PARLIAMENT
OF KENYA
LIBRARY




# KENYATTA NATIONAL HOSPITAL

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED

# JUNE 30, 2017

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



*(Left) Caroline Mukiri , with her conjoint twins before the surgery*



*(Right) Multi-disciplinary team of specialists performing surgery on the conjoint twins*



*(Left) The team of different specialists that successfully separated the twins take a group photo after 23 hours long surgery*



*(Right) Babies Blessing and Favor Mukiri with the KNH CEO, Lily Tare Koros, on June 15th, 2017 when they were discharged from KNH.*

## VISION

A world class patient–centred specialized care Hospital

## MISSION

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

## MOTTO

We Listen, We Care

## CORE VALUES

- Customer Focus
- Professionalism & integrity
- Equity and Equality
- Teamwork and team spirit
- Safety

Paper laid by the LOM on Wed 3/10/18




# Contents


Abbreviations ..... 4

About us ..... 5

a) Background information ..... 5

b) Principal activities ..... 5

c) Key Management ..... 5

d) Fiduciary Management ..... 7

e) Fiduciary Oversight Arrangements ..... 7

Board of Management ..... 9

Management team ..... 13

Chairman's statement ..... 19

Chief Executive Officer's report ..... 22

Corporate governance ..... 25

Management discussions & analysis ..... 33

Clinical Performance ..... 33

Financial Performance ..... 39

Financial Highlights at a glance ..... 40

Key Projects ..... 42

Compliance with statutory requirements ..... 43

Major Risks Facing the Hospital ..... 43

Material arrears in statutory and other financial obligations ..... 46

Strategic direction ..... 47

Milestones ..... 49

Corporate social responsibility ..... 52

Sustainability statement ..... 56

Financial statements ..... 66

Report of the Board of Management ..... 66

Statement of Board's Responsibilities ..... 67

Report of the Auditor -General on KNH ..... 68

Statement of Financial Performance ..... 77

Statement of Financial Position ..... 78

Statement of Changes in Net Assets ..... 79

Statement of Cash Flows ..... 80

Statement of Comparison of Budget and Actual Amounts ..... 81

Notes to the financial statements ..... 83

Progress on follow up of auditor recommendations ..... 104

Appendix 1: Projects implemented by Kenyatta National Hospital ..... 116

Appendix 2: Inter-entity transfers ..... 118

# Abbreviations

| | |
|---|---|
| **A & E** | Accident & Emergency |
| **AIA** | Appropriation In Aid |
| **ALOS** | Average Length of Stay |
| **BADEA** | Banque Arabe de Developpement Economique en Afrique |
| **BoM** | Board of Management |
| **CAJ** | Commission on Administrative Justice |
| **CCU** | Critical Care Unit |
| **CEO** | Chief Executive Officer |
| **EMC** | Executive Management Committee |
| **ENT** | Ear, Nose and Throat |
| **FY** | Financial Year |
| **GoK** | Government of Kenya |
| **HDU** | High Dependency Unit |
| **ICU** | Intensive Care Unit |
| **IPPD** | Integrated Payroll And Personnel Database |
| **ISO** | International Standards Organization |
| **KMTC** | Kenya Medical Training College |
| **KNH** | Kenyatta National Hospital |
| **KPCC** | Kenyatta Prime Care Centre |
| **KPI** | Key Performance Indicators |
| **MDR-TB** | Multi Drug Resistant Tuberculosis |
| **MITIPS** | Mycobacterium Tuberculosis Infections in HIV |
| **MoH** | Ministry of Health |
| **MOPC** | Medical Out-patient Clinic |
| **Mwach Neo** | Mobile Wach Neo: Communication Empowering Mothers and Newborns |
| **NHIF** | National Hospital Insurance Fund |
| **OPEC** | Organization of Petroleum Exporting Countries |
| **OPI** | Operation Performance Index |
| **OPT Study** | Optimizing repeat HIV testing during Pregnancy and Postpartum Study |
| **PACT-COE** | Partners in Advanced Care & Treatment -Centre of Excellence |
| **POPC** | Paediatric Out-patient Clinic |
| **PPP** | Public Private Partnership |
| **UoN** | University of Nairobi |
| **VVF** | Vaginal Vesico Fistula |

# About us

## a) Background information

Kenyatta National Hospital (KNH) was established in 1901 with a capacity of 40 beds. The Hospital operated as a department of the Ministry of Health until 1987 when its status changed to a State Corporation through Legal Notice No. 109 of 6th April 1987. Over the years, KNH has grown to its present capacity of 2,000 beds and attends to an annual average of 70,000 inpatients and 600,000 outpatients.

The Hospital has 50 wards and 24 operating theatres as well as 24 consultant clinics. As a referral hospital, KNH offers specialized quality health care to patients from all over the Nation, East and Central Africa Region. These services include open heart surgery, neurosurgery, orthopedic surgery, reconstructive surgery, burns management, critical care services, reproductive and child health services including neonatal care, ophthalmology, oncology, palliative care and renal services (including kidney transplantation), among others.

The Hospital provides training facilities for the University of Nairobi (College of Health Sciences) and the Kenya Medical Training College (KMTC) among others. It engages in research to enhance evidence based healthcare and influence national health policies.

## b) Principal activities

The Hospital mandate is to:

i) Receive patients on referral from other hospitals or institutions within or outside Kenya for specialized health care;
ii) Provide facilities for medical education for the University of Nairobi Medical School, and for research either directly or through other co-operating health institutions;
iii) Provide facilities for education and training in nursing and other health and allied professions;
iv) Participate as a national referral hospital in national health planning.

## c) Key Management

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

### Board of Management

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

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

### Chief Executive Officer

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

- Providing visionary and transformational leadership
- Overseeing the implementation of the Boards resolutions
- Prudent management of resources
- Formulating long term strategies and business plans
- Monitoring and evaluating performance
- Ensuring effective communication within the Hospital

### Executive Management Committee

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

- Support to Board of Management for effective oversight
- Evaluate the hospital long term healthcare service effectiveness
- Review and recommend appropriate actions for strategic operational plans and policies
- Review performance improvement activities and patients safety efforts
- Identify, evaluate and implement the scope of services, practice and governance of the hospital
- Prudent management of resources

### Clinical Committee

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

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

The Committee is responsible for:

- Review the weekly ward round report
- Review and reprioritize the utilization of Hospital clinical resources
- Set performance targets for clinical units
- Review various research findings and related policy documents
- Review clinical audit reports and follow-up on implementation of recommendations

### Finance and Administration Committee

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

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

### Budget Implementation Committee

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

- Review and consider cash flow plans for the Hospital and ensure that approval of any changes to the initial cash flow plan is communicated to the Ministry of Health.
- Review the utilization of cash limits and consider any changes as may be required.
- Review the utilization of Donor funds allocated to KNH and recommend corrective action.
- Advice the Chief Executive officer on any challenges related to the Budget implementation with recommendation on ways of mitigating the challenges.

- Review and recommend reallocation of expenditures.
- Review and approve submission of expenditure returns, IPPD, pending bills and A-I-A returns for KNH and recommend action to be taken.
- Facilitate participation of KNH in the Health Sector Working Group.
- Oversee preparation of the Hospital Budget and ensure timely submission to The National Treasury.
- Review periodic circulars from the Government in relation to the Budget and ensure Hospital Compliance.

# d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

| No. | Designation | Name |
|---|---|---|
| 1. | Chief Executive Officer | Lily Koros Tare |
| 2. | Director – Clinical Services | Dr. Bernard M. Githae |
| 3. | Director – Corporate Services | CPA Carylus Odiango |
| 4. | Director – Kenyatta Prme Care Centre | Dr. Henry Kioko |
| 5. | Chairman – Performance Contracting | Dr. Peter W. Masinde |
| 6. | Ag. Deputy Director Nursing Services | Rosemary Mutua |
| 7. | Deputy Director Medical Services | Dr. Thomas Mutie |
| 8. | Deputy Director Surgical Services | Dr. John Ong'ech |
| 9. | Deputy Director Diagnostics Services & Health Information | Dr. Elizabeth Odera |
| 10 | Deputy Director Pharmaceutical & Nutrition Services | Dr. Tom Menge |
| 11. | Deputy Director Affiliation & Institutional Development | Dr. Evanson Kamuri |
| 12. | Deputy Director Facility Services | Eng. Richard Binga |
| 13. | Deputy Director Human Resources | Elphas K. Choge |
| 14. | Deputy Director Risk & Audit | CPA Erick Omondi |
| 15. | Deputy Director Planning & Strategy | Job Makanga |
| 16. | Deputy Director Supply Chain Management | Rose Njoroge |
| 17. | Deputy Director Corporation Secretary | Calvin Nyachoti |
| 18. | Deputy Director Finance | CPA Michael Kihuga |

# e) Fiduciary Oversight Arrangements

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

### i) Clinical Research and Standards Committee

The Committee is responsible for identifying health care service problems and ensuring that they are resolved; review any changes on policy issues on standards, quality assurance and research; liaise with the Medical Advisory Committee (MAC) on matters of quality health care delivery; and undertake comprehensive quarterly evaluation of standards, quality assurance programs in the Hospital based on health professional's handbook on quality management in health care in Kenya. The Committee held four (4) regular meetings in the year under review.

### ii) Human Capital, Finance and Administration Committee

The Committee reviews and provides recommendations on issues relating to human resource matters including career progression, performance management, training needs, staff recruitment, staff placement, promotions, demotions, discipline, and staff welfare. The Committee further reviews financial statements, considers recommendations for capital expenditure, evaluate investment proposals and reviews compliance with accounting standards. The Committee held four (4) regular meetings in the year under review.

### iii) Corporate Strategy and Enterprise

The Committee is responsible for reviewing Hospital policies in general and looks into avenues on how the Hospital can raise funds, makes investment decisions and forges partnerships/linkages; reviews, assesses and

advises the Hospital on the medium and long term business strategies; reviews the Hospital strategic plan and focuses on strategic objectives that are business oriented. The Committee held four (4) regular meetings in the year under review.

### iv) Risk and Audit Committee

The Committee assists the Board in fulfilling its corporate governance responsibilities and in particular to strengthen the effectiveness of the internal audit function; maintaining oversight on internal control systems; provision of general oversight in risk and compliance matters; and ensuring quality, integrity, effectiveness and reliability of the Hospital's risk management framework. The Committee held four (4) regular meetings in the year under review.

## f) Kenyatta National Hospital

P. O. Box 20723 – 00202,
Hospital Road, off Ngong Road,
Nairobi, Kenya.

## g) Contacts

Tel: +254 20 2726300, +254 20 2726550,
+254 0730 643 000, +254 0709 854000,
Fax: +254 20 2725272,
Email: knhadmin@knh.or.ke,
Website: www.knh.or.ke

## h) Bankers

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

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

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

## i) Independent Auditors

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

## j) Principal Legal Adviser

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

# Board of Management

### Mr. Mark Kipkemoi Arap Bor, CBS – Chairman



Born in 1954, Mr. Bor is the Chairman of the KNH Board of Management. He previously served as Permanent Secretary in the Ministries of Local Government, Labour, Public Works and Public Health and Sanitation. He has also served as Chief Executive Officer/Secretary of the Public Service Remuneration Review Board; Assistant Secretary to the Cabinet, Office of the President; Principal Lecturer at the Kenya Institute of Administration; and Administrative Officer in the Kenya Civil Service.

Mr. Bor holds a Master of Arts degree in Government and a Bachelor of Arts degree in Government.



### Mr. Henry Rotich, EGH – Cabinet Secretary the National Treasury

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

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

### Mr. Julius Korir, CBS – Principal Secretary Ministry of Health



Mr. Julius Korir is the Principal Secretary in the Ministry of Health Kenya since 6 th April 2017. Previously, he served in the same capacity at the State Department of Investment and Industry in the Ministry of Industry, Investment and Trade having been appointed on 18th December 2015. Prior to his appointment as Principal Secretary, he served as the Industrialization Secretary, in the then Ministry of Industrialization and Enterprise Development from May 2014.

Mr. Korir has also served in the Export Promotion Council for over 15 years in various positions rising up to become the General Manager in charge of Trade Information and Business Advisory Services in 2008. From August 2011 to August 2012, he served as the Acting Managing Director for the Kenya Investment Authority (KenInvest). He holds a Masters in Business Administration in International Business and a Bachelor of Science degree in Agricultural Economics.



### Prof. Isaac Ongubo Kibwage – Principal, College of Health Sciences

Born in 1954, Prof. Kibwage is the Principal, University of Nairobi, College of Health Sciences, a position he has held since 2007. He previously served as the Chairman of Department, Dean of Faculty/ School of Pharmacy. He heads the Drug Analysis and Research Unit (DARU) that offers services in development of analytical methods and consultancy in Good Pharmaceutical Manufacturing Practices. He is a consultant to a number of companies on pharmaceutical quality systems and analytical sciences.

Prof. Kibwage is a Fellow of the Pharmaceutical Society of Kenya. He is a Chartered Scientist and Chemist and member of Royal Society of Chemistry (U.K), New York Academy of Sciences (USA), American Association for Advancement of the Sciences and Pharmaceutical Society of Kenya. He holds a PHD in Pharmaceutical Sciences (Pharmaceutical Chemistry); Masters in Pharmaceutical Sciences (Pharmaceutical Analysis); and Bachelor of Pharmacy.

### Mr. Peter Kiplangat Tum – Director, KMTC



Born in 1962, Mr. Tum is the Chief Executive Officer of Kenya Medical Training Centre (KMTC). Prior to joining KMTC, Mr. Tum is the immediate former KMTC Nakuru Campus Principal. He previously served as Head of Medical Engineering Department KMTC Nairobi Campus and Senior Principal Lecturer.

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



### Dr. Daniel Reuben Mukiri Githegi – Non-Executive Director

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

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

### Dr. Helen Jane Chebet Yego – Non-Executive Director



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

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



### Dr. Richard Thuo Kamau, HSC – Non-Executive Director

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

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

### Mr. Peter Odundo

Alternate to Principal Secretary, Ministry of Health



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

He holds a Master's in Business Administration (Finance) and a Bachelor of Arts degree in Economics and Sociology.



### Mr. Robert Mburu – Non-Executive Director

Born in 1961, Mr. Mburu is a director of Choice Microfinance bank. He has over 20 years' experience in financial management having worked as managing partner for Mburu Munagi & Associates Audit Firm for 10 Years. Previously, he served as Financial Manager for Tana and Athi Development Authority and Chief Accountant for Metal Box Kenya Limited. Mr. Mburu is the Chairman for Cretum properties Limited, a position he has held since 2007. He holds a Bachelor of Commerce in Accounting and is a Certified Public Accountant of Kenya. (CPA)K.

Chair of the Audit Committee.

### Mrs. Gracie Mullei – Non-Executive Director



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

Mrs. Mullei is currently the Chairman for Kaliani Health Centre and has also served in the Boards of National Council for Population and Development; Living water International Kenya and various School Management Boards.



### CPA Mrs. Mary Chebukati Wanyonyi

Alternate to Principal Secretary, National Treasury

Born in 1962, CPA Mrs. Wanyonyi is the Director General (Accounting and Quality Assurance) at the National Treasury (NT). She has over 10 years experience as a District Accountant in various District Treasuries. She is also a member of the Institute of Certified Public Accountants of Kenya (ICPAK)

She holds a Masters in Business Administration, Bachelor of Commerce and Certified Public Accountant of Kenya-CPA (K).

### Lily Koros Tare – Chief Executive Officer, KNH



Born in 1973, Lily Koros Tare is the Chief Executive Officer of Kenyatta National Hospital (KNH). Prior to joining KNH, she worked as the Director Management Services and was previously the Ag. Secretary/ CEO at the Commission for Implementation of the Constitution, and was also previously the Assistant Director Finance and Administration in Moi Teaching and Referral Hospital, and earlier Hospital Administrator in AIC Litein Hospital.

She holds Masters in Business Administration in Healthcare Management, Executive Masters in Business Administration (Finance), Bachelor of Commerce (Administration) and Postgraduate Diploma (International Leadership in Hospital Management).



