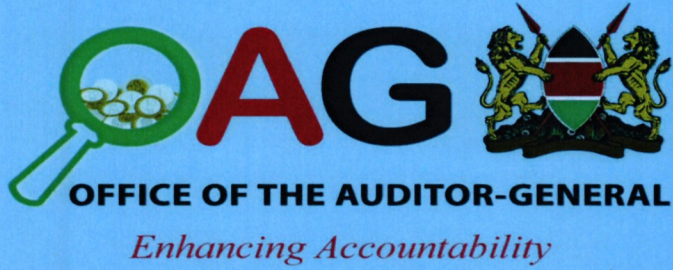



REPUBLIC OF KENYA



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<b>REPORT</b>	
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CLERK AT THE TABLE:	Mainah Warjiko

**THE AUDITOR-GENERAL**

**ON**

**NATIONAL HOSPITAL INSURANCE FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2019**

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# ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR  
ENDING JUNE 30, 2019

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

# **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements  
For the year ended June 30, 2019*

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## **TABLE OF CONTENTS**

TABLE OF CONTENTS.....	1
KEY NHIF INFORMATION .....	2
THE BOARD OF MANAGEMENT.....	4
KEY MANAGEMENT TEAM .....	11
CHAIRPERSON'S STATEMENT .....	13
REPORT OF THE CHIEF EXECUTIVE OFFICER .....	14
CORPORATE GOVERNANCE REPORT .....	16
DISCUSSION AND ANALYSIS.....	22
CORPORATE SOCIAL SUSTAINABILITY STATEMENT .....	29
REPORT OF THE BOARD OF MANAGEMENT .....	31
STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES .....	32
STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2019 .....	34
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019 .....	36
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019 .....	38
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019 .....	39
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019 .....	40
NOTES TO THE FINANCIAL STATEMENTS .....	45
APPENDIX 1: DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS.....	81
APPENDIX 2: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS .....	82
APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES. ...	86

# **NATIONAL HOSPITAL INSURANCE FUND**

## **Reports and Financial Statements**

**For the year ended June 30, 2019**

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### **KEY NHIF INFORMATION**

#### **Background information**

The National Hospital Insurance Fund (NHIF) is a state corporation established under the National Insurance Fund Act, number 9 of 1998. The Fund is mandated to facilitate access to quality healthcare through registration of members, collection of contributions and payment of claims arising from services rendered to members in all accredited healthcare facilities across the country.

The functions of NHIF are: -

- i) Receive all contributions and other payments required by this Act to be made to the Fund;
- ii) Make payments out of the Fund to declared hospitals in accordance with the provisions of this Act;
- iii) In consultation with the Minister, to set the criteria for the declaration of hospitals and to declare such hospitals in accordance thereto for the purposes of this Act;
- iv) Regulate the contributions payable to the Fund and the benefits and other payments to be made out of the Fund;
- v) Protect the interests of contributors to the Fund;
- vi) Advise the Minister on the national policy to be followed with regard to national health insurance and to implement all Government policies relating thereto; and
- vii) Perform such other functions as are conferred on it by this Act or by any other written law.

Our core mandate is to provide healthcare financing to all its members and their declared dependants (spouse and children), who contribute either as employed or self-employed. Membership is open to all Kenyans who have attained the age of 18 years and have a monthly income of more than Kes. 1,000.00.

NHIF has continued to expand its offerings overtime in terms of healthcare benefit packages to its members. The NHIF national scheme (dubbed 'Supacover' is an affordable health insurance scheme that offers the following to the NHIF members: Outpatient services, Inpatient Services, Maternity Services, Imaging Services, Drug and Rehabilitation services, Renal Dialysis, Kidney transplant, Surgical Package, Oncology/Cancer Treatment, Emergency rescue services and overseas treatment. To enjoy the above benefits, the formal sector members' monthly contribution is between Kes. 150 and Kes. 1,700 based on an

# **NATIONAL HOSPITAL INSURANCE FUND**

## **Reports and Financial Statements**

**For the year ended June 30, 2019**

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individual's pay scale and Kes. 500 monthly contributions for the informal sector/self-employed.

The National Hospital Insurance Fund headquarters is located in Nairobi. Its operations is decentralized in seventy one branch offices spread across the six regional offices namely; Nairobi, Central, Western, Coastal, North Eastern and Rift Valley.

### **Our Vision**

A world class Universal social health insurer

### **Our Mission**

To contribute towards universal health coverage in the provision of affordable, accessible, sustainable and quality health insurance through strategic resource pooling and healthcare purchasing in collaboration with stakeholders

### **Our Core Values**

In pursuit of its vision and mission NHIF is guided by the following core values:

- Customer Responsiveness
- Ethics and Professionalism
- Innovation and Creativity
- Partnerships and Collaborations
- Team Spirit
- Corporate Social Sustainability

### **Customer Service Charter**

The Fund has a customer service charter that pledges and commits the following to the customer:

- ❖ Treating with courtesy and respect
- ❖ Upholding professionalism in serving
- ❖ Providing quality service
- ❖ Being accessible
- ❖ Providing accurate, relevant, timely and clear information
- ❖ Being responsive to customer needs and expectations
- ❖ Monitoring and evaluating customer satisfaction levels
- ❖ Handling all customer information with utmost confidentiality
- ❖ Upholding ethics in a corruption free environment

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

## THE BOARD OF MANAGEMENT

The Board members who served the entity during the period 2018/2019 were as follows:

<b>NAME</b>	<b>TITLE/ REPRESENTING</b>	<b>DATE APPOINTED</b>
Mrs. Hannah W. Muriithi EBS	Chairperson	18 <sup>th</sup> April 2018
Dr. John W. Masasabi	DG/Ministry of Health	1 <sup>st</sup> July 2019
Mr Samuel M. Arachi CBS, OGW, ndc(k)	PS /Min. of Public Service Youth & Gender-Alternate Member	4 <sup>th</sup> March 2019
Mr. Joseph M. Kamau	PS /National Treasury Alternate Member	16 <sup>th</sup> May 2016
Dr. Pacifica Onyancha	PS / Ministry of Health Alternate Member	29 <sup>th</sup> April 2019
Hon. Roba Duba	Central Organisation of Trade Unions	9 <sup>th</sup> May 2019
Mr. Wycliffe Omucheyi	Kenya National Union of Teachers	9 <sup>th</sup> May 2019
Mrs. Rachel M.Monyoncho	Federation of Kenya Employers	9 <sup>th</sup> May 2019
Dr. Jacqueline Kitulu	Kenya Medical Association	30 <sup>th</sup> November 2018
Mr. Latiff Shaban	Faith Based Healthcare Organisations	30 <sup>th</sup> November 2018
Mr. Nicodemus Odongo	Ag.Chief Executive Officer	27 <sup>th</sup> November 2018

### Ag Corporate Secretary

Mrs. Janet Boit  
P.O. Box 30443-00100  
Nairobi

### Other Key information of the Fund

#### Ag. Chief Executive Officer

Mr. Nicodemus Odongo  
P.O. Box 30443, 00100  
Nairobi.

#### Corporate Headquarters

P.O. Box 30443, 00100  
NHIF Building  
Ragati Road  
Nairobi, KENYA

#### Registered Office

NHIF Building  
Ragati Road  
P.O. Box 30443, 00100  
Nairobi, KENYA

#### Corporate Contacts

Telephone: (254) 020 2723255/6  
E-mail: [info@nhif.or.ke](mailto:info@nhif.or.ke)  
Website: [www.nhif.or.ke](http://www.nhif.or.ke)

# **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements  
For the year ended June 30, 2019*

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## **Corporate Bankers**

National Bank of Kenya  
Hill Branch  
P.O. Box 45219-00100  
Nairobi, Kenya

## **Corporate Bankers**

Co-operative Bank of Kenya  
Parliament Road Branch  
P.O. Box 5772-00200  
Nairobi, Kenya

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

Equity Bank Limited  
Community Branch  
P.O. Box 8181-00100  
Nairobi, Kenya

## **Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084, GPO 00100  
Nairobi, Kenya

## **Principal Legal Advisers**

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**The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya**

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**Kithure Kindiki & Associates  
Annex C, 6th Floor, Tetezi Towers  
P.O. Box 38077-00100, Nairobi**

**KTK Advocates  
4th Floor, Kemu Towers  
P.O. Box 10176-00100, Nairobi**

**Munyao Muthama Kashidi Advocates  
Chaka Place, 3rd Floor ("TCA")  
P.O. Box 24482-00100, Nairobi**

**MMC Africa Law  
MMC Arches, Spring Valley Crescent  
P.O. Box 75362-00200, Nairobi**

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**Robison Harris Advocates  
Transnational Plaza, 6th Floor  
P.O. Box 67845-00200, Nairobi**

**Ogetto Otachi & Company Advocates  
Sifa Towers, 7th Floor  
P.O. Box 79438- 00200, Nairobi**

**Waweru Gatonye & Company Advocates  
Timau Plaza, 4th Floor  
P.O. Box 55207-00200, Nairobi**

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

## THE BOARD OF DIRECTORS

Name	Academic Qualifications
 <p data-bbox="341 757 639 815"><b>Mrs. Hannah Muriithi, EBS</b> Chairperson</p>	<p data-bbox="778 421 1326 568">Master's in Business Administration (Strategic Management) Moi University, Bachelor of Laws (LLB), Hons. UON, Post Graduate Diploma (Dip, KSL) Kenya School of Law Certified Public Secretary (CPS.K)</p>
 <p data-bbox="280 1111 703 1200"><b>Mr. Joseph M. Kamau</b> Alternate Member/CS/The National Treasury</p>	<p data-bbox="778 853 1318 936">Master's in Economics (Financial Sector Policy) Bachelor's in Economics and Mathematics MBA Finance</p>
 <p data-bbox="280 1469 699 1525"><b>Mr. Lattif Shaban</b> Faith Based Organisations/Member</p>	<p data-bbox="778 1234 1318 1384">Diploma in Advanced Management and Leadership - Galilee International Management Institute Cambridge University General Certificate of Education</p>
 <p data-bbox="248 1843 727 1906"><b>Dr. Pacifica Onyancha</b> Alternate Member/PS Ministry of Health</p>	<p data-bbox="778 1563 1350 1711">Masters in Psychiatry University of Nairobi Bachelor of Medicine, Bachelor of Surgery Certificate in Neuropsychiatry John Hopkins university Certificate in Addiction Medicine Yale University.</p>

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019



Mr. Samuel Arachi, CBS, OGW, ndc (K)  
Alternate Member/ Ministry of Public  
Service, Yuoth and Gender



Dr. Jacqueline Kitulu  
Kenya Medical Association



Mr Wycliff Omucheyi  
Kenya National Union of Teachers



Hon Roba Duba  
Central Organisation of Trade Unions(k)

Master's Degree in International Relations,  
Bachelor's in Arts  
Post graduate Diploma in International Relations

Master of Business Administration Health Care  
Management-Strathmore Business School,  
Bachelor of Medicine, Bachelor of Surgery-MBS,  
Medicine-University of Nairobi

Bachelor of Education  
Certificates in Education

M.A in Governance & Ethics -Mt Kenya University,  
Bachelor of Arts, Sociology- University of Nairobi,  
Master's in Business Administration- Jomo  
Kenyatta University of Agriculture and  
Technology

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019



**Dr Rachel Monyocho**  
Federation of Kenya Employers



**Dr John W. Masasabi**  
Director General of Health



**Mr Nicodemus Odongo**  
Ag Chief Executive Officer



**Mrs. Janet Boit**  
Ag Corporate Secretary

Doctor of Philosophy (Ph.D.) Organisational Theory and Behaviour-2011-2014-University of Nairobi  
MBA, Strategic Management and International Business -University of Nairobi  
B.Sc. in Chemistry Botany and Zoology, Biological sciences. -Punjabi University

Bachelor of Medicine, Bachelor of Surgery

Master's degree in Economics,  
Bachelor's degree in Economics  
Diploma in Health Systems Management,  
Certificate in Tax Administration,  
Certificate in Corporate Governance,  
Certificate in Finance Management in Public Sector,  
Certificate in Policy Research and Evaluation

Certified Public Secretary - finalist - KASNEB

Post Graduate Diploma in Human Resource Management -Cambridge International College

Post Graduate Diploma in law (Dip, Kenya School of Law

Bachelor of Laws (LLB), Moi University

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

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## KEY MANAGEMENT TEAM

The Key Management team is comprised of the Chief Executive officer and Directors who are dedicated professionals working with staff and clients to provide strategic planning for the Fund's future goals. The following are the key management of the Fund:

### Nicodemus Ochieng' Odongo - AG. Chief Executive Officer



Odongo is a Planning, Policy, and Strategy specialist with a wealth of experience spanning nineteen (19) years in Public Finance Management, Strategic Research, Economic & Budget Analysis and Marketing. He holds a Master's degree in Economics and a Bachelor's degree in Economics both from the University of Nairobi. Odongo has trained in numerous fields including Advanced Tax Analysis and Revenue Forecasting; Pay and Grading strategies for change in the public administration international (PAI); Financial Management in the Public Sector; Balanced Scorecard (BSC) and Performance Management; QMS ISO 90001 Internal Auditors Course (BVKL); Research Skills Development and Strategic Planning.

Odongo has attended a number of international seminars and workshops such as Global Flagship course on Health Systems Strengthening and Sustainable Financing - The Challenge of UHC - (Washington DC); Parliamentary Oversight on Decentralized System (Wisconsin & US Congress); Corporate Governance; Devolution Systems (Manila, Philippines); Determination of Remuneration in Public Sector- Practices in UN and United States (New York and Washington DC). Odongo is a full member of the Kenya Institute of Management and Marketing Research Society.

### Dinah Jemelly Kirwa- Director, Corporate Services

Dinah is a Human Resource Specialist with a wealth of experience in the Human Resource field.

She is an active member of Institute of Human Resources Management (IHRM) Kenya. Dinah is currently pursuing a PhD in Leadership & Governance. She is a holder of MBA in Philosophy in Human Resource Development from Moi University and a Post-graduate Higher Diploma in Human Resource Management from the Institute of Personnel Management. She also holds a Bachelor of Arts degree from University of Nairobi. She has a certificate in Leadership for Health (LEHHO) from Strathmore University among other several professional workshops and seminars within and outside the Country.



## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

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### Bernard K Njenga - AG. Director Finance and Investment



Njenga is a financial Management specialist with a wealth of experience in financial management. He is a Certified Public Accountant (CPA-K), an active Member of the Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of Internal Auditors. He is a Certified Public Secretary (CPS), Certified Ethics and Integrity Officer and a Quality Management Systems Lead Auditor. He holds a Master of Business Administration (Finance) from Egerton University.

Njenga has trained in Strathmore University on Risk Management. He has certificate courses from several professional workshops and seminars. He has work experience from the public sector in the office of the Auditor General for over 10 years and has moved through the ranks within NHIF in the Directorate of Finance for 5 years and Internal Audit for five years.

### Moses Mwangi Kimani - Head of Internal Audit

CPA Mwangi is an experienced auditor and Accountant; He is a Full Member of the Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of Internal Auditors. Certified Public Accountant, Certified Public Secretary and Certified Monitoring and Evaluation Expert.

PhD - Business Administration (Finance Option ongoing), Master of Business Administration, Bachelor of Arts, Training Officer and Advanced Training Instructor. Career Civil

Servant since 1997, has served different capacities and ministries.

Professional development courses attended -Strategic Leadership and Management, Organizational Leadership Forensic Accounting and Fraud Examination, Microsoft Project Management, Statistical Package for Social Sciences, Senior Management Course, Senior Management Seminar and management development. Currently he is seconded from The National Treasury and Planning.



# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

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## CHAIRPERSON'S STATEMENT

I am delighted to present to you the financial report for the FY 2018/19 which comes at a critical moment when the Nation is focused to achieving the Big Four Agenda among which Universal Health Coverage (UHC) is crucial. During the year under review, the economic growth was at 6.3 per cent while inflation that stood at an average of 4.7 per cent.



The Board has remained steadfast in its mandate and is dedicated in ensuring that the Fund contributes effectively and efficiently to the National development agenda as espoused in the Kenya Vision 2030 and the Big Four Agenda initiatives. The Board has specifically put in place strategies to strengthen Governance and management systems, strengthen and leverage on technology to enhance service delivery and eliminate fraud, enhance Legal and regulatory framework as well as strategies to identify and manage key risks. The also Board continues to engage key stakeholders and to forge strategic partnerships geared towards delivering affordable and accessible healthcare benefit packages to the contributors as enshrined in Kenyan Constitution 2010.

It is noteworthy that increased focus on UHC has dramatically changed the health seeking behavior of many Kenyans leading to an increased level of benefit utilization in the year under consideration as attested by the recorded higher benefit payouts.

