initiatives</li> <li>• Compliance risks identified and assessed as part of departmental risk registers</li> <li>• Compliance management</li> <li>• Visible ethical leadership</li> <li>• Monitoring and investigation of incidents reported on the ethics line</li> <li>• Board-level oversight</li> </ul>
Competition	<p>The risk relating to the uncertainty created by the existence of competitors or the emergence of new competitors with their own Strategies.</p> <p>The risk includes the out migration of care, partly driven by further technological developments and the</p>	<ul style="list-style-type: none"> <li>• Proactive monitoring</li> <li>• Strategic planning processes</li> <li>• Quality and value of care processes</li> </ul>

**Table 12: Major Risks Facing the Hospital**

Principal Risk	Description Of Risk	Mitigation Of Risk
	development of alternative care	
Business investment and acquisition risks	The increased financial exposure relating to major strategic business investments and acquisitions.	<ul style="list-style-type: none"> <li>• Strategic planning processes</li> <li>• Due diligence processes</li> <li>• Investment mandates</li> <li>• Board oversight</li> </ul>
Economic and business environment	The downturn in the general economic and business environment, including all those factors that affect a hospital operations, customers, competitors, Stakeholders, suppliers and industry trend.	<ul style="list-style-type: none"> <li>• Systems to monitor developments in the economic and business environment of trends and early warning indicators</li> <li>• Proactive monitoring and negotiation with Government</li> <li>• Focus on quality and continuum of care to reinforce the hospital's position</li> </ul>
Operational and credit risks	<p>Operational risk refers to various types of operational events with a potential for financial loss.</p> <p>Credit risk is the risk of loss due to a stakeholder's inability to pay the outstanding balance owing, default by banks and/or other deposit taking institutions, or the inability to recover outstanding amounts due from the patient.</p>	<ul style="list-style-type: none"> <li>• Preservation of a sound internal financial control environment</li> <li>• Effective risk management processes</li> <li>• Extensive combined assurance processes</li> <li>• Monitoring operations through KPIs</li> <li>• Continuous enhancement of operational efficiency and cost reduction</li> <li>• Compliance to the National Treasury circulars</li> <li>• Board-level oversight</li> </ul>
Financing and liquidity risk	The cost, terms and availability of capital to finance strategic expansion opportunities and/or the re-financing or restructuring of existing debt which was	<ul style="list-style-type: none"> <li>• Capital requirements and cash flow forecasting</li> <li>• Scrutiny of cash-generating capacity within the hospital</li> <li>• Proactive and long-term</li> </ul>

**Table 12: Major Risks Facing the Hospital**

Principal Risk	Description Of Risk	Mitigation Of Risk
	<p>affected by prevailing economic conditions.</p>	<p>agreements with stakeholders and other funders relating to funding facilities</p> <ul style="list-style-type: none"> <li>• Monitoring compliance with requirements of debt covenants</li> <li>• Further details on capital risk management and the hospital's borrowings</li> </ul>
<p>Clinical risks</p>	<p>All clinical risks associated with the provision of clinical care resulting in undesirable clinical care or clinical outcomes.</p> <p>The risks include a pandemic and disease outbreak. A pandemic is an epidemic of infectious disease that is spreading through human populations across a large region.</p> <p>Disease outbreak involves highly infectious diseases with a high mortality rate</p> <p>Such risks may also result in damage to the KNH brand equity.</p> <p>Brand equity refers to the value of the hospital's brand names.</p>	<ul style="list-style-type: none"> <li>• A hospital-wide clinical risk register implemented</li> <li>• Accreditation processes</li> <li>• Clinical governance processes</li> <li>• Monitoring clinical performance indicators</li> <li>• Implementation of comprehensive processes for infection control and prevention</li> <li>• Marketing and communication strategies</li> <li>• Focus on quality management processes</li> <li>• Stakeholder engagement and disclosure strategies</li> </ul>
<p>Information systems security and availability risk</p>	<p>Information systems security risk (including cyber risk) relates to the unauthorised access to</p>	<ul style="list-style-type: none"> <li>• Comprehensive IT logical access, change and physical access controls</li> <li>• Disaster recovery planning</li> </ul>

**Table 12: Major Risks Facing the Hospital**

Principal Risk	Description Of Risk	Mitigation Of Risk
	<p>information systems, failure of data integrity and confidentiality.</p> <p>Availability risk relates to the instances where systems are not available for use by its intended users.</p> <p>A risk closely associated with information systems risk is project delivery. Project delivery risk refers to issues or occurrences that may potentially interfere with successful completion of projects, including its scope, timeliness and appropriateness of delivery.</p>	<p>System design and architecture</p> <ul style="list-style-type: none"> <li>• Hospital ICT security committee</li> <li>• Experienced project management team</li> <li>• Proactive monitoring and oversight</li> <li>• Reallocation of tasks and resources</li> <li>• Comprehensive back up plan</li> </ul>
<p>Quality and stability of Operational services</p>	<p>The risk refers to the quality of service and the stability of the operations. It includes but is not limited to: incidents of poor service or incidents where operational management fail to respond effectively to complaints.</p> <p>Operational interruptions, which are any disruption of the facility and including the threat of disrupted power or water supply.</p>	<ul style="list-style-type: none"> <li>• Patient experience surveys(both internal and external)</li> <li>• Complaints monitoring</li> <li>• Training programmes</li> <li>• Supervision of service levels</li> <li>• Emergency backup power generation</li> <li>• Emergency planning</li> <li>• Plans to deal with disasters</li> <li>• Extensive fire-fighting and detection systems, including comprehensive maintenance processes</li> <li>• Comprehensive insurance to deal with financial impact of potential disasters</li> <li>• Drill boreholes</li> </ul>

**Table 12: Major Risks Facing the Hospital**

Principal Risk	Description Of Risk	Mitigation Of Risk
Availability, recruitment and retention of skilled resources and medical practitioners	<p>The availability and support of admitting doctors, whether independent or employed, are critical to the services the hospital provides.</p> <p>There shortage of qualified and experienced medical staff.</p>	<ul style="list-style-type: none"> <li>• Monitoring health workers satisfaction, movement and profiles</li> <li>• The employment recruitment and retention strategies</li> <li>• Extensive training and skills development programme, and recruitment programme</li> </ul>

### Internal controls

The hospital has in place a comprehensive system of internal controls, which is designed to ensure that risks are mitigated and that the hospital's objectives are attained. The system includes monitoring mechanisms and ensures that appropriate actions are taken to correct deficiencies when they are identified. During the year, hospital executed its assurance plans. These plans comprise various assurance processes, including internal and external audit processes that are in place to evaluate the effectiveness of key controls designed to mitigate the significant risks identified in the hospital.

The hospital makes use of an internal audit function, which complies with the principles of King III, PFM Act and regulation and Institute of Internal Auditor's standard and International Practise Professional Framework (IPPF). The effectiveness of the system of internal financial control is independently evaluated through the internal and external audit programmes. In addition to these audits, the effectiveness of operational procedures is examined internally through various peer review and control self-assessment processes. The results of these assurance processes are monitored by the hospital risk management function and reported to the board of management.

The Corporation Secretary at KNH as well as the internal legal advisors are responsible for providing guidance in respect of compliance with applicable laws and regulations.

### Effectiveness of risk management process and system of internal control

The Board, via the Audit and Risk Committee, regularly receives reports on and considers the activities of the internal and external auditors of KNH risk management function. The Board is satisfied that there is an effective risk management process in place and that there is an adequate and effective system of internal control to mitigate the significant risks faced by the hospital to an appropriate level for the KNH.

## **Corporate Social Responsibility Report**

KNH seeks to impact people's lives through its Corporate Social Responsibility (CSR) initiatives. The initiatives are aimed at improving lives and enhance engagement with the public. Central to this philosophy is the commitment to enhance the quality of life of people from marginalised and vulnerable communities, by empowering them and catalysing change through creating awareness on diseases and available interventions. Our CSR initiatives are guided by three core principles Transparent, Accountability and Sustainability. Through the initiatives mentioned above, KNH has achieved the following results in FY 2017/18

### **Free breast and cervical cancer screening**

Over 400 members of the public received free screening for breast and cervical cancer during the commemoration of the World Cancer month. Cancer is preventable and treatable if diagnosed early. Women need to undergo routine screening to detect cervical pre-cancers in order to offer treatment or vaccination to keep cervical cancer cell from developing. Breast cancer does not affect women only; the diseases also affect men in equal measure. Therefore men should also attend screening and should not ignore a swelling or pain on the breast.

KNH has a dedicated Specialized Reproductive Health Clinic to offer regular screening at a subsidized fee for all women of reproductive age.



### **Dental screening save teeth**

Over 600 members of public benefited from the KNH 3-day free dental screening that closed door on 14th June 2018.



### Support for Persons Living with Disability

Thirty (30) patients with various forms of disability from Cheshire Disability Home in Homabay County benefited from Health education and physiotherapy treatment during the annual physiotherapy outreach program held on 7th September 2017. KNH team of Physiotherapist provided physiotherapy treatment to mentally retarded, cerebral palsy, amputees and congenitally malformed persons with physical deformities.



KNH conducted a two day free Ophthalmology screening on 29th & 30th May 2018 where over 400 members of the public benefited.



### Hypertension Screening

Over 400 members of public received free screening for hypertension, diabetes and nutritional advice on 17th May 2018. The one day campaign against high blood pressure (HBP) was made possible courtesy of Kenyatta National Hospital in collaboration with MSN Laboratories Ltd, India who also donated five (5) digital blood pressure machines.



Over 1500 people were screened for kidney disease during the commemoration of the World Kidney Day held on 8<sup>th</sup> March 2018.



### Patients benefit from knee and shoulder surgery

Forty Eight (48) patients benefited from a two-week Knee and shoulder medical Project that was held on 5th March, 2018 at KNH.



### Diabetes Screening Saves Life

Kenyatta National Hospital Diabetes & Endocrinology Center of Excellence offered one day free screened on 14th November 2017 to over 300 patients.



## Financial Statements

### Report of the Board of Management

The Board of Management submits their report together with the unaudited financial statements for the year ended June 30, 2018 which shows the state of the Hospital affairs.

#### Principal activities

The principal activities of the Hospital are:

- a. To receive patients on referral from other hospitals or institutions within or outside Kenya for specialized health care;
- b. To provide facilities for medical education for the University of Nairobi and for research either directly or through other co-operating health institutions;
- c. To provide facilities for education and training in nursing and other health and allied institutions;
- d. To participate, as a national referred hospital, in national health planning.

#### Results

The results of the Hospital for the year ended June 30, 2018 are set out on page 85.

#### Board of Management

The members of the Board of Management who served during the year are shown under the corporate governance statement in the annual report on page 28.

#### Auditors

The Auditor-General is responsible for the statutory audit of the Hospital in accordance with Articles 229 of the Constitution of Kenya and the Public Audit Act 2015.

#### By Order of the Board

Sign: 

Date: 26/04/2019

**Dr. Thomas Mutie**

**SECRETARY TO THE BOARD**

## Statement of Board's Responsibilities

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Board to prepare financial statements in respect of the Hospital, which give a true and fair view of the state of affairs of the Hospital at the end of the financial year and the operating results of the Hospital for that year. The Board is also required to ensure that the Hospital keeps proper accounting records which disclose with reasonable accuracy the financial position of the Hospital. The Board is also responsible for safeguarding the assets of the Hospital.

The Board is responsible for the preparation and presentation of the Hospital's financial statements, which give a true and fair view of the state of affairs of the Hospital for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Hospital;

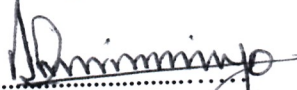
(iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Hospital; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

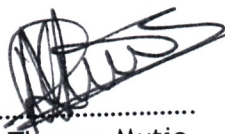
The Board accepts responsibility for the Hospital's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standard (IPSAS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Board is of the opinion that the Hospital's financial statements give a true and fair view of the state of Hospital's transactions during the financial year ended June 30, 2018, and of the Hospital's financial position as at that date. The Board further confirms the completeness of the accounting records maintained for the Hospital, which have been relied upon in the preparation of the Hospital's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Board to indicate that the Hospital 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 Hospital's financial statements were approved by the Board on 29/09/2018 and signed on its behalf by:

  
I.G. (Rtd.) Dr. David  
Kimaiyo, MGH, CBS  
Chairman  
Board of Management

  
Dr. Thomas Mutie  
Ag. CEO/Secretary  
Board of Management

  
Mrs. Gracie Mullei  
Member  
Board of Management

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYATTA NATIONAL HOSPITAL FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

##### Qualified Opinion

I have audited the accompanying financial statements of Kenyatta National Hospital set out on pages 85 to 142, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statements of comparison of budget and actual amounts 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 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenyatta National Hospital as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Legal Notice No. 109 of 1987.

##### Basis for Qualified Opinion

###### 1. Borrowings

As previously reported, the borrowings balance of Kshs.1,199,863,000 reflected in the statement of financial position as at 30 June 2018 relates to a loan received in 2007/2008 from the Kingdom of Spain in form of medical equipment. According to information available, the loan was repayable by the Hospital at an interest rate of 3% per annum on a reducing balance for the first six (6) years and thereafter the interest plus principal for the next nine (9) years with effect from 1 July 2008. However, records examined indicated that, no interest has been paid or accrued in the ten financial years between 2008/2009 and 2017/2018. Further, the accrued interest, loan repayment and loan balance confirmation certificate as at 30 June 2018 were not availed for audit review. Although indications are that the management has sought assistance from the Ministry of Health towards settlement of the loan, the response from the Ministry on the matter was not availed for audit review.

Under the circumstances, it has not been possible to confirm the validity, accuracy and completeness of the borrowings balance reflected in the statement of financial position as at 30 June 2018 and that the balance of Kshs.1,199,863,000 is fairly stated as at the same date.

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*Report of the Auditor-General on the Financial Statements of Kenyatta National Hospital for the year ended 30 June 2018*

## 2.0 Property, Plant and Equipment

### 2.1 Land

As previously reported, the property, plant and equipment balance of Kshs.11,298,812,000 included in the statement of financial position as at 30 June 2018 includes four (4) parcels of land with a total of 0.7847 hectares valued at Kshs.50,600,000 which were excised and allocated to other parties as detailed below:-

LR No.	Location	Hectares	Value Kshs.
8RN-209/11460	Upper hill	0.316	23,000,000
LRN-209/12767	Upper hill	0.226	17,000,000
LRN-209/12822	Upper hill	0.221	9,000,000
LRN-13319	Upper hill	0.0217	1,600,000
<b>Total</b>		<b>0.7847</b>	<b>50,600,000</b>

Further, the property, plant and equipment balance of Kshs.11,298,812,000 also includes land measuring 1.3 hectares with title deed in the name of National Quality Control Laboratory rather than Kenyatta National Hospital.

Although the issue has been discussed by the Parliamentary Public Investment Committee (PIC), no action seems to have been taken on the PIC recommendations in the 19<sup>th</sup> report that the National Land Commission revoke title deeds irregularly issued to private entities, Ethics Anti-Corruption investigate how the hospital land was allocated to individuals and that the then hospital Chief Executive Officer be surcharged for any loss that may have been incurred. Further, and as indicated in the property, plant and equipment movement schedule at note 28 to the financial statements, the Hospital has made an adjustment of Kshs.100,087,000 in respect to the National Quality Control Laboratory land portion. However, the adjustment has not been supported with documentary evidence. Consequently, the validity of the adjustment could not be confirmed.