### CS Calvin Mogute Nyachoti – Corporation Secretary

Born in 1982, CS Calvin Nyachoti is the Deputy Director Corporation Secretary at Kenyatta National Hospital (KNH). Prior to joining KNH, he worked as a Senior Legal Counsel at the Retirement Benefits Authority; Senior Associate Advocate at Maangi Kitonga and Company Advocates.

CS Nyachoti holds a Masters in Business Administration (Strategic Management), Masters in Law (International Environmental Law), Bachelor of Laws, and Post-graduate Diploma in Law. He is a Fellow of the Chartered Institute of Arbitrators (ClArb) and a member of the Certified Public Secretary-CPS (K) (Membership No. R/2472)

# Management team



### Lily Koros Tare – Chief Executive Officer

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

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

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

### Dr. Bernard M. Githae – Director, Clinical Services

He holds a Masters in Medicine (Surgery), Bachelor of Medicine, Bachelor of Surgery/Chirurgery (MBChB).

Responsibilities: Planning and managing healthcare programmes; formulating standards and ethical policies governing medical practice and providing technical and professional guidance to the clinical team.





### CPA Carylus Odiango – Director, Corporate Services

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

He holds an Executive Master in Business Administration (Leadership and International Business Development), Masters in Business Administration (Strategic Management) from Kenyatta University and a Bachelor of Commerce (Accounting) from the University of Nairobi.

Mr. Odiango is a Member of the Institute of Certified Public Secretaries of Kenya, Institute of Directors Kenya and the Institute of Certified Public Accountants.

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



### Dr. Henry Kioko – Director, Kenyatta Prime Care Centre

Prior to his appointment he was the Senior Assistant Director, Kenyatta Prime Care Centre. He also served as a Gastroenterologist and Consultant at Kenyatta National Hospital, Chief Resident - Medicine (UON) and Medical Officer at Kathiani Hospital, Machakos. He has 31 years experience as a Practicing Doctor.

He holds Masters in Medicine (Internal Medicine) from the University of Nairobi, Fellow – Gastroenterology (WITTS University, SA), Bachelor of Medicine and Surgery, Certificate in Tropical Medicine from the University of Nairobi and Certificate in High Performing Hospital Management from Strathmore University. He is a member of the American Gastroenterology Society, Kenya Medical Association, Kenya Association of Physicians and the Chairman Gastroenterology Society of Kenya.

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

### Dr. Peter W. Masinde – Chairman of Performance Contract Steering Committee



He is the Head of Unit Ear Nose and Throat. He has worked as a Surgeon for 25 years.

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

Responsibilities: Coordination of Performance Contracting in the Hospital; Co-ordination of quality assurance and occupational health and safety initiatives; promoting research initiatives and staff development and providing technical and professional guidance



### Mrs. Rosemary Mutua – Ag. Deputy Director, Nursing Services

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

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

### Dr. Thomas Mutie – Deputy Director, Medical Services



Prior to his appointment he was the Senior Assistant Director Medical Division Kenyatta National Hospital. He was also a Registrar in Gastroenterology St. Bartis Royal London Hospital. He has 29 years working experience as a medical doctor.

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

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



### Dr. John Ong'ech – Deputy Director, Surgical Services

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

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

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

### Dr. Elizabeth Odera, OGW

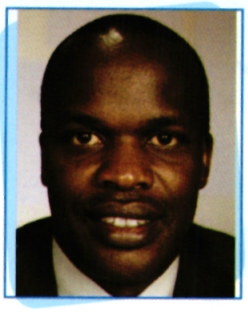


Deputy Director, Diagnostic Services and Health Information

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

She was awarded National Recognition OGW in 2013.

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



### Dr. Tom Menge – Deputy Director, Pharmaceutical Services

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

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

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

### Dr. Evanson Kamuri

Deputy Director Affiliation and Institutional Development



Prior to his appointment he was the head of unit infection control at Kenyatta National Hospital. He has over 19 years of medical experience.

He holds a Masters of Science in Clinical Dermatology (London), MBA in Strategic Management (Nairobi), Bachelor of Medicine and Surgery from the University of Nairobi. He is the President, African Society of Dermatology and Venereology, the Chairman Kenya Association of Dermatologists and a member of the Kenya Medical Association.

Responsibilities: Developing work plans and budget for the Division for approval; overseeing the execution of the approved Divisional work and budgets; overseeing the performance management in the Division and identifying procurement needs of the Division.



### Eng. Richard Binga – Deputy Director, Facilities and Services

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

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

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

### Mr. Elphas K. Choge – Deputy Director, Human Resources



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

He has over 19 years experience in Human Resource Management. Holds an MBA degree in Human Resource Management (Kenyatta University), Post-graduate Diploma in Education (Kenyatta University), BA (UEA) and Diploma in Human Resource Management (KIM).

He is a full member of the Institute of Human Resource Management (IHRM) and Kenya Institute of Management (KIM).

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



### CPA Erick Omondi – Deputy Director, Risk and Audit

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

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

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

### Mr. Job Makanga – Deputy Director, Planning and Strategy



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

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

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



### Rose Njoroge – Deputy Director, Supply Chain Management

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

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

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

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

### Calvin Nyachoti – Deputy Director, Corporation Secretary



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

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

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



### CPA Michael Kihuga – Deputy Director, Finance

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

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

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

# Chairman's statement



*Mr. Mark Kipkemoi Arap Bor*

*CHAIRMAN, KNH BOARD*

"The 1st of November 2016 will be remembered as the day when KNH medical team made a great milestone by successfully separating the cojoined twins"

I am pleased to report that KNH has continued to perform well and remain one of the leading Hospitals not only in Kenya but also in the Eastern and Central Africa region. I take this opportunity to share with you my views on the key initiatives and achievements we have had over the year on economic performance, health sector changes, clinical performance, financial performance and operations and risk associated with hospital and our future outlook.

## Economic Focus

In order to ensure efficient and effectiveness in the hospital healthcare services, we have developed necessary policies and institutional framework to direct the running of the Hospital in line with vision 2030 and Sustainable Development Goals.

During the year, the hospital witnessed a reduction in patients' numbers following a prolonged industrial action by healthcare workers. However, KNH was the only public hospital that was operating.

In 2014, KNH embarked on a transformative journey to establish healthcare centres of excellence. We have carried-on with these synergies and invested resources to expand diabetes and endocrinology services to establish a centre that will help diabetic patients meet their holistic health care needs in a one stop shop. Similar idea has also been replicated to address the needs of gastroenterology patients which will be undertaken in collaboration with International Gastroenterology Society and Gastroenterology Society of Kenya.

We thank the Government for providing state-of-the-art radiology equipment that have helped increase diagnostic services and efficiency in services delivery. Pursuing unsurpassed excellence and access to most advanced diagnostic and treatment technologies and expert medical care, our focus is to deliver high quality safe services to our patients' satisfaction.

## Review of the sector and changes

During the year, we have witnessed a positive growth in health sector infrastructure and a growth in free maternity numbers due to the government initiatives towards universal access to health and reduction in morbidity and mortality. Consequently, this has increased pressure on the limited KNH resources and calls for urgent improvement of facilities and increase in funding to sustain the delivery of specialized quality healthcare.

## Financial performance

The environment KNH is operating has changed significantly over the past years due to increase in competition. The operation cost has increased tremendously compared to revenue. The traditional sources of income for KNH have reduced over the years due to availability of options for patients financed by NHIF. As a result the hospital has been left with patients with inability to acquire any healthcare financing placing huge financial burden on the hospital.

The Hospital recorded a deficit of Kshs.905 million, which is a 33% increase from the previous year's deficit of Kshs.679 million. The deficit performance is largely due to unfavourable rebates from NHIF, inadequate reimbursement for free maternity care and potential irrecoverable debt for services to underprivileged and Indigents medical bills.

## Operation and management

Our foresighted aspiration is to establish a hospital to provide the most modern cutting edge treatments which go beyond advanced care. Prompt care and treatment

for non-emergency conditions are also key objectives where majority of our patients are treated within the targets we have for their care. The newly established Day-Care Surgery facility which is almost 70% complete will transform how we offer these services. We are never complacent about this and hence continue to seek ways to further improve our performance.

The 1st of November 2016 will be remembered as the day when KNH medical team made a great milestone by successfully separating the conjoined twins. Led by His Excellency the President of the republic of Kenya, Hon. Uhuru Kenyatta, Kenyans celebrated. This reaffirms that Kenya is endowed with medical specialists who can handle complicated human health challenges.

During 2016/17 and in spite of the industrial action by healthcare workers, Kenyatta National Hospital maintained a steady performance and the benefits to patients and Kenyans were incredible. The Board of Directors and I do not underestimate the important role played by KNH staff and its stakeholders.

The overwhelming response we received from the corporate clients demonstrated a long felt need for premier healthcare in private/corporate health set up. We have therefore continued to improve KNH Prime Care Centre in response to the increased demand for private healthcare service with a view to enhance local and global competitiveness.

Even as Kenya has made noteworthy achievements in health outcomes, we have geared ourselves to face challenges brought on by globalization and epidemiological transitions. These challenges include the increase in the lifestyle diseases, emerging and re-emerging diseases, increasing incidences of non-communicable diseases and the gaining popularity of medical tourism. Recognising these challenges, the Board has continuously instituted measures to mitigate against these challenges. Some of these measures include the establishment and equipped an infectious control facility that can handle patients diagnosed with highly infectious diseases; expanded cancer treatment services and establishment of a comprehensive diabetes and endocrinology centre.

Furthermore, we have expanded the critical care services by establishing and equipped satellite critical care units.

Cancer in Kenya is near endemic with high morbidity and mortality. However, at KNH we firmly believe that cancer is curable, manageable and lives can be prolonged if diagnosed and managed early. We have deliberately endeared to create opportunities for the public to encourage early diagnosis of cancer. In this endeavour, we have offered free screenings to Kenyans for cervical and breast cancer and we continue to encourage the public to come for screening for early diagnosis of cancer. Furthermore, our precision diagnostics and cancer treatment facilities are cutting edge and a key differentiator in cancer cure and management in Kenya.

We recognise that the availability of the right staff, in the right place, delivering the right care has a direct impact on the quality of care for our patients. In line with this interest, we carried out job evaluation to determine appropriate staffing levels. Based on this process, we reviewed and approved the hospital organogram to align to the attainment of strategic objectives and further developed the Human Resource policy and procedure manual to guide staffing, rewarding and staff performance monitoring.

## Risk management

The healthcare sector presents plenty of opportunities as well as risks, both of which need to be analysed in order to deliver sustainable long-term returns, without compromising clinical outcomes and patients safety. KNH has developed an enterprise risk management policy and framework to ensure that our activities are aligned with our strategic paln and objectives. The Board of management regularly reviews risks identified such as clinical, competition, information credit and operations risks on how they are being mitigated by various risks owner.

## Future development

Resonating with the Healthcare hierarchy, KNH has put in place structures to enhance effective interaction with the County, Faith based and Private healthcare facilities. Based on these, we have adopted and domesticated Kenya Health Sector Referral Strategy and Guidelines and established an office to coordinate patients' referral process to ensure that every Kenyan has a right to emergency medical treatment. The hospital will therefore continue to work with the county Government to streamline referral system to reduce mobility and mortality.

We will further continue with the mentorship and outreach programs in county level five hospitals for capacity development and transfer of skills. The Hospital will develop programs for training and mentorship to enhance transfer of skills and technology across the country.

## Outlook

I am indebted to the Board of Management for providing supportive and complementary role while making progressive decisions towards directing this great hospital. I am impressed with their wealth of knowledge and experience in many different business and operational settings. I strongly assure Kenyans that KNH shall remain committed and will deliver exceptional services consistent to needs of the patients and Kenyans without compromising the principles of corporate governance, ethics and sustainability.

Going forward, KNH is committed to working closely in collaboration with the College of Health Sciences, University of Nairobi and other partners, to ensure that the patients we serve continue to receive high quality of specialized care. We will continue to invest in our facilities and our technology in order to attract the best specialists and meet the growing needs of the people we serve. I would like to take this opportunity to thank the Board of Directors, the Chief executive Officer, our specialists, nurses and staff for their support and commitment during the year.



Mr. Mark Kipkemoi Arap Bor

**CHAIRMAN, KNH BOARD**

# Chief Executive Officer's report



*Lily Koros Tare*

*CHIEF EXECUTIVE OFFICER*

KNH is an organization of action; a community of engaged professionals who create, pursue, perform and achieve in support of the KNH's Mission and Vision"

It takes a great team with dedication and focus to build a great organization. As I present the details of this report, it is clear the accomplishments recounted within it are the result of extraordinary collaboration by the Hospital's most important asset—its people. The distinctive disciplines of our hospital do not matter but rather each individual plays a valued part in making Kenyatta National Hospital (KNH) a world class referral hospital.

During the past year, we collectively embarked on a journey to align our activities to the strategic plan, advance our vision, and deliver our services using balanced score card to ensure patients and Kenyans get value for their money. Even with constant exposure to challenges, we remained enthusiastic about each one's contribution to our vision.

We remember this financial year for many reasons. Top on the list is the successful separation of the conjoined twins (Baby Blessing and Baby Favour). The surgery not only gave joy to the mother and the expectant public but also helped to place KNH on the world map among the leading specialized care hospital. At the center of this success story, dedicated employees from KNH and their colleagues from College of Health Sciences, University of Nairobi worked and engaged each other for long in an effort to guarantee safety of the babies. I personally revere the team for standing with Kenyans over the years to save lives.

It is with this unprecedented commitment in mind that I am distinctly pleased to present this year's annual report of achievements and accomplishments.

KNH is an organization of action; a community of engaged professionals who create, pursue, perform, and achieve in support of the KNH's mission and vision. In this report, you will see a snapshot of some activities and the remarkable opportunities that KNH embarked upon, which taken together, make for an incredibly powerful and inspiring Hospital of commitment and success.

## Clinical performance

In addition the hospital has increased critical care capacity from 21 beds to 45 beds by establishing and equipping satellite critical care units within the hospital in specific wards to accommodate the increasing demand and as a way of meeting international standards. Similar initiative has also been made in the expansion of neonatal Intensive Care Unit and new born unit. I am happy to state that we have not only adopted cutting edge technologies but kept up with the advancements and continually raised the bar of the healthcare industry in Kenya.

The completion of renovation and equipping of cardiology department gives KNH's cardiothoracic caregivers good access to the best practices, distinguished care innovations, continuing education and research. The department has renowned cardiology and cardiothoracic specialists who provide cardiovascular surgery services for infants, children and adults with congenital and acquired heart disease.

Furthermore, Government support through the Medical Equipment Services (MES) has revolutionised business in radiology and theatre. The KNH renal facility also received a boost after renovation that saw creation of additional space for dialysis equipment and facelift. This has not only enhanced patients comfort but also staff motivation. The facility has also continued to carry out Kidney Transplant for patients with chronic renal failure.

On the management of Cancer, KNH recognises that this is a leading cause of death and generates among the highest costs to healthcare systems around the globe. Given the complexity of the disease and unlikely chance of getting a "golden bullet" to stop the disease, the hospital has acquired and installed a linear accelerator that is aimed at improving the management of patients with better diagnosis and treatment. Whereas majority of the patients are faced with socioeconomic circumstances, National Hospital Insurance Fund (NHIF) has provided access to cancer treatment with introduction of cancer treatment packages.

## Responding to consumer demand for improved access

During the year under review, the hospital established the nutrition and wellness screening program to address consumer-focused needs. The program is aimed at reducing some of the common lifestyle diseases and involves free screening with no triage. Those diagnosed at risk are sent to dietary and advisory clinic for management. While over 500 members of public have benefited, these services have also been extended to create "Be Well at Work" program to improve access to health and wellness services for employees and dependants.

It was particularly pleasing that the customer satisfaction survey results during 2016/17 showed that the majority of our patients would recommend KNH to friends seeking healthcare services. The survey also revealed that our staff are keen to listen, learn and receive customer feedback for services improvement. In order to maintain and exceed customer satisfaction, we have established a customer feedback management system to receive and resolve public feedback. In addition, an assessment by Commission for Administrative Justice (CAJ), KNH scored 98% compliance on customer feedback resolution. The score is a reflection of our commitment to serve our customers by addressing the concerns of patients, staff and partners. KNH shall also remain focused in engaging with our stakeholders in our business decision-making processes.