In 2018, the Government, through the Ministry of Health, initiated a pilot project for the Universal Health Coverage in Machakos, Nyeri, Isiolo and Kisumu counties, where NHIF was tasked to register members in these counties. This pilot phase presented both challenges and valuable insights to the Fund which will be extremely critical in informing the strategic direction of the Fund in its role as a strategic purchaser of healthcare benefit packages during scale up of universal health coverage.

I am happy to report that the Board has all the professional, qualifications and experience mix required to deliver the mandate of the Fund and to effectively play its role in delivering UHC. The Board is also vigilant to ensure continued prudent management of resources and prioritization of expenditure in areas that bring the highest value for money to all Kenyans in the journey of UHC.



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CHAIRPERSON - BOARD OF MANAGEMENT

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

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## REPORT OF THE CHIEF EXECUTIVE OFFICER



The financial year 2018/19 was quite demanding with key focus on policy and operational changes to enhance efficiency in alignment with Government's aspiration to achieve UHC. It was also marked by increased demands from both internal and external stakeholders for better services. It was also the first year of the implementation of the Funds Strategic Plan 2018-2022 which was aligned to the critical National agenda of Universal Health Coverage (UHC).

In order to strengthen the Fund's capacity to deliver on UHC, the Fund mapped the service delivery processes and spearheaded a transformation and reform journey which; aimed at strengthening the entire delivery system by aligning and balancing human resource skills to key functions for efficiency, job satisfaction and career growth.

While navigating amidst the changes mentioned, the Fund continued to play its rightful role to contribute towards universal health coverage in the provision of affordable, accessible, sustainable and quality health insurance through strategic resource pooling and healthcare purchasing in collaboration with stakeholders. To this end, the closure of the financial year 2018/19 saw the membership clock to **8.47 M** principal members mark while **Kes. 58.08 B** was realized in revenue for the period. There was also a tremendous increase in benefits paid out to members where **Kes. 53.42 B** was spent in this regard translating to a pay-out ratio of **92.05%**. The claims payout has consistently increased overtime in the last five years due to significant expansion of the benefit packages, increased premium payments rates, increased number of members accessing benefits and awareness across the population. To ensure speedy delivery of services to members in the hospitals, the Fund revised the benefits approval system where fair distribution of workload among the quality assurance officers was put in place. There were also a number of innovative ideas from members of staff all of which were geared towards delivering quality services to our members.

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements*

*For the year ended June 30, 2019*

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I am also happy to note that the Fund continued to seamlessly execute the government flagship projects which include the Health Insurance Subsidy Program (HISP), the free maternity (Linda Mama), Edu Afya for Public Secondary School & Older Persons & Persons with Severe Disabilities (OPWD) where more members under these programs benefited greatly from the multiple benefits offered by the Fund.

Once again, I would like to assure all our stakeholders of our continued dedication in implementing the 2018-2022 Strategic Plan which envisions a healthy and a wealthy nation as reflected in our motto "AFYA YETU BIMA YETU".



.....  
**NICODEMUS O. ODONGO**

**Ag. CHIEF EXECUTIVE OFFICER**

# **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements*

*For the year ended June 30, 2019*

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## **CORPORATE GOVERNANCE REPORT**

### **Principles of Corporate Governance**

NHIF has established high standards of corporate governance which are a key contributor to the long-term success of the Fund. The Fund is managed by an effective Board which is composed of competent, diverse and qualified members capable of exercising objective and independent judgment. The Board of Management's appointment and composition is in line with the NHIF Act No. 9 of 1998. The Board has autonomy and authority to exercise its functions and accountable to shareholders and act responsibly towards stakeholders. The Board of Management promotes the best practice of corporate governance and is bound by the highest standards of integrity and accountability in its operations. The Board adheres to the Code of Governance prescribed in the Mwongozo (The Code of Governance for State Corporations) NHIF Act and other Government of Kenya guidelines.

### **Management Board**

The NHIF Act No. 9 of 1998 establishes the National Hospital Insurance Fund to be managed by a Board of Management. The Board of Management is ultimately accountable to all stakeholders for ensuring that the Fund's business is conducted in accordance with high standards of corporate governance. Of particular importance to the Fund is the protection of stakeholders' interests and open corporate communication.

The Board of Managements' conduct is regulated by the provisions of the Board Charter. It dictates among other things the size, role, responsibilities, functions and powers of the Chairperson and other members, inductions, appointments, performance evaluation and remuneration of the members. It also comprises a Work Plan setting out the schedule of Board meetings and the main business to be dealt with at those meetings.

The Board continues to undertake annual self-evaluations and reviews of its performance, which include the review of the suitability of its composition, the diversity of skills and experience on the Board performance against the terms of reference and succession planning, together with the performance of the Committees, Chairperson, Chief Executive Officer and Fund's Corporate Secretary.

### **Board Responsibilities**

The Board of Management is charged with the duty of steering the Fund. It is responsible for formulating NHIF policies and strategies and ensuring that business objectives, aimed at promoting and protecting stakeholder value are achieved.

# **NATIONAL HOSPITAL INSURANCE FUND**

## **Reports and Financial Statements**

**For the year ended June 30, 2019**

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The Board defines the Fund's strategic intent, objectives and values to ensure that procedures and practices are in place to protect the Fund's assets and reputation. It is responsible for the stewardship of the Fund and assumes responsibility for retaining full and effective control over the Fund.

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

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

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

In line with the Mwongozo code on organisational risks, the Board has in place Risk and Management Policy and the Whistle Blowing Policy.

### **Composition of the Board**

Section 4 (1) of the Act establishes the Board of management comprising of the following:

1. A chairperson to be appointed by the President by virtue of his knowledge and experience in matters relating to insurance, financial management, economics, health or business administration;
2. The Principal Secretary in the Ministry for the time being responsible for matters relating to Health or his representative;
3. The Principal Secretary to the Treasury or his representative;
4. The Principal Secretary/Director of personnel management or his representative;
5. The Director of medical Services or his/her representative;
6. One person nominated by the Federation of Kenya Employers;
7. One Person nominated by the Central Organization of Trade Unions;
8. One Person nominated by the Kenya National Union of Teachers and the Kenya Post Primary Education Teachers;
9. One person nominated by the Kenya Medical Association;
10. One person nominated by the faith-based healthcare organizations.

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

# **NATIONAL HOSPITAL INSURANCE FUND**

## **Reports and Financial Statements**

**For the year ended June 30, 2019**

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### **Responsibility for Financial Reporting**

The Board of Management recognizes its responsibility to present a true and fair view of the state of the financial affairs of the Fund. The Fund's financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the PFM Act, the State Corporations Act and the NHIF Act.

### **Remuneration**

In remunerating the Board of Management, the Fund's policy has been to consider, the demands and requirements made on the board of management in relation to the business of the Fund and the availability of the board of management for ad hoc consultation. The board members' sitting allowances are only paid subject to attendance at the board and/or committee meetings confirmed by the register of attendance.

Details of the Board of Directors' remuneration are set out on page 67.

### **Service Contracts and Compensation**

Apart from the Chief Executive Officer, no Board member or a party related to a member has a service contract or receives compensation from the Fund.

### **Disclosure of Interests**

The Board members are under a fiduciary duty to act honestly and in the best interests of the Fund. To curb instances where the Board members' self-interests conflict with their duty to act in the best interests of the Fund, the Fund has instituted policies requiring the Board members' to make declarations on any such interests at any such meeting where such business will be discussed in addition to absolving themselves from making decisions on the respective business.

### **Transparency**

The Fund publishes an Annual Report, Quarterly Reports and Monthly Bulletin. On an annual basis, the financial statements are published in the Fund's website.

### **Role of the Chairperson vs. the Chief Executive Officer**

The roles of the Chairperson and the Chief Executive Officer are clearly defined and are not vested in the same person. The day-to-day executive management of the Fund is delegated to the Chief Executive Officer whereas the running of the Board is the responsibility of the Chairperson. The Chief Executive Officer directs the implementation of the Board of Management's decisions and instructions on the

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

general management of the Fund with the assistance of the Senior Management team. However, both the Chairperson and the Chief Executive Officer work together to achieve the goals of NHIF.

## Board Committees

To assist the Board better discharge its responsibilities, the Board has constituted four Board Committees comprising a balanced mix of the Board members. Each Board Committee has a Charter which contains provisions relating to the powers delegated by the Board to each Committee, membership of the Committee and the Committee's detailed duties. Annual performance reviews of each Committee are carried out and presented to the Board.

The Board has set up the following committees:

### 1. Governance, Strategy & Human Resource Board Committee

It deals with the structure and establishment of the Fund, Staff and advisory matters. The following were the members of the committee in 2018/2019:

No.	Name of Member	Organisation	Position
1.	Dr. Rachel Monyoncho	Federation of Kenya Employers	Chairperson
2.	Dr. Pacifica Onyancha	Alt. Member/ PS Ministry of Health	Member
3.	Mr. Samuel Arachi	Alt. Member/PS/Ministry of Public Service Youth & Gender	Member
4.	Mr. Joseph M. Kamau	Alt. Member/CS/The National Treasury	Member
5.	Dr John W.Masasabi	Director General of Health	Member
6.	Mr. Nicodemus Odongo	Ag Chief Executive Officer	Secretary

### 2. Operations and Quality Assurance Board Committee

It deals with matters relating to compliance with the NHIF Act, Employers, Healthcare Providers, and other stakeholders. The following were the members of the committee in 2018/2019:

No.	Name of Member	Organisation	Position
1.	Mr. Latiff Shaban	Faith Based Organizations	Chairman
2.	Dr. Pacifica Onyancha	Alt. Member/PS Ministry of Health	Member
3.	Dr. Jacqueline Kitulu	Kenya Medical Association	Member
4.	Mr. Wycliff Omucheyi	Kenya National Union of Teachers	Member
6.	Hon. Roba Duba	Central Organization of Trade Union	Member
7.	Mr. Nicodemus Odongo	Ag. Chief Executive Officer	Secretary

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

#### 3. Finance and Investment Board Committee

It deals with all financial and investment matters. The following were the members of the committee in 2018/2019:

No.	Name of Member	Organisation	Position
1.	Dr. Jacqueline Kitulu	Kenya Medical Association	Chairman
2.	Mr. Joseph M. Kamau	Alt. Member/CS/The National Treasury	Member
3.	Dr Rachel Monyoncho	Federation of Kenya Employers	Member
4.	Dr Pacifica Onyancha	Alt. Member/PS/ Ministry of Health	Member
5.	Wycliffe Omucheyi	Kenya National Union of Teachers	Member
6.	Mr.Nicodemus Odongo	Ag Chief Executive Officer	Secretary

#### 4. Audit and Integrity Assurance Board Committee

It deals with the internal control systems, fraud and integrity matters. The following were the members of the committee in 2018/2019:

No.	Name of Member	Organisation	Position
1.	Hon. Roba Duba	Central Organization of Trade Union	Chairman
2.	Mr. Joseph M. Kamau	Alt. Member/CS/The National Treasury	Member
3.	Mr. Samuel Arachi	Alt. Member/PS/Ministry of Public Service Youth & Gender	Member
4.	Mr Latiff Shaban	Faith Based Organizations	Member
5.	Dr John W. Masasabi	Director General of Health	Member
6.	Mr. Moses Kimani	Head of Internal Audit	Secretary

#### Number of Board meetings held in the financial year 2018/2019

No.	Board Meetings	Number of Meetings
1.	Full Board	40
2.	Governance, Strategy & HR	8
3.	Finance & Investments	7
4.	Audit	9
5.	Operations & Quality Assurance	2

#### Note

- ❖ Due to the emerging issues of DCI investigations and subsequent arrest of the CEO and other senior officers in December 2018, there were increased number of Board meetings to deal with emerging issues that required frequent and immediate attention towards stabilising the Fund back to normalcy in operations.
- ❖ Further, the Board met severally in February 2019 to conduct interviews for thirteen senior managers that were advertised in October 2018.

# **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements  
For the year ended June 30, 2019*

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## **Corporation Secretary**

All members of the Board have direct access to the Corporation Secretary who is responsible for ensuring that board procedures, rules and regulations are followed. The Corporation Secretary is also the Chief Legal Officer, she reports independently and directly to the board on litigious matters affecting the Fund.

## **External Auditors**

Whereas the Board of Management is responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Fund, the external auditors examine and give their opinion on the reasonableness of the financial statements. The auditor reports independently and directly to the Board through the Chief Executive Officer who is the Fund's accounting officer and the Secretary to the Board.

## **Internal Auditors**

The Fund's internal auditors report directly to the Audit and Integrity Assurance Board Committee.

## **Going Concern**

The Board of Management submits this annual report and financial statements for the year ended 30 June 2019. The annual report and financial statements present, in the opinion of the directors, a fair, balanced and understandable assessment of the state of the affairs of the Fund's position and prospects. The Board reports that the business is a going concern and they have no reason to believe that the Fund will not be a going concern into the foreseeable future.

# NATIONAL HOSPITAL INSURANCE FUND

## Reports and Financial Statements

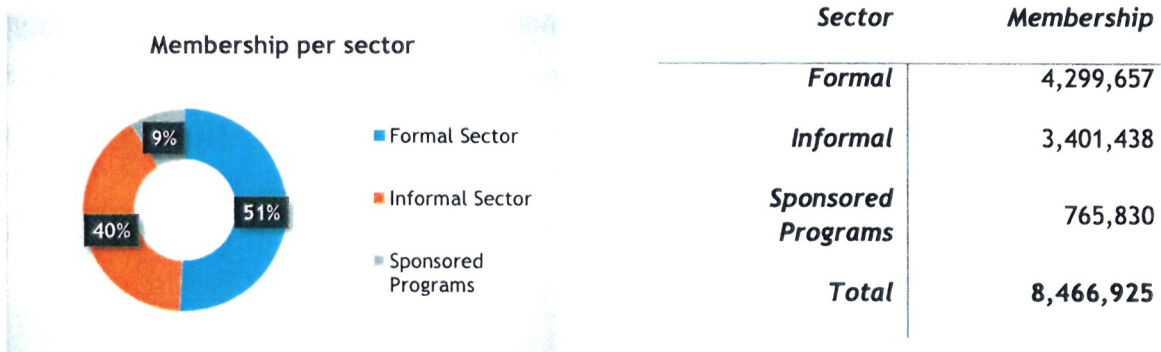
For the year ended June 30, 2019

### DISCUSSION AND ANALYSIS

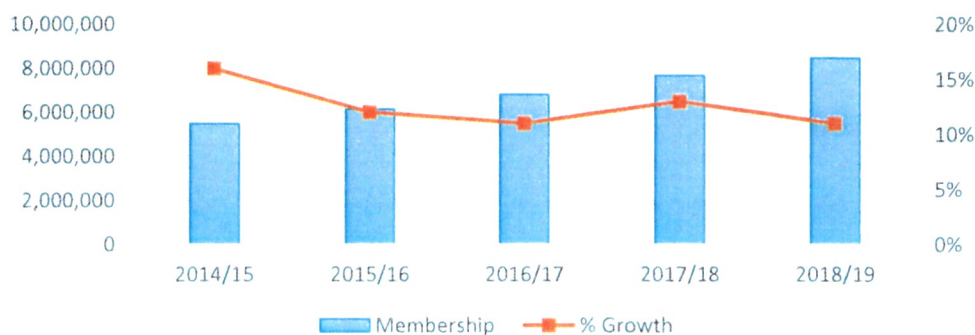
During the financial year, the Fund continued to dispense its mandate of providing affordable, accessible and quality health insurance to all its members through the enrolment of members, collection of premiums and other revenue and the strategic purchasing of health services. This has been done by implementing innovative and efficient strategies to achieve Governments' Big 4 Agenda of achieving Universal health Coverage by 2022.

#### Membership

During the year, newly registered members were 797,970 making the total cumulative membership to be 8,466,925.



The graph below demonstrates the growth trends in membership over five years. It is noted that there was a slight drop in the percentage membership growth in the 2018/19 Financial year:



# NATIONAL HOSPITAL INSURANCE FUND

## Reports and Financial Statements For the year ended June 30, 2019

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Membership has grown by 3 million over the five-year period due to implementation of innovative strategies such as targeted marketing activities by use of Road Shows, Advertisement, targeted sensitization programs of County Commissioners and Chiefs including the expanded registration points. This is further illustrated in the table below;

<i>Sector</i>	2014/15	2015/16	2016/2017	2017/2018	2018/2019
<i>Informal</i>	1,989,420	2,235,892	2,608,832	2,999,230	3,401,438
<i>Formal</i>	3,321,549	3,616,167	3,870,413	3,956,450	4,299,657
<i>Sponsored programs</i>	164,211	284,197	325,612	701,783	765,830
<i>Total</i>	<b>5,475,180</b>	<b>6,136,256</b>	<b>6,804,857</b>	<b>7,657,463</b>	<b>8,466,925</b>
<i>Growth</i>	<b>761,518</b>	<b>661,076</b>	<b>668,601</b>	<b>852,606</b>	<b>809,462</b>
<i>% Growth</i>	<b>14%</b>	<b>11%</b>	<b>10%</b>	<b>11%</b>	<b>10%</b>

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Sponsored Program Sector has seen a tremendous growth as NHIF adopted a strategy to directly engage County Governments to sponsor indigents to align themselves with the National agenda of UHC. During the 2018/19 financial year, (13) thirteen County Governments have implemented Sponsorship programs targeting various categories of the population such as the Elderly, Severely Disabled, Community Health Volunteers and other disadvantaged groups or households in the Counties.