### 2.2. Acquisition of KNH Land for Construction of Hospital Road and Mbagathi Way Link Road

As previously reported, the Kenya Urban Roads Authority (KURA) in their Gazette Notice No. 9340 of 18th December, 2015 and 6441 of August, 2016 compulsorily acquired seven (7) acres of Kenyatta National Hospital (KNH) land with Hospital's internal valuation of Kshs.4,219,257,210 for construction of Hospital Road and Mbagathi Way Link Road. According to available information, KURA was to pay compensation of Kshs.1,859,297,000 to Kenyatta National Hospital (KNH) for the acquired portion of land. However, no compensation had been made to KNH as at the time of audit in March 2019 despite commencement of the road construction. The excised land has been included in the property plant and equipment balance of Kshs.11,298,812,000.

Under the circumstance, ownership and accuracy of the property, plant and equipment balance of Kshs.11,298,812,000 in the statement of financial position as at 30 June 2018 could not be confirmed.

### **3. Intangible Assets - Hospital Management Information Systems**

The statement of financial position include intangible assets of Kshs.10,326,000 net of amortization charge of Kshs.21,082,000 as disclosed in note 29 to the financial statements. As previously reported in 2016/2017, the balance includes Kshs.26,986,031 which relate to payment made to systems partners for the provision of Hospital Management Information Systems. However, out of Kshs.26,986,031, Kshs.5,397,206 relate to 15% paid in addition to 60% paid earlier as a result of an amendment to the original contract which had provided for 20% payment to be made after testing and commissioning of the system. Further, the project was to take a period of 6 months in 2013, but was commissioned in June 2017 when it was only 70% complete and therefore, having not achieved its intended purpose. In addition, the original contract and performance bond expired before completion of the project. No explanation has been provided for breach of the contract.

Consequently, it has not been possible to determine the accuracy and propriety of the balance of intangible assets of Kshs.10,326,000 included in the statement of financial position as at 30 June 2018.

#### **4.0 Medical Service Contract Loss**

##### **4.1 Contracts with National Hospital Insurance Fund (NHIF)**

As previously reported, the statement of financial performance for the year ended 30 June 2018 includes medical services contracts loss of Kshs.268,405,000 out of which Kshs.88,178,000 relate to loss from National Hospital Insurance Fund (NHIF). This loss is net of rebate received from the NHIF and the amount the Hospital spent in the treatment of NHIF members. According to information available, the Hospital entered into a contract with NHIF in August 2008 to treat NHIF members at a rebate rate of Kshs.2,400 for inpatient care per day with the contract ending in August 2010. However, information available indicate that on 1 August 2016 the rebates were increased to Kshs.4,000. No explanation has been provided as to why it took the hospital eight years to review the NHIF contract. In addition, management has not availed measures taken to mitigate the loss.

Under the circumstance, the NHIF loss of Kshs.88,178,000 in the statement of financial performance for the year ended 30 June 2018 could have been avoided had the management taken action in time.

##### **4.2 Free Maternity Program**

As previously reported, the medical services contracts loss of Kshs.268,405,000 also includes Kshs.177,237,000 relating to loss on free maternity program offered by the Hospital, as disclosed in note 22 to the financial statements. This follows from a letter ref. ACC/FCM HS/1/28A dated 1 April 2014 from the Cabinet Secretary, Ministry of Health which communicated the decision of the Government to reimburse an amount of Kshs.17,500 for every delivery. However, Kenyatta National Hospital being a referral hospital receives complicated maternal referrals and as a result the costs are higher and the reimbursable amount of Kshs.17,500 per delivery has remained the same despite the high costs.

Consequently, the hospital will continue to incur losses if the reimbursable amounts are not reviewed.

## **5.0 Administrative and General Expenses**

### **5.1 Security Investigation Expenses**

As previously reported, the statement of financial performance include administrative and general expenses of Kshs.667,189,000 out of which as disclosed in note 18 to the financial statements, Kshs.15,607,000 relate to security investigation expenses in respect of meal allowances paid to the hospital police security officers for the year ended 30 June 2018. However, authority in support of the payments was not availed for audit review. No explanation has been provided for paying security officers meals allowances for working in their duty station.

Under the circumstance, the accuracy and propriety of security investigation expenses of Kshs.15,607,000 included in the statement of financial performance for the year ended 30 June 2018 could not be confirmed.

### **5.2 Legal Expenses**

Note 18 to the financial statements also reflects legal expenses of Kshs.9,525,000 paid to various law firms during the year. However, the evidence that the Board sought approval and issuance of no objection from the Attorney General's office on engagement of the private legal firms as required by the Attorney General's Circular reference AG/CON/6/D/144/VOL.II dated 16 April 2014 was not availed for audit review.

In the circumstances, the propriety of legal expenditure totalling to Kshs.9,525,000 paid to the private legal firms could not be confirmed for the year ended 30 June 2018.

## **6. Cash and Cash Equivalent**

Included in cash and cash equivalent balance of Kshs.851,478,000 as at 30 June 2018 as disclosed at note 24 to the financial statements is National bank recurrent account balance of Kshs.5,887,874 for which the reconciliation statement reflects receipts in bank statement not in cashbook of Kshs.32,035 and payments in bank statement not in cashbook of Kshs.149,986 and whose clearance status during the time of this audit in the month of March 2019 was not disclosed. Further, the cash and cash equivalent balance include National bank revenue account balance of Kshs.450,578,049 for which the reconciliation statement reflects un-presented cheques totalling Kshs.578,049 and receipts in bank statement not in cashbook totalling to Kshs.5,351,543 and whose clearance status was also not availed for audit review.

In the circumstances, the accuracy of cash and cash equivalent balance of Kshs.851,478,000 as at 30 June 2018 could not be confirmed.

## **7. Receivable from Exchange Transactions**

### **7.1 Long Outstanding Debts**

As previously reported in the year 2016/2017, the receivables from exchange transactions balance of Kshs.1,513,647,000 as at 30 June 2018 includes receivables of Kshs.192,926,279, Kshs.94,970,458 and Kshs.3,286,110 for National Hospital Insurance

Fund (NHIF) rebate, Ministry of Health disaster debts and return to drawer (RD) cheques respectively which have been outstanding for more than two years.

No explanation has been provided by the management for failure to recover these long outstanding debts.

## **7.2 Absconded Patients Debts**

As previously reported in the year 2016/2017, the receivables from exchange transactions balance of Kshs.1,513,647,000 as at 30 June 2018 includes medical services receivables of Kshs.7,833,266,000. Further, the medical services receivables include Debt Management Unit (DMU) receivables of Kshs.5,206,499,000 which includes absconded patients debts of Kshs.695,548,891 as at 30 June 2018. No explanation has been provided by the management for failure to recover these long outstanding debts.

## **7.3 Receivables from National Hospital Insurance Fund (NHIF)**

As previously reported, the medical services receivables balance of Kshs.7,833,266,000 as disclosed at note 25 to the financial statements includes Kshs.712,187,000 due from NHIF while the NHIF financial statements as at 30 June 2018 reflects Kshs.55,277,000 thus resulting to unreconciled variance of Kshs.656,910,000. No explanation has been provided by the management for failure to reconcile the two sets of records.

Consequently, it has not been possible to determine the accuracy of the receivable from exchange transactions balance of Kshs.1,513,647,000 included in the statement of financial position as at 30 June 2018.

## **7.4 Prepayment**

### **7.4.1 Supply Contracts**

The receivables from exchange transactions balance of Kshs.1,513,647,000 includes prepayments of Kshs.159,746,000 out of which prepayments totaling Kshs.31,734,000 related to supply contracts awarded to three firms of Kshs.15,793,000, Kshs.2,213,000 and Kshs.13,728,000. As reported in the previous year, the first prepayment is in dispute while the second one is under investigation. The third pre-payment relates to micro filming project at the hospital which had not been completed as at 30 June 2018. Although the issue has been discussed by the Public Investment Committee, no action has been taken on the PIC recommendations that the three companies be investigated, prosecuted and the then hospital Chief Executive Officer be held accountable for the loss and be surcharged.

### **7.4.2 Letters of Credit**

Further, included in the prepayments balance of Kshs.159,746,000 is a sum of Kshs.96,361,633 in respect of letters of credit issued by the Hospital to foreign based firms for supply of various goods and services. As in the previous year, the goods and services have not been accounted for in these financial statements.

## **7.5 Impairment Allowance**

As in the previous year, the receivables from exchange transactions balance of Kshs.1,513,647,000 included in the statement of financial position as at 30 June 2018 is the

net amount obtained from the gross balance of Kshs.8,044,810,000 less impairment allowance of Kshs.6,531,163,000 as disclosed in note 25 to the financial statements. The impairment allowance of Kshs.6,531,163,000 includes long outstanding debts of Kshs.3,759,665,000 and whose recoverability is doubtful. In addition, the impairment allowance of Kshs.6,531,163,000 includes a provision of Kshs.1,248,877,758 whose supporting schedule of beneficiaries was not availed for audit review.

Under the circumstance, the accuracy of receivables from exchange transactions balance of Kshs.1,513,647,000 included in the statement of financial position as at 30 June 2018 could not be confirmed.

#### **7.6 Ministry of Health (MoH) Staff Long Outstanding Debts**

As in the previous year, the receivables from exchange transactions balance of Kshs.1,513,647,000 include rental receivables balance of Kshs.27,651,000 as disclosed at note 25 to the financial statements. The rental receivables balance of Kshs.27,651,000 include MoH staff rent amounting to Kshs.4,036,000 that has been outstanding for periods ranging from 16 months to 59 months, and which ought to have been deducted from the payroll through the check-off system and forwarded to Kenyatta National Hospital. Also noted on the rent receivable are five officers who vacated the houses without paying rent arrears amounting to Kshs.991,000.

Under the circumstance, the accuracy and recoverability of the rental receivables of Kshs.27,651,000 as at 30 June 2018 could not be determined.

#### **8. Receivables from Non-Exchange Transactions**

As previously reported, the receivables from non-exchange transactions balance of Kshs.136,011,000 as at 30 June 2018 includes staff receivables of Kshs.12,411,000 out of which temporary imprests and staff debtors amounting to Kshs.1,013,509 and Kshs.1,448,043 respectively have been outstanding for more than one year.

This is contrary to Section 93 (5) of the Public Finance Management Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Section 93 (6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

In the circumstance, the Hospital is in breach of the law and recoverability of staff receivable balance of Kshs.2,461,552 and the propriety of the same as at 30 June 2018 could not be ascertained.

#### **9. Trade and Other Payables from Exchange Transactions**

As similarly reported in 2016/2017, the trade and other payables from exchange transactions balance of Kshs.1,049,120,000 in the statement of financial position as at 30 June 2018 includes long outstanding accounts payables totalling to Kshs.164,514,000 included under

trade payables as per note 30 to the financial statements. No explanation has been provided for failing to clear these long outstanding account payables.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenyatta National Hospital in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section on my report, I have determined that there are no other Key Audit Matters to communicate in my report.

### **Other Matter**

#### **Budgetary Performance**

During the year under review, the Hospital's actual receipts amounted to Kshs.12,761,865,000 against budgeted receipts of Kshs.13,770,308,000 resulting in a revenue shortfall of Kshs.1,008,443,000. Further, actual expenditure for the year amounted to Kshs.12,508,853,000 against budgeted expenditure of Kshs.13,104,043,000 resulting in an overall under absorption of Kshs.595,190,000. It is therefore clear that the Hospital did not fully achieve its budget objectives which adversely affected delivery of the intended services to the public. Consequently, there is need for the Hospital to review its budget making process with a view to coming up with a vibrant budget implementation follow up mechanism and feedback process with a view to ensuring that all projects and activities are implemented as planned for the Hospital to meet its mission and objectives for the benefits of the Citizens of Kenya.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Conclusion on Lawfulness and Effectiveness in use of Public Resources sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Non-Compliance with National Cohesion and Integration Act, 2008**

The statement of financial performance for the year ended 30 June 2018 reflect board expenses of Kshs.26,546,000. However, a review of records on the board members

indicated that the Hospital had twelve board members with one community constituting 42% of the Board contrary to the National Cohesion and Integration Act, 2008 which state that no single ethnic community should constitute more than 33% of members of a national institution. No explanation has been provided for breach of this requirement. In the circumstance, the Hospital failed to comply with the National Cohesion and Integration Act, 2008 on ethnic composition of the Board of Directors and, therefore, the Board as currently constituted is in breach of the law.

## **2. Approved Staff Establishment**

During the year, the Hospital had total staff of 4,684. However, the hospital did not have an approved staff establishment to support the staff deployed. This is contrary to State Corporations Advisory Committee (SCAC) circular No.OP/SCAC.9/21/1/1 dated 15 May 2017 that required all state corporations to have among others approved staff grading and establishment.

Management was therefore in breach of the SCAC circular.

## **3. Inconstancies in Depreciation Policy**

Section 7.3.4 of the approved Hospital Finance Manual stipulate that the straight-line method of depreciation shall be applied for property plant and equipment. However, a review of the depreciation method used during the year indicated that the reducing balance method has been applied as indicated in the property, plant and equipment movement schedule at Note 28 to the financial statements and significant accounting policy No. 4(c) on property, plant and equipment at page 94 of the financial statements which state that depreciation is calculated on reducing balance basis. In addition, computer and related devices as per the policy should be depreciated within three years at the rate of 33.33% using straight line method of depreciation. However, a rate of 30% has been applied using reducing balance method.

No justifiable explanations have been provided for these inconsistencies.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters discussed in the Basis for Qualified Opinion section of my report, I confirm that, nothing else has come to my attention to cause me to believe that

internal controls, risk management and overall governance were not effective. The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Hospital's ability to continue as a going concern / sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Hospital or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, revenue transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Hospital's revenue reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Hospital's policies and procedures may deteriorate.

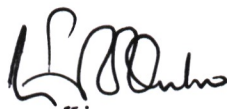
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Hospital to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the revenue statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Hospital to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**06 May 2019**

**Statement of Financial Performance  
For the Year Ended June 30, 2018**

	Note	2018 KShs. '000	2017 KShs. '000
<b>Revenue from non-Exchange transactions</b>			
Grants from National Government	6	7,334,991	7,082,830
Donor funded projects Grants	7	216,867	131,798
Public contributions & donations	8	4,209	2,330
		<b>7,556,067</b>	<b>7,216,958</b>
<b>Revenue from Exchange transactions</b>			
Rendering of services	9	4,998,379	4,006,602
Sale of Goods	10	969	1,224
Rental revenue from facilities	11	121,542	132,917
Interest income	12	84,909	102,864
		<b>5,205,799</b>	<b>4,243,607</b>
<b>Total Revenue</b>		<b>12,761,866</b>	<b>11,460,565</b>
<b>Expenses</b>			
Clinical costs	13	1,859,039	1,552,463
Employee costs	14	9,075,523	8,198,420
Board of management Expenses	15	26,546	28,446
Depreciation and amortisation	16	409,354	434,063
Repairs and maintenance	17	254,336	231,154
Administrative and General expenses	18	667,189	751,642
Donor funded Projects expenses	19	216,867	131,798
<b>Total expenses</b>		<b>12,508,854</b>	<b>11,327,986</b>
<b>Other (gains)/losses</b>			
(Gain)/loss on Sale of fixed assets	20	(1,827)	1,942
Impairment Loss	21	1,077,431	658,358
Medical service contracts Loss	22	268,405	377,271
Foreign Exchange transactions loss	23	288	19
		<b>1,344,296</b>	<b>1,037,590</b>
<b>Deficit for the period</b>		<b>(1,091,284)</b>	<b>(905,011)</b>

The notes set out on Pages 91 to 125 forms an integral part of these Financial Statements.