## Quality and safety

KNH has retained ISO 9001:2008 certification and maintained re-certification on Quality Management System over the years. We have embarked on implementation of the 9001:2015 Key quality measures and evidence-based interventions increase the chances of healthy outcomes for patients and customer satisfaction. This is part of our commitment to the delivery of the highest quality and safest care.

Investments in safety strongly support the quality we deliver to our patients and staff, and contribute to a positive hospital experience for all. The Hospital established a fully pledged department responsible for patient safety and quality healthcare. The department coordinates safety audits and patient safety surveys to ensure that our services are continuously striving to improve the care provided to our patients.

Employee safety is also a key focus of KNH. The hospital carried out annual occupational health and safety (OSH) audit that revealed that the KNH had 69% compliance with OSH act 2007 and 31% partial compliance. There was no non-compliance during the audit. This is largely attributed to the Quality and Safety initiative in the hospital. Similarly, the quality and safety team has continued to sensitize patients and staff on safety.

## Efficiency in service delivery

Accident and Emergency adopted Lean Sigma to increase efficiency in patient management and process flow. Lean is basically about getting the right things to the right place, at the right time, in the right quantities, while minimising waste and being flexible and open to change. With a focus on delivering our vision, we identified weakness in our processes and non-value adding activities in our systems. We reorganized the processes with the support of the Old Mutual foundation. This improved patient turnaround time, and gave the accident and emergency a facelift. Other initiatives include Kaizen promotion that has provided continuous improvement and facilitation of a number of projects across the hospital.

## Awards

During the year under review, KNH was recognized in several fronts. These include best display in health sector and pharmaceutical stand and best Government Social Function stand during the Nairobi International Trade Fair; the Africa Public Service Award for innovations in Kangaroo Mother Care, the Child Reflection Box and Hip Spica Table.

## Connecting donors with needs

Providing high quality care and good clinical outcomes is at the heart of everything we do. To ensure this happens, we will continue to establish and maintain beneficial partnership and collaboration as priorities that would support our business goal for the benefit of the patients.

There is no doubt that the Government contributes the bulk of funding for KNH. However, this will not

be enough considering the immense and expensive responsibility we undertake. In this Fiscal Year, KNH received more than Kshs. 37 million in cash and in kind. Save the Children spent over Kshs. 699,000 to renovate and establish the Kangaroo Mother Care facility. The Dalbit Petroleum Company sponsored renovation of ward 3A at a cost of Kshs. 3.5m while BAYER established an addition public drinking and hands washing point at a cost of Kshs. 4m. The hospital further received equipment worth over KES 10m from GIZ for support of patients' management in Accident and Emergency, New Born Unit and radiology. The Old Mutual Kenya Foundation invested Kshs.18.7 Million at Accident and Emergency that helped to renovate and reorganise services and processes leading to improved patients turnaround time, privacy, cleanliness, staff motivation and corporate image.

## Innovation and technology

Growth is a result of the commitment and passion that staff demonstrates each and every day to patients. Passion is a drive to research and innovation.

Some of the innovations during the period are: Paediatric Hip Spica Table for the treatment of paediatric hip dislocation or fracture of the pelvis, which is user friendly and provides both stability and manoeuverability while applying a hip spica cast; Child Reflection Box which is an innovation by KNH Mental Health Department that has proved beneficial to children with aggression disorders; and Kangaroo Mother Care which involves placing and carrying infants on the chest between the breasts usually by the mother to allow baby skin-to-skin contact.

The hospital has also been training and encouraging men on the use of Kangaroo to enhance uptake of the skills. The innovation is intended to complement the convection healthcare of low-birth-weight and preterm infants. Kangaroo Mother Care program has now been established at KNH with a fully-fledged unit to educate mothers on the new method of care and maintain stable preterm babies. Kangaroo Mother Care (KMC) program aim to promote the spread and implementation of Kangaroo Mother Care as the standard method of care for all stable preterm newborn babies.

## Research

In the FY 2016/2017, the hospital allocated Kshs.19 million to facilitate research activities. Over fifty (50) proposals have been sponsored and some of the outcomes have been presented in local and international scientific conferences and symposia where scholars and medical specialist exchange findings and emerging knowledge.

## Financial sustainability

Healthcare services are usually expensive and no Government in the world has ever been able to successfully provide without public private partnership. The National Health Insurance Fund has bailed out healthcare burdens and provided a safe haven for enrolled members. This has increased access to care and is a means of healthcare financing irrespective of individual socioeconomic status. It is in this view that the hospital has negotiated for inclusion of most chronic diseases such as cancer and renal failure.

## Financial review

The recurrent grant from National Government of Kshs. 7,083 million was received in full, while Kshs.685 million development grant was recognised of which Kshs. 342 million was inform of cancer treatment equipment and construction of bunker and Kshs. 343 million being counterpart funding for the construction of Burns Management Centre and Pediatric Emergency Centre. Kshs. 4,244 million was generated internally as compared to Kshs. 4,871 million recording a decline of 13% that is attributable to effects of the national doctors strike that occurred in the third quarter thus negatively affecting delivery of services for the three month period of the strike. Overall, the operating result was a deficit of Kshs. 905 million.



Lily Koros Tare

**pp CHIEF EXECUTIVE OFFICER**

# Corporate governance

## Introduction

At Kenyatta National Hospital (KNH), the practice of good corporate governance ensures the delivery of sustainable value as well as meeting the needs of our stakeholders. KNH is committed to ensuring that the needs of our customers and the expectations of our stakeholders are met while safeguarding the investments of the Government of Kenya through the adoption of ethically driven business policies, procedures and processes.

We believe that our business affairs should be carried out in a fair, transparent and accountable manner. It is our integral responsibility to disclose timely and accurate information on our financials and performance as well as provide the leadership and effective governance for the hospital.

This report highlights the main corporate governance structures and practices that guide the Board.

## Governance Principles and Guidelines

The KNH Board of Management is responsible for the overall governance of the hospital and is accountable to the Government for ensuring that the hospital complies with the law and the highest standards of best practices corporate governance and business ethics.

The Directors of the Board are committed to fostering a culture that values ethical behaviour, integrity and respect and the need to conduct business and operations of the hospital in accordance with generally accepted corporate practices. The Directors believe that adopting and operating in accordance with high standards of corporate governance is essential for sustainable long-term performance and value creation.

The Board is vested with powers and authority as provided in Legal Notice No.109 of 1987and other relevant laws of Kenya. In discharging its mandate, the Board is guided by the Board Charter, Code of Conduct and Ethics, and Board Manual to effectively fulfill its corporate governance responsibility towards stakeholders. In addition, it has adopted Guidelines on Corporate Governance developed by the Mwongozo Code of Governance for State Corporations.

The Board Charter defines the roles, responsibilities, scope and functions of the Directors in the governance of the hospital and provides for free exercise of independent judgment.

The Board provides oversight to the Management and ensures the employees operate within the Code of Conduct and Ethics; Public Officers and Ethics Act; Leadership and Integrity Act; and Mwongozo Code of Governance for State Corporations.

## Board Organization and Structure

### Board Size, Composition and Appointment

The KNH Board of Management comprises of eleven (11) members including the Chief Executive Officer. Six (6) members of the Board are independent non-executive including the Chairman, all drawn from the private sector. The remaining four (4) members represent the following institutions - the National Treasury; Ministry of Health; Kenya Medical Training College; and the University of Nairobi, College of Health Sciences.

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

The public sector representatives are the Cabinet Secretary and Principal Secretary or designated alternates from the National Treasury and Ministry of Health respectively; the Chief Executive Officer, Kenya Medical Training College; and the Principal, University of Nairobi, College of Health Sciences.

The Board is well composed in terms of range and diversity of skills, knowledge, academic qualifications, gender, age and experience in various sectors which makes it effective and provides balance for the oversight role of the Board's mandate.

The position of Chief Executive Officer is filled through public advertisement. The appointment is done by the Board in consultation with the Cabinet Secretary, Ministry of Health. The Chief Executive Officer is the Secretary to the Board. The Directors' abridged biographies appear on pages 10 to 14 of this Annual Report.

## Independence, Separation of Roles and Responsibilities

The primary responsibility of the Board is to provide leadership and strategic direction to the hospital to enhance value. The Board Directors are expected to exercise the highest degree of care, skill and diligence in discharging their duties.

The roles and responsibilities of the Board and the Chief Executive Officer remain distinct and separate which ensures a balance of power of authority and provides for checks and balances such that no on individual has unfettered power of decision making. The Board provides oversight to the hospital's top management and has unrestricted access to timely and relevant information. The Directors are also empowered to seek independent professional advice on hospital business at its expense where necessary.

The Chairman provides overall leadership without limiting the principles of collective responsibility for Board's decisions. The Chairman builds an effective Board and sets the Board agenda in consultation with the Secretary/ Chief Executive Officer and ensures effective communication to stakeholders.

The Chief Executive Officer is responsible to the Board and takes the overall responsibility for the day to day management of the hospital. The Chief Executive Officer recommends the strategy of the Board and implements it and makes operational decisions. In addition, as Secretary to the Board, the Chief Executive Officer ensures appropriate and timely information flows within the Board, its committees and management.

The Corporation Secretary is in attendance of all Board meetings to provide guidance to the Board on their duties and responsibilities; on matters of governance; and to provide efficient secretariat services including coordinating induction and training of new members, preparation for board meetings and maintaining a record of the same, disseminating action material for management, and filing of statutory returns.

## Principal Board Activities

1. **Strategy and business plans:** The Board is responsible for establishing short and long-term goals of the hospital develop strategies to achieve these goals and monitor the hospital's performance against these set goals. During the year, the Board considered progress against the 2016/2017 hospital strategic themes and reviewed the 2017/2018 strategic objectives, business plans, budgets and five year forecasts.
2. **Clinical services:** The Board oversees the business affairs of the hospital in light of emerging risks and opportunities. During the year, the Board considered reports from clinical services on a regular basis, focusing on matters such as the review and development of clinical indicators, patient safety, infection prevention and control, accreditation and clinical information systems across the hospital.
3. **Financial performance and reporting:** The Board is responsible for spearheading preparation of financial statements and reports as well as approving and reviewing annual budgets. The Board during the year reviewed and approved the periodic results announcement, annual report and results announcement and results presentations

## Board Membership and Attendance of Meetings

The Board holds regular meeting at least once every quarter and supplementary meetings are held as and when necessary. In case of non-attendance due to other commitments, such information is communicated to the Chairman prior to the date of the scheduled meeting.

Table 1: Board membership and attendance during the year

| Name of Director | Board Position | Date of Appointment | Board Attendance |
|---|---|---|---|
| Mr. Mark K. Arap Bor, CBS | Chairman | 18/3/2016 | 15/15 |
| Mr. Henry K. Rotich, EGH | Cabinet Secretary, The National Treasury | - | - |
| Mr. Julius Korir, CBS | Principal Secretary, Ministry of Health | - | - |
| Dr. Daniel R.M. Githegi | Non-Executive Member | 17/5/2015 | 6/15 |
| Dr. Richard T. Kamau | Non-Executive Member | 17/5/2015 | 14/15 |
| Dr. Helen J.C. Yego | Non-Executive Member | 17/5/2015 | 14/15 |
| Mrs. Gracie K. Mullei | Non-Executive Member | 31/5/2016 | 12/15 |
| Mr. Robert M. Mburu | Non-Executive Member | 31/5/2016 | 10/15 |
| Mrs. Mary A.C. Wanyonyi | Alternate to Cabinet Secretary, The National Treasury Chairman | 14/10/2015 | 7/15 |
| Mr. Ben S. Khadiagala | Alternate to Principal Secretary Ministry of Health | 28/11/2014 to 27/7/2016 | 1/1 |
| Mr. Peter Odundo | | 28/7/2016 | 12/14 |
| Prof. Isaac O. Kibwage | Principal, College of Health Sciences, University of Nairobi | 28/5/2007 to 27/5/2017 | 9/13 |
| Prof. Fredrick Were | Principal, College of Health Sciences, University of Nairobi | 28/5/2007 | 2/2 |
| Mr. Peter K. Tum | Chief Executive Officer, Kenya Medical Training College | 8/4/2015 | 14/15 |
| Lily Koros Tare | Chief Executive Officer, KNH | 10/2/2014 | 15/15 |

## Board Committees and Responsibilities

The Board delegates certain functions to well-structured committees but without abdicating its own responsibilities. Each committee is guided by the Committee Charter/Terms of Reference, which outlines its responsibilities as mandated by the Board and is reviewed on a yearly basis. The committees are appropriately constituted drawing membership from amongst the Board members with appropriate skills and experience.

The Chairman of the Board, the Management and external parties/advisors attend the committee meetings only by invitation.

The committees are expected to operate transparently, ensure full disclosure to the Board and conduct themselves within the rules and procedures set out by the Board. Matters deliberated by the committees are presented to the Board by the respective Chairman during the next board meeting.

The Board has the following four (4) standing committees, which hold regular meeting four (4) times a year and supplementary meetings as and when necessary.

*Fig 1: Board Committees*




The responsibilities and attendance of meetings during the year is as summarized below:

## Clinical Research and Standards Committee

The Committee which comprised of four members is charged with the responsibility of advising the Board on clinical services in the hospital. The Committee is tasked with identifying health care service problems in the hospital and ensuring that they are resolved; review any changes on policy issues on standards, quality assurance and research; liaise with the Medical Advisory Committee on matters of quality health care delivery; and undertake comprehensive quarterly evaluation of standards, quality assurance programs in the hospital based on health professional's handbook on quality management in health care in Kenya.

The Committee held four (4) meetings during the year under review as shown in the table below:

**Table 2: Clinical Research and Standards Committee attendance**

| Name | Position | Attendance |
|---|---|---|
| Prof. Isaac O. Kibwage | Chairman | 3/3 |
| Prof. Fredrick Were* | | 1/1 |
| Dr. Daniel R.M. Githegi | Member | 3/4 |
| Dr. Helen J.C. Yego | Member | 3/4 |
| Lily Koros Tare | Secretary | 4/4 |

Note: (*) Prof. Were took over from Prof. Kibwage when the latter's term as Principal, College of Health Sciences expired.

## Corporate Strategy and Enterprise Committee

The Committee is responsible for advising the Board on strategies to enhance performance of the hospital. It reviews the five year strategic plan and oversees its implementation. The Committee is also responsible for monitoring major projects under implementation, directing strategies for improving customer service, reviewing hospital policies, resource mobilization and forging partnerships/linkages. The Committee comprises of four members.

The Committee held four (4) meetings during the year under review as shown in the table below:

**Table 3: Corporate Strategy and Enterprise Committee attendance**

| Name | Position | Attendance |
|---|---|---|
| Dr. Richard T. Kamau | Chairman | 4/4 |
| Mr. Peter Odundo | Member | 2/4 |
| Mrs. Gracie K. Mullei | Member | 2/2 |
| Mr. Robert M. Mburu* | Member | 1/1 |
| Dr. Helen J.C. Yego* | Member | 1/1 |
| Lily Koros Tare | Secretary | 4/4 |

Note: (*) Mr. Mburu replaced Dr. Yego who later was replaced by Mrs. Mullei following reconstitution of the Committee.

### Risk and Audit Committee

The Risk and Audit Committee assists the Board with the oversight of the financial reporting process, audit process, internal control systems, risk management and compliance with laws and regulations. The Committee comprises four members two of whom are non-executive Directors. The Audit Committee is tasked with monitoring and reviewing the effectiveness of the hospital's internal audit function; provision of general oversight in risk and compliance matters; and ensuring quality, integrity, effectiveness and reliability of the Hospital's risk management framework.

The Committee held four (4) meeting during the year under review as shown in the table below:

**Table 3: Risk and Audit Committee**

| Name | Position | Attendance |
|---|---|---|
| Mr. Robert M. Mburu* | Chairman | 2/2 |
| Dr. Helen J. C. Yego | Member | 4/4 |
| Mrs. Mary A.C. Wanyonyi | Member | 4/4 |
| Mr. Peter Tum | Member | 1/4 |
| Mrs. Gracie K. Mullei* | Member | 1/1 |
| Mr. Eric O. Omondi* | Secretary | 4/4 |

Note: (*)

i) Mr. Mburu replaced Dr. Yego as Chairman of the Committee following reconstitution of the Committee.
ii) Mrs. Mullei's membership to the Committee was dropped following reconstitution of the Committee.
iii) Mr. Omondi is the Deputy Director in charge of Risk and Audit and Secretary for the Committee in line with the Public Financial and Management Act, 2012.