The Informal Sector also experienced growth though retention of registered members remained a challenge throughout the financial year. Active members in the sector were only 25% mainly attributed to adverse selection inherent to the sector where members seek enrolment only when ill or in need of a medical service and stop making contributions after utilizing the benefits and their quality of life improves.

### Financial Performance

As at the closure of the reporting period, the Fund managed to collect and generate revenue totalling to **KES 58,081,072,631** as shown in the statement of comprehensive income and expenditure on Page 34.

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

#### Vision 2030 flagship Projects

The Fund has continued to administer government and donor sponsored flagship projects that extend coverage to the poor vulnerable persons through health insurance subsidies. These programs target different segments of the population including Orphaned and Vulnerable Children, Older Persons, Persons with Severe Disability, Pregnant mothers in Kenya. The objective of these subsidy programs is to improve the health outcomes of the poor and ease the financial burden faced while accessing healthcare. The Table below shows the registered beneficiaries and premiums received and in arrears during the 2018/19 FY.

Scheme	Registered Beneficiaries	Premiums Received	Premium in arrears from previous periods	Benefits Paid Out As at June 30, 2019
HISP - Orphans & Vulnerable Children	181,968	300,000,000	1,353,283,833	397,432,478
HISP - Older persons & Persons Living with severe disabilities	42,000	0	126,000,000	108,340,599
Linda Mama Program	1,084,506	2,000,000,000	0	3,170,973,087

For the HISP schemes for Orphans & Vulnerable Children and the Older Persons & Persons living with severe disabilities, despite the premium arrears of the former and non-remittance of premiums for the latter, the scheme beneficiaries continued to access benefits seamlessly throughout the year.

The Linda mama program experienced registration uptake of 124% from mothers registered in 2017/18 FY, 484,517 to 1,084,506 mothers in 2018/19 FY. This has been due to intense education of the provider facilities and marketing campaigns that have included Collaboration with the Beyond Zero Medical Safaris held in various Counties and use of political goodwill to drive this agenda.

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements  
For the year ended June 30, 2019*

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### **Successes in implementation of the Vision 2030 flagship programs**

- i. NHIF received an award from the International Social Security Association (ISSA) for HISP for OVC's as an innovative program for the period 2017.
- ii. Linda Mama was nominated and received the award as the most innovative Maternal Health Cover from the Still a Mum Awards held on 20th October 2018 in Nairobi County.

### **Challenges faced while implementing Vision 2030 flagship Programs**

- i. Non remittance of premium funds for the HISP program for OVC's and OPWD schemes has caused a strain in benefits access.
- ii. Lack of Financial autonomy for the GOK healthcare providers where facilities generate revenue through treating scheme beneficiaries, but all reimbursements are made to the County Government, who in most cases failed to channel the revenue back to the hospitals as generated. This greatly affected the quality of healthcare services in these facilities.
- iii. Lack of drugs in government hospitals has hindered access to complete care and beneficiaries have ended up using out-of-pocket to cover for their medication, which is a reverse of the intended aim of the vision 2030 flagship projects of eliminating this expense.
- iv. Lack of computers, phones and networks in government owned health centres and dispensaries has also affected administration of the schemes.

### **Universal Health Cover Pilot Program**

The Kenyan Government's Big Four agenda has prioritized UHC as one of the targets to be achieved by 2022 and is approaching this through a phased implementation approach. A pilot program was launched in September 2018 in Machakos, Nyeri, Isiolo and Kisumu Counties. Financing for UHC will be tax based and will entail direct funding to facilities through County Governments. The program focuses on a Primary Health Care Approach and will include scaling up Immunization Services; Maternal and Child Health Services, family planning, antenatal and postnatal care services; Prevention of water borne, vector borne, TB and HIV and sexually transmitted

## **NATIONAL HOSPITAL INSURANCE FUND**

### **Reports and Financial Statements**

**For the year ended June 30, 2019**

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diseases and improving nutrition of women who conceive and follow this through to the first five years of a child's life.

NHIF leveraged on strategic partnerships to achieve the registration targets within the timeline provided by the ministry of Health, with PharmAccess Foundation supporting the registration exercise in Kisumu, Nyeri and Machakos Counties through Community Health Volunteers (CHVs) and Living Goods in Isiolo County.

The registration exercise was completed in all the Counties by **31st March 2019**. A total of **2,849,222** residents were registered out of the projected population of **3,456,419** representing **82%** of the total population. The target was not met due to two major reasons;

- Households that already had the NHIF Supacova, were a part of the various Community Based Insurance Schemes (CBHI's) and other Private Insurance schemes felt it as a duplication hence failed to register for UHC.
- Households that belonged to the HISP programs registered under the Social Protection Department.

#### **Benefits payment**

The Fund administers 3 tiers of schemes namely;

- The National Scheme that's accessed by all national scheme members and sponsored programs,
- Employer based enhanced schemes accessed by Civil Servants, National Police, Kenya Prisons, County Governments, Secondary school students and other statutory bodies and private organizations, and
- The Linda Mama Program.

A total of 4,890,563 claims were reimbursed to hospitals for care accessed worth **KES 53,424,547,272**.

#### **Declaration and Contracting of Quality Health Services**

The Fund has continued to empanel healthcare providers through declaration and contracting to ensure increased access to health services for all its beneficiaries. At

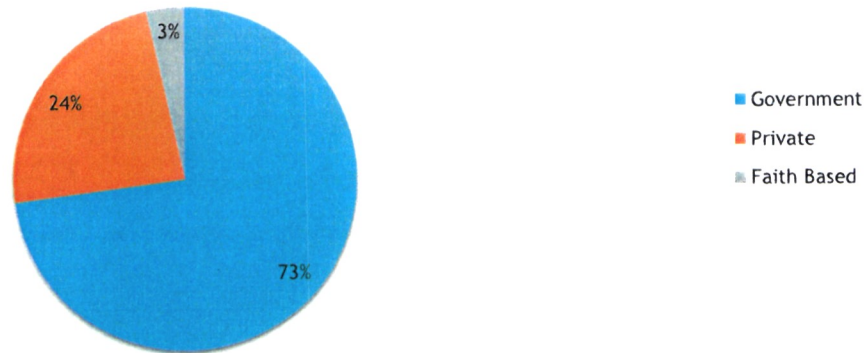
# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

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the end of the financial year, 6,654 healthcare providers had been declared and contracted to provide an array of services countrywide.

Healthcare providers by ownership



To ensure Quality care is being given to our members at the point of service, the Fund developed a Quality and Safety Measurement framework that is pursuant to the requirements listed in the Healthcare Provider Quality Management Policy. This is intended to institute follow up on access and utilization of approved and contracted services. The framework sets forth the procedures and guidelines to be used by NHIF in ensuring the required performance standards, services levels and patient outcomes are achieved by the contracted provider facilities. The methodologies used have been epidemiology surveillance i.e. census on performance indicators and patient experience on care outcomes through surveys.

The Fund has also adopted use of the Kenya Quality Model for Health Quality Framework to ensure delivery of its mandate. This has been done in partnership with the Ministry of Health and the Korean Institute for Health (KOFIH) for a 3-year program to train all Level 2 and 3 facilities on KQMH. This will see establishment of functioning Quality Improvement Teams in all facilities, monitor progress of quality improvement and consequently reward performance. The first phase of the program was in 2018/19 and a total of 67 Quality Assurance officers have been trained as trainers and 1,266 facilities have been trained on KQMH.

## **NATIONAL HOSPITAL INSURANCE FUND**

### **Reports and Financial Statements**

**For the year ended June 30, 2019**

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Additionally, as part of Quality Improvement in the hospitals, we have witnessed hospitals being able to plough back what they generate from monies reimbursed to them on Quality Improvement activities. An example has been in Radung Dispensary which was able to use the funds received from Linda Mama program to upgrade their facility.



### **Risks**

#### **1. Increased benefit pay-out**

Increased benefits offered by the fund has increased the utilization at a rate that is higher than the revenue. New benefits are expected to have a “digging up” effect where more beneficiaries will seek to benefit leading to an initial spike before eventual normalization.

#### **2. Adverse selection**

The fund has undertaken public awareness campaigns that have improved benefit awareness and corporate visibility. This improved awareness may have contributed to the utilization amongst existing members and for new members joining the fund.

#### **3. Increased access points**

The fund’s initiative to accredit more facilities to reduce the distance to access healthcare has contributed to the increased utilization.

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements  
For the year ended June 30, 2019*

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### **4. Benefits design is strategic purchasing**

The design of the benefits may have encouraged over-utilization by e.g unbundling of surgical procedures, and upscaling to classify procedures under groups which attract a higher reimbursement and higher risk populations without commensurate premiums adjustments. Additionally, the list of procurement of benefits varies significantly across the different providers. The high cost providers would be incentivized to attract clients hence higher utilization cost.

### **5. System configuration**

Gaps in system configuration may have contributed to higher utilization e.g eligibility dates on membership have not stopped clients from accessing benefits before maturity hence increasing the impact of adverse selection. Additionally, most functionality are augmented by manual process, hence increasing risk of fraud.

### **6. Fraud**

Utilization patterns suggest some schemes and benefits are risky. For the benefits, fraud may be a significant contributor. An initiative to randomize the process showed a 62.9 million reduction in payable claims on imaging (CT, Ultra sound and MRI Scans) over an eleven week period.

# NATIONAL HOSPITAL INSURANCE FUND

## Reports and Financial Statements

For the year ended June 30, 2019

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### CORPORATE SOCIAL SUSTAINABILITY STATEMENT

National Hospital Insurance Fund (NHIF) policy on Corporate Social Sustainability's (CSS) aim is to depart from simple corporate social responsibility to larger considerations on how the organization can shape the future for not only itself but for future generations.

NHIF's Corporate Social Sustainability (CSS) is founded on three pillars:

**Environmental pillar (planet), Kshs 240,000:** whose focus is on processes, systems and activities that will reduce environmental impact of NHIF operations. These Initiatives are directed towards reducing existing environmental damage, as well as, increasing available natural resources in the environment in which we operate. Due to the drastic reduction of forest cover, the National Government through the office of The President has instituted an initiative dubbed, "Panda Miti, Penda Kenya".

NHIF has partnered with stakeholders in order to attain the minimum forest cover. This exercise was carried out in the year 2018/2019 with the regional offices through the assistance of the Head of Conservancy in various regions. NHIF seeks to plant trees across all the six regions. The Fund purchased seedlings and was able to carry out the exercise in three of the six regions through the support of Kenya Forest Service.

The tree planting exercise was done during the month of October 2018 through NHIF Regional Offices. In Rift Valley region, NHIF planted trees at Uasin Gishu County at Magereza Primary School whereby six hundred and twenty seedlings of trees were planted, of which 85% are still surviving. The project was the Head of conservancy North Rift Mr Benjamin M Kinjyili who kicked off the exercise by ensuring we planted fifteen commemorative trees at Kenya Forest Service Township. Further, the team planted fifteen commemorative trees at Eldoret Polytechnic in partnership with the Chief principal Mr. Josphat K. Sawe.

The Southern Region team planted five hundred trees at Vijiweni Primary School, located in Mtongwe area of Likoni constituency in Kwale county, totaling to five hundred seedlings whose survival is currently at 50%.

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements  
For the year ended June 30, 2019*

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This exercise was a success due to the ecosystem conservator Mr. Crispin Ochieng and Forester Ms. Jacqueline Mdam. Another success was witnessed in Western Region at Kakamega County, Kakamega Forest where the team planted 2,000 trees of which 1,600 trees survived.

**Social Pillar (People), Kshs. 33,850,000: This includes Health, Sports and Music.** NHIF has supported sporting activities in Kenya. Kenya as a country is the home of athletics' in the world and this has had a ripple effect causing growth in popularity in other sports that is football, rugby and athletics. The WHO (World Health Organization) estimates that, chronic diseases are now the leading causes of death in the world. The WHO cites four non-communicable diseases (NCD) that make the largest contribution to mortality in low- and middle-income countries, namely: cardiovascular disease, cancer, chronic respiratory disease, and diabetes. Through Sports NHIF intends to enhance its social pillar by seeking to target cross sections of the population through various modes of community engagement. Through engagement of the sporting fraternity the Fund seeks to improve its social acceptance and securing long term commitment from the targeted public. Building the sporting fraternity through select engagements will have a positive impact on the society by providing a health safety net overall enhancing the Funds image as a social conscious brand thereby growing our long-term value in the hearts and minds of Kenyans. The Fund has taken part in the Mater Misericordiae Hospital; Mater Heart Run whose main aim is to fund raise for cardiac program in the county while ensuring that the growth of the cardiovascular services in the county is maintained. NHIF also supported the Coast Hospice and the Trustee Gertrude Foundation who were aiding Cancer Patients. This was an avenue for The Fund to educate the public on Non- Communicable Diseases.

On Thursday, September 7th, 2017 Daily Nation carried out a story in the newspaper titled, "Eight-year-Old girls dreams in peril after fire damages face and sight". The case was taken up by the Fund who ensured that an ambulance brought Michel Awour from Kisumu County with her care giver. NHIF wanted to make a change for a better life of a wonderful eight-year-old girl dreams as fire engulfed her face damaging her facial expressions and smile. During the three-year period NHIF has walked a mile in

## **NATIONAL HOSPITAL INSURANCE FUND**

### *Reports and Financial Statements*

*For the year ended June 30, 2019*

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her shoes and ensuring that she regained majority of her cognitive functionality on her face, through various surgical procedures at Kenyatta National Hospital. Today we as a Fund are proud as Mitchel is able to carry out her education and dream big.

**Economic Pillar (Profit), Kshs. 548,500:** The fund is a socially driven entity operating on the subsidiarity principle. It is also a statutory body where social goods trumps profit. However, to be sustainable the fund must generate revenues and manage those revenues to serve the contributing public. Therefore, the Fund ensures that it complies with the NHIF Act, Muongozo Code of conduct, proper governance and risk management.

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

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## REPORT OF THE BOARD OF MANAGEMENT

The Board of Management submit their report together with the financial statements for the year ended June 30, 2019 which show the state of the Fund's affairs.

### Principal activities

The principal activity of the Fund is to receive income for healthcare financing of all its members.

### Results

The results of the Fund for the year ended June 30, 2019 are set out on pages 34-86. Below is the summary of the deficit made during the year.

### Board of Management

The members of the Board of Management who served during the year are shown on page 4.

### Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015

By Order of the Board,



.....  
NICODEMUS ODONGO

Ag. CHIEF EXECUTIVE OFFICER

DATE: ..... 30/9/2019 .....

# NATIONAL HOSPITAL INSURANCE FUND

## Reports and Financial Statements

For the year ended June 30, 2019

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### STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, section 14 of the State Corporations Act and Section 38 of the NHIF Act, require the board to prepare financial statements in respect of that Fund, which give a true and fair view of the state of affairs of the Fund at the end of the financial year/period and the operating results of the Fund for that year/period. The Directors are also required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. The Directors are also responsible for safeguarding the assets of the Fund.

The Board is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year (period) ended on June 30, 2019. These responsibilities include:

- (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 Fund
- (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 Fund
- (v) Selecting and applying appropriate accounting policies and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Board accept responsibility for the Fund's financial statements, which have been prepared based on information provided by Management, appropriate accounting policies supported by reasonable and prudent judgements and estimates and in conformity with International Financial Reporting Standards (IFRS). The accounts are prepared in the format required by the PFM Act 2012 and the State Corporations Act. The Directors are of the opinion that the Fund's financial statements give a true and

# NATIONAL HOSPITAL INSURANCE FUND

## Reports and Financial Statements

For the year ended June 30, 2019

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fair view of the state of Fund's transactions during the financial year ended June 30, 2019, and of the Fund's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund'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 Fund will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The Fund's financial statements were approved by the Board on .....30/09/2019.....  
and signed on its behalf by:



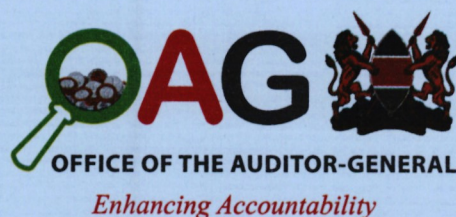
.....  
Ag. CHIEF EXECUTIVE OFICER



.....  
CHAIRPERSON

# REPUBLIC OF KENYA

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## REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOSPITAL INSURANCE FUND FOR THE YEAR ENDED 30 JUNE, 2019

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### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of National Hospital Insurance Fund set out on pages 34 to 86, which comprise the statement of financial position as at 30 June, 2019, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement 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 discussed in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respect the financial position of National Hospital Insurance Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the National Hospital Insurance Fund Act, 1998.