**Statement of Financial Position**  
As at June 30, 2018

	Note	2018 KShs. '000	2017 KShs. '000
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash Equivalents	24	851,478	1,145,994
Receivable from exchange transactions	25	1,513,647	1,178,717
Receivable from non- exchange transactions	26	136,011	773,784
Inventories	27	504,365	494,951
<b>Total Current Assets</b>		<b>3,005,501</b>	<b>3,593,446</b>
<b>Non-Current Assets</b>			
Property, Plant & -Equipment	28	11,298,812	11,609,470
Intangible Assets	29	10,326	14,751
<b>Total Non Current Assets</b>		<b>11,309,138</b>	<b>11,624,221</b>
<b>Total assets</b>		<b>14,314,639</b>	<b>15,217,667</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	30	1,049,120	1,011,646
Deposits from customers	31	51,561	63,949
Provision for leave pay	32	124,154	141,151
Deferred income	33	225,187	166,931
Employee benefit obligations	34	262,830	286,830
		<b>1,712,852</b>	<b>1,670,507</b>
<b>Non-Current Liabilities</b>			
Borrowings	35	1,199,863	1,199,863
<b>Total Liabilities</b>		<b>2,912,715</b>	<b>2,870,371</b>
<b>Net Assets</b>		<b>11,401,924</b>	<b>12,347,297</b>
Capital Reserves	36	5,721,205	5,477,266
Accumulated Fund	37	(3,276,527)	(2,185,242)
Revaluation Reserve	38	8,957,247	9,055,273
<b>Total net assets and liabilities</b>		<b>14,314,639</b>	<b>15,217,667</b>

The Financial Statements set out on pages 85 to 125 were signed on behalf of the Board of Management by:

Dr. Thomas Mutie

Ag. Chief Executive Officer

Date... 26/04/2019

CPA Michael Kihuga  
CPAK No. 3884  
Deputy Director, Finance

Date... 26/04/2019

I.G. (Rtd.) Dr. David Kimaiyo  
MGH, CBS  
Chairman of the Board

Date... 26/04/2019

**Statement of Changes in Net Assets  
For the Year Ended June 30, 2018**

	Note	Capital Reserve Ksh. `000	Accumulated Fund Ksh. `000	Revaluation Reserve Ksh. `000	Total Ksh. `000
<b>Balance as at July 1, 2016</b>		4,795,028	(1,280,231)	9,199,351	12,714,148
Decrease in Land Value		(2,589)		(144,078)	(146,667)
Development grant		684,827			684,827
Surplus/(Deficit) for the year			(905,011)		(905,011)
<b>Balance as at June 30, 2017</b>		<b>5,477,266</b>	<b>(2,185,242)</b>	<b>9,055,273</b>	<b>12,347,297</b>
<b>Balance as at July 1, 2017</b>		<b>5,477,266</b>	<b>(2,185,242)</b>	<b>9,055,273</b>	<b>12,347,297</b>
Decrease in Land Value	36	(2,061)		(98,026)	(100,088)
Development grant	36	246,000			246,000
Surplus/(Deficit) for the year	37		(1,091,284)		(1,091,284)
<b>Balance as at June 30, 2018</b>		<b>5,721,205</b>	<b>(3,276,527)</b>	<b>8,957,247</b>	<b>11,401,924</b>

**Statement of Cash Flow**  
**For the Year Ended June 30, 2018**

	Note	2018 KShs. '000	2017 KShs. '000
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Grants from National Government	6	7,324,991	6,781,462
Rendering of services		649,442	892,180
Accounts Receivable		2,467,957	1,983,094
Deposits from customers		657,388	438,988
Donor funded projects grants	33	236,151	109,814
Doctor's Fee		97,967	38,363
<b>Total Receipts</b>		<b>11,433,896</b>	<b>10,243,901</b>
<b>Payments</b>			
Employees cost		9,089,610	7,976,821
Goods and services		2,342,655	2,467,920
Tax Expenses		144,884	33,738
Board of Management Expenses	15	26,546	28,446
Donor funded projects Expenses	33	216,867	132,274
Patients Deposit Refunds		9,170	201,376
Doctor's Fee		388,619	179,230
<b>Total Payments</b>		<b>12,218,351</b>	<b>11,019,805</b>
<b>Net cash flows from operating activities</b>	39	<b>(784,455)</b>	<b>(775,904)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets		(210,556)	(196,655)
Interest income		84,769	52,303
Proceeds from sale of fixed assets	20	2,014	377
Foreign Exchange Gain /(Loss)	23	(288)	269
Capital Grants	6	589,000	
<b>Net cash flows used in investing activities</b>		<b>464,939</b>	<b>(143,706)</b>
<b>Cash flows from financing activities</b>			
Development Partners Grant	33	25,000	25,000
<b>Net cash flow from financing activities</b>		<b>25,000</b>	<b>25,000</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(294,516)</b>	<b>(894,610)</b>
<b>Cash and Cash Equivalents at July 1</b>		<b>1,145,994</b>	<b>2,040,604</b>
<b>Cash and cash equivalents at June 30</b>	24	<b>851,478</b>	<b>1,145,994</b>

**Statement of Comparison of Budget and Actual Amounts  
For the Year Ended June 30, 2018**

	Original Budget	Adjustments	Final Budget 2018	Actual Cumulative 2018	Performance Variance	Variance	Note
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	%	
<b>Revenue</b>							
Grants from National Government	6,791,891	543,100	7,334,991	7,334,991		0%	
Donor funded projects grants	139,442	53,783	193,225	216,867	23,642	12%	a
Public contributions & donations	100,000	(100,000)		4,209	4,209		
Rendering of services	7,709,165	(1,677,540)	6,031,625	4,998,379	(1,033,245)	(17%)	b
Sale of Goods	1,400	491	1,891	969	(922)	(48%)	b
Rental revenue from facilities	139,671	(3,621)	136,050	121,542	(14,508)	(10%)	
Interest income	100,000	(27,474)	72,526	84,909	12,382	17%	c
<b>Total Revenue</b>	<b>14,981,569</b>	<b>(1,211,261)</b>	<b>13,770,308</b>	<b>12,761,866</b>	<b>(1,008,442)</b>	<b>(7%)</b>	
<b>Expenditure</b>							
Clinical Costs	3,929,125	(2,004,637)	1,924,488	1,859,039	65,448	3%	
Employee Costs	9,043,945	388,638	9,432,583	9,075,523	357,060	4%	
Board of management expenses	28,065		28,065	26,546	1,519	5%	
Depreciation and amortisation	368,400	35,776	404,176	409,354	(5,178)	(1%)	
Repairs and maintenance	303,271	144,647	447,918	254,336	193,583	43%	d
Administrative and general expenses	731,355	(57,767)	673,588	667,189	6,400	1%	
Donor funded Projects expenses	139,442	53,783	193,225	216,867	(23,623)	(12%)	a
<b>Total Expenditure</b>	<b>14,543,603</b>	<b>(1,439,560)</b>	<b>13,104,043</b>	<b>12,508,854</b>	<b>595,190</b>	<b>5%</b>	
Other (gains)/losses (gain)/loss on Sale of fixed assets				(1,827)	1,827		
Impairment Loss	384,000	282,264	666,264	1,077,431	(411,167)	(62%)	e
Medical service contracts Loss				268,405	(268,405)		
Foreign Exchange loss				288	(288)		
<b>Surplus/(Deficit) for the period</b>	<b>53,966</b>	<b>(53,966)</b>		<b>(1,091,284)</b>	<b>(1,091,284)</b>		

## **Explanation for Material Variances of Budget vs. Actual**

### **a) Donor Funded Projects Grants**

Revenue from donor funded projects had a favorable variance of 12% against the budgeted amount which was as a result of new projects which include Step-Up, Cancer center support and Mitips that were initiated in the third quarter.

### **b) Rendering of services and Sale of Goods**

The unfavorable variance of 17% and 48% on rendering of services and sale of goods respectively is majorly due to a reduction in the number of patients. This is as a result of the negative publicity that the hospital suffered in the second half as well as the University of Nairobi lecturer's industrial action that resulted to the registrars withdrawing services in the hospital.

### **c) Interest Income**

The income from interest increased by 17% compared to the budget as more funds were reinvested.

### **d) Repair & Maintenance and Administrative Expenses**

Procurement of consumables was reduced due to slowed activity in the hospital as a result of the reduction in the number of patients.

### **e) Impairment Loss**

Some of the patients who are referred for specialized health care are from underprivileged background. Upon clinical discharge they are unable to settle their medical bills, and are released from the hospital on unsecured credit based on a commitment that they will settle their bills in the future. Efforts to collect the due receivables from this category of patients which amounted to Kshs. 820 million in the year are largely fruitless. Further, deceased patients whose bodies are not claimed by relatives are disposed as per Public Health Act. Outstanding bill balances for such cases amounted to Kshs. 369 million. Consequently, a provision for bad and doubtful debts is made for these impaired receivables annually.

### **f) Changes between original and final budget**

The original budget for FY 2017/18 was revised during the year following the award and implementation of health workers, nursing service and emergency call allowances with effect from January 2017.

## Notes to the Financial Statements

### 1. General information

Kenyatta National Hospital is established through legal notice No 109 of 6th April 1987 and derives its authority from State Corporations Act. The hospital is wholly owned by the Government of Kenya and is domiciled in Kenya.

### 2. 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, 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. It also requires management to exercise judgment in the process of applying the Hospital's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in the notes. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the hospital. The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

### 3. Adoption of new and revised standards

#### i. Relevant new standards and amendments to published standards effective for the year ended June 30, 2018

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The hospital has not adopted this standard in the financial statements, however an actuary has been contracted to value the defined benefit pension scheme to facilitate recognition of the scheme in compliance with the standard.

#### ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The hospital has not applied this standard as it has no amalgamations.
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#### iii. Early adoption of standards

The hospital did not early - adopt any new or amended standards in year 2018.

#### **4. Summary of significant accounting policies**

The principle accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

##### **a) Revenue recognition**

##### **i. Revenue from non-exchange transactions**

###### **Grants from National Government**

Recurrent grants from the Government are recognized in the statement of financial performance on a systematic basis over the periods in which the grants are intended to compensate. Recurrent grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Hospital with no future related costs are recognized in the statement of financial performance in the period in which they become receivable.

Development grants whose primary condition is that the Hospital should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to capital reserve on completion/acquisition.

###### **Donor funded projects grants**

Grants received for donor funded projects are recognized in statement of financial performance on a systematic basis over the periods in which the grants are intended to compensate, only to the extent of expenditure incurred during the year. Grants not utilized are recognized as deferred income in the statement of financial position.

###### **Public contributions and donations**

**Cash donations:** Income from endowments, donations, research grants and other similar services rendered are recognized when received and included only to the extent of expenditure incurred during the year.

**Donations in-kind:** The revenue from donations in kind is measured at fair value and recognized on obtaining control of the asset (goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits (including cost saving

from the donation) or service potential related to the asset will flow to the hospital and can be measured reliably. On initial recognition, gifts and donations including goods in-kind (tangible assets) are measured at their fair value as at the date of acquisition, which is ascertained by reference to an active market or by appraisal by a member of the valuation profession.

**ii. Revenue from exchange transactions**

**Rendering of services**

The hospital recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to the costs that reflect services performed. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

**Sale of goods**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Hospital.

**Rental Revenue from Facilities**

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and included in revenue.

**Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

**b) Budget information**

The original budget for financial year 2017/18 was approved by the Board of Management

on 17 October 2016. Subsequent revisions and additional appropriations were made to the approved budget in accordance with specific approvals from the Board of Management and Ministry of Health.

The annual budget is prepared on the accrual basis. All planned costs and income are presented in a single statement to determine the needs of the Hospital. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Hospital differences that would require reconciliation between the actual comparable amounts and the budget amounts are presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

### **c) Property, plant and equipment**

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 required to be replaced at intervals, the Hospital recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. The Hospital uses revaluation model for measurement of property, plant and equipment after initial recognition. The Hospital derecognizes items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when asset is de-recognized

Land is not depreciated. Depreciation on other assets is calculated on a reducing balance basis to write off the cost of each asset, or the revalued amount, to their residual values over the estimated useful life. The annual rates used for each class of assets are:

Kenyatta National Hospital

Buildings	2.5%	Tractors	37.5%
Plant & Machinery	12.5%	Computers, copiers	30%
Furniture and Fittings	12.5%	Medical Equipment	12.5%
Motor Vehicles	25%	Intangible Assets	30%

**d) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

**e) Financial instruments Financial assets**

**Initial recognition and measurement**

Financial assets are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Hospital determines the classification of its financial assets at initial recognition.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

**Impairment of financial assets**

The Hospital assesses at each reporting date whether there is objective evidence that a

financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

## **Financial liabilities**

### **Initial recognition and measurement**

Financial liabilities are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Hospital determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

### **Loans and borrowing**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

### **f) Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non- exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations,

less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Hospital.

**g) Provisions**

Provisions are recognized when the Hospital has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Hospital expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

**Contingent liabilities**

The Hospital does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

**Contingent assets**

The Hospital does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Hospital in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**h) Nature and purpose of reserves**

The reserves maintained by the hospital include;

### **Capital reserve**

Capital reserve relates to the initial value of property, plant and equipment the Board of Management inherited from the Ministry of Health when KNH became a State Corporation. Capital grants received from the National Government are treated as addition to the capital reserve. Movements in the capital reserve are shown in the statement of changes in net asset.

### **Revaluation reserve**

Revaluation reserve arises on revaluation of property, plant and equipment. When revalued property, plant and equipment are disposed, the portion of revaluation reserve that relates to the asset is transferred directly to accumulated fund. Movements in the revaluation reserve are shown in the statement of changes in net assets.

### **Accumulated Fund**

Accumulated fund is a revenue fund where the results (surplus/deficit) for each year's financial performance are accumulated. Movements in the revaluation reserve are shown in the statement of changes in net assets.

#### **i) Changes in accounting policies and estimates**

The Hospital recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

#### **j) Employee benefits Retirement benefit plans**

The Hospital provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which the Hospital pays fixed contributions into a separate Hospital fund, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**k) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**l) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**m) Related parties**

The hospital regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the hospital, or vice versa. Members of key management are regarded as related parties and comprise the Hospital Board of Management, and the Executive management made up of the Chief Executive Officer, Directors, and Deputy Directors.

**n) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, mobile money, cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three

months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

**o) Comparative figures**

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

**5. Significant judgements and sources of estimation uncertainty**

The preparation of the Hospital's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**i) Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Hospital based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Hospital. Such changes are reflected in the assumptions when they occur.

**ii) Useful lives and residual values**

- a. The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:
- b. The condition of the asset based on the assessment of experts employed by the

Hospital,

- c. The nature of the asset, its susceptibility and adaptability to changes in technology and processes,
- d. The nature of the processes in which the asset is deployed,
- e. Availability of funding to replace the asset,
- f. Changes in the market in relation to the asset.

**iii) Provisions**

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. Provisions made by the management include:

**Provision for Bad Debts**

A debt is deemed to be impaired if, and only if, there is objective evidence that the recoverability of that debt is doubtful. Indigent patients who are unable to settle their medical bills upon clinical discharge are allowed home on unsecured credit, and since the payment of these debts are highly doubtful, they are provided for as bad and doubtful.

**Provision for leave Pay**

The provision for leave pay has been calculated based on the leave entitlement due to staff at year end adjusted for; experience adjustment in relation to the forfeiture of leave and leave taken trends and salary scales applicable at the time of realization of leave by employees

6 Grant from National Government Transfers from Ministry of Health	2018 KShs. '000	2017 KShs. '000
Recurrent grant Received	7,324,991	6,781,462
Recurrent grant Receivable	10,000	301,368
<b>Recognized in the statement of financial performance</b>	<b>7,334,991</b>	<b>7,082,830</b>
Capital grants received	246,000	
Capital grants receivable		343,000
Cancer Equipment received and construction of bunker		341,827
<b>Capital grants recognized in Capital reserve</b>	<b>246,000</b>	<b>684,827</b>

The hospital recurrent grant for the year was KShs.7,334,991,000. However the amount transferred and received totalled KShs.7,324,991,000 leaving a balance of KShs. 9,999,994 which was not received in the FY 2017/18 and the same has been accrued as receivable accumulating to a total of KShs.268 million recurrent grants not received as at June 30, 2018 (See note 26).