### Human Capital, Finance and Administration Committee

The Committee is responsible for considering and making recommendations to the Board on the following: appointment, promotion and discipline of senior management; formulating human resource policies and corporate organizational structure; remuneration structure for the staff; succession plan for senior staff; annual budget and procurement plan; review financial management reports and policies.

The Committee held four (4) meeting during the year under review as shown in the table below:

**Table 4: Human capital, finance and administration committee**

| Name | Position | Attendance |
|---|---|---|
| Mr. Peter Odundo | Chairman | 2/4 |
| Mrs. Gracie K. Mullei | Member | 2/2 |
| Dr. Richard T. Kamau* | Member | 1/1 |
| Mr. Robert Mburu* | Member | 1/2 |
| Prof. Isaac O. Kibwage* | Member | 3/3 |
| Prof. Fredrick Were | Member | 1/1 |
| Mrs. Lily Koros Tare | Secretary | 4/4 |

Note: (*)

i) Dr. Kamau's membership to the Committee was dropped following reconstitution of the Committee.
ii) Mrs. Mullei replaced Mr. Mburu following reconstitution of the Committee.
iii) Prof. Were took over from Prof. Kibwage when the latter's term as Principal, College of Health Sciences expired.

## Capacity Building for the Board

Regular training and development programmes are developed to equip the Board with necessary skills for effective discharge of their mandate. Each year the Board prepares a training calendar where specific training needs are identified and scheduled. During the year, the Directors attended various capacity building programmes focusing on leadership, governance, finance and other relevant areas.

Upon appointment of a new Director, the Management guides them through a formal induction programme explaining the anatomy of the hospital, its operations and they get the opportunity to meet the key officers. They are also taken through corporate governance training so as to understand their roles and responsibilities as Directors.

## Board Effectiveness and Evaluation

In order to assess and improve the capacity, functionality and effectiveness of the Board and its Committees, an annual evaluation is undertaken in accordance with the widely accepted principles of corporate governance.

The self-evaluation reviews the capacity, functionality and effectiveness of its performance in the achievement of its goals and objectives. It assesses the performance and independence of the Board and its Committees jointly and individual members of the Board, including the Chief Executive Officer. The Chief Executive Officer is assessed in her roles as the Chief Executive Officer and Secretary to the Board. The Chairman's ability to add value, his performance against what is expected of his role and function, is also assessed.

The results of the evaluation forms the basis on which action/work plans for the preceding year are formulated, assists to identify the training needs and it also forms the basis of re-appointment of directors.

During the year, a comprehensive board evaluation was conducted under the guidance of the State Corporations Advisory Committee (SCAC). The Board was evaluated against the following criteria, amongst others:-

- Effective preparation for and participation at meetings;
- Understanding the business, mandates, strategic thrift of KNH;
- Ability to take an independent view on matters brought for discussion;
- Communication with fellow Directors, the Management and stakeholders;
- Regular attendance of meetings; and
- Keeping abreast with the latest developments, including awareness and compliance with regulatory guidelines.

A report on the overall evaluation assessment was submitted to the Cabinet Secretary, Ministry of Health in accordance with the best governance practices.

## Board Work Plan

The Board has in place an annual work plan that enables it to have detailed reviews of the hospital's operations, approval of strategy, business plans, budgets and financial statements. The Board receives regular reports on the financial and operational results. The information relevant to the discharge of their obligations is received in accurate, timely and clear form so that the Board can guide and maintain full and effective control over strategic, financial, operational and compliance issues.

## Internal Controls and Risk Management

The Board has the responsibility of identifying internal risk exposures and developing measures to mitigate against the identified risks. The Board reviews and monitors the development and implementation of systems of internal controls. The Board must have an understanding of these risks and mitigate them by implementing sound internal controls and risk management practices. The Board has developed the risk management framework and management control which identifies the risks. The Board recognizes that information technology form an integral part of the risk management process and has developed the business continuity plan, disaster preparedness plan and the Information Technology policy.

The Board reviewed the internal controls, policies and procedures and satisfied that appropriate controls and procedures were in place. This review was done by the internal auditors who report directly to the audit committee. The Board also delegated the day to day management of risks to the Management through systems and process carried out on a day to day basis

# Directors' Remuneration

During every Board meeting, present Directors are entitled to a sitting allowance, lunch allowance (in lieu of lunch being provided), accommodation allowance and mileage reimbursement where applicable within government set limits for state corporations as outlined in Government circular OP/CAB.9/21/2A/41/43 of 23/11/2004. The Chairman receives a monthly honorarium. Directors' fees are not payable. During the year, there were no Directors' loans.

Details of Directors emoluments during the year are shown on page 92s in note 15 of the financial statements.

# Ethical Standards

The Directors and employees of the Board have a fiduciary duty to act honestly and in the best interest of the Board. Business transactions with all parties must be carried out at arm's length and with integrity. The Board provides effective leadership based on ethical foundation and ensures all deliberations, decisions and actions are based on the Boards' core values underpinning good governance.

The Board reviewed the Code of Conduct and Ethics with the aim to enhance relationships and foster teamwork among Board members and staff and to build respect, confidence and credibility with its citizens. The Code provides guidance to its members regarding ethical and acceptable behaviour in conducting their duties and responsibilities. All Directors and employees are expected to avoid activities and financial interests that could undermine their responsibilities to the Hospital.

The Board also developed a Whistle Blowing Policy which is aimed at protecting staff who act in good faith to disclose or report any acts of malpractice, alleged dishonesty, corruption, illegality, wrong-doing or omissions by employees. In addition, the Board reviewed the Anti-Corruption policy that binds both the Directors and employees.

The Board applies a Conflict of Interest policy. A Director with an actual or potential conflict of interest in relation to a matter before the Board is required to disclose such interest and, excuse himself or herself from the Board for discussion relating to the matter in question. At the beginning of the financial year, all directors signed a Declaration of Interest Form declaring that they will disclose any interest that conflicts or possibly may conflict with the interests of the Board. At the commencement of any business to be transacted, all directors are required to declare their interest, if any.

# Relationship with Stakeholders

The Board appreciates that stakeholder perception affect the organizations reputation. The Board therefore strives to achieve an appropriate balance between its various stakeholders in the best interest of the organization by taking into account their legitimate interest and expectations in decision making.

The Board values the importance of complete, timely, transparent and effective communication with its stakeholders for building and maintaining their trust and confidence by providing regular information on its performance, activities and addressing their concerns whilst having regard to legal and strategic considerations.

The Board has developed a Corporate Communications and Marketing Policy which encompasses internal & external communication, customer service and public relations. The main avenues for communication are through press releases, stakeholder forums and publications on disbursements, and annual reports and financial statements. The Board has continued to encourage electronic communication through publishing documents in the corporate website www.knh.or.ke and has endeavored to ensure that the website is highly interactive and contains all the relevant information.

Additionally, the Board has dedicated staff to deal with complaints and public relations effectively, efficiently and as expeditiously as possible. The Board has an established mechanism of receiving, resolving and giving feedback on complaints referred to it by its stakeholders. The Board submits quarterly reports to the Commission of Administrative Justice on the complaints handling and management. During the year the Board scored 94% against a target of 100% on complaints handling and management.

The Hospital's Service Charter has been cascaded to all staff and displayed at strategic locations, is monitored on a regular basis. The Charter stipulates the service delivery timelines, commitments and expectations of KNHs customers. During the year, the level of customer satisfaction on the hospital's services was at 75%. The Board is committed to continually improve access to information by the public and provision of efficient and quality specialized healthcare services to the public.

The Board also engaged with various donors among others, the Government of India who donated a Bhabhatron II Machine and a simulator worth USD.416,651; and the Merali Foundation who donated Kshs.100million towards the construction of a Surgical Day Care Centre.

# Management discussions & analysis

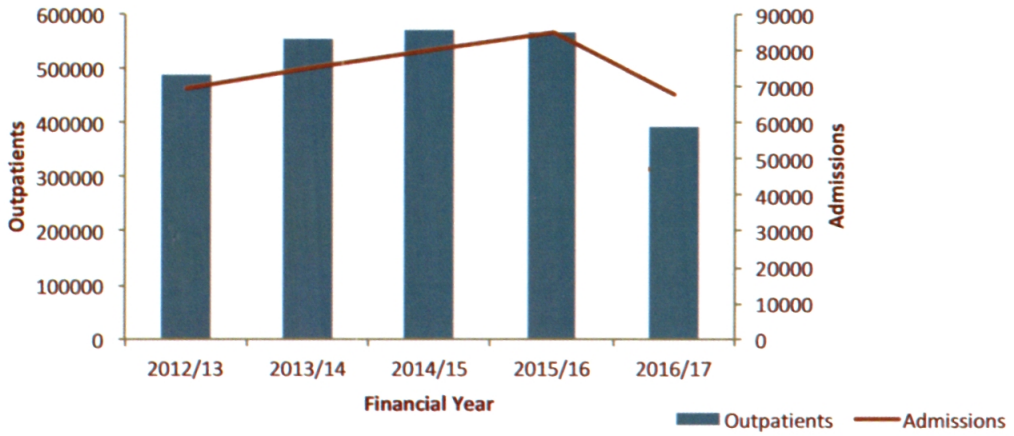
## Clinical Performance

KNH provides a wide range of highly specialized services to Kenyans and patients from within East and Central Africa Region. Some of these specialized services include accident and emergency, outpatient specialist clinics, inpatient care and day care procedures for surgery, renal, endoscopy, cardiology, ENT, ophthalmology, dental amongst other services. In addition, the hospital provides clinical support services that include pharmacy, laboratory, radiology, and nuclear medicine.

KNH strives to ensure that the clinical services provided throughout the organisation are efficient, effective, appropriate, innovative, evidence-based and in line with modern technological advances. Clinical governance has been strengthened to ensure patient safety and quality healthcare. Further, the hospital plays a vital role on the national platform in the management of national emergencies and disasters; policy formulation, research and training.

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

*Fig. 2: Hospital workload*

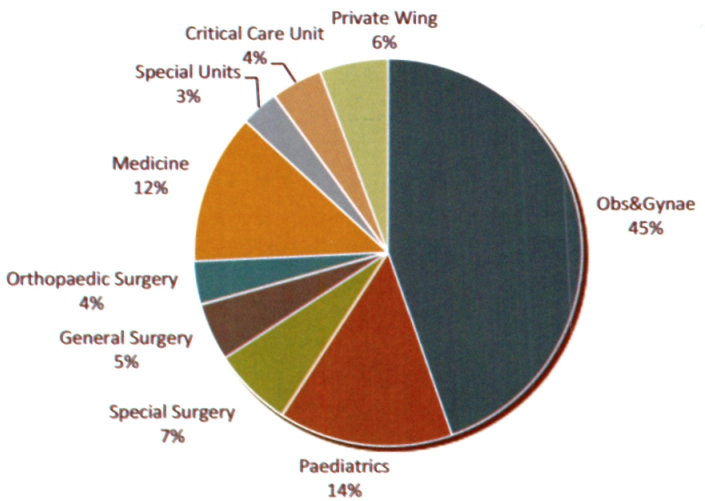



The hospital experienced a steady growth in the number of patients from FY 2012/2013 to 2015/2016. However, there was a decline in patient numbers in the FY 2016/2017 during the 100 days national industrial action by health workers (doctors/nurses). The patient numbers was also affected by the closure of the walk- in general outpatient clinic.

### Patient admissions

Reproductive health service continues to be the leading source of admission to the hospital. This is due to the Government free maternity policy.

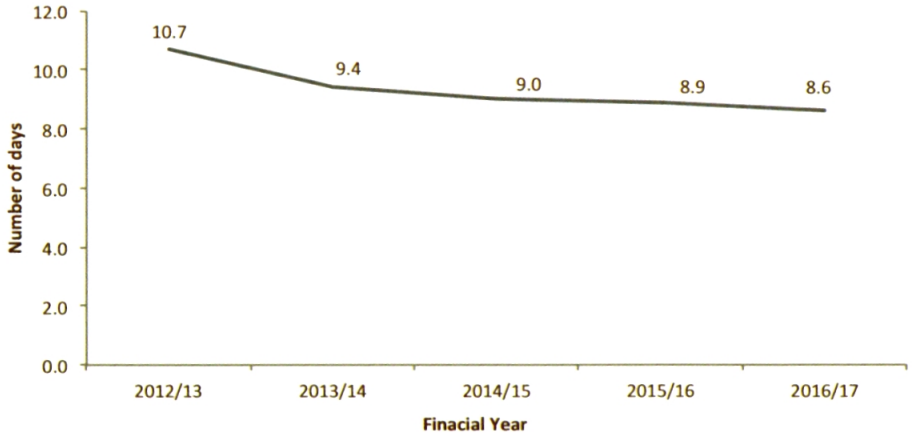
*Fig. 3: Admissions by speciality (67,872)*



## Average Length of Stay (ALOS)

The hospital has continuously improved the average length of stay of the patients due to improved service delivery, clinical governance and enhanced performance monitoring.

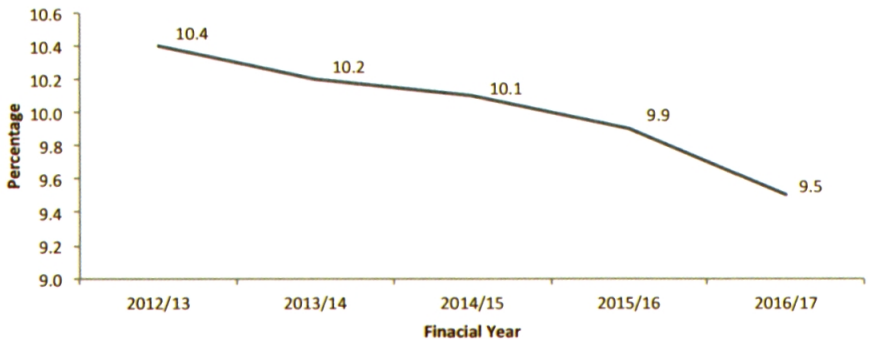
*Fig. 4: Average length of stay*




## Mortality

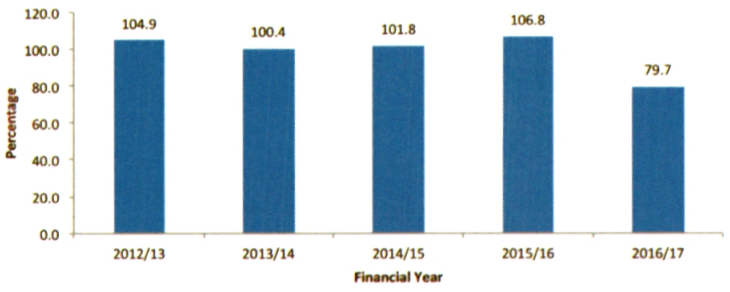
The mortality rate has continuously declined over the last five years due to improved healthcare services.

*Fig. 5: Mortality rate*




## Bed Occupancy

*Fig. 6: Percentage bed occupancy*




The hospital has continuously operated above capacity, causing a constraint on existing facilities. This is because it provides primary healthcare treatment to Nairobi and the surrounding counties despite being a referral facility. The bed occupancy in the year 2016/2017 was expected to maintain the same trend if there was no industrial action.

## Specialized Clinics

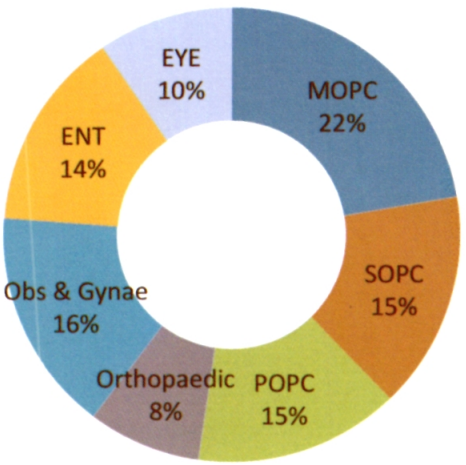
The hospital run specialized clinics that includes the following:

- Eye clinic (retinopathy, diabetes, paediatrics, retinoblastoma glaucoma etc).
- Medical outpatient clinic (MOPC), this includes cardiac, diabetes and endocrinology, neurology, gastroenterology and liver clinic, rheumatology, hemato-oncology, respiratory, TB/MDRTB.
- Surgical clinics that includes neurosurgery, cardiothoracic surgery, urology, breast, plastic surgery, thyroid amongst others.