#### Basis for Qualified Opinion

##### 1. Financial Performance

During the year under review, the Fund reported a deficit of Kshs.3,671,996,374 (2017/2018-surplus Kshs.295,922,867) resulting in reduction of retained earnings from Kshs.23,043,974,174 as at 30 June, 2018 to Kshs.19,371,977,800 as at 30 June, 2019. The Fund's performance is on a downward trend and if strategies are not put in place to reverse the trend, the Fund is likely to experience financial difficulties in future.

##### 2. Property, Plant and Equipment

###### 2.1 Land Situated at Karen – 10 Hectares

As previously reported, included in the property, plant and equipment balance of Kshs.13,325,730,197 reflected in the statement of financial position as at 30 June, 2019 is an amount of Kshs.298,589,665 in respect of land which in turn includes an amount of Kshs.93,712,675 for land Ref. No.LR 24968/2 measuring 10 hectares situated at Karen. However, the ownership of the parcel of land is in dispute and the matter is in court. Information available indicates that, as per the Public Investment Committee (PIC)

recommendations in its 21<sup>st</sup> and 22<sup>nd</sup> Reports, the Directorate of Criminal Investigations (DCI) has commenced investigations to establish whether there was fraud in the transfer of ownership of the land and prosecute any person who may have been identified as having breached the law. However, progress made on the investigations has not been disclosed in the financial statements.

## **2.2 Proposed Resource Centre at Karen Land**

Included in the property, plant and equipment balance of Kshs.13,325,730,197 as at 30 June, 2019 is a work-in-progress balance of Kshs.1,444,687,484 being payments for drawings and designs for the proposed Resource Centre whose construction is yet to commence although the land was acquired fifteen years (15) ago. As previously reported, the Management has explained that construction of the Resource Centre has not yet commenced due to lack of approval from the parent Ministry and the dispute on land ownership.

Although the issue had been discussed by the Public Investment Committee (PIC), no action appears to have been taken on the PIC recommendations in its 22<sup>nd</sup> Report that the Fund should expeditiously pursue the prosecution and conclusion of the case to its logical conclusion.

## **2.3 Construction of Multi Storey Car Park**

As previously reported, the National Hospital Insurance Fund entered into an agreement with a local construction firm for construction and completion of a multi storey car park at a contract sum of Kshs.909,709,305. The project commenced in May, 2002 and was scheduled for completion in August, 2003. The contract sum was later revised to Kshs.1,179,611,756 or approximately 30% above the original contract sum of Kshs.909,709,305.

Records available indicate that the car park was completed in July, 2008 at a total cost of Kshs.3,342,120,239. Additional amounts of Kshs.626,635,998 and Kshs.4,706,521 were incurred in 2009/2010 financial year and 2010/2011 financial year, respectively on the car park increasing the total expenditure to Kshs.3,973,462,758 as at 30 June, 2011. This resulted into an increase of approximately 337% over and above the original contract sum of Kshs.909,709,305. The costs escalation was not justified.

Although the issue has been discussed by the Public Investment Committee, no action has been taken on the Committee recommendations as per the 19<sup>th</sup> and 21<sup>st</sup> Reports which recommended that the Director of Ethics and Anti-Corruption Commission should institute and fast track investigations on the project with a view to preferring charges against all those who will be found culpable.

In the circumstances, it has not been possible to ascertain whether the property, plant and equipment balance of Kshs.13,325,730,197 as at 30 June 2019 is fairly stated.

## **3. Unquoted Investments**

As previously reported, the statement of financial position reflects a balance of Kshs.394,654,576 under unquoted investments which, as disclosed in Note 28 to the

financial statements, includes an amount of Kshs.340,454,576 in respect of a loan advanced by the Fund to the Moi Teaching and Referral Hospital (MTRH) at an interest rate of 3% per annum. However, the loan was not supported with a signed loan agreement between the Fund and MTRH. Although the Fund Management has acknowledged the omission, explanations on how the anomaly will be resolved and the fall back plan in case of default by the Hospital was not provided. Further, available information indicate that the loan balance has not been reflected in MTRH financial statements for the year ended 30 June, 2019. The unquoted investments balance of Kshs.394,654,576 also includes shares of Kshs.54,200,000 in Consolidated Bank of Kenya for which no dividend has been paid in the past.

Under the circumstances, the investments in consolidated bank shares is impaired. Consequently, the validity of unquoted investments balance of Kshs.394,654,576 as at 30 June, 2019 could not be confirmed as fairly stated.

#### **4. Short Term Investments**

As previously reported, included in the statement of financial position as at 30 June, 2019 is short term investments balance of Kshs.13,625,153,816 which is net of provision for impaired investments of Kshs.1,304,410,609. The provision includes an amount of Kshs.49,500,000 which had been deposited by the Fund on 26 June, 2001 in Consolidated Bank of Kenya. The entire deposit of Kshs.49,500,000 was off-set by the Bank against a guarantee executed by the former Chief Executive Officer of the Fund on behalf of Euro Bank Limited. The circumstances under which the Fund's deposit was used as a guarantee by the then Chief Executive Officer has not been explained.

Although the Public Investment Committee recommended in the 21<sup>st</sup> Report as follows;

- (i) The then CEO of NHIF be held accountable for any losses incurred in the irregular investment of the surplus funds in Consolidated Bank of Kenya and therefore be surcharged for Kshs.40,065,205, being the value of the un-deposited cheque No.022477 of 23 September, 2002 from Euro Bank;
- (ii) The then Consolidated Bank of Kenya CEO and Finance Manager should be held accountable for colluding with NHIF to mismanage the invested funds;
- (iii) In view of the fact that the Fund had no capacity to provide guarantee for a loan to a private bank, Consolidated Bank of Kenya should pay the amount of Kshs.49.5 million owed to the Fund;
- (iv) The then senior Management of Consolidated Bank of Kenya including the then Managing Director, and the Finance Manager should also be held accountable for colluding with NHIF to mismanage the invested funds.
- (v) The former Managing Director of Consolidated Bank of Kenya should be surcharged for the funds that were advanced to Euro Bank Limited in overnight lending. He should further be held accountable for the Kshs.49.5 million which the Bank could not recover from Euro Bank Limited and consequently offset the same against the fixed deposits of NHIF.

- (vi) NHIF should relentlessly pursue Consolidated Bank of Kenya for recovery of Kshs.49.5 million;
- (vii) NHIF CEO must ensure that all financial investments by the Fund are done in accordance with the Treasury Circular No.10 of 1992 and Section 28(1) of the Public Finance Management Act, 2012.

No action appears to have been taken to recover the Kshs.49,500,000 the Fund lost. In the circumstance, it has not been possible to confirm whether the short-term investment balance of Kshs.13,625,153,816 is fairly stated.

## **5. Long Outstanding Return to Drawer Cheques**

The statement of financial position reflects a balance of Kshs.6,730,698,196 under trade and other receivables which, as disclosed in Note 29 to the financial statements, includes R.D. Cheques amounting to Kshs.19,061,721 which had been outstanding for more than six (6) months and were therefore stale.

Consequently, the accuracy and validity of return to drawer balance of Kshs.19,061,721 as at 30 June, 2019 could not be confirmed.

## **6. Staff Costs**

### **6.1 Unsupported Expenditure**

The staff costs expenditure of Kshs.4,865,435,027 reflected in the statement of comprehensive income and expenditure includes an amount of Kshs.6,680,160 paid to twelve (12) officers employed during the year. However, documents supporting the recruitment including advertisements of the vacancies, short listing, interviewing and recruitment reports were not availed for audit verification.

Consequently, the propriety of the expenditure totalling Kshs.6,680,160 included under staff cost for the year ended 30 June, 2019 could not be confirmed.

### **6.2 Staff Welfare**

As disclosed in Note 18 to the financial statements, included under the staff costs of Kshs.4,865,435,027 is an expenditure amount of Kshs.50,408,079 relating to staff welfare. The latter balance includes an amount of Kshs.21,762,000 paid to staff as Christmas gift and appreciation token to retirees during the year under review. Management did not provide justification or the basis for the payment.

Consequently, the propriety of the expenditure totaling to Kshs.21,762,000 paid as Christmas gift and included under staff welfare could not be confirmed.

## **7. Board Expenses**

The statement of comprehensive income and expenditure reflects an expenditure of Kshs.32,081,129 under Board expenses which, as disclosed in Note 19 to the financial statements, includes an amount of Kshs.12,450,000 relating to sitting allowances which were not supported with signed minutes. Further the Board did not adhere to approved Board calendar as detailed below:

<b>Board</b>	<b>Planned Meetings</b>	<b>Actual Meetings</b>
Full Board	5	35
Audit Committee	4	7

Under the circumstances, the propriety of Board expenses of Kshs.32,081,129 for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am Independent of the National Hospital Insurance Fund Management in accordance with ISSAIs 130 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 judgment, are of most significance in the audit of the financial statements. There were no Key Audit Matters to report in the year under review.

### **Other Matter**

#### **Budgetary Control and Performance**

During the year under review, the Fund's actual revenue amounted to Kshs.55,412,319,242 against budgeted revenue of Kshs.66,858,395,349 resulting in a revenue shortfall of Kshs.11,446,076,107 or 17%. Further, actual expenditure for the year amounted to Kshs.61,132,941,242 against a budgeted expenditure of Kshs.58,098,379,876 resulting in an over absorption of Kshs.3,034,561,366. There is need for the Fund to review its budget making process with a view to developing 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 Fund 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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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. Cash and Bank Balances**

The statement of financial position reflects cash and bank balances of Kshs.2,640,702,789 which is net of a negative bank balance of Kshs.8,350 in the Kenya Commercial Bank (KCB) settlement account. Management has not provided an explanation for overdrawing the bank account contrary to Section 28 (4) of the Public Finance Management (National Government) Regulations, 2015 which states that an Accounting Officer of a national government entity shall not cause a bank account of the entity to be overdrawn.

The Management was therefore in breach of the law.

### **2. Other Operating Expenses**

The statement of comprehensive income and expenditure reflects an expenditure of Kshs.2,493,573,826 under other operating expenses which, as disclosed in Note 20 to the financial statements, includes an amount of Kshs.156,424,194 paid as legal expenses to private legal firms. However, approval and issuance of no objection from the Attorney General's office on engagement of the private legal firms was not given as required by the Attorney General's Circular reference AG/CON/6/D/144/VOL.II dated 16 April 2014.

In the circumstances, the propriety of legal expenses totalling to Kshs.156,424,194 could not be confirmed.

### **3. Procurement of Integrated Revenue Management System**

As previously reported, on 4 June, 2018, the Fund entered into a contract with an IT Solutions firm for provision of Integrated Revenue Management System at a contract sum of Kshs.495,205,588. Further information indicates that the procurement of the system was single sourced as no evidence of competitive bidding was provided for audit verification. This is contrary to Section 96 of the Public Procurement and Assets Disposal Act, 2015 which require the Accounting Officer to take such steps as are reasonable to bring the invitation to tender to the attention of all those who may wish to submit tenders. Further, although direct procurement method was used, no evidence was provided to support that the underlying circumstances met the conditions set for direct procurement as laid down in Section 91 of the Act.

Under the circumstances, the Fund was in breach of the law and may not have obtained value for money on the procurement of the system.

### **4. Temporary Imprest**

The trade and other receivables balance of Kshs.6,730,698,196 reflected in the statement of financial position as at 30 June, 2019 includes temporary imprest of Kshs.20,384,020 out of which an amount of Kshs.1,057,280 has been outstanding for many years and whose recoverability is doubtful. This is contrary to Section 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (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. Consequently, the recoverability of the imprest amount of Kshs.1,057,280 is doubtful.

## **5. Excessive Deductions**

Analytical review performed on the payroll for twelve (12) months from July 2018 to June 2019 revealed a total of 2,458 instances where staff were paid net salaries that were less than one third (1/3) of their basic salaries. This is contrary to Section 6.1.4 of the Fund Human Resource Policy that stipulate that any advance will be granted subject to the employee remaining with at least a third of the basic salary. The Fund is therefore in breach of its own policy.

## **6. National Health Scheme Benefits Expenses**

The statement of comprehensive income and expenditure reflects an expenditure of Kshs.37,716,058,407 under National Health Scheme (NHS) Benefits expenses which includes legal fees of Kshs.336,339,000 paid to a law firm in respect of drawing 6,700 contracts with health providers at a negotiated total instruction fee of Kshs.432,800,000. The law firm was to further charge an amount of Kshs.43,260,000 being cost for company search, printing, binding, travels costs and stamp duty and distribution of the contracts. On 5 November, 2018, the firm reviewed the terms of engagement and added 309 contracts for drafting, with an additional cost of Ksh.26,749,302 as legal fees. There was no consent from NHIF for the variation.

Further, the legal service was not in the approved procurement plan for 2018/2019 financial year which is contrary to Section 45(3)(a) of the Public Procurement and Assets Disposal Act, 2015 which states that all procurement process shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through the Annual Procurement Plan.

In addition, the law firm was not in the prequalified list of suppliers in contravention of Section 93(1) of the Public Procurement and Assets Disposal Act, 2015 that states that an Accounting Officer of a procuring entity, where applicable, may conduct a prequalification procedure as a basic procedure prior to adopting an alternative procurement method other than open tender for the purpose of identifying the best few qualified firms for the subject procurement.

Under the circumstances, the Fund was in breach of the law and the propriety of legal fee of Kshs.336,339,000 paid to the law firm could not be confirmed.

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, 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.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall 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 Financial Reporting 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 Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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, financial 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 Fund'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 Fund'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 Fund's ability to continue as a going concern. 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 Fund to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial 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 Fund 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.