Capital grant received in the FY 2017/18 was KShs.246 million. This has been recognised capital reserve (see note 36). The capital grant receivable (for FY 2016/17) of Ksh.343 million was also received during the year under review.

7 Donor funded projects grants		
Assisted Partners notification services	-	4,699
Cancer center support grant	5,183	-
Cord Blood Immune reper	-	92
Etrot study	2,893	1,488
GIRL STUDY	4,048	6,034
HIV Cascade Training Program	1,411	2,115
Hope Study	-	1,309
Innovations Maker Project	7,234	-
ITIPS(Micro bacterium TB infection	4,651	1,483
M Health Study	18,415	18,066
Micro biota& Preterm Birth study	6,557	2,108
MITIPS study unit	883	-
Mwach neo	3,251	320

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Opt study	1,651	317
Opt-home	1,765	-
Partners in Advanced Care & Treatment -Centre Of Excellence(PACT-COE)	109,219	82,785
Partners in Prevention Study	2,140	2,593
Patient navigation programme	8,011	3,439
Peck study	6,889	422
Prevention of HIV Transmission	-	4,528
Prima study	24,214	-
Sharp study	4,095	-
Step up study	462	-
TES-NES Efficacy study	1,633	-
Vijana smart study	2,262	-
<b>Total Donor funded projects grants</b>	<b>216,867</b>	<b>131,798</b>

**Conditional grants reconciliation (note 46)**

Balance unspent at beginning of year	69,126	91,587
Refund to donor		(476)
Current year receipts	236,151	109,814
Conditions met- transferred to revenue	(216,867)	(131,798)
<b>Conditions to be met Liabilities</b>	<b>88,410</b>	<b>69,126</b>

**8 Public contributions and donations**

General donations	588	35
Donation in kind	3,621	2,295
<b>Total Public contributions and donations</b>	<b>4,209</b>	<b>2,330</b>

General donations are contributions received from the public in form of cash. Donations in kind are fixed assets in nature and the amount recognized in the statement of financial performance is the amortized value while the net book value is deferred to be earned over the life of the assets. (See note 33)

**9 Rendering of services**

	2018	2017
	KShs. '000	KShs. '000
<b>a) Medical Services Revenue</b>		
Accident and Emergency services fee	186,472	116,630
Anaesthesia services fee	26,184	29,790
Burns unit services fee	23,844	21,681
Cancer Centre services Fee	168,288	104,639
Cardiology services Fee	78,200	67,509

Comprehensive Care Centre fee	5,338	6,960
Critical Care Unit services fee	85,105	84,842
Dental services fees	25,292	19,526
Ear Nose & Throat services fee	70,202	61,817
Farewell Home Services fee	80,129	61,965
General surgery services fee	144,010	122,219
Health Information services charges	62,251	47,632
Laboratory services Fee	428,854	346,176
Medical Gases Income	139,320	99,538
Medicare Centre Cons- KPCC	10,677	5,114
Medicine services fee	291,863	210,487
Nursing Procedures and consumables	133,618	126,666
Nutrition services fee	77,359	58,493
Occupational Therapy services Fee	31,587	31,261
Ophthalmology services fee	33,771	31,128
Orthopaedic services fee	273,184	192,526
Orthopaedic technology unit services fee	7,420	5,895
Paediatrics surgery services fee	41,547	34,530
Paediatrics services fee	342,877	183,554
Pharmaceutical services fee	646,210	507,372
Physiotherapy services Fee	58,569	58,953
Plastic Surgery services fee	63,135	51,899
Prime Care Centre In-Patient Fee	203,409	193,694
Radiology services Fee	271,138	223,689
Renal Unit services Fee	103,599	102,087
Reproductive health services fee	439,037	448,483
Sale of Theatre services Consumables	192,441	110,004
Theatre services fee	112,947	100,601
TSSU/ CSSD services charges	18,021	17,403
Other medical services fee	31,306	29,243
<b>Total Medical Services Revenue</b>	<b>4,907,204</b>	<b>3,914,006</b>

	2018	2017
	KShs. '000	KShs. '000
<b>b) Administrative Services Revenue</b>		
Seminars and training	11,453	18,287
Nursing School fee	19,254	19,546
Administration charges	60,468	54,763
<b>Total administrative services revenue</b>	<b>91,175</b>	<b>92,596</b>
<b>Total rendering of services revenue</b>	<b>4,998,379</b>	<b>4,006,602</b>

Other medical services fee include: endoscopy fees, palliative care income, mental health services fees, catering services income, respiratory infectious diseases services fee and public health services Income

<b>10 Sale of Goods</b>		
Sale of Stores	403	745
Tender documents	182	95
Pigs Will	384	384
Sale of Fixed Assets	-	-
<b>Total sale of goods revenue</b>	<b>969</b>	<b>1,224</b>
<b>11 Rental revenue from facilities</b>		
Residential Properties	98,119	99,672
Commercial Properties	23,423	33,245
<b>Total rental revenue</b>	<b>121,542</b>	<b>132,917</b>
<b>12 Interest Income</b>		
Bank Interest	43,522	52,303
Interest on short term deposits	41,387	50,561
<b>Total interest income</b>	<b>84,909</b>	<b>102,864</b>
<b>13 Clinical costs</b>	<b>2018</b>	<b>2017</b>
	<b>KShs. '000</b>	<b>KShs. '000</b>
Cardiology materials	9,860	18,065
Cleansing Materials	21,698	29,980
Dental Materials	19,561	9,107
Enteral & Nutrition Feed	33,362	32,536
Health Information Stationery	6,694	6,253
Laboratory Chemicals & Reagents	187,395	141,814
Medical Gases	128,346	103,690
Orthopaedic materials	7,653	6,767
Patients Food	193,613	163,941
Patients Uniform & Clothing	48,274	34,900
Pharmaceutical supplies	549,506	551,899

Radiology material & Chemicals	54,569	28,065
Renal materials	36,273	19,410
Reproductive Health consumables	15,827	168
Stock Change	(9,414)	(106,643)
Surgical consumables	130,172	247,113
Sutures	192,949	74,046
Theatre consumables	12,531	65,853
Waste disposal expenses	19,643	7,683
Other clinical costs	200,527	117,816
<b>Total clinical costs</b>	<b>1,859,039</b>	<b>1,552,463</b>

Other clinical costs include: purchase of crockery & cutlery, insecticide & rodenticides, dressing and appliances, laundry detergents, radiotherapy materials, physiotherapy materials, ENT consumables, occupational therapy materials, ophthalmology materials, paediatric consumables, orthopaedic technology materials, CCU materials, SPU materials, infection control materials and tailoring materials, ENT consumables, Occupational Therapy materials, Ophthalmology materials, Paediatric consumables, Orthopaedic technology materials, CCU materials, SPU materials, Infection Control materials and Tailoring materials

	2018	2017
	KShs. '000	KShs. '000
<b>14 Employee costs</b>		
Contribution to Pension Schemes	371,204	356,702
Insurance	67,236	56,202
Pension Administrative Costs	9,994	11,295
Defined benefit pension scheme deficit	100,000	100,000
Provision for leave pay (see note 32)	(16,997)	16,049
Salaries and wages	8,091,735	7,294,141
Staff medical expenses	249,870	248,377
Staff Training & Development	174,818	87,864
Staff welfare expenses	8,759	3,151
Travelling & Accommodation	18,904	24,639
<b>Total employee costs</b>	<b>9,075,523</b>	<b>8,198,420</b>
<b>15 Board of Management expenses</b>		
Sitting Allowance	5,380	5,580
Accommodation Allowance	3,658	4,605
Chairman Honoraria	960	1,120
CEO Salary	9,458	9,202
Mileage	1,931	2,140

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Airtime	84	108
Insurance	330	847
Training	4,745	4,844
<b>Total Board of Management expenses</b>	<b>26,546</b>	<b>28,446</b>
<b>16 Depreciation and amortisation</b>		
Property, plant and equipment	404,929	427,741
Intangible assets	4,425	6,322
<b>Total depreciation and amortisation</b>	<b>409,354</b>	<b>434,063</b>
<b>17 Repair and maintenance Expenses</b>		
Buildings	85,275	65,909
Medical Equipment	94,404	110,658
Motor Vehicle running expenses	10,715	7,517
Office Equipment	6,708	9,973
Plant & Machinery	57,234	37,097
<b>Total repair and maintenance expenses</b>	<b>254,336</b>	<b>231,154</b>
<b>18 Administrative and General expenses</b>		
Advertising and Publicity expenses	9,120	7,362
Audit Fees	4,728	3,680
Bank Charges	6,590	4,659
Boiler fuel Expenses	121,164	104,341
Cleaning Services	16,032	14,827
Clearing & Forwarding expenses	2,519	2,600
Computer Consumables	47,656	17,840
Electricity Expenses	129,619	121,539
General Insurance	7,655	11,785
Legal Expenses	9,525	46,539
Quality Assurance expenses	11,342	3,965
Research & Development expenses	16,143	19,424
Risk & Audit Expenses	10,400	
Security Investigation expenses	15,607	7,938
Sports Activities	21,105	16,090
Staff Uniform	9,831	5,143
Stationery	9,451	13,684
Tax Expenses	54,828	204,328
Telephone Expenses	8,265	5,643

Water & Conservancy expenses	74,161	90,652
Other Administrative Expenses	81,448	49,603
<b>Total administrative and general expenses</b>	<b>667,189</b>	<b>751,642</b>

Other administrative expenses include: internet services, fire& safety expenses, newspapers and periodicals, corporate branding, tender committee allowances, seminars and workshops for senior management, corporate governance and corruption prevention committee expenses, chaplaincy materials, purchase of accountable documents, preparation of financial statements expenses and asset tagging expenses.

<b>19 Donor funded Projects expenses</b>		
Assisted Partner Notification	-	4,699
Cancer Center Support	5,183	
Cord Blood Immune Reper- Salary	-	92
Etrot	2,893	1,488
Girl Study	4,048	6,034
HIV Cascade Training Program	1,411	2,115
Hope Study	-	1,309
Innovation Maker Project	7,234	-
ITIPS(Micro bacterium TB Infection	4,651	1,482
M Health study	18,415	18,066
Micro biota(PBSP)	6,557	2,108
Mitips Study Unit	883	-
Mwach Neo	3,251	320
Opt Project	1,651	317
Opt-Home - Salaries	1,765	-
Partners in Advanced Care &Treatment -Centre Of Excellence(PACT-COE)	109,219	82,785
Partners in Prevention Study	2,140	2,593
Patient Navigation Programme	8,011	3,439
Peck Study	6,889	422
Prevention of HIV Transmission	-	4,528
Prima Study	24,214	-
Sharp Study	4,095	-
Step Up Study	462	
Tes-Nes Study	1,633	
Vijana Smart	2,262	
<b>Total donor funded projects expenses</b>	<b>216,867</b>	<b>131,798</b>

**20 (Gain)/ Loss on sale of fixed assets**

Cost of assets disposed	6,900	7,920
Accumulated depreciation	(6,713)	(5,601)
Net book value of assets disposed	187	2,319
Less: Sale proceeds on assets disposal	(2,014)	(377)
<b>(Gain)/Loss on sale assets</b>	<b>(1,827)</b>	<b>1,942</b>

**21**

<b>Impairment loss</b>	<b>1,077,431</b>	<b>658,358</b>
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The impairment loss relates to provision for bad and doubtful debts on account receivables. Some of the patients who are referred for specialized health care are underprivileged and upon clinical discharge are unable to settle their medical bills. These patients are released from the hospital on unsecured credit based on a commitment to settle their bills in the future. Efforts to collect the due receivables from this category of patients are largely fruitless. Further, deceased patients whose bodies are not claimed by relatives are disposed as per Public Health Act. Outstanding bill balances for unclaimed bodies amounted to Kshs. 369 million. Consequently, a provision for bad and doubtful debts has been made for the impaired receivables. (See note 25.)

**22 Medical Service Contracts Loss**

	2018 KShs. '000	2017 KShs. '000
Contracts with NHIF	88,178	165,201
Free maternity Program	177,237	200,634
Sponsored clinical projects	2,990	11,436
	<b>268,405</b>	<b>377,271</b>

**Contracts with NHIF**

A contract exist between the Hospital and NHIF (Fund) whereby the Hospital provides medical services to the Fund members and in return the Fund compensates the Hospital according to the applicable package as listed below:

- a) Inpatient daily rebate of Ksh.4,000 (comprehensive cover)
- b) Surgical packages; for minor surgery Kshs.40,000 and for major surgery Kshs.130,000 .
- c) Radiology services i.e. C.T Scan, M.R.I and ultrasound at Kshs.8,000, Kshs.15,000 and Kshs.3,000 respectively.
- d) Renal dialysis at Kshs.9,500
- e) Chemotherapy and radiotherapy services reimbursed at the cost upon prior approved by the Fund

The NHIF loss arises where the medical cost incurred on a patient who is a contributor to

the Fund is greater than the rebate reimbursed by the Fund based on the existing medical service contracts.

**Free Maternity program Loss**

This loss has been occasioned by free maternity services offered by the hospital under presidential directive in June 2013, which was aimed at ensuring that all mothers deliver in a health facility under the care of a skilled health worker. Under this plan the Government reimburses the Hospital Kshs.17,500 per delivery. KNH being a referral hospital however, receives complicated maternal referrals for specialized care services such as renal dialysis, critical care services and neonatal care the medical cost of which is way above Kshs.100,000. This is further complicated in cases where the actual delivery occurred and was recorded in another health facility other than KNH but only referred to KNH for specialized care, while the hospital attends to such cases, no payment is received from the Government.

With effect from July 2017, the Government transferred the Free Maternity programme to NHIF under Linda Mama Programme. While Linda Mama programme still reimburses the Hospital KShs. 17,500 per delivery, the package has now been enhanced so that in case of complication the Hospital is allowed to claim normal rebate rate of Kshs.4,000 per day in addition to the Kshs.17,500.

**Sponsored Clinic Projects**

Clinical projects are conducted to address gaps in usual clinical service provision. This is carried out by the hospital clinicians in collaboration with both local and international partners. The hospital undertakes these initiatives with a view of impacting positively in the care of patients. The patients are normally asked to pay a fixed amount to benefit under these projects which in most cases are lower than the actual medical costs.

**23 Gain/ (Loss) on Foreign Exchange Transactions**

Exchange difference on receivables transactions  
Gain/ (Loss) on exchange rate on dollar bank account

2018 KShs. '000	2017 KShs. '000
	288
(288)	(269)
<b>(288)</b>	<b>(19)</b>

The loss on exchange rate for dollar bank account is the exchange difference as a result of the ruling rate as at June 30, 2018.