- Paediatric Outpatient Clinic (POPC) includes oncology clinic, hemato-oncology, respiratory, gastroenterology amongst others.
- Orthopaedic clinics that includes specialized fracture, rehabilitation clinics and spine clinics. Reproductive Health that include specialized ante-natal and post-natal clinics, specialized gynae clinics including oncology and VVF clinic.
- ENT includes oncology, endoscopy, speech and hearing clinics.

The hospital prides in in-house specialists in all these areas and has a continuous plan for maintaining the specialist numbers by providing training in various specialties both local and international. Recognizing the improved healthcare financing, the number of patients seeking specialized health care is projected to grow in the future.

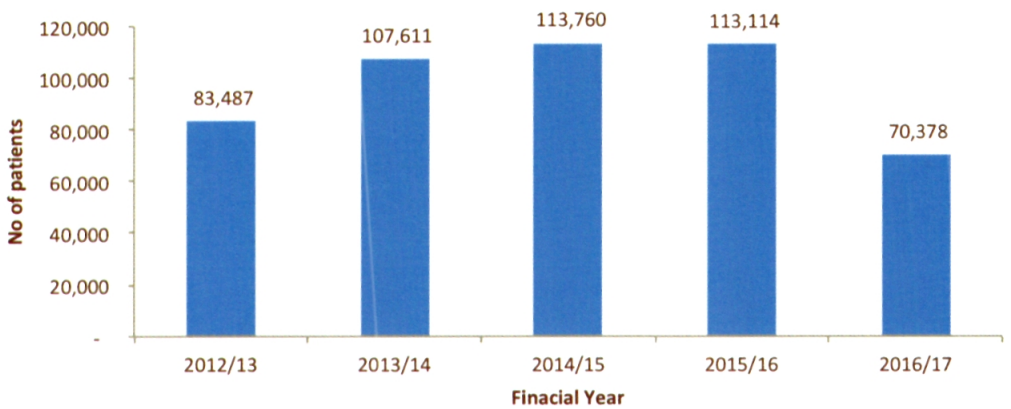
***Fig.7: Outpatient specialized clinics attendance 2016/2017 (143,951 patients)***




## Accident and Emergency

KNH continues to offer Accident and Emergency (A&E) services to all Kenyans in line with Article 43 (2) of the constitution. The 24–hour KNH A&E service is the busiest A & E in the country, and attends to patients as an entry point to the hospital. The hospital has introduced a referral unit to coordinate referrals in line with the Kenya Health Sector Referral Strategy and the Kenya Health Sector Referral Implementation Guidelines. The A & E is always prepared to handle national disasters and has a disaster management centre linked to the National Disaster Operation Centre and National Disaster Management Unit.

***Fig. 8: Accident and Emergency workload***



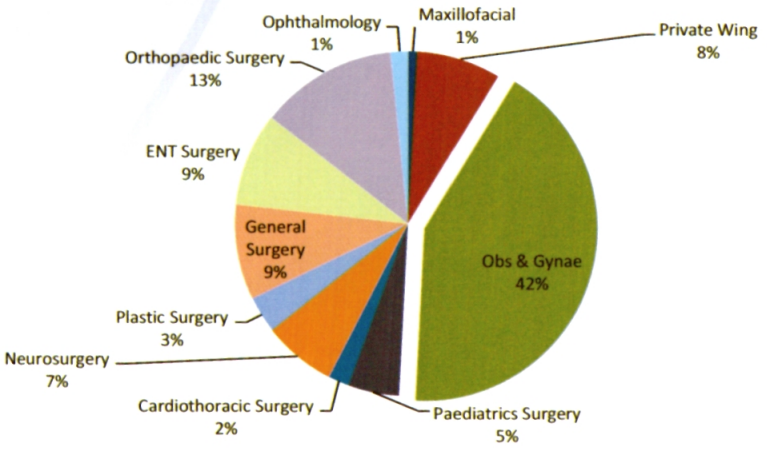

## Infectious diseases unit

KNH houses the only infectious diseases centre in the wider east African region. This centre cares for patients with highly infectious diseases such as hemorrhagic fevers including Ebola, Marburg; In the year under review, the facility admitted 46 patients with various highly infectious diseases that included multi-drug resistant bacterial infections, Dengue fever, and suspected cases of hemorrhagic fever and yellow fever who fortunately tested negative.

## Theatre Services

The hospital has twenty-four theatres, with the main theatre, maternity and trauma theatres operating on a twenty-four-hour basis. Many of the success stories have taken place in these theatres including the successful separation of the conjoined twins, and the successful removal of the bullet from the brain of baby Satrin who was a victim of terror attack with no neurological sequalae, amongst others.

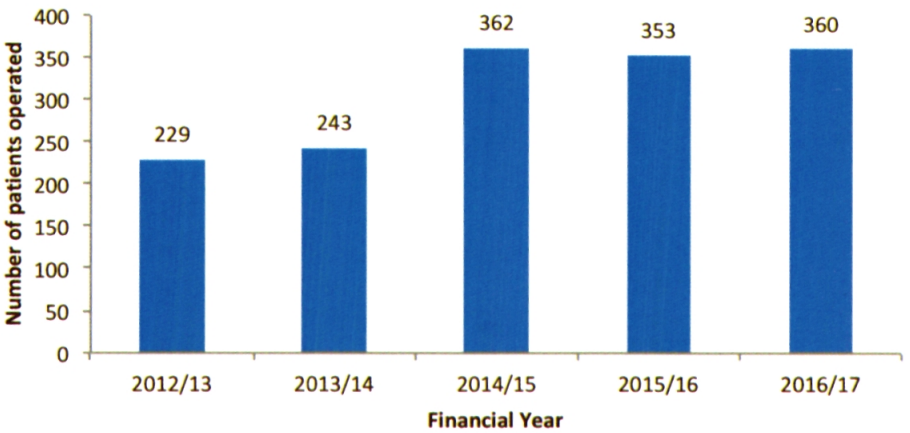
*Fig. 9: Theatre operations by speciality 2016/17 (14,597 operations)*




## Vesico Vaginal Fistula

The complications that arise from VVF routine repairs from lower level hospitals in the country have been on the increase due to increased awareness and sensitization. The hospital continues to receive more complicated cases that require specialized treatment. In response to this, KNH has dedicated resources in partnership with other stakeholders for annual VVF – Fistula Camps. KNH has set up a dedicated clinic for VVF. In the year 2016/2017, KNH in partnership with AMREF held four camps where a total of 360 patients with VVF complications were attended to.

*Fig. 10: VVF Project*




## Healthcare financing

With the improvements in NHIF coverage aimed at promoting universal healthcare and considering that majority of the patients at KNH are indigents and are not able to meet the cost of treatment; it is expected that considerations will be made on how to reimburse the cost of treatment for such persons. This will help the hospital to meet some of the pending obligations towards better healthcare provision.

## Research

In an effort to enhance the quality of care and ensure evidence based patient management, the hospital conducts and supports research. In the last financial year, the hospital funded fifty four research studies of which thirteen were completed.

The hospital organizes a biennial scientific conference in collaboration with University of Nairobi's College of Health Sciences where these research findings are disseminated. In addition, the hospital conducted several symposiums during the period.

## Customer Satisfaction

KNH is committed to improving patient experience and conducts an annual customer satisfaction survey. Our surveys conducted in the past three years are as follows:

*Fig. 11: Customer Satisfaction*




The outcomes of the survey indicated that the KNH customers are generally happy with the services owing to the satisfaction indices in the three years of over 70%. Notably, in 2016/2017, the level of satisfaction increased and it is expected the same trend will be sustained.

## KNH Nursing School

KNH School of Specialized Nursing was established in 1996 to build capacity for specialized areas within the Hospital such as Critical Care Unit, Theatre, Renal, A&E and New-born Unit from which the general units/wards have also benefited. The School offers Post Basic Diploma Specialized Nursing courses.

The courses started as in-house in the initial years and were later extended to nurses from other institutions within and outside the country. All courses offered in the School are registered by the Nursing Council of Kenya (NCK) on full time basis over one calendar year. Graduates from the KNH School of Nursing have made an impact in several institutions in Kenya, the East and Central African region and beyond.

Courses offered include: Critical Care Nursing; Peri–Operative Nursing; Nephrology Nursing; Accident and Emergency Nursing; and Neonatal Nursing.

The KNH Nursing School graduated 96 nurses in the Financial Year 2016/2017.



*Diploma in Nephrology Nursing graduands – KNH Nursing School*



*Graduands of KNH Nursing School celebrating achievement*

# Financial Performance

## FINANCIAL PERFORMANCE HIGHLIGHTS

### Results for Year Ended June 30, 2017

The Hospital recorded a deficit of Kshs. 905 million, which is an increase of 33% from the previous year's deficit of Kshs. 679 million. The deficit performance is largely due to:

i) **Unfavourable rebates from NHIF:** this arises because of the cost of offering specialized care services exceeds the rebate mainly in critical care, surgical, burns unit as well as orthopaedic.

ii) **Inadequate reimbursement for free maternity care:** the hospital receives a standard reimbursement of Kshs. 17,500 per delivery from the free maternity program. However, in most cases, this is not adequate in view of the following:

- Considering that the free maternity includes ante-natal, delivery and post-natal, KNH will not get any reimbursement for patients who will attend ante-natal and later deliver in another facility, despite KNH incurring costs for ante-natal services. Therefore, KNH will incur this loss under free maternity.
- In addition, where mothers develop complications after delivering in another hospital and are referred to KNH for specialized care, the hospital is not compensated resulting to a loss.
- Following the industrial action by health care workers that paralyzed all other public facilities, KNH experienced increase in the number of mothers admitted for delivery. Therefore, the hospital incurred extra costs for engaging additional staff on locum to cope with the high numbers.

iii) **Underprivileged and Indigents medical bills:** 78% of the patients treated at KNH are either from the informal sector or unemployed. These clients do not have an insurance cover and usually settle their medical bills out of pocket. Upon clinical discharge, most are unable to settle medical bills. They are released from the hospital on a commitment to settle their bills in future on unsecured credit. After the release, efforts to collect the due credit are largely fruitless. A provision for bad and doubtful debts has been made to recognize the inability to recover the debt.

### Revenue performance

The Hospital operations are funded through grants from the national government, fee charged for services rendered (cost sharing), rental income, public contributions and donations, grants from development partners and bank interest income. During the Financial year, the hospital income declined by 2% from Kshs.11,692 million reported in the FY 2015/16 to Kshs.11,461 million in the FY 2016/17. Recurrent grants increased by 6% to Kshs.7,082 million from Kshs.6,667 million (2015/16) following the review of doctors, nurses and health workers allowances awarded during the year. Revenue from rendering of services declined from Kshs.4,560 million (2015/16) to Kshs.4,007 million due to the effect of national industrial action in the third quarter of the financial year.

Development expenditure is funded by the National Government, and during the year Cancer Treatment Equipment valued at Kshs. 342 million was received from Ministry of Health while Kshs. 343 million was allocated being counterpart funding for the construction of Burns Management Centre and Paediatrics Emergency Centre.