  
Nancy Gathungu  
**AUDITOR-GENERAL**

Nairobi

19 August, 2021

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

## STATEMENT OF COMPREHENSIVE INCOME & EXPENDITURE FOR YEAR ENDED 30 JUNE 2019

	Note	JUNE 2019 Kes	JUNE 2018 Kes
<b>REVENUES</b>			
Contributions from NHS	6	36,502,988,785	33,041,643,709
Civil Servant Medical Scheme Premium	7	4,000,012,000	3,623,700,000
NPS & KPS Medical Scheme Premium	8	4,785,805,560	3,589,354,170
Secondary School Medical Scheme Premium	9	3,905,317,125	849,085,617
HISP OVC Program Premium	10	1,091,808,000	962,530,000
HISP (OPPSD) Program Premium	11	252,000,000	252,000,000
County Medical Scheme Premium	12	1,105,530,353	643,220,028
Parastatal Medical Schemes Premium	13	1,216,984,157	960,944,754
Private Organizations Schemes Premium	14	255,738,036	-
Free Maternity Program Premium	15	3,170,973,087	1,488,450,869
Other Incomes	16	1,793,915,528	2,188,839,018
<b>TOTAL REVENUES</b>		<b>58,081,072,631</b>	<b>47,599,768,164</b>
<b>BENEFITS EXPENSES</b>			
NHS Benefit Expenses	17	37,716,058,407	29,486,946,645
CS Medical Scheme Expenses	7	4,643,083,154	3,579,075,547
NPS & KPS Medical Scheme Expenses	8	3,525,284,454	2,850,624,690
Secondary School Medical Scheme Expenses	9	1,327,152,630	22,577,710
HISP OVC Program Expenses	10	397,432,478	336,930,391
HISP (OPPSD) Program Expenses	11	108,340,599	78,038,782
County Medical Scheme Expenses	12	768,846,048	418,019,958
Parastatal Medical Schemes Expenses	13	1,336,575,180	800,676,645

# NATIONAL HOSPITAL INSURANCE FUND

## Reports and Financial Statements

For the year ended June 30, 2019

Private Organizations Schemes Expenses	14	430,801,235	-
Free Maternity Benefit Expenses	15	3,170,973,087	1,488,450,869
<b>TOTAL</b>		<b>(53,424,547,272)</b>	<b>(39,061,341,237)</b>
<b>OPERATING EXPENSES</b>			
Staff Costs	18	4,865,435,027	4,796,493,053
Board Expenses	19	32,081,129	38,613,988
Other Operating Expenses	20	2,493,573,826	2,284,646,575
Depreciation of PPE	21	305,165,756	565,905,017
Amortization of Intangible Assets	22	268,809,808	7,603,276
<b>TOTAL</b>		<b>(7,965,065,545)</b>	<b>(7,693,261,910)</b>
<b>OPERATING SURPLUS (DEFICIT)</b>		<b>(3,308,540,187)</b>	<b>845,165,017</b>
Finance Expenses	23	(104,061,207)	(315,770,266)
<b>(Deficit) Surplus Before Taxation</b>		<b>(3,412,601,393)</b>	<b>529,394,751</b>
Tax Expense	24	(259,394,980)	(233,471,884)
<b>SURPLUS (DEFICIT) AFTER TAXATION</b>		<b>(3,671,996,374)</b>	<b>295,922,867</b>

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

### STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	JUNE 2019	JUNE 2018
		Kes	Kes
<b>ASSETS</b>			
Non-Current Assets			
Property, Plant and Equipment	21	13,325,730,197	13,370,600,557
Intangible Assets	22	790,368,321	760,090,652
Receivable - South B Estate Mortgage	25	8,681,305	12,332,506
Fixed Interest Investments (Bonds)	26	20,520,000	34,200,000
Long Term Deposits	27	1,000,480,689	911,125,980
Unquoted Investments	28	394,654,576	385,342,946
Total Non-Current Assets		15,540,435,088	15,473,692,641
Current Assets			
Trade and Other Receivables	29	6,730,698,196	4,787,930,583
Short Term Deposits	31	13,625,153,816	17,787,153,816
Cash and Bank Balances	32	2,640,702,789	3,951,353,501
Total Current Assets		22,996,554,800	26,526,437,899
<b>TOTAL ASSETS</b>		<b>38,536,989,888</b>	<b>42,000,130,540</b>
<b>EQUITY AND LIABILITIES</b>			
Capital and Reserves			
Accumulated Fund	33	12,209,923,340	12,209,923,340
Retained Earnings	34	19,371,977,800	23,043,974,174
Total Capital and Reserves		31,581,901,140	35,253,897,514
Current Liabilities			
Claims Payables	35	1,793,085,070	540,013,236
Other Trade Payables	36	4,221,841,955	5,446,826,194
Tax Payable	37	35,644,307	36,615,826
Provision for Liabilities	38	904,517,415	722,777,770
Total Current Liabilities		6,955,088,748	6,746,233,026
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>38,536,989,888</b>	<b>42,000,130,540</b>

**NATIONAL HOSPITAL INSURANCE FUND**  
*Reports and Financial Statements*  
*For the year ended June 30, 2019*

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The financial statements on pages 34 to 86 were approved by the Board of Management on 30/09/2019 and signed on its behalf by:

**Ag. Chief Executive Officer**



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**Mr. Nicodemus O. Odongo**

**Ag. Head of Finance**



.....

**Mr. Bernard K. Njenga ICPAK**  
**Membership No. 4975**

**Chairperson**



.....

**Mrs. Hannah W. Muriithi**  
**EBS**

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

Note	Accumulated Fund		Retained Earnings		Total	
	Kes	Kes	Kes	Kes	Kes	Kes
At July 1, 2017	33	34				
Changes in the year / Total comprehensive income	12,209,923,340	22,748,051,307	34,957,974,647			
At June 30, 2018	12,209,923,340	23,043,974,174	35,253,897,514	295,922,867	295,922,867	
At July 1, 2018	12,209,923,340	23,043,974,174	35,253,897,514			
Changes in the year / Total comprehensive income	-	(3,671,996,374)	(3,671,996,374)			
At 30th June, 2019	12,209,923,340	19,371,977,800	31,581,901,140			

- The Finance & Investment board committee recommended that the unutilised VER/VSI provision of Kes 349,084,193 be posted back to the retained earnings having been over provided in the FY 2016/2017. Retained earnings figure of Kes. 22,694,889,981 at the beginning of the period (Reported in 2017/18) has been restated to Kes. 23,043,974,174 as a result of reversal of unutilized VER/VSI provision of Kes. 349,084,193.

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 Kes	2018 Kes
<b>OPERATING ACTIVITIES</b>			
Cash generated/used from/in operations	39(a)	(6,059,088,696)	4,065,270,966
Tax Paid	24	(259,394,980)	(233,471,884)
Net cash generated from operating activities		<b>(6,318,483,676)</b>	<b>3,831,799,083</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	21	(260,295,395)	(1,584,571,004)
Purchase of Intangible Assets	22	(299,087,477)	-
Proceeds from disposal of property, plant and equipment	16	24,650	8,524,260
Interest from investment	16	1,486,526,324	1,860,220,651
Proceeds from sale of South B estate	25	3,651,201	4,493,486
(Purchase) Redemption of Fixed Interest Investment	26	13,680,000	-
Purchase of Long-term Deposit	27	(89,354,709)	(176,700,726)
(Purchase)/Redemption of unquoted investment	28	(9,311,630)	(315,835,034)
Net cash used in investing activities		<b>845,832,964</b>	<b>(203,868,367)</b>
<b>INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(5,472,650,712)</b>	<b>3,627,930,716</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>21,738,507,316</b>	<b>18,110,576,600</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>39(b)</b>	<b>16,265,856,604</b>	<b>21,738,507,316</b>

The notes set out on pages 45 to 86 are an integral part of these financial statements.

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget		Supplementary Budget		Revised budget		Actual		Variance		Percentage Difference	
	2018/2019	2018/2019	2018/2019	2018/2019	2018/2019	2018/2019	2018/2019	2018/2019	2018/2019	2018/2019	2018/2019	2018/2019
<b>INCOME</b>	<b>Kes</b>	<b>Kes</b>	<b>Kes</b>	<b>Kes</b>	<b>Kes</b>	<b>Kes</b>	<b>Kes</b>	<b>Kes</b>	<b>Kes</b>	<b>%</b>	<b>%</b>	<b>%</b>
National Scheme	44,560,000,000	-	-	44,560,000,000	36,502,988,785	(8,057,011,215)	-18%					
Interest from Investment	1,853,487,726	-	-	1,853,487,726	1,486,526,324	(366,961,402)	-20%					
Rental Income	372,123,926	-	-	372,123,926	303,218,757	(68,905,169)	-19%					
Civil Servants Medical Scheme	3,807,983,600	192,016,400	4,000,000,000	4,000,012,000	12,000	0%						
NPS & KPS Medical Schemes	4,785,805,560	-	-	4,785,805,560	5,535,805,560	750,000,000	16%					
Free maternity (Linda Mama)	4,298,000,000	-	-	4,298,000,000	(2,298,000,000)	-53%						
HISP (OVC)	1,091,808,000	-	-	1,091,808,000	300,000,000	(791,808,000)	-73%					
HISP (OPPSD)	504,000,000	-	-	504,000,000	(504,000,000)	-100%						
County Schemes	552,859,089	-	-	552,859,089	1,247,879,835	695,020,746	126%					
Parastatals Medical Schemes	649,035,584	254,120,750	903,156,334	1,477,931,462	574,775,128	64%						
Private Schemes Associations	-	121,376,500	121,376,500	320,256,307	198,879,807	164%						
Secondary Medical Scheme (Edu Afya)	-	3,815,778,214	3,815,778,214	2,237,700,212	(1,578,078,002)	-41%						
<b>TOTAL INCOME</b>	<b>62,475,103,485</b>	<b>4,383,291,864</b>	<b>66,858,395,349</b>	<b>55,412,319,242</b>	<b>(11,446,076,107)</b>	<b>-17%</b>						
<b>RECURRENT EXPENDITURE</b>												
(a) Personnel Emoluments	4,486,875,441	-	-	4,486,875,441	4,865,435,027	165,023,903	3%					
(b) Administration Expenses	3,313,389,642	205,287,125	3,518,676,767	2,520,654,955	447,500,433	18%						

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

(c) Tax Expense	274,977,932	-	274,977,932	218,242,781	56,735,151	26%
(d) Finance Cost	170,000,000	-	170,000,000	104,061,207	65,938,793	63%
Total Admin. Expenses	<b>8,245,243,015</b>	<b>205,287,125</b>	<b>8,450,530,140</b>	<b>7,708,393,970</b>	<b>735,198,280</b>	
<b>BENEFITS EXPENSES</b>						
National Scheme	32,111,283,593	-	32,111,283,593	37,716,058,407	(5,604,774,814)	-15%
Civil Servant Medical Scheme	3,236,786,060	163,213,940	3,400,000,000	4,643,083,154	(1,243,083,154)	-27%
NPS/ KPS Medical Schemes	3,897,934,726	-	3,897,934,726	3,525,284,454	372,650,272	11%
Free Maternity	4,298,000,000	-	4,298,000,000	3,170,973,087	1,127,026,913	36%
HISP (OVC)	928,036,800	-	928,036,800	397,432,478	530,604,322	134%
HISP (OPPSD)	428,400,000	-	428,400,000	108,340,599	320,059,401	295%
County Schemes	469,930,225	-	469,930,225	768,846,048	(298,915,822)	-39%
Parastatals Medical Schemes	551,680,246	216,002,638	767,682,884	1,336,575,180	(568,892,296)	-43%
Private Schemes Associations	-	103,170,025	103,170,025	430,801,235	(327,631,210)	-76%
Secondary Medical Scheme (EduAfya)	-	3,243,411,482	3,243,411,482	1,327,152,630	1,916,258,852	144%
Total Benefit Expenses	<b>45,922,051,651</b>	<b>3,725,798,085</b>	<b>49,647,849,736</b>	<b>53,424,547,272</b>	<b>(3,776,697,536)</b>	
<b>TOTAL RECURRENT EXPENSES</b>	<b>54,167,294,666</b>	<b>3,931,085,210</b>	<b>58,098,379,876</b>	<b>61,132,941,242</b>	<b>(3,041,499,256)</b>	
<b>SURPLUS</b>	<b>8,307,808,819</b>	<b>452,206,654</b>	<b>8,760,015,473</b>	<b>(5,720,622,000)</b>	<b>(14,487,575,363)</b>	

NOTE: Statement of comparison of budget and actual amounts for the year ended June 30, 2019 is prepared on cash basis of accounting.

## **NATIONAL HOSPITAL INSURANCE FUND**

### **Reports and Financial Statements**

**For the year ended June 30, 2019**

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**Statement of Reconciliation of Actual Amounts on a Comparable Basis included in the Statement of Comparison of Budget and Actual Amounts as Per Statement of Financial Performance:**

- i. The statement of comparison of budget and actual amounts excludes other incomes as revenue which are included in the Statement of Comprehensive Income like Agency Commissions, Miscellaneous Receipts and Proceeds on Disposal totalling Kes. 4,170,447.
- ii. Member contributions amounted to Kes 36.5 billion against a set annual target of Kes 44.56 billion which is below target by 18%. The revenue collection performance was however higher than the previous financial year 2017/18 by Kes 3.3 billion. The revenue target for 2018/19 was based on the fact that implementation of the universal health coverage (UHC) was to be rolled out through NHIF on an insurance model where the Government was to pay the premiums to NHIF to register beneficiaries in a similar manner to other Government programmes such as HISP and OPSD programme. However, the government changed this framework in November 2018 when the performance contract had already been signed. This change of approach therefore negatively affected the projected member registration and revenue collection. Analysis of the revenue collections in the 71 branch offices indicate that only nine met their set targets for the period under review. The decline in revenue collections is also attributed to low compliance levels in the formal and informal sector (see table 4 above) as well as low levels of retention of members in the informal sector largely due to implementation of the UHC pilot as many Kenyans were looking forward for the Government to cover for them. Also, it was noted that informal sector members were registering to NHIF to enjoy benefits and exit in the shortest time possible.
- iii. There was a reduction in short term investments during the year leading to 10% decline in Interest from investments. We redeemed investment to cater for the increased claims payments as a result of expanded benefits package to members.
- iv. Rental income earned as at 30th June 2019 was Kes 303,218,757 which was below the set annual target by 19%. This is mostly attributed to rent arrears owed to the fund by government institutions such as Ministry of Environment constituting of 90% of the total arrears.
- v. NPS & KPS Premiums received as at 30th June 2019 amounted to Kes 5.535 billion. This include Kes 750 million for the cover period 1st October 2017 to 30th September 2018 and Kes 4.785 billion paid for the current contract period starting October 1st, 2018 to September 30th, 2019. Kes 750 Million relates to 1st July to 30th September 2019.
- vi. Sponsored programs (HISP, Elderly & PWD) have received premiums from the Government amounting to Kes 300.00 million against expected premiums of Kes 1.59 billion as per contracts. HISP (OVC) for the Poor has an outstanding premium of Kes 791.8 million for the current year. Older Persons & PWSD's programs has an outstanding budget balance of Kes 504 million. These funds have since been

## **NATIONAL HOSPITAL INSURANCE FUND**

### **Reports and Financial Statements**

#### **For the year ended June 30, 2019**

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- received in the FY 2019/2020. There was low utilization under this scheme due to delay in remittance of funds from the Ministry.
- vii. Free Maternity program has received premiums from the Government amounting to Kes 2 billion.
  - viii. The Fund received Kes. 2.2 billion as premiums for Secondary school medical scheme from the Ministry of Education against expected premiums of Kes 3.8 billion as per contracts. Since this is its second year of implementation, the scheme's awareness level is still low. Also, a number of claims could not be processed due to lack of NEMIS number and documentation from the schools.
  - ix. Premiums from County and Parastatals medical schemes have gone up due to increased number of contracted counties and institutions.
  - x. The Ministry of Health has paid Kes 2 billion for Linda mama program against the targeted Kes 4.29 billion.
  - xi. The reasons for the high claim pay-out are attributed to the following:
    - ✓ High level of awareness of how NHIF works and what it would pay for as benefits has led to increased usage of the cover. Aggressive public education campaigns to increase knowledge and understanding of NHIF might have sparked the uptake.
    - ✓ Increased benefits packages over the period has led to growth in utilization and in particular the introduction of ultrasound and PET Scan in the packages.
    - ✓ Adverse selection due to short waiting period to access benefits which enables members to adversely select the scheme while in need of medical intervention. This is also evident in cases where many beneficiaries have pre-existing chronic diseases that makes utilization almost certain.
  - xii. The Civil servant, County schemes, parastatals and Private schemes & associations medical schemes have experienced high utilization in the period under review compared to the annual budget. The reason for the high utilization by the counties and parastatals is that there was an increase in the number of entities brought on board. The number of counties increased from 14 in the previous financial year to 30 in the current.

PFM Act section 81(2) ii and iv requires a National Government entity to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available. However, for public sector entities, the PSASB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements.

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

### RECONCILIATION STATEMENT BETWEEN STATEMENT OF COMPREHENSIVE INCOME & EXPENDITURE AND STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED JUNE 30, 2019.

The following is a reconciliation statement between the statement of financial performance which uses accrual basis to recognize revenue and expenses and statement of comparison of Budget and Actual amounts which is prepared on cash basis. The difference denoted by the Deficit funds is explained here below:

RECONCILIATION STATEMENT	AS AT 30TH JUNE 2019		
	As per Financial Statements	Cash received (As per Budget Vs Actual Statement)	Amount
<b>Deficit from the Fund (Budget vs. Actual)</b>			<b>(5,720,622,000)</b>
<b>Add: Deferred Income</b>			
Secondary Schools Medical Scheme	3,905,317,125	2,237,700,212	1,667,616,913
HISP (OVC)	1,091,808,000	300,000,000	791,808,000
Older Persons and PWSD	252,000,000	-	252,000,000
Linda Mama	3,170,973,087	2,000,000,000	1,170,973,087
<b>Add: Other Income</b>			
Agency Commissions	2,187,355	-	2,187,355
Miscellaneous Receipts	1,958,442	-	1,958,442
Proceeds On Disposal	24,650	-	24,650
<b>Less:</b>			
National Police service/ Kenya Prisons Scheme	4,785,805,560	5,535,805,560	(750,000,000)
County Medical Schemes	1,105,530,353	1,247,879,835	(142,349,482)
Private schemes & Association	255,738,036	320,256,307	(64,518,271)
Parastatals Medical Scheme	1,216,984,157	1,477,931,462	(260,947,305)
VAT Expenses - Property Account	41,152,199	-	(41,152,199)
Provision for Audit fees	5,000,000	-	(5,000,000)
Depreciation	573,975,564	-	(573,975,564)
<b>Sub-Total</b>			
<b>Net Deficit from the Fund</b>			<b>(3,671,996,374)</b>

# **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements  
For the year ended June 30, 2019*

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

NHIF is established by and derives its authority and accountability from NHIF Act. The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Fund's principal activity is receiving of contributions and paying of benefits to its members.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

### **2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the *Fund's* accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

The financial statements are presented in Kenya Shillings (Kes), which is also the functional and reporting currency of the Fund.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, IPSAS 24, NHIF Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

The financial statements comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and notes.