	2018 KShs. '000	2017 KShs. '000
<b>24 Cash and Cash Equivalents</b>		
Current accounts	837,036	519,325
On - call deposits	291	610,335
Staff mortgage deposit	12,550	12,339
MPESA	1,601	3,995
<b>Total cash and cash equivalents</b>	<b>851,478</b>	<b>1,145,994</b>
<b>a) Current accounts</b>		
National Bank of Kenya	815,357	465,339
Equity Bank	17,775	50,077
Kenya Commercial Bank	3,904	3,909
<b>Total current accounts</b>	<b>837,036</b>	<b>519,325</b>
<b>b) On - call deposits</b>		
National Bank of Kenya	291	163
Kenya Commercial Bank		610,172
Euro Bank Ltd ( in liquidation)	429,661	429,661
Less: Provision for impairment	(429,661)	(429,661)
<b>Total on - call deposits</b>	<b>291</b>	<b>610,335</b>
<b>c) Staff Mortgage deposit</b>		
Housing Finance Co. of Kenya	12,550	12,339
<b>d) MPESA</b>	<b>1,601</b>	<b>3,995</b>
<b>Total cash &amp; cash equivalents</b>	<b>851,478</b>	<b>1,145,994</b>

Cash at bank earns interest at a floating rate based on daily bank deposit rates. On - call deposits are made for varying periods, depending on the immediate cash requirements of the Hospital and earn interest at the respective call deposit rate. The provision for impairment of KShs. 429,661 million relates to short term deposits held in Euro bank now in liquidation

## Detailed Analysis of Cash and Cash Equivalent

FINANCIAL INSTITUTION	ACCOUNT NAME	NUMBER	Actual Unaudited 2017/18 30-Jun	Actual audited 2016/17 30-Jun
<b>Current Account</b>				
Equity Bank	Day Care & Equipment	0810299284461	8,979	33,440
Equity Bank	Equity PDQ New Born Unit	0810260741031	8,746	12,594
Equity Bank	Equity	0810261381004	50	48
Kenya Commercial bank	KCB Recurrent	229977210	212	212
Kenya Commercial bank	Kidney Trust Fund	1144842999	3,474	3,478
Kenya Commercial bank	Private Wing	1135769672	218	219
National Bank of Kenya	Development 1	1003058005300	2,442	331
National Bank of Kenya	Development 2	1003058005301	330	78,931
National Bank of Kenya	Heart Fund	1003058005700	73,483	50,253
National Bank of Kenya	Pact-Coe Payroll & Administration	1003086493600	12,317	15,908
National Bank of Kenya	Recurrent	1003058004900	23,792	5,219
National Bank of Kenya	Revenue	1003058005200	5,888	46,056
National Bank of Kenya	Us Dollar Account	1003058005200	667,161	216,833
National Bank of Kenya	VCT	2003058005200	10,502	10,740
National Bank of Kenya	Private Wing	1003058137700	2,080	2,080
National Bank of Kenya	Private Wing	1003058005800	17,362	42,983
<b>Total Current Account</b>			<b>837,036</b>	<b>519,325</b>
<b>On - call deposits</b>				
National Bank of Kenya		0140358066000	291	163
Kenya Commercial bank				610,172
Euro Bank			429,661	429,661
Provision for impairment			(429,661)	(429,661)
<b>Total On Call Deposits</b>			<b>291</b>	<b>610,335</b>
<b>Staff Mortgage Deposit</b>				
Housing Finance Co. of Kenya		200-0027328	12,550	12,339
Cash at hand				
MPESA/ Cash in hand	Revenue	1003058005200	1,601	3,995
<b>Total Cash &amp; Cash Equivalents</b>			<b>851,478</b>	<b>1,145,994</b>

**25 Receivable from exchange transactions**

Medical services receivables	7,833,266	6,367,014
Rental receivables	27,651	28,450
Nursing Students receivables	328	4,816
Insurance compensation receivables	23,684	23,684
<b>Sub total</b>	<b>7,884,929</b>	<b>6,423,964</b>
Accrued Investment Income	135	50,176
Prepayments	159,746	158,314
<b>Sub total</b>	<b>8,044,810</b>	<b>6,632,454</b>
Less: Impairment allowance	(6,531,163)	(5,453,737)
<b>Total Receivable from exchange transactions</b>	<b>1,513,647</b>	<b>1,178,717</b>

As at June 30 2018, trade receivables of KShs. 6.531 billion (2017: KShs. 5.454 billion) were impaired and fully provided for.

**Reconciliation of allowance for impairment of receivables from exchange transactions**

	2018 KShs. '000	2017 KShs. '000
Beginning of year	5,453,736	4,795,378
Charge for the year	1,077,431	658,358
Write-off during the year	(4)	
<b>End of year</b>	<b>6,531,163</b>	<b>5,453,736</b>

**26 Receivable from non- exchange transactions**

GoK Recurrent grant	268,168	902,536
Staff receivables	12,411	15,816
	<b>280,579</b>	<b>918,352</b>
Less: Impairment allowance (GoK Grant)	(144,568)	(144,568)
<b>Total Receivable from non- exchange transactions</b>	<b>136,011</b>	<b>773,784</b>

The GoK recurrent grant receivable relates to grants not disbursed to the hospital by MOH as per allocation in the FY 2009/10 (Kshs145million), 2014/15 (Ksh 113 million) and 2017/18 (Kshs. 10 million)

**27 Inventories**

Pharmaceutical supplies	361,320	308,329
Maintenance supplies	47,439	45,115
Food Supplies	4,432	9,338
Linen and clothing	30,999	23,788
General Stores	74,963	113,244
	<b>519,153</b>	<b>499,814</b>
Less: Obsolete stock	(14,788)	(4,863)
<b>Total Inventories</b>	<b>504,365</b>	<b>494,951</b>

Inventory is measured at the lower of cost and net realizable value

**28. Property Plant & Equipment**

	Freehold Land	Freehold Building	Plant, Machinery & Equipment	Motor vehicles	Furniture and fittings	Computers, copiers and faxes	Capital work in progress	Total
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
<b>Cost or Valuation</b>								
As at July 1, 2016	4,014,600	7,182,604	4,128,573	93,847	269,946	191,312	40,211	15,921,093
Additions		101,304	298,177		1,658	6,123	181,782	589,044
Disposals			(7,312)		(554)	(54)		(7,920)
Transfer to KMTC & UON	(146,667)							(146,667)
<b>As at June 30 2017</b>	<b>3,867,933</b>	<b>7,283,908</b>	<b>4,419,438</b>	<b>93,847</b>	<b>271,049</b>	<b>197,381</b>	<b>221,993</b>	<b>16,355,550</b>
<b>As at July 1, 2017</b>	<b>3,867,933</b>	<b>7,283,908</b>	<b>4,419,438</b>	<b>93,847</b>	<b>271,049</b>	<b>197,381</b>	<b>221,993</b>	<b>16,355,550</b>
Additions		12,610	106,962		2,220	15,625	57,127	194,544
Transfers from WIP		59,760					(59,760)	-
Disposals				(6,900)				(6,900)
Transfer to NQCL	(100,087)							(100,087)
<b>As at June 30 2018</b>	<b>3,767,846</b>	<b>7,356,278</b>	<b>4,526,401</b>	<b>86,947</b>	<b>273,269</b>	<b>213,006</b>	<b>219,360</b>	<b>16,443,107</b>
<b>Depreciation</b>								
As at July 1, 2016	-	1,490,956	2,447,254	72,920	178,269	134,539	-	4,323,938
Charge for the year		144,824	247,166	5,235	11,649	18,868		427,741
Disposal			(5,140)		(409)	(52)		(5,600)
<b>As at June 30 2017</b>	<b>-</b>	<b>1,635,780</b>	<b>2,689,280</b>	<b>78,155</b>	<b>189,509</b>	<b>153,355</b>	<b>-</b>	<b>4,746,079</b>
<b>As at July 1, 2017</b>	<b>-</b>	<b>1,635,780</b>	<b>2,689,280</b>	<b>78,155</b>	<b>189,509</b>	<b>153,355</b>	<b>-</b>	<b>4,746,079</b>
Charge for the year		143,012	229,673	3,879	10,470	17,895		404,929
Disposal				(6,713)				(6,713)
As at June 30 2018	-	1,778,792	2,918,953	75,320	199,979	171,250	-	5,144,295
<b>Net Book Value</b>								
As at June 30 2017	3,867,933	5,648,128	1,730,159	15,691	81,540	44,026	221,993	11,609,470
<b>As at June 30 2018</b>	<b>3,767,846</b>	<b>5,577,486</b>	<b>1,607,448</b>	<b>11,626</b>	<b>73,290</b>	<b>41,756</b>	<b>219,360</b>	<b>11,298,812</b>

## 28 Property, Plant & Equipment continued

Included in land of Kshs.4 billion is a parcel of land L.R.No.209/13978 measuring 2.544 hectares valued at Kshs.220 million which is jointly owned by Kenyatta National Hospital, University of Nairobi and Kenya Medical Training College. The value of land that is recognised in the Hospital financial statements in FY 2017/18 is a third proportion valued at KShs.73 million.

Also included is a parcel of land (LR.No 209/25138) measuring 45.01 hectares valued at Ksh.3,337,000,000. A portion of this land measuring 1.35 hectares valued at Ksh. 100,087,758 is owned by National Quality Control Laboratories(NQCL) for which the process of excision is on-going. The value of land that is recognised in the KNH financial statements in relation to LR.No 209/25138 is KShs. 3,236,912,242 which excludes the portion owned by NQCL

## 29 Intangible Assets - Software

	2018	2017
	KShs. '000	KShs. '000
<b>Cost</b>		
At the beginning of the year (July1)	31,408	31,408
Additions	-	-
Transfers from Work in Progress	-	-
<b>At the end of the year (June 30)</b>	<b>31,408</b>	<b>31,408</b>
<b>Amortization</b>		
At the beginning of the year	16,657	10,335
Charge for the period	4,425	6,322
<b>At the end of the year (June 30)</b>	<b>21,082</b>	<b>16,657</b>
<b>Net Book Value As at June30</b>	<b>10,326</b>	<b>14,751</b>

## 30 Trade and other payables

Trade payables	483,164	471,979
Accrued Expenses	135,267	98,548
Retention money	27,268	35,963
Remittances	37,391	17,514
Doctors fee	285,496	217,001
Tax Liability	80,534	170,590
Other Payables	-	51
<b>Total trade and other payables</b>	<b>1,049,120</b>	<b>1,011,646</b>

Other payables include: unpaid salaries, over recovery from staff.

## Tax Liability

Kenya Revenue Authority (KRA) conducted an in-depth audit on KNH and issued an assessment on July 1 2014 of a tax liability of Kshs.592,860,909 relating to the period January 2010 to March 2014. KNH objected to the findings of KRA and on 5th June 2015, KRA issued a confirmed assessment amounting to Kshs.545,693,303. On 7th February 2017, the Hospital paid Kshs.18,022,978 representing the tax not under dispute in relation to withholding tax and VAT.

The hospital engaged KRA through the office of the Attorney General on the disputed assessment. Following a mediation meeting held on 23rd June 2017 at the Attorney General Chambers, KRA issued a revised assessment dated 19th July 2017 of KShs. 170,590,114 comprising of principal tax of KShs. 90,056,488, penalty of KShs. 22,514,122 and interest of KShs. 58,019,505.

The Hospital paid the principal tax liability in the year 2017/18 and submitted an appeal for waiver of the penalty and interest totalling KShs. 80,533,626 which is still outstanding as at June 30, 2018. The Hospital is waiting for KRA response on the appeal made.

	2018	2017
	KShs. '000	KShs. '000
<b>31 Deposit from customers</b>		
Rent Deposit	1,163	2,058
Admission deposit	29,477	43,792
Credit facility deposit	12,870	13,393
Caution Money	528	299
Advance receipts	7,523	4,407
<b>Total deposits from customers</b>	<b>51,561</b>	<b>63,949</b>
<b>32 Provision for leave pay</b>		
Balance at the beginning of the year	141,151	125,102
Additional provision raised		16,049
Provision utilised	(16,997)	-
Balance as at June 30	<b>124,154</b>	<b>141,151</b>

The provision was calculated based on the leave entitlement due to staff at year end adjusted for; experience adjustment in relation to the forfeiture of leave and leave taken trends and Salary scales applicable at the time of realization of leave by employees

33 Deferred income	2018	2017
	Kshs. '000	Kshs. '000
Donor funded projects grants	88,410	69,126
Donations in Kind (fixed assets)	56,554	43,358
Developments Partners Grant	75,000	50,000
Nursing school-pre paid Fees	5,223	4,448
<b>Total deferred income</b>	<b>225,187</b>	<b>166,932</b>

#### Deferred income movement Schedule

Details	Donor funded projects grants	Donations in Kind (Fixed Assets)	Development partners grant	Nursing school pre-paid Fees	Total
	KShs. '000	KShs. '000	KShs. '000	Kshs.'000	Kshs.'000
Balance b/f	69,126	43,358	50,000	4,448	166,932
Receipts during the year	236,151	16,817	25,000	5,223	283,191
Transfers to statement of Financial performance	(216,867)	(3,621)	-	(4,448)	(224,936)
<b>Deferred income</b>	<b>88,410</b>	<b>56,554</b>	<b>75,000</b>	<b>5,223</b>	<b>225,187</b>

Development partner grant is a donation from Zarina & Naushad Foundation for construction of the Day Care Centre which is yet to be completed.

#### 34 Employee benefit obligations

##### a. National Social Security Fund (NSSF)

This is a statutory defined contribution pension scheme in which the employer and employee contribute equal amounts. The hospital's contribution during the year under review has been charged to the statement of financial performance (note 14).

##### NSSF Arrears

The outstanding amount relates to contribution arrears for the period April 2001 to November 2009 when KNH had sought for an exemption on complying with NSSF Act from the Ministry of Labour and Human Resource Development given the hospital had a better Pension Scheme. The Ministry declined the request for exemption in the year 2011 on the basis that NSSF was a universal social security pillar and was thus mandatory. The Hospital had by then accumulated arrears totalling to Kshs. 311 million excluding penalties. The hospital has been including this amount in the budget for funding to offset the arrears as all personnel related expenses are funded through the Government of Kenya recurrent grant. This amount has however not been funded and has thus remained outstanding. In the FY 2016/17 and

2017/18, the Hospital paid Kshs. 24 million each year of the arrears awaiting Ministry of Health intervention.

	2018 Kshs.'000	2017 Kshs.'000
National Social Security Fund Arrears	262,830	286,830

**b. Pension Scheme plans**

The hospital operates a defined benefits pension scheme (KNH Staff Superannuation Scheme) and a defined contribution pension scheme (KNH Staff Retirement Benefits Scheme).

**i Defined Contribution (DC) Pension Scheme**

The KNH Staff Retirement Benefits Scheme assets are managed by fund managers on behalf of the Fund trustees. The current fund managers are Sanlam Investments East Africa Ltd and Genafrika Asset Managers.

The Hospital's contribution to KNH Staff Retirement Benefits Scheme is at 10% while employees contribute at 5% of basic salary. The Hospital's obligation is limited to any unpaid contribution. Contribution to the scheme during the year under review has been charged to the statement of financial performance (note 14).

**ii Defined Benefit (DB) Pension Scheme**

The KNH Staff Superannuation Scheme assets are managed by fund managers on behalf of the Fund trustees. The current fund managers are Britam Asset Managers (K) Ltd and Stanlib Kenya Ltd. The Hospital's contribution to KNH Staff Superannuation Scheme is at 10% while employees contribute at 5% of basic salary.

The scheme was closed to new members on June 30, 2011 except for members who were over 45 years and above at the time of closure of the DB scheme in compliance to the notice of discontinuance and adoption of the amended scheme (defined contribution pension scheme). Actuarial valuation was done on the DB Pension Scheme as at June 30, 2014. The valuation showed benefits liability of Kshs. 8.6 billion against the schemes asset of Kshs.5.8 billion with an underfunding thereon of equivalent to Kshs. 2.8 billion. The underfunding of Kshs. 2.8 billion is to be paid by KNH as the scheme sponsor.

The Hospital has been requesting for funding of the deficit through the budgetary process and in the last three years, FY 2015/16 to 2017/18 (See note 14), an amount of Ksh.100 million per year has been allocated and subsequently disbursed to the scheme. However, the allocation of

Ksh.100 million per year towards the DB scheme deficit is not sufficient.

The scheme is in the process of carrying out an actuarial valuation as at 30th June, 2018 for which remedial plan will be developed for consideration by the KNH Board of management. The hospital will then recognize in the books the updated deficit based on the latest valuation.