# Financial Highlights at a glance

*Fig. 12: Sources of income FY 2016/17*

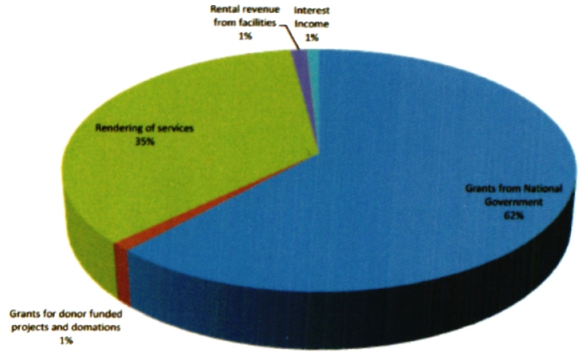



*Fig. 13: Surplus/(Deficit) trend*




*Fig. 14: Utilization of funds FY 2016/17*

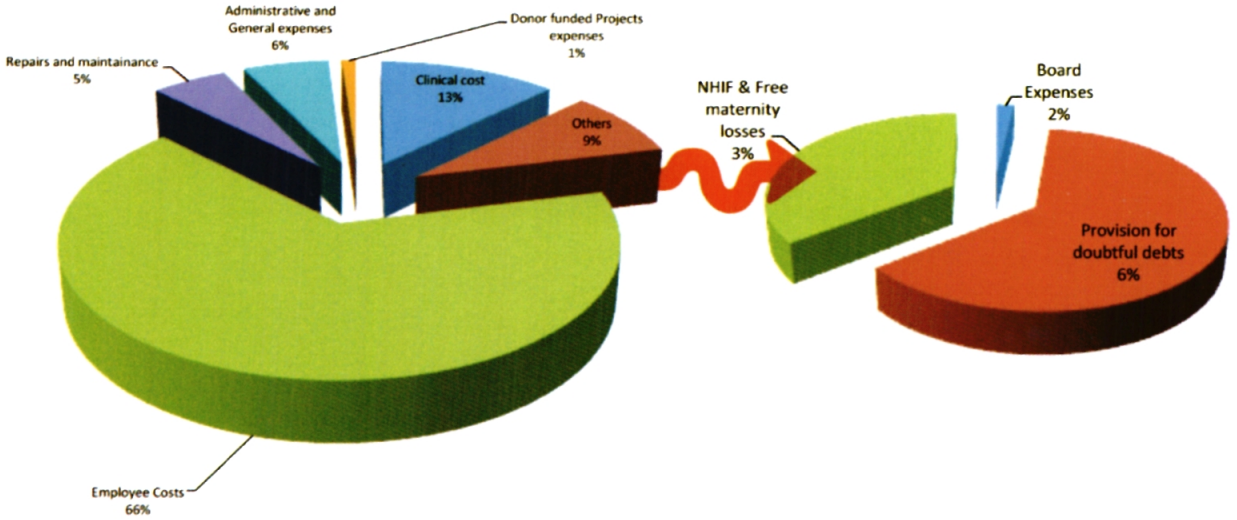



*Fig. 15 Income trend*

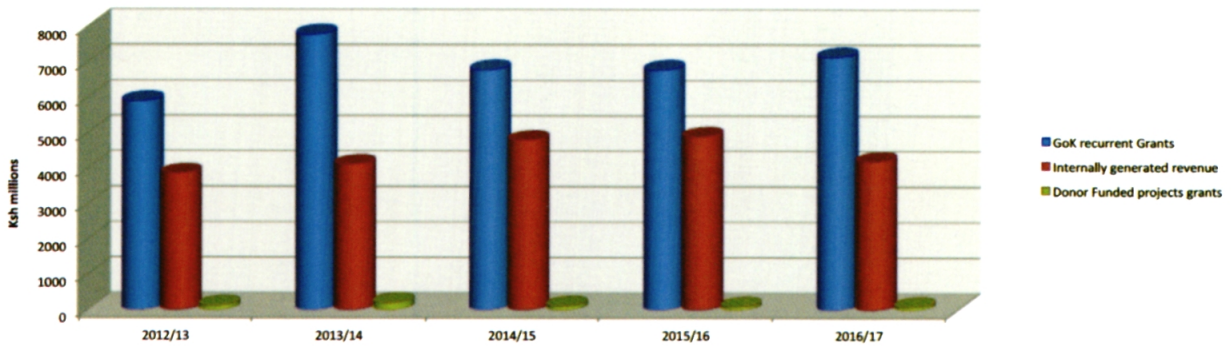


*Fig. 16 Expenditure trend*

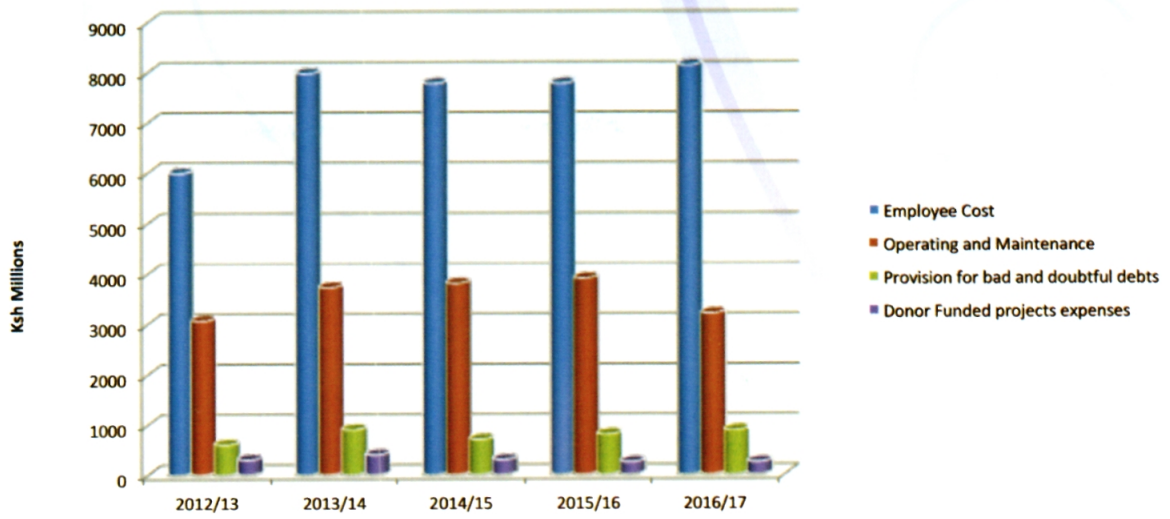



*Fig. 17: GoK development funding*

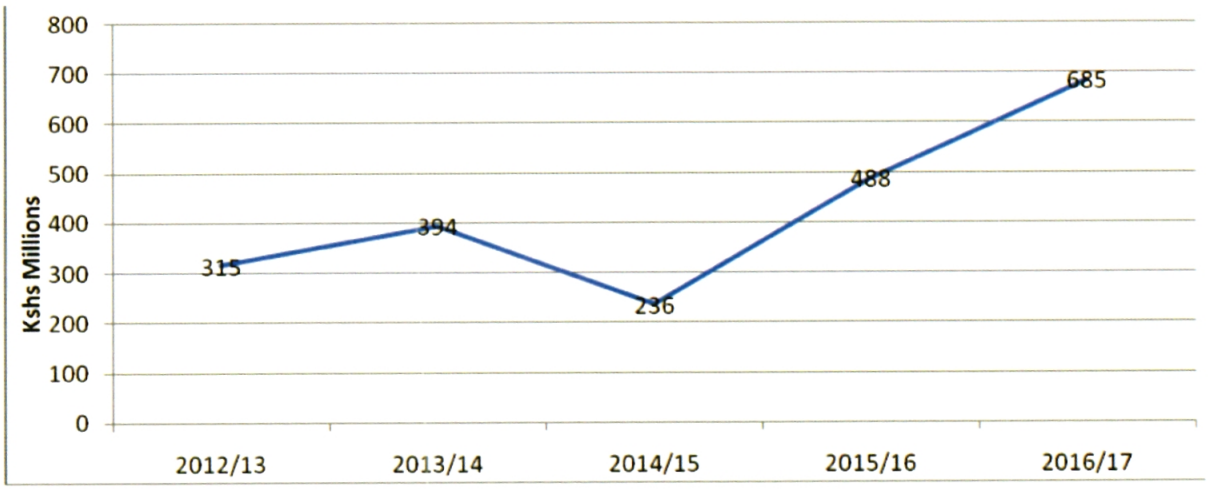
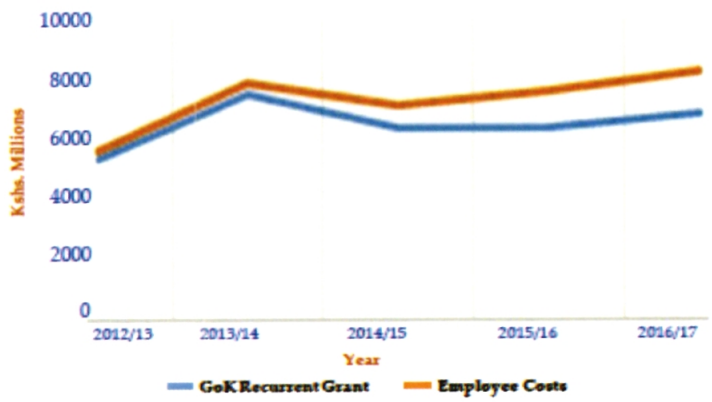



*Fig. 18: Employee costs funding gap*



# Key Projects

### 1. Construction and Equipping of Cancer Center

The scope of this project encompasses the construction of a bunker and supply, installation and commissioning of a Linear Accelerator and the construction of the peripheral facilities to support the operations of the bunker. The Government provided Kshs.342 Million for the acquisition of a 6MV Linear Accelerator and accessories and the construction of a bunker. The project is now complete, commissioned and treatment of patients ongoing.

The India High Commission donated one Bhabhatron II Machine and Simulator worth USD.416,651.00. Installation of the bhabhatron II Machine and Simulator is now complete awaiting commissioning for use.

### 2. Construction of 300-Bed Private Hospital

The project involves construction and equipping of a 300-bed private Hospital that will be a subsidiary to the Main KNH to be run on private business principles. The objective is to attract clients who are able to pay. The project is expected to generate revenue to leverage the main Hospital. The ultimate goal is to reduce reliance on the exchequer. It is proposed that the hospital will be built on the KNH land adjacent to the planned Hospital-Mbagathi Link road for ease of access, parking and to reduce congestion within the main hospital area. The project will be financed through the Public Private Partnership financing model.

The procurement of a transaction advisor who will undertake the feasibility study is ongoing with the assistance of the National Treasury through the PPP unit. The technical evaluation team comprising of KNH and PPP secretariat evaluated the tender for the expression of interest (EOI) and finalized their report on 31st March 2017. The final report has been submitted to the World Bank (financier) for perusal and award before proceeding to the next phase.

### 3. Construction of an Accommodation, Training & Shopping Complex

This project will involve expansion of the KNH estate by demolishing dilapidated houses and replacing them with apartments, construction of hostels, a training facility and a shopping complex. The objective is to maximize use of space and generate funds to finance the operations of the Hospital to reduce reliance on the Exchequer. The project will be financed through Public Private Partnership.

No funds have been allocated to this project in this financial year 2016/2017 but follow-up with the PPP Secretariat is on-going.

### 4. Construction & Equipping of the Zarina Merali Surgical Day Care Centre

This project involves construction and equipping of the proposed Surgical Day Care Center to house 26 beds, four main theatres, two minor theatres an endoscopy unit, administration area, and electrophysiology room and associated support facilities. The construction of the facility will cost approximately Kshs.210 million. Co-funded by the Merali Foundation, the civil works are at 70% completion as at the end of June 2017.

### 5. Burns Management Centre and Paediatric Emergency Centre

This project involves the construction of Burns Management Center and Paediatric Emergency Center. The Burns Centre will contain 82 general ward beds, 14 ICU beds and 6 HDU beds while the Paediatric Centre will contain 82 general ward beds, 24 ICU and 6 High Dependency beds. BADEA, SAUDI, OPEC Fund and GOK will finance the project through a concessionary loan. The financiers gave an approval for the Hospital to undertake international competitive bidding and process is on-going

### 6. Micro-wave for processing Waste Treatment

The Belgium Government has funded the installation of 10 modern medical waste treatments in 10 high volume health facilities in the country. KNH is a beneficiary for the equipment due to the high volume of clinical/ medical waste generated. The machine is able to shred and microwave a minimum of 250 kg of waste per hour. This is a revenue stream on health care waste. The new microwave will reduce the cost of incineration and repair of incinerators because minimum incineration will be done for body tissues and sharps which will not be microwave shredded.

The tender evaluation process for a contractor is ongoing and should be complete by the end of August 2017

### 7. The East African Kidney Institute

The project's Aide Memoire was approved and signed in October 2014 and the loan agreement signed between the African Development Bank and the National Treasury on December 17th, 2015. The project's first phase involves procurement of the renal equipment and training of three (3) lots of healthcare workers (Doctors, Nurses and Nutritionist).

KNH has finished the training of the first two multidisciplinary batches comprising each 32 students who graduated in August 2016 while the training of the last batch of thirty six (36) students commenced in April 2017. Contract for design works was awarded in December 2016 and design works is underway. The firm has submitted the inception report for review and final designs due in August 2017. Construction is expected to commence in January 2018.

### 8. Upgrade of KNH Renal Unit

The project's cost is approximately Ksh.200 M. Its main objective is to upgrade the existing renal unit to provide adequate infrastructure to handle the surging number of renal patients in the country. The upgrade will accommodate a recovery room, two wards each to contain six (6) beds for both genders and cloakrooms.

The process of tendering to procure a contractor to carry out the upgrade is on-going as at end of June 2017.

# Compliance with statutory requirements

In the period under review, the Hospital complied with all statutory requirements and has not received any sanctions so far for non-compliance.

# Major Risks Facing the Hospital

The Hospital considers the following as its major risks:

i) Regulatory & compliance risk
ii) Competition – existence of competitors with their new strategies
iii) Economic and business risk
iv) Operational and credit risk – potential of financial loss
v) Availability and cost of capital
vi) Clinical risks – undesirable clinical outcomes
vii) Information systems security
viii) Quality and stability of operational services
ix) Recruitment and retention of skilled resources and medical practitioners.

### Risk management, principal risks and uncertainties

The Board is ultimately accountable for the Hospital's risk management process and system of internal control. In terms of a mandate by the Board, the Audit and Risk Committee monitors the risk management process and systems of internal control of the Hospital. The Board oversees the activities of the Audit and Risk Committee, the hospital internal and external auditors, and the Hospital's risk management function as delegated to the Hospital's Audit and Risk Committee.

### Risk management

The ERM policy is subject to annual review, and any amendments are submitted to the Audit and Risk Committee for approval. The objective of risk management in the Hospital is to establish an integrated and effective risk management framework where important and emerging risks are identified, quantified and managed.

**Table 5: Risks framework**

KEY

| Reference | Coso category | Business process | Strategic priorities |
|---|---|---|---|
| 1 | Strategic and market | Strategy management; strategic investments | • Continue to grow<br>• Invest in employees<br>• Improve safe, quality clinical care and patient safety.<br>• Deliver integrated, coordinated care<br>• Improve efficiencies |
| 2 | Operational effectiveness and quality | Human resources; information and communications technology("ICT"); clinical; infrastructure; marketing and corporate communication; operations | |
| 3 | Financial and reporting risks | Revenue cycle; procure to pay cycle; payroll cycle; cost control; assets management; treasury | |
| 4 | Compliance risks | Legal and secretarial; governance risk and compliance; environmental management | |
| ↑ | Risk exposure increased due to change in business environment, increased investments, and increased dependency of operations on information technology, information sensitivity and cost involved. | | |
| ↓ | Proactive and continuous monitoring, favourable results of negotiations, effective treasury and risk management processes have resulted in lowering of risk exposure. | | |
| → | Risk exposure has not changed much as the operating and regulatory environment has more or less remained the same and enhanced risk mitigation measures have kept the risk at same level. | | |

Table 6: KNH key risks

| Principal risk | Movement in | Description of risk | Mitigation of risk |
|---|---|---|---|
| 2016–2017 | | | |
| Regulatory and compliance risk 1) and 4) | → | The risk includes ethical and governance risks that refer to unexpected negative consequences of unethical actions or the failure of the control and oversight mechanisms which were designed and implemented to uphold the ethical standards and controls of the organisation. | • Proactive engagement strategies with stakeholders<br>• Corporation secretary and legal departments support operational management, monitor regulatory developments and, where necessary, obtain expert legal advice for the effective implementation of compliance initiatives<br>• Compliance risks identified and assessed as part of departmental risk registers<br>• Compliance management<br>• Visible ethical leadership<br>• Monitoring and investigation of incidents reported on the ethics line<br>• Board-level oversight |

| Principal risk | Movement in | Description of risk | Mitigation of risk |
|---|---|---|---|
| 2016–2017 | | | |
| Competition 1) | ↑ | The risk relating to the uncertainty created by the existence of competitors or the emergence of new competitors with their own strategies. | • Proactive monitoring<br>• Strategic planning processes<br>• Quality and value of care processes |
| Economic and business environment (1) | ↑ | The downturn in the general economic and business environment, including all those factors that affect an organisation's operations, customers, competitors, stakeholders, suppliers and industry trends. | • Systems to monitor developments in the economic and business environment of trends and early warning indicators<br>• Focus on quality and continuum of care to reinforce the Hospital's position |
| Operational and credit risks (3 and 2) | ↑ | Operational risk refers to various types of operational events with a potential for financial loss. | • Preservation of a sound internal financial control environment<br>• Effective risk management processes<br>• Extensive combined assurance processes<br>• Monitoring operations through KPIs<br>• Continuous enhancement of operational efficiency and cost reduction<br>• Board-level oversight |
| Availabillity and cost of capital (Including financing and liquidity risk) (3) | ↑ | The cost, terms and availability of capital to finance strategic expansion opportunities and/or the refinancing or restructuring of existing debt which was affected by prevailing capital market conditions | • Long-term planning of capital requirements and cash flow forecasting<br>• Scrutiny of cash-generating capacity within the Hospital<br>• Monitoring compliance with requirements of debt covenants |
| Clinical risks (2 and 1) | → | All clinical risks associated with the provision of clinical care resulting in undesirable clinical care or clinical outcomes.<br>The risks include a pandemic and disease outbreak. A pandemic is an epidemic of infectious disease that is spreading through human populations across a large region. Disease outbreak involves highly infectious diseases with a high mortality rate. | • Accreditation processes<br>• Clinical governance processes<br>• Monitoring clinical performance indicators<br>• Implementation of comprehensive processes for infection control and prevention<br>• Marketing and communication strategies<br>• Focus on quality management processes |

| Principal risk | Movement in | Description of risk | Mitigation of risk |
|---|---|---|---|
| 2016–2017 | | | |
| Information systems security and availability risk (2) | → | Information systems security risk (including cyber risk) relates to the unauthorised access to information systems, failure of data integrity and confidentiality.<br>Availability risk relates to the instances where systems are not available for its intended users<br>A risk closely associated with information systems risk is project delivery. Project delivery risk refers to issues or occurrences that may potentially interfere with successful completion of projects, including its scope, timeliness and appropriateness of delivery | • Comprehensive IT logical access, change and physical access controls<br>• Disaster recovery planning<br>• Proactive monitoring and oversight<br>• Reallocation of tasks and resources |
| Quality and stability of operational services (2) & (3) | → | Incidents of poor service or incidents where operational management fail to respond effectively to complaints operational interruptions, which are any disruption of the facility and including the threat of disrupted power or water supply | • Patient experience surveys (both internal and external)<br>• Complaints monitoring<br>• Training programmes<br>• Comprehensive insurance to deal with financial impact of potential disasters<br>• Plans to deal with disasters |
| Availability, recruitment and retention of skilled resources and medical practitioners (2) & (3). | → | The availability and support of admitting doctors, whether independent or employed, are critical to the services the<br>Hospital provides | • Monitoring doctor satisfaction, movement and doctors' profiles<br>• The employment recruitment and retention strategies<br>• Extensive training and skills development programme |

# Material arrears in statutory and other financial obligations

The hospital has the following arrears that are considered material;

### a) National Social Security Fund contribution arrears

The outstanding amount relates to contribution arrears for the period April 2001 to November 2009 when KNH had sought for an exemption (complying with NSSF Act) from the Ministry of Labour and Human Resource Development as the hospital had a better Pension Scheme. The Ministry declined the request for exemption in the year 2011 on the basis that NSSF was a universal Social Security pillar and thus was mandatory. The Hospital had by then accumulated arrears totalling to Ksh.311.million excluding penalties. The hospital has sort Ministry of Health assistance to offset the arrears as all personnel related expenses are funded through the Government of Kenya recurrent grant.