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements*

*For the year ended June 30, 2019*

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### **3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

#### **i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

##### **IFRS 16: *Leases***

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognized in respect of most operating leases where the Company is the lessee.

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

##### **IFRIC 23: *Uncertainty Over income tax treatments***

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements*

*For the year ended June 30, 2019*

---

### ***Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)***

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

### ***Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

### ***Amendments to IFRS 3 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017.***

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements  
For the year ended June 30, 2019*

---

### ***Amendments to IFRS 11 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests.

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

### ***Amendments to IAS 12 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

### ***Amendments to IAS 23 - Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

**NATIONAL HOSPITAL INSURANCE FUND**  
*Reports and Financial Statements*  
*For the year ended June 30, 2019*

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**Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)**

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

ii. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

***IFRS 17 Insurance Contracts (Issued 18 May 2017)***

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

***Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)***

Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14,

## **NATIONAL HOSPITAL INSURANCE FUND**

### **Reports and Financial Statements**

**For the year ended June 30, 2019**

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IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

#### **(iii) Early adoption**

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the financial statements are set out below.

##### **a) Revenue Recognition**

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

- i) Revenue is generally recognized in the income statement on accrual basis. Best estimates of what is receivable are included in the accounts.

## **NATIONAL HOSPITAL INSURANCE FUND**

### **Reports and Financial Statements**

**For the year ended June 30, 2019**

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- ii) Finance income comprises interest receivable from bank deposits and investment in securities and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iii) Rental income is recognised in the income statement as it accrues using the effective lease agreements.
- iv) Other income is recognised as it accrues.

#### **b) Benefit Expenses (Claims)**

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

At the close of business on 30 June of the financial period, any valid claims not presented to the Fund are automatically accounted for in the subsequent financial period.

#### **c) Property, Plant And Equipment**

All categories of property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses.

#### **d) Depreciation and Impairment of Property, Plant And Equipment**

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of on-going but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

ASSET/ ASSET CLASS	ASSET LIFE/ LEASE PERIOD	PERCENTAGE DEPRECIATION
Land	999 years	0%
Buildings and Civil Works	40 years	2.5%
Plant and Machinery	8 years	12.5%
Motor Vehicles & Motor Cycles	5 years	20%
Computers and Related Equipment	3 years	33.3%
Office Equipment	8 years	12.5%
Furniture and Fittings	5 years	20%

### e) Intangible Assets

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

### f) Amortisation and impairment of intangible assets

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

### g) Finance and Operating Leases

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

All other leases are treated as operating leases and payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

### h) Fixed Interest Investments (Bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. The bonds are measured at cost.

## **NATIONAL HOSPITAL INSURANCE FUND**

### **Reports and Financial Statements**

**For the year ended June 30, 2019**

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**i) Unquoted Investments**

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

**j) Trade and Other Receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

**k) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand and 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.

**l) Trade & Other Payables**

These payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Fund or not, less any payments made to the suppliers.

**m) Retirement Benefit Obligations**

The Fund operates a defined contribution scheme for all full-time employees from July 1, 2001. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kes. 200 per employee per month.

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements  
For the year ended June 30, 2019*

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### **n) Budget information**

The original budget for FY 2018-2019 was approved by the Board of management on 26<sup>th</sup> of January 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Fund upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded additional appropriations of Kes. 4,351,045,160 on the 2018-2019 budget following the governing body's approval.

The Fund's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under note 38 of these financial statements.

### **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.

### **p) Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements*

*For the year ended June 30, 2019*

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### **r) Taxation**

The Fund is an appointed agent for Withholding tax and Value Added Tax. Tax payable for the current period and prior periods are measured at the amounts expected to be paid to the tax authorities and in accordance with the VAT Act and the income Tax act.

Withholding tax expense relates to Interest on investment and is deducted from Surplus before taxation.

### **5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Fund'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.

#### ***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 Fund 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 Fund. Such changes are reflected in the assumptions when they occur.

#### ***Useful lives and residual values***

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Fund
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes

## **NATIONAL HOSPITAL INSURANCE FUND**

### *Reports and Financial Statements*

*For the year ended June 30, 2019*

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- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

#### ***Provisions***

Provisions for bad and doubtful debts when raised, management determines 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.

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

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### NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

	2019 Kes	2018 Kes
<b>6 CONTRIBUTIONS</b>		
Standard Contribution	28,186,747,195	26,999,176,606
Self Employed Contributions	5,070,954,822	3,880,651,567
Late Contributions	2,971,898,954	1,929,821,320
Penalties	273,387,814	231,994,217
<b>Total</b>	<b>36,502,988,785</b>	<b>33,041,643,709</b>

Contributions are recognised in accordance with the NHIF Act, through employee contributions and voluntary contributions. This forms the primary health insurance cover for all members and declared dependants as provided in the NHIF Act of 1998.

### 7 SURPLUS (DEFICIT) FROM CIVIL SERVANTS (CS) SCHEME

Premiums	4,000,012,000	3,623,700,000
Expenses:		
Group Life Expenses	600,476,909	696,076,557
Administrative Expenses	49,137,819	308,467,316
Outpatient Expenses	1,221,661,065	782,842,520
Inpatient Expenses	2,104,831,762	1,142,868,589
Specialized Benefit Packages	511,344,194	448,448,136
Evacuation Services Expenses	155,631,405	200,372,429
<b>Total Expenses</b>	<b>4,643,083,154</b>	<b>3,579,075,547</b>
<b>Deficit/Surplus for the Year</b>	<b>(643,071,154)</b>	<b>44,624,453</b>

The Fund entered into a contract with the government to provide private medical insurance cover to civil servants. The civil Servants scheme is now in its 7th year since inception on 1st January 2012. Under this medical insurance, principal members together with six dependents are entitled to outpatient & inpatient care, group life and last expense cover. The Outpatient cover caters for all outpatient procedures including dental & optical services while inpatient cover is received in NHIF accredited facilities and includes all inpatient procedures. The reason for the scheme deficit was because of increased awareness by the members.

### 8 SURPLUS (DEFICIT) FROM NPS & KPS MEDICAL SCHEME

Premiums	4,785,805,560	3,589,354,170
Expenses:		

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

	2019 Kes	2018 Kes
Group Life Expenses	216,741,326	126,640,340
Administrative Expenses	14,948,163	371,735,498
Outpatient Expenses	1,138,890,828	843,620,934
Inpatient Expenses	1,587,954,649	1,000,496,638
Specialized Benefit Packages	485,442,710	342,250,527
Evacuation Services Expenses	81,306,778	165,880,753
Total Expenses	3,525,284,454	2,850,624,690
Deficit/Surplus for the Year	1,260,521,106	738,729,480

The National Police Service & The Kenya Prisons Service contracted The Fund to provide comprehensive medical insurance cover to its employees. The scheme is in its second year of implementation and current policy cover runs from 1st October 2018 to 30 September 2019.

### 9 SURPLUS FROM SECONDARY SCHOOL STUDENTS MEDICAL SCHEME

Premiums	3,905,317,125	849,085,617
Expenses:		
Group Life Expenses	207,131,372	-
Administrative Expenses	69,934,846	21,507,180
Outpatient Expenses	581,981,036	265,330
Inpatient Expenses	342,071,223	805,200
Specialized Benefit Packages	126,034,152	-
Total Expenses	1,327,152,630	22,577,710
Deficit/Surplus for the Year	2,578,164,495	826,507,907

The Ministry of Education contracted NHIF to provide medical insurance to all public secondary school students for the duration of their study. This is in line with the Government Agenda of achieving Universal healthcare coverage. The Fund is expected to cover at least 3 million students enrolled in public secondary schools. Underutilization of the scheme is due to

- The scheme's awareness level is still low because this is its second year of implementation.
- Also, a number of claims could not be processed due to lack of Nemis number and documentation from the schools.

### 10 SURPLUS FROM HISP (OVC) PROGRAM

Premiums	1,091,808,000	962,530,000
Expenses:		
Outpatient Expenses	174,788,294	241,089,822
Inpatient Expenses	136,470,292	14,295,543

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

	2019 Kes	2018 Kes
Specialized Benefit Packages	86,173,892	81,545,026
<b>Total Expenses</b>	<b>397,432,478</b>	<b>336,930,391</b>
<b>Surplus for the Year</b>	<b>694,375,522</b>	<b>625,599,609</b>

The scheme is administered by the Fund in partnership with the Ministry of Health. Health Insurance Subsidy programme - OVC is aimed at providing comprehensive medical cover to a selected group of the most vulnerable citizens (very poor) in the country. The underutilization is due to delay in remittance of funds by the Ministry.

### 11 SURPLUS FROM HISP-OPPSD PROGRAM

Premiums	252,000,000	252,000,000
<b>Expenses:</b>		
Outpatient Expenses	25,043,075	26,792,314
Inpatient Expenses	49,921,920	9,791,383
Specialized Benefit Packages	33,375,604	41,455,085
<b>Total Expenses</b>	<b>108,340,599</b>	<b>78,038,782</b>
<b>Surplus for the Year</b>	<b>143,659,401</b>	<b>173,961,218</b>

The Government through the Ministry of Health entered into an MOU to administer a Health Insurance subsidy programme for Older Persons and Person's with severe disabilities in line with the Constitutional requirement for the State to ensure widest possible enjoyment of the right to health while protecting the right to the highest attainable standard of health for all Kenyans. The Older Persons and Persons with Severe Disability program commenced in 2015. 42,000 beneficiaries have so far been registered.

### 12 SURPLUS (DEFICIT) FROM COUNTY MEDICAL SCHEME

Premiums	1,105,530,353	643,220,028
<b>Expenses:</b>		
Group Life Expenses	129,474,631	83,397,637
Administrative	1,269,060	-
Outpatient Expenses	195,842,627	75,778,720
Inpatient Expenses	354,502,550	203,819,028
Specialized Benefit Packages	87,757,179	55,024,572
<b>Total Expenses</b>	<b>768,846,048</b>	<b>418,019,958</b>
<b>Surplus for the Year</b>	<b>336,684,305</b>	<b>225,200,070</b>

The Fund entered into a contract with County Governments to provide private medical insurance cover to the staff of the counties. The county government

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

scheme started in 2014 and so far 25 counties and 5 county assemblies have signed up with 31 schemes being active.

	2019 Kes	2018 Kes
<b>13 SURPLUS (DEFICIT) FROM PARASTATALS MEDICAL SCHEMES</b>		
Premiums	1,216,984,157	960,944,754
Expenses:		
Group Life Expenses	26,837,599	13,345,977
Administrative Expenses	139,300	-
Outpatient Expenses	393,927,385	131,440,277
Inpatient Expenses	802,062,311	592,335,942
Specialized Benefit Packages	113,608,585	63,554,449
Total Expenses	1,336,575,180	800,676,645
Surplus for the Year	(119,591,024)	160,268,109

The Fund entered into contracts with parastatals to offer private medical insurance cover to the employees of the parastatals at a premium. Increased awareness of the scheme led to increased utilization hence the deficit.

<b>14 SURPLUS (DEFICIT) FROM PRIVATE SCHEMES ASSOCIATIONS</b>		
Premiums	255,738,036	-
Expenses:		
Group Life Expenses	203,291	-
Outpatient Expenses	89,264,450	-
Inpatient Expenses	329,857,615	-
Specialized Benefit Packages	11,475,879	-
Total Expenses	430,801,235	-
Surplus for the Year	(175,063,199)	-

The Fund entered into contracts with private companies and associations to offer private medical insurance cover to their employees at a premium. Included in the scheme is KARO, CBK Pension Scheme, Retired Parliamentarians among others. The scheme started in the current financial year. High utilization was noted however, the Management has reviewed the premiums upwards.

<b>15 FREE MATERNITY</b>		
Premiums	3,170,973,087	1,488,450,869
Expenses:		
Inpatient expenses	409,350,835	-

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

	2019 Kes	2018 Kes
Cesarian Delivery Expenses	416,724,020	198,695,425
Normal Delivery Expenses	2,046,261,027	1,253,550,212
Antenatal Expenses	229,297,566	14,960,085
Postnatal Expenses	22,942,330	1,508,947
Administrative Expenses	46,397,309	19,736,200
<b>Total Expenses</b>	<b>3,170,973,087</b>	<b>1,488,450,869</b>

This is a sponsored program by the government of Kenya through the Ministry of Health targeting pregnant mothers from all backgrounds launched on 1st June 2013. The program was initially run by the Ministry of Health but was later transferred to NHIF. A memorandum of understanding was signed between the Government and NHIF to actualize the implementation of the programme on 27th February 2017. The program targets all expectant mothers without insurance where mothers are entitled to access antenatal care, maternity services, postnatal care and care for new-born from NHIF contracted public and private health facilities. The MOU between NHIF and the Ministry provides that the Fund should reimburse Healthcare facilities for services rendered to the mothers. High Utilization is due to increased awareness by the citizens.

### 16 OTHER INCOMES

Interest on Investments	1,485,862,869	1,859,477,224
Interest from Disposal South B Estate	663,455	743,427
Rent from Properties	303,218,757	316,295,629
Agency Commissions	2,187,355	2,032,824
Miscellaneous Receipts	1,958,442	1,765,655
Proceeds on Disposal	24,650	8,524,260
<b>Total</b>	<b>1,793,915,528</b>	<b>2,188,839,018</b>

Other incomes are those that accrue to the Fund from Short-term and Long-term Investments as well as services rendered to third parties. This consists of proceeds from sundry receipts (tender fees, card replacement charges), agency commissions and disposal of obsolete assets. The decrease is as a result of reduction in the Investment portfolio due to demand for funds to cater for increased benefits.

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

	2019 Kes	2018 Kes
<b>17 BENEFIT EXPENSES</b>		
Outpatient Expenses	8,213,396,829	5,105,478,234
Inpatient Expenses	11,781,080,910	12,052,847,235
Specialized Benefit Packages	17,375,064,667	11,404,574,980
Evacuation Services	346,516,000	924,046,197
<b>Total</b>	<b>37,716,058,407</b>	<b>29,486,946,645</b>

These are medical benefits paid out to health care facilities for providing medical services to members of the national scheme. The Fund saw a 28% significant increase in claims payout attributed to the following:

- ✓ High level of awareness of how NHIF works and what it would pay for as benefits has led to increased usage of the cover. Aggressive public education campaigns to increase knowledge and understanding of NHIF has also sparked the uptake.
- ✓ Increased benefits packages over the period has led to growth in utilization and in particular the introduction of ultrasound package.
- ✓ Adverse selection due to short waiting period to access benefits which enables members to adversely select the scheme while in need of medical intervention. This is also evident in cases where many beneficiaries have pre-existing chronic diseases that makes utilization almost certain. NHIF being a social insurer does not discriminate on the basis of Age, Health or Social status

## 18 STAFF COSTS

Basic Salary	2,830,319,850	2,899,135,109
Basic Salary(Internship)	3,545,674	-
Gratuity / Pension Contributions	337,408,325	307,485,859
House Allowance	708,135,694	649,943,925
Staff Overtime Allowance	1,444,088	1,565,201
Commuter Allowance	267,784,053	213,616,488
Responsibility Allowance	27,421,701	25,998,893
N.S.S.F - Employer Contributions	4,641,200	4,480,316
Transfer Allowance	14,525,629	18,284,201
Acting Allowance	11,822,523	7,889,138
Hardship Allowance	17,916,071	18,011,406
Utilities	6,996,283	6,442,235

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

	2019 Kes	2018 Kes
Leave Allowance	26,287,230	26,216,888
Staff Medical Expenses	244,538,342	290,603,799
Group Life Cover	48,320,006	46,218,138
Hospitality/ Entertainment	35,805,718	38,570,516
Uniforms & Clothing	4,069,692	5,967,596
Staff Welfare	50,408,079	39,784,850
Training Expenses	224,044,871	196,278,493
<b>Total</b>	<b>4,865,435,027</b>	<b>4,796,493,053</b>

These are sum of all wages paid to employees as compensation, cost of employee benefits and payroll taxes paid by the fund. The Management is committed towards Human resource strategic planning and the provision of equitable compensation and benefits to staff. It focuses on strategically aligning the Fund's human capital to the corporate strategic objectives. There was a 2% increase during the year due to provision for pending CBA and Annual increments.