	2018 Kshs.'000	2017 Kshs.'000
<b>35 Borrowings</b>		
Spanish Loan	1,199,863	1,199,863

The Government of the republic of Kenya and the Kingdom of Spain signed a loan agreement on 29th July 2005 for a loan of Euros 14 million (KShs. 1,199,862,823) in form of medical equipment for KNH. Though there was no on-lending agreement executed between the Hospital and the National Treasury, the Hospital recognized the assets (medical equipment) and the Spanish loan in the books.

The Hospital through various correspondences to The National Treasury, has since January 2008, expressed its inability to service the loan due its poor financial performance over the years. The Hospital management has been consistent in their request for the Government to take over the loan and convert it into a grant. The request has not been granted so far and the loan remains outstanding in the books.

<b>36 Capital Reserve</b>		
As at July 1	5,477,266	4,795,028
Development Grant	246,000	684,827
Decrease in land value	(2,061)	(2,589)
<b>As at June 30</b>	<b>5,721,205</b>	<b>5,477,266</b>

Development Grant of Kshs.246 million was received from GOK during the year.

Decrease in land value relates to adjustment on value of land and revaluation reserve for a parcel of land LR.No.209/25138. The adjustment has been made to de-recognize a portion of the said land measuring 1.35 Ha that is owned by NQCL for which the process of excision is on-going. The value of this portion of land is KShs. 100,087,758 that is comprised of the original value before revaluation (KShs. 2,060,864) and the revaluation value (Kshs.98,026,894).

<b>37 Accumulated Fund</b>		
As at July 1	(2,185,242)	(1,280,231)
Deficit for the year	(1,091,284)	(905,011)
<b>As at June 30</b>	<b>(3,276,527)</b>	<b>(2,185,242)</b>

**38 Revaluation reserve**

As at July 1

9,055,273 9,199,351

Adjustment in land value (see note 36)

(98,026) (144,078)

**As at June 30****8,957,247 9,055,273****39 Cash generated from operations****2018 2017****Kshs.'000 Kshs.'000****Net Surplus/(Deficit) For The Year****(1,091,234) (905,011)**

Adjusted For: -

Depreciation and amortization

409,354 434,063

(Gain)/ Loss on disposal of fixed asset

(1,827) 1,942

Non Cash Grants Received

(3,621)

Interest Income

(84,909) (102,864)

Foreign Exchange (Gain) /Loss (See Note 23)

288 (269)

**Operating Deficit Before Working Capital Changes****(771,949) (572,138)**

(Increase) / Decrease in stock

(9,414) (106,643)

(Increase) / Decrease in receivables

(40,157) (381,361)

Increase / (Decrease) in payables

34,003 292,255

Increase / (Decrease) in deferred income

20,059 (24,066)

Increase / (Decrease) in provision for leave pay

(16,997) 16,049

Net cash outflow from operating activities

**(784,455) (775,904)****Financial instruments****Capital risk management**

The Hospital manages its capital to ensure it is able to continue as a going concern while maximizing return. The Hospital's overall strategy remains unchanged from the prior year and is not subject to externally imposed capital requirements. The hospital capital structure comprises of the following funds;

Revaluation Reserve

8,957,247 9,055,273

Accumulated Fund

(3,276,527) (2,185,242)

Capital Reserve

5,721,205 5,477,266

**Total Funds****11,401,925 12,347,297**

Total Borrowings

1,199,863 1,199,863

Less: Cash and bank balances

851,478 1,145,994

**Net debt/(excess cash & cash equivalent)****348,385 53,869**

Gearing ratio: (borrowings to total funds )

10.5% 9.7%

### Financial risk management objectives

The Hospital is exposed to credit and liquidity risks related to financial instruments. The Hospital does not enter into or trade in financial instruments and investments in securities, including derivative financial instruments for speculative purposes

### Credit risk

#### Exposure to credit risk

Financial assets that potentially subject the Hospital to concentration of credit risk consist principally of cash, short-term deposits and trade and other receivables. The Hospital's cash equivalents and short-term deposits are placed with financial institutions with a high credit rating. Trade receivables are represented net of the allowance for doubtful receivables.

The carrying amounts of financial assets included in the statement of financial position represent the Hospital's maximum exposure to credit risk in relation to these assets. At June 30, 2017 and June 30, 2018, the Hospital did not consider there to be a significant concentration of credit risk.

	Total Amount	Fully performi ng	past due	Impaired
	KShs. '000'	KShs. '000'	KShs. '000'	KShs. '000'
At June 30, 2018				
Receivables from exchange transactions	8,044,814	1,513,647	1,107,431	6,531,167
Receivables from non-exchange transactions	280,587	136,019		144,568
Bank balances	1,281,143	851,478		429,661
<b>Total</b>	<b>9,606,544</b>	<b>2,501,144</b>	<b>1,107,431</b>	<b>7,105,396</b>
At June 30, 2017				
Receivables from exchange transactions	6,632,454	1,178,717	658,358	5,453,736
Receivables from non-exchange transactions	918,352	773,784		144,568
Bank balances	1,575,654	1,145,994		429,660
<b>Total</b>	<b>9,126,460</b>	<b>3,098,495</b>	<b>658,358</b>	<b>6,027,964</b>

### Liquidity risk

The ultimate responsibility for liquidity risk management rests with the Directors of the Hospital, who have built an appropriate liquidity risk management framework for the management of the Hospital's short, medium and long-term funding and liquidity

management requirements. The Hospital manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk is the risk that the Hospital will be unable to meet its funding requirements. The table below summarizes the maturity profile of the Hospital's non-derivative financial liabilities. The contractual maturity of the financial liabilities have been determined on the basis of the remaining period at the end of reporting period to the contractual repayment date.

The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the liabilities as at June 30, 2017 based on existing contractual repayment arrangements was as follows:

	Carrying Amount KShs. '000'	Contractual cash flows KShs. '000	0-12 months KShs. '000	1-5 years KShs. '000	Beyond 5 years KShs. '000
<b>June 30, 2018</b>					
Trade & Other payables	1,049,120	1,049,120	472,715	362,588	213,817
Amount due to NSSF	262,830	262,830	-	-	262,830
Borrowings-Spanish	1,199,863	1,199,863	-	-	1,199,863
	<b>2,511,813</b>	<b>2,511,813</b>	<b>472,715</b>	<b>362,588</b>	<b>1,676,510</b>
<b>June 30, 2017</b>					
Trade & Other payables	1,011,646	1,011,646	559,334	269,312	484,681
Amount due to NSSF	286,830	286,830	-	-	286,830
Borrowings-Spanish	1,199,863	1,199,863	-	-	1,199,863
<b>Total</b>	<b>2,498,339</b>	<b>2,498,339</b>	<b>559,334</b>	<b>269,312</b>	<b>1,971,374</b>

#### 41 Related party disclosures

##### Nature of related party relationships

Kenyatta National Hospital is related to the National Government, Ministry of Health, University of Nairobi, Kenya Medical Training College, the Board of Management and key management

	2018	2017
i) Transfers from Ministry of Health	7,324,991	6,781,462
ii) Board of Management remuneration		
Sitting Allowance	5,380	5,580
Accommodation Allowance	3,658	4,605
Chairman Honoraria	960	1,120
CEO Salary	9,458	9,202
Mileage	1,931	2,140
<b>Total Board of Management remuneration</b>	<b>21,387</b>	<b>22,647</b>

There were 11 members of the Board of Management during the year

	Kshs. 000	Kshs. '000
iii) Key management compensation		
Gross Salaries	70,542	101,593
Gratuity		11,321
<b>Total key management compensation</b>	<b>70,542</b>	<b>112,914</b>

There were 16 members of senior management who served during the year

iv) Amount due from Related Parties

Ministry of Health	268,168	902,536
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42 Capital Commitments

Capital commitments at the year-end for which no provision has been made in these financial statements are:

Authorised but not contracted	444,803	500,065
Authorised and contracted	227,591	204,787
<b>Total Capital commitments</b>	<b>672,394</b>	<b>704,852</b>

43 Events after the reporting period

There were no events after the reporting date

44 Ultimate and Holding Entity

Kenyatta National Hospital is a state corporation under the Ministry of Health. Its ultimate parent is the Government of Kenya.

45 Currency

The financial statements are presented in Kenya Shillings thousands (Kshs. '000')

#### 46 Donor funded projects transactions analysis

PARTICULARS	Balance as at 01/07/2017	Received during the period	Expenditure during the year	Balance as at 30/06/2018
	A	C	D	E=A-B+C-D
	KShs. '000'	KShs. '000'	KShs. '000'	KShs. '000'
<b>Project income:</b>				
Aids Care Treatment Services (ACTS)	1,074			1,074
Cancer center support		10,220	5,183	5,037
Cord Blood Immune Reper	4			4
Etrot Study	664	2,583	2,893	354
Girl study	698	5,533	4,048	2,183
Hiv Acquisition During and After Pregnancy	254			254
HIV Cascade Training Program	233	1,178	1,411	0
Hope Study	810			810
Innovations Maker Project	3,004	10,625	7,234	6,396
Inormous Study	171			171
ITIPS	408	5,228	4,651	983
M Health Study	5,702	17,385	18,415	4,671
Management of Postpartum Haemor	83			83
Micro biota & Preterm Birth study	1,741	5,821	6,557	1,005
MITIPS study unit		1,200	773	428
Mwach Neo	83	3,770	3,251	602
OPT Study	340	1,474	1,651	163
OPT-Home		1,905	1,765	140
Partners in Advanced Care & Treatment -Centre Of Excellence(PACT-COE)	25,836	105,965	109,219	22,582
Partners in Prevention Study	5,859	1,209	2,140	4,928
Patient Navigation Programme	5,561	11,087	8,011	8,637
Peck Study	1,037	6,264	6,889	411
Prevention of HIV Transmission	15,566			15,566
Prima Study		32,398	24,214	8,184
Sharp study		5,283	4,095	1,188
Step up study		547	462	86
Tesnes efficacy study		3,630	1,633	1,997
Vijana smart study		2,846	2,262	584
<b>Total</b>	<b>69,126</b>	<b>236,151</b>	<b>216,867</b>	<b>88,410</b>

# Appendices

## Appendix 1: Progress on Follow up of Auditor Recommendations

### 1. Borrowings

As previously reported, the borrowings balance of KShs. 1,199,863,000 reflected in the statement of financial position as at 30 June 2017 relates to a loan received in 2007/2008 from the Kingdom of Spain in form of medical equipment. According to information available, the loan was repayable by the Hospital at an interest rate of 3% per annum on a reducing balance for the first six (6) years and thereafter the interest plus principal for the next nine (9) years with effect from July 12008. However, records examined indicated that, no interest has been paid or accrued in the nine financial years between 2008/2009 and 2016/2017. Further, the accrued interest, loan repayment and loan balance confirmation certificated as at 30 June 2017 were not availed for audit review. Although indications are that the management has sought assistance from the Ministry of Health towards settlement of the loan, the response from the Ministry on the matter was not availed for audit review.

Under the circumstances, it has not been possible to confirm the accuracy of the borrowings balance reflected in the statement of financial position as at 30 June 2017 and that the balance of Kshs.1,199,863,000 is fairly stated as at the same date.

#### Management Comment

There was no formal subsidiary agreement executed between National Treasury (NT) and KNH detailing how KNH was to service the Spanish loan though the Hospital recognized the assets (medical equipment) and the Spanish loan in its books (Only the principal amount).

The Hospital through various correspondences to The National Treasury, has since January 2008 been expressing its inability to service the loan due to its poor financial performance over the years. The Hospital management has been consistent in their request for the Government to take over the loan and convert it into a grant.

The Hospital request to convert the loan to grant has not been granted so far and the loan remains outstanding in the books.

Focal person: Deputy Director-Finance

Status: Not Resolved

Time frame: June 2019

### 2. Property, Plant and Equipment

#### 2.1 Land

As previously reported, the property, plant and equipment balance of KShs. 11,609,470,000 included in the statement of financial position as at 30 June 2017 includes four (4) parcels of land with a total of 0.7847 hectares valued at Kshs.50,600,000 which were excised and allocated to other parties as detailed below:-

LR No.	Location	Hectares	Value
LRN-209/11460	Upper hill	0.316	23,000,000
LRN-209/12767	Upper hill	0.226	17,000,000
LRN-209/12822	Upper hill	0.221	9,000,000
LRN-13319	Upper hill	0.0217	1,600,000
<b>Total</b>		<b>0.7847</b>	<b>50,600,000</b>

Further, the property, plant and equipment balance of Kshs.11,609,470,000 also includes three (3) parcels of land with a total of 4.471 hectares valued at Kshs.329,000,000 out of which 1.3 hectares have title deeds in the name of land owned by National Quality control Laboratory rather than Kenyatta National Hospital as detailed below:-

LR No.	Location	Hectares	Value
LRN-209/14269	Upper hill	0.14	10,000,000
LRN-209/14272	Upper hill	0.531	39,000,000
LRN-209/11976	Upper hill	3.8	280,000,000
<b>Total</b>		<b>4.471</b>	<b>329,000,000</b>

Although the issue has been discussed by the Parliamentary Public Investment Committee (PIC), no action seems to have been taken and on the PIC recommendations in the 19<sup>th</sup> report that the National Land Commission revoke title deeds irregularly issued to private entities, Ethics Anti-Corruption investigate how the hospital land was allocated to individuals and that the then hospital Chief Executive Officer be surcharged for any loss that may have been incurred.

#### Management Comment

##### **Excised and allocated land- KShs. 50,600,000**

The Management has written several letters to National Land Commission (NLC) to revoke the title deed for the illegally/irregularly allocated land to private entities. Vide letter dated 27<sup>th</sup> January 2016, the Hospital requested the Commission to place caveats on the four (4) titles and to investigate the authenticity of the titles with a view to revocation of the same.

The NLC responded vide letter dated 4<sup>th</sup> March 2016 indicating that they had directed the responsible directorate to take the necessary action. The Hospital has been following up with NLC vide letters dated 11<sup>th</sup> May 2016 and 7<sup>th</sup> June 2016 respectively The hospital sent a further reminder to NLC vide letter dated 28<sup>th</sup> February 2017 and has not received any response to date. Vide letter dated 6<sup>th</sup> April 2017, the management sought the intervention of the Chief of Staff and Head of Public Service. The Management is awaiting a response.

### 1.35 Hectares- National Quality Control Laboratory.

The Board of Management passed a resolution to cede 1.35Ha belonging to NQLC and the process of excision is ongoing. Adjustment has been made in KNH books and in financial statements for the period ending June 30, 2018 to de-recognize the proportion of parcel of land LR No. 209/25138 measuring 1.35Ha that is owned by NQCL. In addition, a disclosure note has been included in the financial statements.

Focal person: Deputy Director-Finance  
Status: Resolved  
Time frame: June 2018

### 2.2 Acquisition of KNH Land for Construction of Hospital Road and Mbagathi Way Link Road

The Kenya Urban Roads Authority (KURA) in their Gazette Notice No. 9340 of 18<sup>th</sup> December, 2015 and 6441 of August, 2016 compulsorily acquired seven (7) acres of Kenyatta National Hospital (KNH) land with Hospital's internal valuation of Kshs.4,219,257,210 for construction of Hospital Road and Mbagathi Way Link Road. According to available information, KURA was to pay compensation of Kshs.1,859,297,000 to Kenyatta National Hospital (KNH) for the acquired portion of land. However, no compensation had been made to KNH as at the time of audit in March 2018 despite commencement of the road construction. The excised land had been included in the property plant and equipment balance of KShs. 11,609,470,000.

Under the circumstance, ownership and accuracy of the property, plant and equipment balance of Kshs.11,609,470,000 in the statement of financial position as at 30 June 2017 could not be confirmed.