In the FY 2016/2017, the hospital paid kshs. 24 million of these arrears as it await Ministry of Health intervention.

## Kenyans to benefit from Vaccination Centre at KNH



*A client being vaccinated against Yellow Fever*

Kenyatta National Hospital was awarded a certificate as an International Vaccine Centre. The center offers a variety of vaccines for immunization against Hepatitis B, Typhoid, Influenza, Human Pappiloma Virus, Meningococcal Polysaccharide, Measles, Tetanus, Yellow fever among others. The center is an important milestone not just for KNH but also for the millions of Kenyans who seek vaccination before travelling abroad.

## Continuous Kangaroo Mother Care launched in KNH



*Official launch of Kangaroo Mother Care Centre by Rep. DMS*



*Baby Hope born weighing 400gms celebrating her 1st birthday at KNH New Born Unit*

The first continuous Kangaroo Mother Care Centre (KMC) was launched at Kenyatta National Hospital's Specialized Paediatric Unit in commemoration of World Prematurity Day on 17th November 2016.

The KNH KMC is an initiative of the Ministry of Health and Partners such as Save the Children, USAID, UNICEF and UKAID aimed at promoting Kangaroo Mother Care and support for mothers who are taking care of preterm babies.

Kangaroo Mother Care is the continuous skin to skin contact between the mother and preterm baby to help keep the baby warm and encourage weight gain in preterm babies. The idea which is derived from Kangaroos that have pouches is the most preferred and recommended intervention globally for new born pre-terms and low weight babies due to its potential to regulate babies' temperature and improve bonding between the mother and the child.

With proper essential newborn care, preterm babies have the ability to grow, survive and thrive to a healthy adulthood without any physiological challenges. The most memorable KNH testimonial is 'baby Hope', who was born at 25 weeks weighing 400gms, was nurtured by KNH neonatal specialists and five years later she has made tremendous growth, can read very well and joined school this year.

Globally and in Kenya prematurity is leading cause of death in children under the age of five (5) years. Children born early die due to lack of feasible cost effective care, such as warmth, breastfeeding support and basic care for infections and breathing difficulties. Interventions specific to the preterm birth such as Kangaroo Mother Care will significantly reduce mortality.

# Corporate social responsibility

The commitment of KNH to social responsibility and the pursuit of societal good through inclusive healthcare inspired us towards fulfilling public healthcare needs. We focus on bringing quality healthcare within the reach of all people regardless of their geographic location or economic status. KNH aspires to be a socially responsible corporate citizen delivering superior and sustainable value to all.

KNH Corporate Social Responsibility initiatives express our commitment and concern to the welfare of our employees and the patients we serve. These initiatives focus on community development and health, human rights, empowering people through education and dissemination of information. The main activities undertaken during the year herein outlined below:

## KNH Public Open Day

In line with the constitution, Chapter 4 on Bill of Right, KNH held an Open Day to provide the public a special platform for caregivers to interact and receive feedback from the clients on healthcare services. Recognizing the variety of healthcare services and high number of patients seeking services at KNH, the Open Day focused on service delivery, patients' charters and procedures for providing feedback or complaints. Over one thousand (1000) members of public were sensitized and received free hypertension screening.




*Free screening for member of the public during the KNH OPen Day*



*A KNH staff sensitizing members of the public on importance of hypertension screening during the KNH OPen Day*

## Burns awareness

"Fire and burns incidences are usually human caused and can easily be prevented," was the message for the one week Fire and Burns safety awareness held at Uhuru Park, Nairobi.

The event was organized by Kenyatta National Hospital in collaboration with the Burns Society of Kenya, National Disaster Management Unit, National Disaster Operation Centre, Kenya Power, Kenya Power Pension Funds, Nairobi County Fire Brigade, St. Johns Ambulance and Kenya Red Cross Society, G4S, Radar and KK Security among other players. Over the week, the team created awareness on fire and burns safety in EPZ Babandogo, Kibera Olympic and Kangemi Primary Schools.



*Jackline Okoth of KNH Burns Unit explains to a client how home appliances can cause burn injuries if not handled carefully*



*Expectant mothers in a Lamaze session*

## Lamaze

Public education and awareness on Lamaze (child birth education) that encourages the benefits of normal delivery and advise on how to manage pains and attain comfort during labours and child delivery process. The beneficiaries during the one week awareness in commemoration of the world physiotherapy week were the expectant mothers who converged at KNH for the free education. Similar education was also extended to the expectant mothers at Mama Lucy Kibaki Hospital on 8th September 2016. Lamaze programme is conducted at KNH every first, second and last Saturday of the month from 8.00am to 1pm at the physiotherapy department.

## Kidney and hypertension screening

KNH Renal Unit in collaboration with Kenya Renal Association and Embu County Government on 12th August 2016 conducted a free medical camp at Embu Level Five Hospital. Sensitization on the management of kidney through regular screening of blood pressure and maintaining positive social lifestyle was carried out. The two-day free medical outreach screened the public for kidney and hypertension and treated over 800 members of the public for various ailments. One patient was referred to KNH for specialized medical care.




*The medical camp team*



*A spine surgery in progress*

## Spine surgery project

Kenyatta National Hospital (KNH) orthopaedic surgeons in collaboration with University of Nairobi and NuVasive Spine Foundation, San Diego USA conducted a subsidized Spine Surgery Mission at KNH on 12th – 16th September 2016. The surgeons performed corrective surgeries on eighteen (18) patients with spine ailments including Spine deformities, Degenerative, traumatic & infective spine conditions and Neo-plastic spine ailments. The camp was also intended to mentor young surgeons as well as exchange skills and knowledge on spine surgery. The project and working together has helped conduct additional cases and reduce the number of patients waiting for spine surgery

## Free breast and cervical cancer screening

Kenyatta National Hospital conducted a free breast and cervical cancer screening on 25th October 2016 to create awareness on cancer and how the public can positively participate in the fight against cancer. The public received free breast and cervical cancer screening, counselling and education on symptoms, treatment and management of cancer. Cancer is the third major killer after infectious and cardiovascular diseases. Cervical and breast cancer is the leading cause of death among women. Unlike other diseases that affect the patients with sudden and severe symptoms, some types of cancers affect the patients slowly without severe or physical symptoms and are highly ignored or misdiagnosed. This may explain why 80% of the cancer patients are diagnosed late.



*Members of the public at the screening tent*



*A doctor observing a diabetic patient with a dental problem*

## Diabetes outreach in Taita Taveta County

In commemoration of the World Diabetes Day, Kenyatta National Hospital conducted a free medical camp in Taita Taveta County from 12th – 14th November 2016. Over 1,500 people received free medical screening and treatment for diabetes and foot care, breast and cervical cancer screening, reproductive health, dental and nutrition. The three- day medical camp was jointly conducted by KNH in collaboration with the County Government of Taita Taveta as part of giving back to the community. Diabetes is one of the Non-Communicable Diseases (NCDs) that are a threat to national development as they often result in long standing complications that are usually very costly to treat. KNH staff also trained 40 local health practitioners in diabetes management, prevention and control.

## Commemorating World Aids Day

In commemoration of the World Aids Day on 1st December 2016, KNH held a free medical screening at Nyayo National Stadium.

The public were privileged to receive counselling and testing for: HIV/ AIDS, blood pressure, diabetes, nutritional education, occupational therapy, mental health counselling as well as information on risks of substance and drug abuse. Over 900 people were attended most of whom were youths.



*Young couple in a counselling session*

## Help to the elderly

A team of KNH physiotherapists on 31st March 2017 donated cereals, cooking oil among other foodstuff to Cheshire Home for the Elderly. The visit was intended to show compassion to the elderly in the society. This is one of the activities aimed at promoting healthcare by reaching out and addressing needs of the underprivileged in the community. Cheshire Home in Kariobangi Nairobi County accommodates and care for over 100 elderly men and women who require home based care.



*Members of KNH at Cheshire Home for the Elderly*

## Commemorating World Hand Hygiene Day

"Hands washing Saves Lives: Clean Your Hands," was the message on 5th May 2017 by the KNH infection control team during the free public awareness on hand washing as a prevention measure to most of the diseases. The awareness event was held to coincide with the World Hand Hygiene Day as part of the global campaign aims encourage the public on the importance of hand hygiene as a means of improving public healthcare. The event was graced by Dr. Mahmoud Fikri the (WHO) Director Eastern Mediterranean region.




*Members of the public and KNH staff being sensitized on hand washing hygiene*




*Clean hands saves life: A KNH staff demonstrates hand washing procedure to pupils*

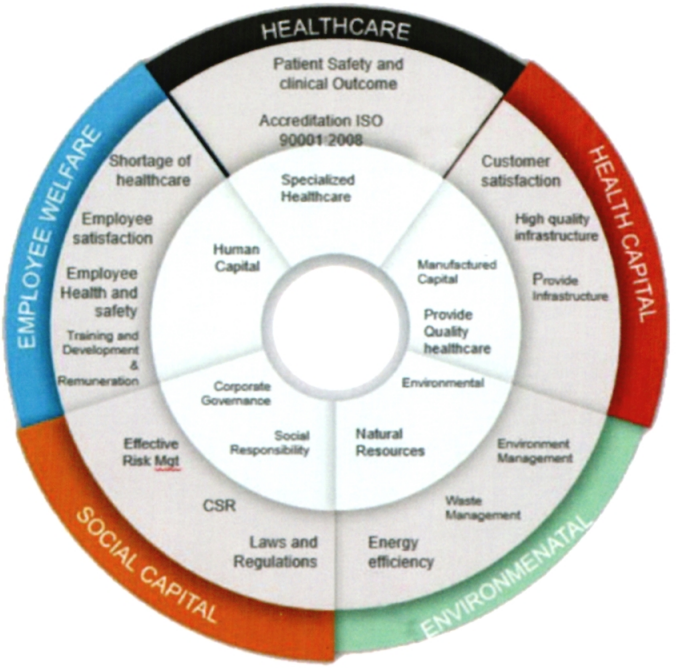
# Sustainability statement

KNH takes a sustainable, long-term approach to business, putting patients at the heart of its operations and delivering consistently high-quality healthcare services. In order to deliver on these priorities, the Hospital upholds the highest standards of clinical governance and ethical behaviour across its platforms, invests significant time and resources in recruiting and retaining skilled staff, makes considerable investment into its facilities and equipment and respects the communities and environment in the areas in which it operates.

## Stakeholder engagement

KNH key stakeholders include: patients, doctors, employees and trade unions, suppliers, healthcare funders, government and authorities, industry associations, investors, the community and the media. KNH recognises its accountability to its stakeholders and is committed to effective and regular engagement with them, and to publicly report on its sustainability performance. KNH key stakeholders are those groups who have a material impact on, or are materially impacted by, KNH and its operations. Material issues are determined by the guideline below:

*Fig. 21: Summary of material matrix*




### MATERIAL ISSUES

As a result of its operations, KNH has many economic, social and environmental impacts, including creating employment opportunities, training and developing employees, investing in local communities and responsible use of natural resources. The guidance on determining materiality contained in the GRI Sustainability Reporting Standards and the International Integrated Reporting Framework was used.

The materiality assessment identified the following four material issues, which forms a baseline report and constitute the focus of the Hospital's sustainable development reporting:

i) Healthcare Services
ii) Employee Welfare
iii) Social Capital
iv) Environmental
v) Health Capital

## MATERIAL ISSUE 1: Healthcare services

This will enhance clinical governance framework to measure clinical outcome. This is important to the business ensure that it is consistently delivering the maximum value to its patients, KNH has a strong focus on improving and maintaining excellent clinical performance across its specialities. Clinical performance is measured and benchmarked to guarantee a standardised quality of care for all its patients, ensure patient safety and satisfaction, and identify opportunities to improve its healthcare services and facilities.

### Link to KNH strategy

- Optimize customer experience
- Expand and improve services
- Enhance clinical governance

### Key stakeholders

- Patients
- Doctors, nurses and other healthcare workers

### Mitigation of risks

- Monitoring and management of clinical performance indicators
- A hospital-wide clinical risk register is implemented and monitored per department
- Accreditation and quality management processes
- Clinical governance processes
- Development of Patient safety policy

**Risks to the hospital**

- Poor clinical outcomes
- Medical malpractice liability
- Reputational damage
- Ineffective clinical care processes

KNH manages and mitigates the clinical risk by providing a comprehensive set of policies and procedures to guide frontline staff during the care process.

## MATERIAL ISSUE 2: Employee welfare

The focus of attracting and utilising talent in a challenging healthcare market continues to be in accident and emergency room doctors.Link to KNH strategy

- Improve knowledge management and innovation
- Improve human capacity

### Key stakeholders

- Doctors
- Employee and trade unions

### Mitigation of risks

- Extensive training and skills development programmes
- Governance of suitable selection processes with focus on skills assessments, employment references and verification of credentials
- Targeted sourcing and recruitment initiatives, with a strong focus on agile sourcing techniques ensuring that best fit candidate talent is channeled to appropriate vacancies, supported by a seamless hiring process
- Tailored retention strategies, supporting the retention of priority audiences within each business unit
- Succession planning and/or career management initiatives within scarce skills disciplines, ensuring proactive development of high-performing employees with potential to supervisory and leadership roles
- Deployment of integrated talent strategies in support of core business areas
- Monitoring of doctor satisfaction

**Risks to the hospital**

- Limited growth and loss of revenue
- Poor clinical outcomes and services

## MATERIAL ISSUE 3: Environmental

The Hospital's main environmental impacts are the utilisation of resources, predominantly energy, through electricity consumption and water, and the disposal of healthcare risk waste. The Hospital is fully aware of the need to use resources responsibly and is committed to minimising its environmental impacts to the extent possible.

The Hospital recognises the risks that regulatory changes, environmental constraints and climate change present to its operations. Potential impacts include rising costs, reduced access to facilities, interruptions in service, and incidents of extreme weather events as a result of climate.

However, the Hospital also believes that using resources responsibly can be a source of strategic advantage for the Hospital, allowing it to manage and contain its operating costs and to ensure ongoing access to water and energy supplies.

KNH patients are always its first priority, but without natural resources, especially water, KNH would not be able to provide a service to its patients. The Hospital takes its policies to reduce its impact on the environment very seriously and its facilities and services division is constantly investigating new opportunities to reduce its impact on the environment.

Introduction of renewable energy sources, such as solar photovoltaic systems, in order to reduce energy consumption and costs

### Link to hospital strategy

- Improve equipment infrastructure

### Key stakeholders

- Employees and doctors
- Suppliers
- Governments and authorities
- Community

### Risks to the hospital

- Business interruptions due to water shortages
- Business interruption due to electricity supply
- Increased operational costs due to cost of electricity
- Healthcare risk waste disposal
- Reputational damage

### Risk mitigation

Implementation of appropriate environmental management systems and Hospital OSHE Committee.

### MATERIAL ISSUE 4: Social capital

Governance and CSR are integral to Hospital's approach of running a sustainable, long-term business. In line with the Hospital's vision statement "to be a world class patient centered specialized care hospital", it:

- enforces good corporate governance standards throughout the organisation;
- acts as a responsible corporate citizen;
- builds constructive relationships with its local stakeholders; and
- acts as a valued member of the community.

### Link to strategy

Although not directly linked to any particular hospital strategic priority, governance and corporate social responsibility are regarded as key enablers and the basis from which the KNH conducts its business.

### Key stakeholders

- Suppliers
- Donors
- Governments and authorities
- Community

### Risks to the hospital

- Fines, prosecution or reputational damage
- Inability to continue business due to legal and regulatory non-compliance or changes in regulatory environment
- Financial and reputational damage caused by poor governance and ethical practices and inadequate risk management
- Reputational damage at local community level due to inadequate community involvement

### Mitigation of risks

- Visible ethical leadership
- Regular fraud and ethics feedback to management, the Board and relevant Board committees
- Ethics lines available to all employees and external parties, with reported incidents monitored and investigated
- Established KNH Risk Management department and internal audit function
- Compliance risks assessed as part of risk management process, with regular internal self-assessments, with necessary advice and support by the Risk and Internal Audit

The following policies are in place:

- Enterprise-wide Risk Management Policy
- Staff code of Conduct

### MATERIAL ISSUE 5: Health capital

Definite strength is the available talent analytics which indicate patterns in candidate and employee behaviour over time. These provide a strong predictive advantage and these insights are incorporated into the talent management strategy for each of these categories.