### NO OF STAFF

	2019	2018
Permanent - Management cadre	596	593
Permanent - Unionisable	1,332	1,337
<b>TOTAL</b>	<b>1,928</b>	<b>1,930</b>

### 19 BOARD EXPENSES

Sitting Allowance	12,450,000	7,940,000
Seminars And Conferences	4,085,907	13,115,573
Accommodation	1,767,546	1,922,710
Honoraria	960,000	226,666
Airtime	56,000	-
Mileage And Per Diem	7,272,913	10,591,528
Lunch All. & Refreshments	2,473,565	970, 850
Travel - Local	3,015,198	3,846,661
<b>Total</b>	<b>32,081,129</b>	<b>38,613,988</b>

This expenditure caters for Board members sitting allowances, travelling expenses, meetings expenses, training on corporate governance and workshops.

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

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The expenditure is influenced by the number of full board and committee meetings, number of seminars, and travel activities.

	2019 Kes	2018 Kes
<b>20 OTHER OPERATING EXPENSES</b>		
Subscriptions	39,551,853	39,580,736
Audit Expenses	5,000,000	4,534,000
Legal Expenses	156,424,194	140,078,247
Security Expenses	73,379,599	69,371,886
Transport Operating Exp.	227,269,158	179,348,786
Travel & Accommodation	352,661,591	312,302,013
Postage	16,620,864	16,021,974
Telephone Expenses	88,475,248	87,413,169
Electricity, Water & Conservancy	18,193,364	15,647,756
Newspapers/ Periodicals/ Books	4,495,104	7,146,956
Printing & Stationery-General	54,812,013	68,725,026
Advertising & Publicity	585,381,201	731,980,878
Security Printing	59,656,100	19,912,926
Show Expenses	22,769,921	21,885,765
Cleaning Materials & Services	40,120,429	34,972,203
Computer Stationary & Material	19,106,072	21,151,723
Rent & Rates	210,610,356	178,947,371
Insurance Premiums	49,298,055	37,432,298
UHC Registration & Card expenses	143,024,701	-
Maintenance of Office Equipment	36,768,664	146,224,663
Maintenance of Computers	289,955,337	151,968,200
<b>Total</b>	<b>2,493,573,826</b>	<b>2,284,646,575</b>

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements*

*For the year ended June 30, 2019*

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These are recurrent operating expenses that ensure the Fund operates and carries out its activities smoothly. They include expenses associated with the general administration of the organization. The current year saw an increase in operating expenditure equivalent to 5.4% compared to the previous year. This was due to expansion of the Fund which led to increased number of branches and expenditure on printing of UHC registration cards.

**NATIONAL HOSPITAL INSURANCE FUND**  
*Reports and Financial Statements*  
*For the year ended June 30, 2019*

**21 a) PROPERTY, PLANT AND EQUIPMENT**

2018/2019	Land	Buildings	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
	Kes	Kes	Kes	Kes	Kes	Kes	Kes
<b>COST</b>							
At July 1, 2018	298,589,665	9,752,032,988	391,722,457	2,731,980,468	2,521,448,466	1,444,687,484	17,140,461,527
Additions	-	-	-	205,085,095	55,210,300	-	260,295,395
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
At 30 June 2019	298,589,665	9,752,032,988	391,722,457	2,937,065,563	2,576,658,766	1,444,687,484	17,400,756,923
<b>DEPRECIATION</b>							
At July 1, 2018	-	1,656,449,015	302,830,839	913,356,300	897,224,816	-	3,769,860,970
Charge for the year	-	136,131,817	28,057,783	85,749,600	55,226,555	-	305,165,756
Eliminated on disposal/transfer	-	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-	-
At 30 June 2019	-	1,792,580,832	330,888,622	999,105,900	952,451,372	-	4,075,026,726
NBV At 30 June 2018	298,589,665	7,959,452,156	60,833,835	1,937,959,663	1,624,207,394	1,444,687,484	13,325,730,197

IAS 16 establishes principles for recognizing property, plant and equipment as assets, measuring their carrying amounts, and measuring the depreciation charges and impairment losses to be recognized in relation to them. The Fund's assets include, land, buildings, motor vehicles & motorcycles, office equipment furniture & fittings and computer equipment. Depreciation is on a straight-line Basis as per Note 4d, page 51.

**NATIONAL HOSPITAL INSURANCE FUND**  
*Reports and Financial Statements*  
*For the year ended June 30, 2019*

**21 b) PROPERTY, PLANT AND EQUIPMENT (Kes) (Continued)**

2017/2018 FY	Land	Buildings	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
	Kes	Kes	Kes	Kes	Kes	Kes	Kes
<b>COST</b>							
At July 1, 2017	298,589,665	9,752,032,988	391,722,457	1,758,592,596	2,369,164,582	1,444,687,484	17,052,280,013
Additions	-	-	-	973,387,872	152,283,884	-	1,584,571,004
Transfers	-	-	-	-	-	-	(1,496,389,489)
Disposals	-	-	-	-	-	-	-
At 30 June 2018	298,589,665	9,752,032,988	391,722,457	2,731,980,468	2,521,448,466	1,444,687,484	17,140,461,527
<b>DEPRECIATION</b>							
At July 1, 2017	-	1,520,317,198	274,311,348	827,525,184	843,008,755	-	3,948,491,672
Charge for the year	-	136,131,817	28,519,490	85,831,116	54,216,062	-	565,905,017
Eliminated on disposal/transfer	-	-	-	-	-	-	(744,535,719)
Impairment loss	-	-	-	-	-	-	-
At 30 June 2018	-	1,656,449,015	302,830,839	913,356,300	897,224,816	-	3,769,860,970
NBV At 30 June 2018	298,589,665	8,095,583,973	88,891,618	1,818,624,167	1,624,223,649	1,444,687,484	13,370,600,557

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

#### 22 INTANGIBLE ASSETS

<b>COST</b>	<b>2019</b>	<b>2018</b>
As at 1st July	1,638,702,539	142,313,050
Additions	299,087,477	-
Disposals	-	-
Transfer	-	1,496,389,489
As at June 30	<b>1,937,790,016</b>	<b>1,638,702,539</b>
Amortization		
As at 1st July	878,611,887	126,472,892
Charge for the year	268,809,808	7,603,276
Transfer	-	744,535,719
As at June 30	<b>1,147,421,695</b>	<b>878,611,887</b>
NBV as at June 30	<b>790,368,321</b>	<b>760,090,652</b>

This comprise software and licenses purchased by the Fund. They are amortized over a three-year period. The Fund did not purchase any software in the current financial year.

#### 23 FINANCE EXPENSES

Bank Charges	7,022,768	16,380,663
Commissions	97,038,439	299,389,603
<b>TOTAL</b>	<b>104,061,207</b>	<b>315,770,266</b>

This caters for bank charges and commissions paid to revenue collection banks and Safaricom M-pesa services. Finance expenses reduced in the current financial year due to Management decision to collect revenue directly through banks as opposed to agency approach used in previous years.

#### 24 TAX EXPENSES

With Holding Tax Expense	218,242,781	196,221,356
VAT Expense - Property A/C	41,152,199	37,250,527
<b>Total</b>	<b>259,394,980</b>	<b>233,471,884</b>

Withholding tax expense is paid in respect to interest earned from investments while Vat on property are corporate taxes on rental income.

#### 25 RECEIVABLE - SOUTH B ESTATE MORTGAGE

Opening Balance as at 1st July/ Quarter	12,332,506	16,825,992
Less Payments Received in the Year	(3,651,201)	(4,493,486)
<b>Balance Receivable as at June 30</b>	<b>8,681,305</b>	<b>12,332,506</b>

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

The Fund sold houses in South B estate to staff members through mortgage at a rate of 6%. The recovery for the year and balance as at 30 June 2019 is shown above.

	2019 Kes	2018 Kes
<b>26 FIXED INTEREST INVESTMENTS (BONDS)</b>		
In Central Bank of Kenya 12.5% 12-Year Infrastructure Bond	20,520,000	34,200,000
<b>Total</b>	<b>20,520,000</b>	<b>34,200,000</b>

This is an investment bond held at the CBK as at 30 June 2019. Fixed interest investments offer a regular income for a specified term with the expectation that the principal will be repaid at the end of the term (maturity date).

### 27 LONG TERM DEPOSITS

NBK (Car Loan)	57,057,353	56,446,181
Savings & Loan	943,423,336	854,679,799
<b>Total</b>	<b>1,000,480,689</b>	<b>911,125,980</b>

The Fund has held deposits in NBK and KCB as guarantee for staff Car Loan and Mortgages respectively issued at negotiated interest rate to the Fund's employees. The schemes are negotiated at 5% per annum between the fund and the appointed banks who are the scheme managers. The interest earned is shared between the fund and the administrators at 2% and 3% respectively as approved by the board.

### 28 UNQUOTED INVESTMENTS

Consolidated Bank Shares	54,200,000	54,200,000
MTRH Loan	340,454,576	331,142,946
<b>Total</b>	<b>394,654,576</b>	<b>385,342,946</b>

MTRH Loan refers to a loan advanced by the Fund to the Moi Teaching and Referral Hospital (MTRH) earning an interest of three percent (3%) per annum. The interest is recognised among interest on investments under other incomes.

	Details	Amount
1	Equipment procurement Loan	312,669,869
2	Procurement & Acquisition & legal costs	68,800,240
	<b>Total Loan amount</b>	<b>381,470,109</b>
3	ADD: Capitalization of Interest Earned on the Loan.	10,395,817
4	LESS: Loan recovered from Claims payable	51,411,350
	<b>Balance of the Loan</b>	<b>340,454,576</b>

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

#### 29 TRADE AND OTHER RECEIVABLES

	2019 Kes	2018 Kes
Civil Servants Scheme Receivables	597,007,217	597,007,217
Secondary Schools Receivables	9,613,029	-
HISP (OPPSD)	126,000,000	-
Private Schemes Receivables	70,335,043	-
Electricity Deposit	1,342,384	1,342,384
Fuel Deposit	150,000	150,000
HISP (OVC) Receivable	1,353,283,833	561,475,833
Hospital Surcharges	69,960,622	29,182,350
Interest Receivable	92,407,951	107,110,161
Letter Of Credit	10,000,000	10,000,000
Mpesa Revenue Receivable	26,691,310	88,076,629
Outstanding Contributions	4,140,822,069	3,143,657,067
R/D Cheques	19,061,721	13,471,596
Rent Deposit	40,594,127	33,715,682
Rent Receivable	129,918,345	151,731,502
Staff Medical Scheme Deposit A	3,900,000	3,900,000
Staff Receivables	4,176,778	3,926,074
Sundry Prepayments	15,619,017	15,441,537
Telephone Deposits	253,804	253,804
Temporary Imprest	20,384,020	27,488,747
<b>Total Receivables</b>	<b>6,731,521,270</b>	<b>4,787,930,583</b>
Less: Provision for Doubtful Debt (Note 30)	823,074	-
<b>Total</b>	<b>6,730,698,196</b>	<b>4,787,930,583</b>

The fund recognises revenue on accrual basis therefore, amounts relating to the period under review are recognized as receivables. These are amounts owed to the Fund as at the end of the period by entities and individuals. They include Staff, institutions, employers, healthcare facilities and government ministries.

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

#### 30 PROVISION FOR DOUBTFUL DEBTS

	2019 Kes	2018 Kes
Provision for Doubtful receivables	823,074	-
<b>Total</b>	<b>823,074</b>	<b>-</b>

As mentioned under the summary of significant accounting policies note 4j on Page 53, trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis as per IAS 36. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. AS per the Fund's policy on provision for doubtful debt clause 5.3.6, debts aged over 24 months 100% of amount overdue shall be included in the provision, unless payment plans are in place and are being adhered to.

The above provision relate to monies owed to the Fund by members of staff who were separated from NHIF through disciplinary procedures and there is no likelihood of recovery of the amounts.

#### 31 SHORT TERM INVESTMENTS

KCB Call Deposit	1,015,153,816	1,505,153,816
Co-op Call Deposit	-	2,300,000,000
CBK Treasury Bills	11,110,000,000	8,430,000,000
Equity Bank Call Deposit A/C	1,500,000,000	5,552,000,000
<b>Total</b>	<b>13,625,153,816</b>	<b>17,787,153,816</b>

These are short-term investments in call deposits and Treasury Bills held for periods less than six months.

#### 32 BANK AND CASH BALANCES

Cash in Hand	716,915	1,252,734
Cash at Bank	2,546,289,209	3,550,257,345
Cash in Transit	93,696,665	399,843,422
<b>Total</b>	<b>2,640,702,789</b>	<b>3,951,353,501</b>

Cash at bank balances are funds held at Cooperative Bank of Kenya, Equity Bank and Kenya Commercial Bank, the Fund's main bankers. The 2.5 Billion is cash held in collection accounts and cash mopped up to pay claims processed at the end of the year as shown in Appendix I. 93 Million in transit are revenue collection held by agents at close of business on 30<sup>th</sup> June 2019.

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

#### 33 ACCUMULATED FUND

These are capital funds held by the Fund and represented by the Fund's various accumulated fixed assets. There were no changes to the accumulated fund during the year.

	2019 Kes	2018 Kes
Changes in the year	-	-
<b>Total</b>	<b>12,209,923,340</b>	<b>12,209,923,340</b>

#### 34 RETAINED EARNINGS

The Fund made a deficit after tax of Kes. 3,671,996,374 in 2018/2019 financial year compared to a surplus of Kes. 295,922,867 in previous financial year 2017/2018. The deficit is attributed to a spike in claims payment due to increased awareness of the Funds offerings through sensitization and full implementation of the enhanced benefit packages dubbed special benefit packages introduced in the year to meet member's needs.

As at the Beginning of Year	23,043,974,174	22,748,051,307
Changes in the year	(3,671,996,374)	295,922,867
<b>Balance at the End of Year</b>	<b>19,371,977,800</b>	<b>23,043,974,174</b>

Retained earnings figure of Kes. 22,694,889,981 at the beginning of the period (Reported in 2017/18) has been restated to Kes. 23,043,974,174 as a result of reversal of unutilized VER/VSI provision of Kes. 349,084,193.

#### 35 TRADE PAYABLES (Claims)

<b>Claims Payable</b>	<b>1,793,085,070</b>	<b>540,013,236</b>
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These are claims owed to healthcare providers who provide benefits to the funds registered members arising from hospitalization. The amounts were outstanding as at close of business on 30<sup>th</sup> June 2019.

#### 36 OTHER TRADE PAYABLES

Accruals	80,000	80,000
Agency General Payment (Staff Payables)	84,645	84,645
Agency: Group Personal Life/ Ac	-	1,472,383
Legal Fees NHIF Tenants	157,000	157,000
Pension Payable	509,734	434,696

## **NATIONAL HOSPITAL INSURANCE FUND**

*Reports and Financial Statements  
For the year ended June 30, 2019*

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Rent Deposits	22,480,499	22,480,499
Retention Money	15,674,370	21,400,858
Rockefeller Foundation Grant	12,415	12,415
Salary Clearance Accounts	24,564,815	97,870,487
Tender Refundable Deposits	1,725,000	1,745,000
Trade Creditors	1,091,673,555	700,113,542
Korea Foundation for International RFB	119,837	-
Unapplied Funds Control Account	214,836,475	137,825,911
Value Added Tax (Agency A/C)	119,732,217	75,927,575
Value Added Tax on Property	548,142	543,042
W.H.T Payable - Creditors	41,583,081	13,678,723
Disciplined Services Deferred Income	1,196,451,390	446,451,390
Secondary Schools Deferred Income	-	1,658,003,884
HISP (OPPSD) Deferred Income	-	126,000,000
County Scheme Deferred Income	140,222,700	53,559,572
Parastatal schemes Deferred Income	677,456,992	244,082,397
Free Maternity Program Deferred Income	673,929,089	1,844,902,176
<b>Total</b>	<b>4,221,841,955</b>	<b>5,446,826,194</b>

These are a mix of Fund's commitments and liabilities owed to other entities as at the end of the period. Commitments and Liabilities arise when economic value has accrued to the Fund and payment or services have not been rendered by the Fund. They include deferred incomes from schemes, trade creditors and others.

### **37 WITHHOLDING TAX PAYABLE**

W. H. Tax - Investment income	32,429,192	34,482,270
W. H. Tax - Rental income	3,215,115	2,133,556
<b>Total</b>	<b>35,644,307</b>	<b>36,615,826</b>

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

These are amounts Withheld at source based on their tax item. 15% is imposed on interests earned from all Funds investments and 10% on rent payable to Funds landlords. These amounts are payable to KRA.