#### Management Comment

Vide Kenya Gazette Notice No.92 of 12<sup>th</sup> August 2016, NLC issued a notice of inquiry for hearing of claims for compensation by interested parties in the land required for the construction of the Link Road. The Hospital delivered its memorandum of claim for compensation on 29<sup>th</sup> August 2016 to the tune of KES.4,219,257,210 for the following KNH land affected by the Link Road:

- 209/13982 - 2.1695 Ha
- 209/13319 - 0.0217 Ha
- 209/11460 - 0.2173 Ha
- 209/12822 - 0.0308 Ha

Further, the Hospital engaged a property valuer to conduct a valuation of the approximate 7 acres portion of land acquired for the construction of the Link Road, which was valued at KES.3,142,000,000.

During a stakeholders meeting called by Kenya Urban Roads Authority (KURA) on 31<sup>st</sup> January 2017 and 8<sup>th</sup> February 2017 respectively, KNH raised the issue of compensation to which KURA responded that the matter should be dealt with by NLC.

As a follow up with NLC, the Hospital wrote to the Commission on 28<sup>th</sup> February 2017 seeking compensation noting that vide letter dated 30<sup>th</sup> November 2016 ,NLC had written

to KURA for payment to the tune of KES.1,859,297,000 for the parcels of land affected by the Link Road. Of this amount, compensation for KNH land amounted to KES.1,759,787,500.

NLC vide letter dated 9<sup>th</sup> March 2017 responded stating that KNH was not entitled to compensation. The letter posits that compensation would have only followed if there were demolition of structures and improvements of the specific corridor. The Hospital sought intervention from Office of the Head of Public Service and the Attorney General.

On 24<sup>th</sup> November 2017, the Management wrote to NLC demanding for release of the compensation amount owed to KNH and informing NLC that KNH was keen to challenge the position taken by NLC in Court because NLC not only decimated the Boards constitutional and statutory rights to hold property but also its fiduciary responsibility as applied in accordance with the Hospital's mandate and in the interest of the public.

To date the Head of Public Service, Hon. Attorney General and the NLC have maintained a studious silence on this matter. The matter still hangs in abeyance.

Focal person: Deputy Director, Corporation Secretary  
Status: Unresolved  
Time frame: June, 2019

### 3. Intangible Assets - Hospital Management Information Systems

The statement of financial position include intangible assets of Kshs.14,751,000 net of amortization charge of Kshs.16,657,000 as disclosed in note 29 to the financial statements. As previously reported in 2015/2016, the balance includes Kshs.26,986,031, which relate to payment made to systems partners for the provision of Hospital Management Information Systems. However, out of Kshs.26,986,031, Kshs. 5,397,206 relate to 15% paid in addition to 60% paid earlier as a result of an amendment to the original contract which had provided for 20% payment to be made after testing and commissioning of the system. Further, the project was to take a period of 6 months in 2013, but was commissioned in June 2017 when it was only 70% complete and therefore, having not achieved its intended purpose. In addition, the original contract and performance bond expired before completion of the project. No explanation has been provided for breach of the contract. Consequently, it has not been possible to determine the accuracy and propriety of the balance of intangible assets of Kshs.145,751,000 included in the statement of financial position as at 30 June 2017.

#### Management Comment

The ICT Board and Accenture consulting firm conducted a study in the year 2012 and developed an ICT master plan which would have cost Kshs.4 Billion to be implemented. The Hospital Management Information System (HMIS) that was procured in year 2013 was a stop gap measure as the hospital waited funding of the ICT master plan. The hospital is currently using the software as was commissioned and is functioning for the modules that were implemented.

The modules in the Funsoft HIMS as delivered required customization to ensure effective implementation. The subsequent customization that was carried out was not fully acceptable to KNH. This together with the pro-longed re-mapping of processes to align to standard practices and the interface challenges experienced during integration with DHIS and mobile pay system, led to the undue delay in completion of the project.

The original contract stipulated payment terms will be made in 3 instalments as indicated below;

- a) Supply, delivery and installation - 60%
- b) Testing and Commissioning - 20%
- c) After six months from going live data - 20%

However, due to the protracted implementation period, it was deemed necessary to separate the payment on testing and commissioning from 20% to two separate payments of: Testing 15% and commissioning 5%.

An addendum as raised on 25th February 2015, after negotiation with the vendor, to amend the terms of payment to:

- a) Supply, delivery and installation - 60%
- b) Testing (upon attainment of 70%) - 15%
- c) Commissioning - 5%
- d) Six months after commissioning - 20%

This reduced the amount payable by the second milestone from 80% to 75%.

The payment of 15% at testing stage, following the addendum, was after attainment of the 70% software implementation as envisaged in the addendum.

Implementation progress to 100% thereafter became slow. The vendor demanded for payment on 'additional modules' during customization. Management resolved to commission the HIMS as-is, after reaching an agreement with the vendor, that there shall be no further claim for any payment beyond the amount already paid at 75% of contract price. The system was fully commissioned in June 2017 and all rights of ownership documents handed over.

At commissioning, many of the hospital process were automated following the implementation of the software and services that were previously done manually could now be done online and real-time, albeit not optimally. The hospital has continued to use the system for all the implemented modules waiting funding for the full HIMS as per the ICT strategy. At the time of the commission, the project was estimated at 80% software implementation.

Although the first performance bond expired before the completion of the project, the vendor was asked to renew the performance bond, which was renewed up to 30th December 2015.

In an effort to fully automate the Hospital processes, the Hospital engaged a consultant to review the business processes and advise on the business process re-engineering in December 2017. The consultant identified the automation needs and a comprehensive

report was provided. Through the specifications developed, the Hospital has been able to engage a service provider for the Enterprise Resource Planning (ERP) which is currently under implementation. The ERP will go a long way in addressing what was not achieved through the HMIS

Focal person: Deputy Director, Supply Chain Management  
Status: Unresolved  
Time frame: June, 2019

#### 4. Board Members

The statement of financial performance for the year ended 30 June 2017 reflects board expenses of Kshs.19,244,000. However, a review of records on the board members indicated that the Hospital had twelve board members with one community constituting 42% of the Board contrary to the National Cohesion and Integration Act, 2008 which state that no single ethnic community should constitute more than 33% of members of a national institution. No explanation has been provided for breach of this requirement.

In the circumstance, the Hospital failed to comply with the National Cohesion and Integration Act, 2008 on ethnic composition of the Board of Directors and therefore, the Board as currently constituted is in breach of the law.

#### Management Comment

Section 7(1) of the National Cohesion and Integration Act, 2008 provides that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff. Section 7(2) states that no public establishment shall have more than one third of its staff from the same ethnic community.

Members of the KNH Board of Management are not considered as employees of the Hospital sensu stricto. The Board is established under the State Corporations Act, Cap.446 through Legal Notice No. 109 of 6<sup>th</sup> April 1987. The Act provides that the Board shall consist of:-

- a) A non-executive chairman, appointed by H.E. the President
- b) The Chief Executive Officer, KNH;
- c) The Principal Secretary, Ministry of Health or an officer designated by him in writing;
- d) The Principal Secretary, National Treasury or an officer designated by him in writing;
- e) The Principal, College Health Science of the University of Nairobi;
- f) The Chief Executive Officer, Kenya Medical Training College;
- g) Not more than 5 other members of whom not more than 2 shall be Public Officers appointed by the Minister of Health.

Pursuant to the above Legal Notice, the appointment of any person to the Board of the Hospital is out of control of the Hospital Management. Moreover, Section 8 of the National Cohesion and Integration Act provides exceptions to discrimination in the employment field.

Focal person: Deputy Director, Corporation Secretary  
Status: Unresolved  
Time frame: June, 2019

## 5. Medical Service Contract Loss

### 5.1 Contracts with National Hospital Insurance Fund (NHIF)

As previously reported, the statement of financial performance for the year ended 30 June 2017 includes medical services contracts loss of Kshs.377,271,000 out of which Kshs.165,201,000 relate to loss from National Hospital Insurance Fund (NHIF). This loss is net of rebate received from the NHIF and the amount the Hospital spent in the treatment of NHIF members. According to information available, the Hospital entered into a contract with NHIF in August 2008 to treat NHIF members at a rebate rate of Kshs.2,400 for inpatient care per day with the contract ending in August 2010. However, information available indicates that on 1 August 2016 the rebates were increased to Kshs.4,000. Under the circumstance, the medical service contract loss of Kshs.377,271,000 in the statement of financial performance for the year ended 30 June 2017 could have been avoided had the management taken action in time.

#### Management Comment

The NHIF loss arises from the difference between actual medical bills incurred by patients and the rebate reimbursed by the Fund based on the existing medical services contracts. The Hospital entered into two year renewable medical service contract with the National Hospital Insurance fund (NHIF) with effect from 1<sup>st</sup> August 2008 to 1<sup>st</sup> August 2010. Upon lapse of the two years based on the clause of renewal this same contract was renewed on the same terms with effect from 1<sup>st</sup> August 2010. The contract provided for continuous engagement between the parties which an addendum was made vide a letter dated on 19<sup>th</sup> April 2012.

The management continuously made follow ups vide letters ref: KNH/ADM/CR/40 dated 2<sup>nd</sup> October 2013, Ref: KNH/CS/23/A/21 dated 15<sup>th</sup> January 2014, Ref: KNH/CS/23/A/21 dated 6<sup>th</sup> February 2014 where concerns were raised for losses incurred due to the unfavorable contracts.

Upon exhausting all the negotiation mechanisms without success the hospital management sought to discontinue the loss making contracts. The intent to discontinue services to NHIF members was communicated to NHIF and the Ministry of Health vide letter Ref: KNH/ADM/CR/40 dated 1<sup>st</sup> April 2014 and letter Ref: KNH/ADM/CR/229 dated 3<sup>rd</sup> March 2014 respectively. Consequently, NHIF responded vide letter Ref: HF/FIN/29 VOL VIII/116 dated 7<sup>th</sup> April 2014 where they explained their inability to increase the rebate that had been coupled with litigations causing delayed adjustment of premiums.

Subsequently the hospital was directed by the Ministry of Health vide letter Ref: MOH/M1/4/1/1(32) dated 30<sup>th</sup> May 2014 to continue offering the services on the same terms despite making losses.

The management continued to engage the fund in a deliberate effort to eliminate losses that have been arising as a result of the existing unfavourable medical service contracts. In addition, the management continued to engage NHIF and MoH on the loss making contracts in the year 2016 as evidenced vide letters Ref:MOH/ADM/1/1/2 and KNH/CEO/54 dated 14<sup>th</sup> November 2016 and 24<sup>th</sup> November 2016 respectively.

The fund has since improved on the number of claimable services that include:

- a. Inpatient rebate per day at Ksh.4,000
- b. Surgical packages which cater for major and minor surgeries at KShs. 130,000 and KShs. 40,000 respectively.
- c. Radiology services i.e. C.T Scan, M.R.I and ultrasound at Kshs.8,000, Kshs.15,000 and Kshs.3,000 respectively.
- d. Dialysis at KShs. 9,500
- e. Chemotherapy and radiotherapy services reimbursed at a cost approved by the Fund
- f. ICU at fee for service subject to pre-authorization.

The re-negotiated contracts have had a positive effect in the gradual decline of the annual loss from FY 2016/17 as tabulated below.

Period	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	Total
Loss KShs. Million	348	393	412	165	88	1,406
(decrease)/increase of loss annually %	-	13%	5%	(60%)	(46%)	-

A disclosure note in relation to NHIF loss has been made in the financial statements for the period ending June 30, 2018.

Focal person: Deputy Director-Finance  
 Status: Unresolved  
 Time frame: June 2019

## 5.2 Free Maternity Program

Included in the statement of financial performance for the year ended 30 June 2017 is medical services contracts loss of Kshs.377,271,000 out of which Kshs.200,634,000 relate to loss on free maternity program offered by the Hospital, as disclosed in note 22 to the financial statements. This follows from a letter ref. ACC/FCM HS/1/28A dated 1 April 2014 from the Cabinet Secretary, Ministry of Health which communicated the decision of the Government to reimburse an amount of KShs. 17,500 for every delivery. However, Kenyatta National Hospital being a referral hospital receives complicated maternal referrals and as a result the costs are higher and the reimbursable amount of Kshs.17,500 per delivery has remained the same despite the high costs.

Consequently, the hospital will continue to incur losses if the reimbursable amounts are not reviewed.

### Management Comment

In July 2013, the Government of Kenya rolled out free maternity services program through a presidential declaration to encourage women to give birth at health facilities under skilled personnel. The policy aimed at reducing maternal complications as well as maternal mortalities in Kenya. Under this program Health facilities were to be reimbursed on every delivery conducted in the facility at KShs 17,500 with the assumption that this will be adequate with/without delivery complications.

The cost of offering maternity services includes related complications that require specialized treatment in renal, intensive care unit and pre-term care. The cost also includes pre-natal and post-natal care. The Hospital's actual cost of offering free maternity services exceeds the reimbursement from the Government and therefore resulting to a loss.

The management had appealed to Principal Secretary, MOH for review of the reimbursement rate to Ksh.39,000. However, this proposal did not yield a positive consideration.

In July 2017, the Government transferred the Free Maternity Scheme to NHIF under Linda Mama Programme. The Linda Mama covers delivery and peri delivery incidental costs only. The hospital has engaged NHIF in full implementation of the programme and the reimbursable amounts include:

- a. Delivery package KShs 17,500
- b. Complications arising from pregnancy related rebate of KShs 4,000.
- c. Three months post Natal at rebate of K.sh 4,000 for baby's complication leading to admission into new-born unit which is a specialized unit.

Focal person: Deputy Director-Finance  
Status: Unresolved  
Time frame: June 2019

### 5.3 Security Investigation Expenses

The statement of financial performance include administrative and general expenses of Kshs.751,642,000 out of which as disclosed in note 18 to the financial statements, Kshs.7,938,000 relate to security investigation expenses in respect of meal allowances paid to the hospital police security officers for the year ended 30 June 2017. However, authority in support of the payments was not availed for audit review. No explanation had been provided for paying security officers meals allowances for working in their duty station.

Under the circumstance, the accuracy and propriety of administrative and general expenses of Kshs.7,938,000 included in the statement of financial performance for the year ended 30 June 2017 could not be confirmed.

### Management Comment

Auditor's observation has been noted. The Hospital is a key Government installation that requires armed 24 hour security based on intelligence advisory. Accordingly, police officers deployed in the Hospital are called upon to work over and above the normal call of

duty including lunch time, weekends and public holidays and hence payment of lunch allowance as was the practice in other Government facilities such as Kenya Ports Authority, Kenyatta University, Communication Authority, KICC and Kenya School of Monetary Studies among others.

We wish to confirm that following consultations with relevant Government agencies payment of lunch allowance to Police Officers was stopped with effect from 1<sup>st</sup> November 2017, on realization that the police officers are not eligible to payment of the lunch allowance since they operate within their duty station.

Focal person: Deputy Director, Human Resource  
Status: Unresolved  
Time frame: June, 2019

## 6.0 Receivable from Exchange Transactions

### 6.1 Long Outstanding Debts

As previously reported in the year 2015/2016, the receivables from exchange transactions balance of Kshs.1,178,717,000 as at 30 June 2017 includes receivables of Kshs.192,926,279, Kshs94,970,458 and Kshs.3,286,110 for National Hospital Insurance Fund(NHIF) rebate, Ministry of Health disaster debts and return to drawer (RD) cheques respectively which have been outstanding for more than two years.

No explanation had been provided by the management for failure to recover these long outstanding debts.

#### Management Comment

The long outstanding debt whose recoverability is doubtful has been properly provided for in the financial statements as impaired in line with International Public Sector Accounting Standards (IPSAS).