#### 38 PROVISION FOR LIABILITIES

	2019 Kes	2018 Kes
Provision for Civil Servants Scheme	280,643,692	280,643,692
Provision for External Audit Fees	10,000,000	5,000,000
Provision for Open Heart Surgery	296,078	296,078
Provision for VER/VSI	-	-
Provision for Salary Arrears	613,577,645	436,838,000
<b>Total</b>	<b>904,517,415</b>	<b>722,777,770</b>

- Provision of Kes. 280,643,692 for Civil Servants Scheme was created as per IAS 37 to cater for pending fee for service claims, capitation payments relating to the scheme for various hospitals including Clinix and Meridian hospitals.
- Provision of Kes. 296,078 is the remaining provision balance from sponsorship for Open heart surgery program.
- The unutilised VER/VSI provision of Kes 349,084,193 was posted back to the retained earnings having been over provided in the FY 2016/2017. Therefore, the balance at the beginning of the period (Reported in 2017/18) has been restated as a prior period adjustment to reflect a nil balance.
- The Fund utilised Kes. 123M to pay arrears for management staff out of the Kes. 436M provided for salary arrears in the year 2017/18. During the close of the year 2018/2019, additional provision of Kes. 299 Million was made to cater for Unionisable staff pending CBA, bringing the total provision to Kes. 613M.

#### 39 NOTES TO THE STATEMENT OF CASH FLOWS

##### a) Reconciliation of Operating Surplus to Cash Generated from Operations

	2019 Kes	2018 Kes
Operating Surplus	(3,412,601,393)	529,394,751
Depreciation	305,165,756	565,905,017
Amortization	268,809,808	7,603,276
Gain On Disposal Of Property, Plant & Equipment	(24,650)	(8,524,260)
Interest From Investments	(1,486,526,324)	(1,860,220,651)
Operating Surplus before Working Capital Changes	(4,325,176,804)	(765,841,867)

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

	2019	2018
	Kes	Kes
<b>Working Capital Changes</b>		
(Increase)/decrease in Trade and Other Receivables	(1,942,767,613)	529,468,872
Increase /(Decrease) in Claims Payables	1,253,071,835	249,238,359
Increase/(Decrease) in Other Trade Payables	(1,224,984,239)	4,096,178,739
Increase/(Decrease) in Tax Payable	(971,520)	(3,426,961)
Increase/(Decrease) in Provisions	181,739,645	(40,346,176)
	(1,733,911,892)	4,831,112,833
<b>Cash Generated from Operations</b>	<b>(6,059,088,696)</b>	<b>4,065,270,967</b>

## b) Analysis of cash and cash equivalents

Short term deposits	13,625,153,816	17,787,153,816
Cash at bank	2,546,289,209	3,550,257,345
Cash in hand	716,915	1,252,734
Cash in Transit	93,696,665	399,843,422
<b>Balance at end of the Year</b>	<b>16,265,856,604</b>	<b>21,738,507,316</b>

## 40 CAPITAL COMMITMENTS

There were no capital commitments in the year under review.

## 41 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks, and effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Fund does not hedge any risks and has in place policies to ensure that credit is only extended to clients with an established credit history.

The Fund's financial risk management objectives and policies are detailed below:

### a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Fund. The Fund has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The Fund's exposure and the credit rating of its

## NATIONAL HOSPITAL INSURANCE FUND

### Reports and Financial Statements

For the year ended June 30, 2019

counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by setting counterparty limits that are reviewed and approved by management at regular interval.

Trade receivables consist of a large number of clients, spread across diverse geographical areas. On an ongoing basis, a credit evaluation is performed on the financial condition of the clients.

The credit risk on bank balances and short-term deposits is limited because the counterparties are banks with high credit ratings assigned by the banking regulatory authority. The carrying amount of financial assets recorded in the financial statements that represents the Fund's maximum exposure to credit risk obtained is as follows:

	Total Amount	Fully performing	Past due	Impaired
	Kes	Kes	Kes	Kes
<b>30th June 2019</b>				
Due from related parties	1,950,291,050	1,950,291,050	-	-
Trade receivables	4,782,053,293	4,781,230,220	-	823,074
Bank balances	2,546,289,209	2,546,289,209	-	-
<b>Total</b>	<b>9,278,633,552</b>	<b>9,277,810,478</b>	<b>-</b>	<b>823,074</b>
<b>30-Jun-18</b>				
Due from related parties	1,158,483,050	1,158,483,050	-	-
Trade receivables	3,629,447,533	3,629,447,533	-	-
Bank balances	3,550,257,345	3,550,257,345	-	-
<b>Total</b>	<b>8,338,187,927</b>	<b>8,338,187,927</b>	<b>-</b>	<b>-</b>

As at the end of the reporting period, no collateral was being held as a means of mitigating the risk of financial loss from default.

The clients under the fully performing category are paying their debts as they continue benefiting. The default rate is low. Part of the debt that is past due is not impaired and continues to be paid. The finance department is actively following up this debt. The debt that is impaired has been fully provided for. However, the finance department is pursuing various measures to recover the impaired debt.

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

### b) Liquidity risk

The ultimate responsibility for liquidity risk management rests with the Board of Management, which has developed and put in place an appropriate liquidity risk management framework for the management of the Fund's short, medium and long-term funding and liquidity management requirements. The Fund manages liquidity risk by maintaining adequate reserves, banking facilities and continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

At End of Year	Unaudited	Audited
	2019	2018
	Kes	Kes
Trade payables	1,793,085,070	540,013,236
Tax Payable	35,644,307	36,615,826
Other Trade Payables	1,533,781,785	1,073,826,776
Provisions	904,517,415	722,777,770
Deferred Income	2,688,060,170	4,372,999,418
Total	6,955,088,748	6,746,233,026

### c) Market Risk

The Board has put in place an internal audit function to assist it in assessing the risk faced by the organisation on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the organisation's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

Finance and Investment Directorate is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

# **NATIONAL HOSPITAL INSURANCE FUND**

## **Reports and Financial Statements**

**For the year ended June 30, 2019**

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There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk.

### **i) Interest rate risk**

Interest rate risk is the risk that the organisation's financial condition may be adversely affected as a result of changes in interest rate levels. The organisation's interest rate risk arises from bank deposits. This exposes the organization to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the organization's deposits.

#### **Management of interest rate risk**

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

#### **Sensitivity analysis**

The Fund analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

### **ii) Foreign exchange risk**

The Board does not undertake transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations do not arise.

### **iii) Price risk**

The company does not hold investments that would be subject to price risk hence the risk is not relevant

## **42 CAPITAL RISK MANAGEMENT**

The Fund manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimization of the debt and equity balances.

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

The capital structure of the Fund comprises the following funds:

At End of Year	2019	2018
	Kes	Kes
Revaluation reserve	-	-
Retained earnings	19,371,977,800	23,043,974,174
Capital reserve	12,209,923,340	12,209,923,340
Total Funds	31,581,901,140	35,253,897,514
Total borrowings	-	-
Less: cash and bank balances	2,640,702,789	3,951,353,501
Net debt/(excess cash and cash equivalents)	(2,640,702,789)	(3,951,353,501)

## 43 RELATED PARTY DISCLOSURES

### a) Nature of related party relationships

Companies and other parties related to the company include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The Fund is related to:

- i) Government of Kenya
- ii) Board of Management
- iii) Key management

### b) Related party transactions

The GoK has provided full guarantees to all long-term lenders of the Fund, both domestic and external.

GoK finances the Civil Servants Medical Scheme, National Police & Kenya Prisons Service Medical Scheme, Secondary School Students Medical Scheme, HISP OVC & OPPSD Schemes and Free Maternity (Linda Mama). The transactions have been shown under notes 6, 7, 8, 9, 10, 11 & 15 respectively and Appendix III on page 86.

## 44 INCORPORATION

The Fund was established by the Act of Parliament No. 9 of 1998.

# **NATIONAL HOSPITAL INSURANCE FUND**

## ***Reports and Financial Statements***

***For the year ended June 30, 2019***

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### **45 EVENTS AFTER THE REPORTING PERIOD**

There were no material adjusting and non- adjusting events after the reporting period.

### **46 CURRENCY**

The financial statements are presented in Kenya Shillings (Kes)

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

## APPENDIX 1: DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS

	Balance as at 30, 2019	June	Balance as at June 30, 2018	Account Number
Financial institution	Kes		Kes	
<b>a) Current account</b>				
Kenya Commercial Bank	286,933,562		555,775,422	1107111226
Kenya Commercial Bank	(8,350)		(3,750)	1167080416
Equity Bank	216,224,107		786,671,258	0170263180280
Equity Bank	5,871,938		109,475,442	0170273733939
National Bank of Kenya	1,975,125		2,078,460	01023033223900
National Bank of Kenya	42,257,535		101,537,267	01003000904002
National Bank of Kenya	550,779,799		616,984,514	01023000904000
National Bank of Kenya	159,234,692		174,217,491	01003000904001
Cooperative Bank of Kenya	1,266,764,357		1,004,158,547	01141162180500
Cooperative Bank of Kenya	16,256,444		185,751,570	01136011317300
Safaricom	-		13,611,123	M-Pesa
<b>Sub-Total</b>	<b>2,546,289,209</b>		<b>3,550,257,345</b>	
<b>b) On - call deposits</b>				
Kenya Commercial Bank	1,010,000,000		1,500,000,000	MM1712463876
Kenya Commercial Bank	4,571,567		4,571,567	MM1608200071
Kenya Commercial Bank	582,249		582,249	MM1608200073
Equity Bank	1,500,000,000		1,500,000,000	227371
Equity Bank	-		500,000,000	0170367301373
Equity Bank	-		600,000,000	0170368569271
Equity Bank	-		1,500,000,000	0170373299294
Equity Bank	-		1,200,000,000	0170373299217
Equity Bank	-		252,000,000	227404
Cooperative Bank of Kenya	-		700,000,000	01132011317348
Cooperative Bank of Kenya	-		300,000,000	01132011317346
Cooperative Bank of Kenya	-		700,000,000	01132011317349
Cooperative Bank of Kenya	-		300,000,000	01132011317350
Cooperative Bank of Kenya	-		300,000,000	01132011317347
Central Bank of Kenya	11,110,000,000		8,430,000,000	03-10-00030-7
<b>Sub- total</b>	<b>13,625,153,816</b>		<b>17,787,153,816</b>	
<b>c) Fixed deposits account</b>				
Central Bank of Kenya	20,520,000		34,200,000	03-10-00030-7
<b>Sub- total</b>	<b>20,520,000</b>		<b>34,200,000</b>	
<b>d) Staff Car loan/ mortgage</b>				
Savings & Loan - Mortgage	943,423,336		854,679,799	MM1333800212
NBK - Car Loan	57,057,353		56,446,181	01021032515200
<b>Sub- total</b>	<b>1,000,480,689</b>		<b>911,125,980</b>	
<b>Grand Total</b>	<b>17,192,328,511</b>		<b>22,311,689,211</b>	

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

## APPENDIX 2: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
No Reference	<p>Proposed Resource Centre at Karen Land</p> <p>Included in the property, plant and equipment balance of Kes.13, 103,788,341 as at 30 June 2017 is capital work in progress balance of Kes. 1,444,687,484 as disclosed in note 17 to the financial statements, being payments for drawing and designs for the proposed resource centre. Construction of the resource centre has not yet commenced since the land was acquired fifteen years</p>	<p>It is true that as at 30 June 2016 there is work in progress of Kes. 1,444,687,484 in respect of payments for the proposed Resource Centre on the Karen Land whose construction has not yet commenced. The amount comprises arbitration award to Architects and further payments to other consultants and professionals that had been engaged. They include quantity surveys, business plans and financial analysis consultancy, legal fees, architectural design services fees and feasibility study.</p> <p>In the year 2001/2002 the Fund planned to build a Resource Centre on the land acquired in Karen at a cost of Kes. 93,712,675.00. The establishment and implementation of a Resource Centre on the land was approved by the board in 2002.</p> <p>The then Chief Executive commissioned consultants in accordance with the Architects and Quantity Surveyors Act Cap</p>	Kenya Courts AG	Not Resolved	2019/2020 FY

## NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2019

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>ago. As noted in the previous year, the management has however explained that construction of the resource centre has not yet commenced due to lack of approval from the parent Ministry.</p> <p>In the circumstance, it has not been possible to ascertain the accuracy and validity of the Kes.1, 444,687,484 included in the property, plant and equipment balance of Kes.13, 103,788,341 in the statement of financial position as at 30 June 2017.</p>	<p>525 of the Laws of Kenya to carry out a feasibility study on the development of a recreational facility.</p> <p>The Architects and Quantity Surveyors did the work as commissioned and submitted their report together with their fee notes for Kes. 734,524,029.25. The fee notes were not however honored because the management had not received prior approval for the works from the parent Ministry. This resulted in a dispute that was taken to arbitration. The Architects and Quantity Surveyors then commenced Arbitration proceedings against the Fund for the demand for their fees. The Arbitrator after reviewing the matter reduced the claim from Kes. 734,524,029.25 and awarded the Architects and Quantity Surveyors Kes. 352,131,345.15.</p> <p>Upon further consultation with the parent ministry and the Attorney General, the NHIF Board and the Architects and Quantity Surveyors recorded a consent order in the High Court and the matter was settled. The Architects and Quantity Surveyors were paid a sum of Kes. 407,107,645.00. Claims lodged by engineers and other consultants totaling Kes</p>			

## NATIONAL HOSPITAL INSURANCE FUND

*Reports and Financial Statements  
For the year ended June 30, 2019*

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>333,846,784 were arrived at after settlement deeds were entered into on 24th June 2011. The claims were fully paid.</p> <p>The Original Project was revised to a Medical Center of Excellence and a Vision 2030 flagship project for the Ministry of Health. The Karen Medical center of excellence project lead to litigations from the consultants.</p> <p>The following are the legal proceedings commenced by the Consultants in respect to the Karen Medical Centre of Excellence.</p> <ol style="list-style-type: none"> <li>1. High Court Civil Suit No. 504 of 2016: National Hospital Insurance Fund Vs. Baseline Architects Ltd. The Fund Succeeded in the matter. The Court set aside the Arbitral Award.</li> <li>2. Rebman Ambalo Malala T/A Ujenzi Consultants Vs NHIF HCCC NO. 25 OF 2016 - Pending</li> </ol>			

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>3. Comm Case No. 255 Of 2016 - NHIF Vs. Eng. Peter Scott And Manga and Associates - Pending</p> <p>4. Civil Suit No. 176 Of 2017 - Professional Consultants Ltd -Vs- NHIF - Pending</p> <p>Following the ruling on the matter of the Architects, the Court set a precedent on the issue of protecting public funds and public interest and it is likely that all the above matters will be ruled in favor of the Fund.</p>			

  
 .....  
 Ag. CHIEF EXECUTIVE OFFICER

  
 .....  
 CHAIRPERSON

Date.....  
 30/09/2019

Date.....

# NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements  
For the year ended June 30, 2019

## APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor	Transferring the funds	Date received as per bank statement	Nature: Recurrent / Development / Others	Total Amount	Statement of Financial Performance	Capital Fund	Where Recorded/recognized				Total Transfers during the Year	
							Balance B/F from previous FY	2018/2019 FY	Deferred Income	Receivables		Deferred Income
Ministry of Public Service, Youth and Gender		28/1/2019	Direct Payment	3,623,700,000	4,000,012,000	-	-	597,007,217	-	597,007,217	-	4,000,000,000
		13/6/2019	"	376,300,000								
Ministry of Health - OPPSD					252,000,000	-	126,000,000	-	-	126,000,000	-	-
Ministry of Health - HISP		23/8/2018	Donor Fund	300,000,000	1,091,808,000	-	-	561,475,833	-	1,353,283,833	-	300,000,000
Ministry of Health - Free Maternity		1/2/2019	Direct Payment	2,000,000,000	3,170,973,087	-	1,844,902,176	-	-	673,929,089	-	2,000,000,000
Ministry of Education-SSMS		29/1/2019	Direct Payment	1,654,176,550	3,905,317,125	-	1,658,003,884	-	-	9,613,029	-	2,237,700,212
		9/5/2019	"	583,523,662								
Ministry of Interior office of the president - NPS&KPS		2/7/2018	Direct Payment	750,000,000	4,785,805,560	-	446,451,390	-	1,196,451,390	-	-	5,535,805,560
		7/2/2019	"	1,500,000,000								
		17/5/2019	"	1,000,000,000								
		24/6/2019	"	2,285,805,560								
Counties (List provided)		Various	Direct Payment	1,247,879,835	1,105,530,353	-	53,559,572	-	140,222,700	-	-	1,247,879,835
Parastatals (List provided)		Various	Direct Payment	1,477,931,462	1,216,984,157	-	244,082,397	-	677,456,992	-	-	1,477,931,462
<b>Total</b>				<b>16,799,317,069</b>	<b>19,528,430,282</b>	<b>-</b>	<b>4,372,999,419</b>	<b>1,158,483,050</b>	<b>2,688,060,171</b>	<b>2,085,904,079</b>	<b>2,085,904,079</b>	<b>16,799,317,069</b>

2