Focal person: Deputy Director-Finance  
Status: Unresolved  
Time frame: June 2019

### 6.2 Absconded Patients Debts

As previously reported in the year 2015/2016, the receivables from exchange transactions balance of Kshs.1,178,717,000 as at 30 June 2017 includes absconded patients debts of Kshs.61,719,861 incurred during the year thus resulting to a cumulative total absconded patients debt of Kshs.662,363,990 as indicated in note 25 to the financial statements on medical services receivables for the year ended 30 June 2017. No explanation has been provided by the management for failure to recover these long outstanding debts.

### Management Comment

This debt relates to patients who abscond from hospital without formal release from the hospital management. Majority of this type of patients do not have traceable addresses and efforts to contact them are thwarted rendering the debt irrecoverable.

To address the loss of revenue resulting from absconders the hospital has put various measures in place which include:

1. Advocacy for registration with social health financing, NHIF, Linda Mama Jamii Bora, etc. as a way to cushion against out of pocket expense on medical bills.
2. Pre-admission credit and Socio economic assessment to determine economic status of patients with a view to fast tracking release on discharge.
3. Reinforced internal controls on Patient clearing process i.e. Actors being Finance, Nursing and Security Departments
4. Re-visit Patients, with previous outstanding bills will be required to meet/ pay obligations before provision of services except for emergencies as determined by the clinicians.
5. The Hospital has installed CCTV system in the main corridors and wards to monitor movement.
6. Additional security personnel have been engaged by the Hospital e.g. NYS to beef up security
7. Parallel DBR (Daily Bed Return) monitoring by Finance, Nursing and Health Information departments has been put in place.

Focal person: Deputy Director-Finance  
Status: Unresolved  
Time frame: June 2019

### 6.3 Receivables from National Hospital Insurance Fund (NHIF)

Further, the receivables from exchange transaction balance of Kshs.1,178,717,000 includes Kshs.445,967,244 due from NHIF while the NHIF financial statements as at 30 June 2017 reflects Kshs.56,661,035 thus resulting to unreconciled variance of Kshs.389,306,209. No explanation has been provided by the management for failure to reconcile the two sets of records.

Consequently, it has not been possible to determine the accuracy of the receivables from exchange transactions balance of Kshs.1,178,717,000 included in the statement of financial position as at 30 June, 2017

### Management Comment

The variance in the balances reported between KNH and NHIF as at 30<sup>th</sup> June, 2017 KShs 445,967,244 and Kshs.56, 661,035 respectively is due to the difference in the accounting of claims made by both parties. KNH recognizes the debt after claims are raised and submitted to NHIF satellite office. On the other hand, NHIF recognizes the debt as payable at the end stage when claim has been fully authenticated and ready for payment.

For the year ended June 30, 2017, KNH reconciled the two balances. Although the auditor indicates KShs. 56,661,035 as outstanding amount in the NHIF records, the statement of account provided to the Hospital vide NHIF reference letter HF/B/632/VOL IV/51 dated 20<sup>th</sup> September 2017 reflected an amount of KShs. 81,528,727 for the same period ending June 30 2017.

KNH did a reconciliation based on the statement given by NHIF of KShs, 81,528,727 thus the reconciliation statement as at June 30 2017.

**Focal person:** Deputy Director-Finance  
**Status:** Unresolved  
**Time frame:** June 2019

#### 6.4 Supply Contracts

In addition, the receivable from exchange transactions balance of Kshs.1,178,717,000 includes prepayments of Kshs.128,095,000 out of which prepayments totalling Kshs.31,733,575 related to supply contracts awarded to three firms of KShs. 15,792,611, Kshs.2,213,309 and Kshs.13,727,655. As reported in the previous year, the first prepayment is in dispute while the second one is under investigation. The third prepayment relates to micro filming project at the hospital which had not been completed as at 30 June 2017. Although the issue has been discussed by the Public Investment Committee, it was not clear whether action has been taken on the PIC recommendations that the three companies be investigated, prosecuted and the then hospital Chief Executive Officer be held accountable for the loss and be surcharged.

#### Management Comment

The three firms to be investigated are:

- High Voltage Communications Limited- KES.15,792,611.00
  - Glotex Medical Kenya Limited - KES.13, 727,655.00
  - Microtec Office Supplies - KES.2,213,309.00
- i) **High Voltage Communications Limited:** The amount was an advance payment made for the supply, delivery and installation of submersible pumping equipment into helipad borehole and deflourination plants for boreholes at helipad and laundry. A dispute arose in the performance of the contract necessitating the parties to refer the matter to arbitration. An arbitral award was made in favour of the Hospital to the tune of Kshs.14,876,645 but realization of the award was fruitless since the Registrar of Companies confirmed that the firm's file was missing from their electronic data base.
- In the absence of the Company's file and records at the Registry, the Management in unable to pursue any legal recourse for recovery of the advanced sums.
- ii) **Glotex Medical Kenya Limited:** The amount was advance payment made for the supply of nuclear medicine materials. The supplier failed to perform and the Hospital

demanded refund of the amount. It has been established through the Registrar of Companies that the firm is not registered; therefore, it is not possible to institute legal action against a non-existing entity.

iii) **Microtel Office Supplies:** The Company was awarded the tender for delivery and installation of microfilm equipment and to microfilm inactive medical records at a contract sum of Kshs.3,688,849.72. The Supplier delivered and installed the requisite microfilm equipment and embarked on the exercise of microfilming inactive files. The Supplier was paid an advance payment of 60% of the contract price but only performed 34% of the work.

The Hospital is unable to follow up on the recovery of the amounts advanced since section 4(1) of the Limitation of Actions Act, Cap 22 provides that actions founded on contract may not be brought after the end of six (6) years from the date on which the cause of action accrued.

The Management will be seeking direction from the Board of Management on recovery of the loss totalling to KES.31,733,575.90 from the then Chief Executive Officer.

Focal person: Deputy Director, Corporation Secretary  
Status: Unresolved  
Time frame: June, 2019

## 6.5 Letters of Credit

The receivables from exchange transactions balance of Kshs.1,178,717,000 also includes a sum of Kshs.96,361,633 in respect of letters of credit issued by the Hospital to foreign based firms for supply of various goods and services. As in the previous year, the goods and services have not been accounted for in these financial statements.

### Management Comment

The letters of credit relate to consumables received in the hospital but were not expensed due to lack of requisite documentation occasioned by poor storage standards which were in place then. The Hospital is in the process of seeking appropriate authorization to expense the same on basis of the available information and adjust KNH books accordingly.

Focal person: Deputy Director-Finance  
Status: Unresolved  
Time frame: June 2019

## 6.6 Impairment Allowance

The receivables from exchange transactions balance of Kshs. 1,178,717,000 included in the statement of financial position as at 30 June, 2017 is the net amount obtained from the gross balance of Kshs.6,632,454,000 less impairment allowance of Kshs.5,453,737,000 as given in note 25 to the financial statements. The impairment allowance of KShs. 5,453,737,000 includes long outstanding debts of Kshs.3,759,665,395 and whose recoverability is doubtful. In addition, the impairment allowance of Kshs.5,453,736,000

includes a provision of Kshs.1,248,877,758 and whose schedule of beneficiaries was not availed for audit review.

Under the circumstance, the receivables from exchange transactions balance of Kshs.1,178,717,000 included in the statement of financial position as at 30 June 2017 could not confirmed.

#### Management Comment

The impairment allowance for accounts receivable totalling to KShs.5,453,736,000 has been made for bad and doubtful debts in line with International Public Sector Accounting Standards.

The hospital renders services to all patients referred for specialized healthcare without discrimination. Some of the patients who attended to are underprivileged and upon clinical discharge are unable to settle their medical bills. Since it is not practical to detain such patients the debts are documented and released from the hospital on unsecured credit based on a commitment to settle their bills in the future in line with the credit policy. Efforts to collect the due receivables from this category of patients are largely fruitless. The letters sent to the debtors demanding settlement of debts are available for auditors review.

#### Schedule of beneficiaries - Kshs. 1,248,877,758

The entire impairment allowance of Kshs.5,453,736,000 as reported in the financial statements is fully supported with listing of beneficiaries (see soft copy schedule of the detailed schedule)

The process of getting write off of the losses shall be initiated in line with the Public Finance management Act Regulations

Focal person: Deputy Director-Finance  
Status: Unresolved  
Time frame: June 2019

#### 6.7 Ministry of Health (MOH) Staff Long Outstanding Debts

Included in the statement of financial position as at 30 June 2017 are receivables from exchange transactions of KShs. 1,178,717,000 out of which Kshs.28,450,000 relate to rental receivables as disclosed in note 25 to the financial statements. The rental receivables balance of Kshs.28,450,000 include MoH staff rent amounting to Kshs.4,103,760 that has been outstanding for period ranging from 4 months to 47 months, and which ought to have been deducted from the payroll through the check-off system and forwarded to Kenyatta National Hospital.

Also noted on the rent receivable are five officers who vacated the houses without paying rent arrears amounting to KShs. 991,000.

Under the circumstance, the accuracy and recoverability of the receivables from exchange transactions balance of Kshs.5,094,760 included in the statement of financial position as at 30 June 2017 could not be determined.

#### Management Comment

The long outstanding rent receivables relates to rent due from registrar doctors accommodated in the hospital houses and the recoveries for the rent executed through check off by the Ministry of Health. Although the deductions were being effected, the same was not remitted to the Hospital. Some of these remittances were sent to the Department of Housing, Ministry of Lands. The Hospital is in the process of following up the remittances and has also stopped the arrangement of recovering rent through check-off system for tenants who are not KNH employees. All registrar doctors have since then started paying directly to the Hospital.

Focal person: Deputy Director-Finance  
Status: Unresolved  
Time frame: June, 2019

#### 7. Receivables from Non-Exchange Transactions

The receivables from non-exchange transactions balance of Kshs.773,784,000 as at 30 June 2017 includes staff receivables of Kshs.15,816,000 out of which temporary imprest and staff debtors amounting to Kshs.1,013,509 and Kshs.1,676,161 respectively have been outstanding for a considerably long period of time. Management has not explained steps taken to recover the outstanding debts.

Under the circumstances, the recoverability of Kshs.2,689,670 included in receivables from non-exchange transactions balance of Kshs.773,784,000 in the statement of financial position as at 30 June 2017 could not be confirmed.

#### Management Comment

##### Temporary imprest - Kshs.1,013,509

The long outstanding imprest is owed by former Hospital employees who left service due to death; dismissal; retirement or resignation before fully accounting for imprest issued to them in the course of their duty. Final dues (other than pension) for the staff that have left service as a result of death, dismissal, retirement or resignation have not been released as they are yet to clear with the Hospital. The debts owing will be netted off from the final dues payable to the officers or their next of kin.

##### Staff Debtors - Kshs.1,676,161

The debt relates to patients bills guaranteed by staff at the time the patient is discharged from the hospital. The long outstanding staff debts have not been recovered for staff that subsequently left KNH service. The officers who owe these debts are yet to clear with the hospital. Since recoverability of the debts is doubtful the entire balance has been provided for in the financial statements.

Focal person: Deputy Director-Finance  
Status: Unresolved  
Time frame: June, 2019

## 8. Trade and Other Payables from Exchange Transactions

As similarly reported in 2015/2016, the trade and other payables from exchange transactions balance totalling Kshs.1,011,646,000 in the statement of financial position as at 30 June 2017 includes long outstanding accounts payables of Kshs.164,514,375 included under trade payables as per note 30 to the financial statements. No explanation has been provided for failing to clear these long outstanding account payables.

Consequently, it has not been possible to determine the accuracy and validity of the trade and other payables from exchange transactions balance of Kshs.1,011,646,000 included in the statement of financial position as at 30 June 2017.

### Management Comment

Trade payables as reported in the financial statements amounted to Kshs. 471,979,097 out of which Kshs. 164,514,375 aged beyond 360 days.

During FY 2017/18, suppliers whose accounts reflect long outstanding invoices were circularized. The hospital is in the process of reconciling suppliers' balances for the statement of accounts that have been received. For claimed invoices, the hospital shall settle those for which supporting documents are availed.

Investigations are also being conducted for all long outstanding invoices and those that cannot be supported and/or paid; appropriate adjustments in the books will be done.

Focal person: Deputy Director-Finance  
Status: Unresolved  
Time frame: June, 2019



I.G. (Rtd.) Dr. David Kimaiyo, MGH, CBS  
Chairman Board of Management

Date...26/04/2019



Dr. Thomas Mutie  
Ag. Chief Executive Officer

Date...26/04/2019

Appendix ii: Projects Implemented by Kenyatta National Hospital

	Project title	Source of Funding	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1.	Construction of Cancer Center (Phase I)	· GoK	12 Months	Ksh.250 M	No	Yes
2.	Construction of a private 300 bed Hospital	· GoK	3 Years	0	N/A	No
3.	Renal Upgrade	· GoK · African Development Bank	1 Year	KShs 200 M	No	Yes
4.	Day Care Surgical Centre	· GoK	2 Years	KShs 100 M	Yes	Yes
5.	Burns Management Centre and Paediatric Emergency Centre	· Arab Bank for Economic Development of Africa(BADEA)-25% · Fund for Economic Development (OFID)-33% · Saudi Fund for Development (SFD)- 26% · GoK	3 Years	KShs 1.2 B	Yes	No
6.	Microwave waste processor	· KNH	1 Year	KShs 15 M	No	Yes

### Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Sources of funds
1	Construction of Cancer Center (Phase I)[1]	KShs. 3Billion	-	0	GoK
2	Construction of a private 300 bed Hospital[2]	Ksh.3 Billion	-	0	GoK
3	Renal Upgrade	Ksh.200 Million	KShs 11 Million	40	GoK
4	Day Care Surgical Centre	Ksh.317 Million	KShs 152 Million	90	GoK, KNH & Partner
5	Burns Management Centre and Paediatric Emergency Centre[3]	KShs. 2.9 Billion	-	0	GoK& Development Partner
6	Microwave waste processor	KShs. 50 Million	KShs 5 Million	70	KNH

Appendix iii: Inter-Entity Transfers Confirmation

**KENYATTA NATIONAL HOSPITAL**  
Annual Report and Financial Statements  
For the Year ended June 30, 2018

Breakdown of transfers from Ministry of Health

F/Y 17/18			
Recurrent Grant	Bank Statement Date (Kshs)	Amount( Kshs)	Financial Year
	3/8/2017	565,990,897.00	2017/18
	28/08/2017	565,990,897.00	2017/18
	19/9/2017	565,990,897.00	2017/18
	6/11/2017	565,990,897.00	2017/18
	7/12/2117	565,990,897.00	2017/18
	29/12/2017	565,990,897.00	2017/18
	95/2/2018	565,990,897.00	2017/18
	7/3/2018	565,990,897.00	2017/18
	4/4/2018	555,990,903.00	2017/18
	2/5/2018	565,990,897.00	2017/18
	31/5/2018	565,990,897.00	2017/18
	30/6/2018	565,990,897.00	2017/18
	30/6/2018	543,100,000.00	2017/18
<b>Total</b>		<b>7,324,990,770.00</b>	
<b>Development</b>			
BADEA(EAC of Excellence)	18/9/17	50,000,000.00	2017/18
Cancer Management	18/9/17	62,500,000.00	2017/18
Darecare Center Equipment	13/10/2017	10,500,000.00	2017/18
Darecare Center Equipment	21/2/2018	10,500,000.00	2017/18
BADEA(EAC of Excellence)	23/3/2018	50,000,000.00	2017/18
Cancer Management	23/03/2018	62,500,000.00	2017/18
<b>Total</b>		<b>246,000,000.00</b>	

The above amounts have been communicated to and reconciled with the parent Ministry

Sig.....  
Twitty Wasonga  
Ag. Deputy Director Finance  
Kenyatta National Hospital  
Date..... 30/7/18

Sig.....  
Name: J.M. Kirata  
Head of Account Unit  
Ministry of Health  
Date..... 2/8/2018