**Risks to the hospital**

- Limited growth and loss of revenue
- Poor clinical outcomes and services
- Medical malpractice liability
- Reputational damage

### Link to KNH Strategy

- Optimize customer experience
- Expand and improve services

### Key Stakeholders

- Doctors
- Employee and trade unions

### Mitigation of Risks

- Extensive training and skills development programmes
- Succession planning and/or career management initiatives within scarce skills disciplines, ensuring proactive development of high-performing employees with potential to supervisory and leadership roles
- Deployment of integrated talent strategies in support of core business areas
- Tailored retention strategies, supporting the retention of priority audiences within each business unit

# Risk Management Report

### Audit and Risk Committee Report

The report seeks to provide insight into the functioning of the committee and its activities during the reporting period. It includes an overview of the key areas of activity and principal topics covered at each meeting, together with a review of the effectiveness of the hospital's external auditors, the hospital's internal controls, risk management and combined assurance systems, a review of the effectiveness of the committee and its priorities for financial year 2017/18. The committee terms of reference are available in the governance section of the hospital's Board charter and are summarised in the Corporate Governance Statement.

### Key areas of activity

This included reviewing the financial reporting; governance, risk and compliance processes, internal audit, external audit and ethics, compliance and governance; aligning business practices and embedding policies and procedures across the Hospital.




*Fig. 22: Audit functions*

## Financial reporting

Financial reporting; governance, risk and compliance processes; aligning business practices and embedding policies and procedures across the platform

Financial review

- Review of accounting policies
- Finance function review
- Annual results planning
- Debtors
- Payables
- Review pre-year-end report by external auditors on accounting and auditing issues

The committee maintained a strong focus on the integrity of the hospital's financial reporting and its financial performance.

## Internal control system and risk management process

**Key topics relating to internal controls and risk management considered by the Committee during the year: July 2016 –June 2017:**

- ERM framework and plan 2016/17
- ERM policy and risk appetite
- Risk registers of the hospital and mitigation steps
- ICT strategic risks: cyber security, project delivery, application, and control change architecture and skills
- Enterprise-wide risk management policy
- Review principal risks and uncertainties
- Detailed risk management review, including of framework and policies; top risks; fraud, ethics and compliance; and ERM plan for 2017/18
- Review of viability assessment

The Board is ultimately responsible for overseeing the establishment of effective internal control systems and risk management processes, which facilitate the delivery of and sustain the Hospital's financial, operational and strategic objectives. The Committee maintained a strong focus on monitoring, evaluating and enhancing the internal control, risk management and internal audit processes for the Hospital.

The Board believes that effective risk management underpins a successful business and is integral to the objective of adding value to the hospital. It has adopted an integrated and effective Enterprisewide Risk Management ("ERM") framework, at both an operational and strategic level. An optimal risk/reward profile is achieved by identifying, quantifying and managing risks. This was incorporated into the daily operational management processes, allowing management to focus on core activities. The Board has a clear process for identifying, evaluating and managing the principal risks, which includes current and emerging risks, faced by the Hospital for the reporting period. The Board annually reviews the process, which is in accordance with the ISO 31000 Guidance on Risk Management.

## INTERNAL AUDIT

**Key topics relating to internal audit considered by the Committee during the year: July 2016 – July 2017**

- Internal audit report for 2016/17 financial year
- Internal audit report and internal audit plan July - June 2016/2017:
- Review of internal audit report, internal audit mandate and internal audit function

The Committee reviewed the internal audit reports and approved the internal audit plan. The Committee reviewed the effectiveness of the internal audit function by having discussions with Deputy Director Internal Audit and Risk and key members of management, and is satisfied with the effectiveness and efficiency of the function, reliability of financial reporting, and compliance with applicable laws and regulations.

The hospital Internal Audit's Quality Assurance and Improvement Process was reviewed during the current year by an internal self-assessment and found to be generally compliant with the International Standards for the Professional Practice of Internal Auditing.

The approved internal audit plan, which comprises a three-year review cycle following a risk-based approach and, where appropriate, integration with other combined assurance providers, focused on the revenue and receivables cycle during the reporting period.

## EXTERNAL AUDIT

### Independence and effectiveness

The Committee is committed to ensuring that the hospital receives a high-quality and effective statutory audit. It is responsible for monitoring the performance, objectivity and independence of the external auditors and undertakes a formal evaluation process annually. This process involves an examination of four main performance criteria, namely: robustness of the audit process, quality of delivery, quality of reporting, and quality of people and service.

### External audit plan

During the year, the Committee reviewed and approved the 2016/17 external audit plan, including the proposed materiality threshold, the scope of the audit, the significant audit risks and fees.

**Key topics relating to the external audit considered by the Committee during the year:**

- External audit plan reviewed and agreed
- External auditor's fees reviewed and agreed
- Non-audit services for the year 2016/17 financial year
- A separate meeting was held between the external auditors and independent Non-executive Directors
- External audit Year-end audit report and opinion
- Evaluation of the external auditor's effectiveness of external audit process
- Review of auditor's independence

### Non-audit services

The Committee believes that it may be appropriate in certain circumstances for the Hospital to engage its external auditors to provide non-audit services.

### Fees

Refer to note 18 to the financial statements for detail on the remuneration of the auditor for audit services undertaken during the year.

### Re-appointment

The Committee concluded that the services provided by the external auditors from Office of the Auditor General (OAG) were high quality and that the external audit process in respect of the 2016/2017 Financial Statements was effective and that the auditor remains objective and independent. Accordingly, it recommended to the Board that the re-appointment of OAG as the Hospital's external auditors is proposed to Board of Management for approval as per the requirement of the Public Audit Act 2015.

### Ethical conduct, governance and compliance

Staff members involved in the contracting, negotiating and purchasing of equipment or consumables are also bound to strict ethical principles, ensuring that an impeccable standard of integrity is maintained in the Hospital's business relationships. During the year, the Committee also adopted a Risk Management Policy, which facilitates the development of controls which will assist in the prevention of fraud and corruption.

The Committee is responsible for ensuring Hospital wide standards are set for achieving compliance with relevant laws and regulations

## Committee evaluation

The Committee's performance was internally evaluated by the Board, following discussion of the results of a self-evaluation questionnaire completed by the Committee members. The questionnaire focussed on the Committee's role, composition and expertise and the effectiveness of Committee meetings. The outcomes of the survey were subsequently considered and reviewed by the Committee and certain actions were agreed for implementation, aimed at enhancing the overall effectiveness of the Committee. The results of the Committee's performance evaluation were reported to the Board at the August 2017 meeting. Progress on the agreed actions and their outcomes will be monitored by the Committee and incorporated into the following performance evaluation.

## Priorities for the committee in 2017/18

- Monitor progress against the 2018 ERM plan.
- Implementation of new IPSAS standards.
- Review internal audit work plan for 2017/18.

## Risk management, principal risks and uncertainties

The Board is ultimately accountable for the Hospital's risk management process and system of internal control. In terms of a mandate by the Board, the Audit and Risk Committee monitors the risk management process and systems of internal control of the Hospital. The Board oversees the activities of the Audit and Risk Committee, the hospital internal and external auditors, and the Hospital's risk management function as delegated to the Hospital's Audit and Risk Committee.

# Pictorial



*First Lady Margaret Kenyatta during launch of the state-of-the-art cancer diagnosis ventana machine. Looking on (R) is Markus Germuend, Head of the Roche Sub-Saharan Africa Region, (2L) Dr. Cleopa Mailu Cabinet Secretary for Health and (2R) Dr. Nicholas Muraguri, Principal Secretary Health*



*Lily Koros Tare, KHN CEO addressing staff during the quarterly Open Staff Forum*



*Visit by Parliamentary Committee on Health to the KNH Cancer Treatment Centre*



*At KNH We Listen, We Care: Ms Naomi Kiarie translates to a staff with hearing impairement during the quartely Open Staff Forum*




*(Left) Dr Roda Kalundu explaining a point to Dr. Cleopa Mailu - CS Health when he visited KHN Accident & Emergency. Looking on (R) Lily Koros Tare - KNH CEO, (C) Dr. Bernard Githae - KNH Director Clinical Services*





*(Top) KNH Karate Club in a training session*

*(Left) Team KNH takes a group photo with Lily Koros Tare - KNH CEO after receiving trophies during the 2016 Nairobi International Trade Fair*

*(Below) KNH Choir performing during a hospital function*





*Pastor Morris Gacheru of Jubilee Christian Centre, Thika prays for patients in the ward during the quarterly KNH Prayer Day*



*The Israel Ambassador to Kenya H.E Yahel Vilan (Back 2R) pose for a photo after handing over of the well equipped Paediatric Libray*



*KNH Safety & Security officers group photo after passout parade*

# Financial statements

## Report of the Board of Management

The Board of Management submit their report together with the unaudited financial statements for the year ended June 30, 2017 which show the state of the Hospital affairs.

### Principal activities

The principal activities of the Hospital are to receive patients on referral; facilitate medical education and participate as a national referral hospital in national health planning.

### Results

The results of the Hospital for the year ended June 30, 2017 are set out on page 77.

### Board of Management

The members of the Board of Management who served during the year are shown on pages 9 – 12.

### Auditors

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

### By Order of the Board

Sign:

Lily Koros Tare

pp SECRETARY TO THE BOARD

Date: 22/03/2018

# Statement of Board's Responsibilities

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

The Board is responsible for the preparation and presentation of the Hospital's financial statements, which give a true and fair view of the state of affairs of the Hospital for and as at the end of the financial year ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Hospital; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Hospital; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board accepts responsibility for the Hospital's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standard (IPSAS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Board is of the opinion that the Hospital's financial statements give a true and fair view of the state of Hospital's transactions during the financial year ended June 30, 2017, and of the Hospital's financial position as at that date. The Board further confirms the completeness of the accounting records maintained for the Hospital, which have been relied upon in the preparation of the Hospital's financial statements as well as the adequacy of the systems of internal financial control.

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

## Approval of the financial statements

The Hospital's financial statements were approved by the Board on 6th September, 2017 and signed on its behalf by:

| | | |
|---|---|---|
| ..... | ..... | ..... |
| Mark Bor | Lily Koros Tare | Peter Odundo |
| **Chairman** | **pp CEO/Secretary** | **Member** |
| **Board of Management** | **Board of Management** | **Board of Management** |

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.oagkenya.go.ke

P.O. Box 30084-00100
NAIROBI

# OFFICE OF THE AUDITOR-GENERAL

## REPORT OF THE AUDITOR-GENERAL ON KENYATTA NATIONAL HOSPITAL FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of Kenyatta National Hospital set out on pages 77 to 103, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, 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 described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenyatta National Hospital as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenyatta National Hospital Board Order, 1987.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### Basis for Qualified Opinion

#### 1. Borrowings

As previously reported, the borrowings balance of Kshs.1,199,863,000 reflected in the statement of financial position as at 30 June 2017 relates to a loan received in 2007/2008 from the Kingdom of Spain in form of medical equipment. According to information available, the loan was repayable by the Hospital at an interest rate of 3% per annum on a reducing balance for the first six (6) years and thereafter the interest plus principal for the next nine (9) years with effect from 1 July 2008. However, records examined indicated that, no interest has been paid or accrued in the nine financial years

between 2008/2009 and 2016/2017. Further, the accrued interest, loan repayment and loan balance confirmation certificate as at 30 June 2017 were not availed for audit review. Although indications are that the management has sought assistance from the Ministry of Health towards settlement of the loan, the response from the Ministry on the matter was not availed for audit review.

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

## 2. Property, Plant and Equipment

### 2.1 Land

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

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

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

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

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

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

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

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

## 3. Intangible Assets - Hospital Management Information Systems

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

Consequently, it has not been possible to determine the accuracy and propriety of the balance of intangible assets of Kshs.145,751,000 included in the statement of financial position as at 30 June 2017.

## 4. Board Members

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

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

## 5. Medical Service Contract Loss

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

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

Under the circumstance, the medical service contract loss of Kshs.377,271,000 in the statement of financial performance for the year ended 30 June 2017 could have been avoided had the management taken action in time.

### 5.2 Free Maternity Program

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

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

### 5.3 Security Investigation Expenses

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

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

### 6.0 Receivable from Exchange Transactions

### 6.1 Long Outstanding Debts

As previously reported in the year 2015/2016, the receivables from exchange transactions balance of Kshs.1,178,717,000 as at 30 June 2017 includes receivables of Kshs.192,926,279, Kshs.94,970,458 and Kshs.3,286,110 for National Hospital Insurance Fund (NHIF) rebate, Ministry of Health disaster debts and return to drawer (RD) cheques respectively which have been outstanding for more than two years.

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

### 6.2 Absconded Patients Debts

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

### 6.3 Receivables from National Hospital Insurance Fund (NHIF)

Further, the receivables from exchange transaction balance of Kshs.1,178,717,000 includes Kshs.445,967,244 due from NHIF while the NHIF financial statements as at 30 June 2017 reflects Kshs.56,661,035 thus resulting to unreconciled variance of Kshs.389,306,209. No explanation has been provided by the management for failure to reconcile the two sets of records.

Consequently, it has not been possible to determine the accuracy of the receivables from exchange transactions balance of Kshs.1,178,717,000 included in the statement of financial position as at 30 June 2017.

### 6.4 Supply Contracts

In addition, the receivables from exchange transactions balance of Kshs.1,178,717,000 includes prepayments of Kshs.128,095,000 out of which prepayments totaling Kshs.31,733,575 related to supply contracts awarded to three firms of Kshs.15,792,611, Kshs.2,213,309 and Kshs.13,727,655. As reported in the previous year, the first

prepayment is in dispute while the second one is under investigation. The third pre-payment relates to micro filming project at the hospital which had not been completed as at 30 June 2017. Although the issue has been discussed by the Public Investment Committee, it was not clear whether action has been taken on the PIC recommendations that the three companies be investigated, prosecuted and the then hospital Chief Executive Officer be held accountable for the loss and be surcharged.

### 6.5 Letters of Credit

The receivables from exchange transactions balance of Kshs.1,178,717,000 also includes a sum of Kshs.96,361,633 in respect of letters of credit issued by the Hospital to foreign based firms for supply of various goods and services. As in the previous year, the goods and services have not been accounted for in these financial statements.

### 6.6 Impairment Allowance

The receivables from exchange transactions balance of Kshs.1,178,717,000 included in the statement of financial position as at 30 June, 2017 is the net amount obtained from the gross balance of Kshs.6,632,454,000 less impairment allowance of Kshs.5,453,737,000 as given in note 25 to the financial statements. The impairment allowance of Kshs.5,453,737,000 includes long outstanding debts of Kshs.3,759,665,395 and whose recoverability is doubtful. In addition, the impairment allowance of Kshs.5,453,736,000 includes a provision of Kshs.1,248,877,758 and whose schedule of beneficiaries was not availed for audit review.
Under the circumstance, the receivables from exchange transactions balance of Kshs.1,178,717,000 included in the statement of financial position as at 30 June 2017 could not be confirmed.

### 6.7 Ministry of Health (MoH) Staff Long Outstanding Debts

Included in the statement of financial position as at 30 June 2017 are receivables from exchange transactions of Kshs.1,178,717,000 out of which Kshs.28,450,000 relate to rental receivables as disclosed in note 25 to the financial statements. The rental receivables balance of Kshs.28,450,000 include MoH staff rent amounting to Kshs.4,103,760 that has been outstanding for periods ranging from 4 months to 47 months, and which ought to have been deducted from the payroll through the check-off system and forwarded to Kenyatta National Hospital.
Also noted on the rent receivable are five officers who vacated the houses without paying rent arrears amounting to Kshs.991,000.

Under the circumstance, the accuracy and recoverability of the receivables from exchange transactions balance of Kshs.5,094,760 included in the statement of financial position as at 30 June 2017 could not be determined.

## 7. Receivables from Non-Exchange Transactions

The receivables from non-exchange transactions balance of Kshs.773,784,000 as at 30 June 2017 includes staff receivables of Kshs.15,816,000 out of which temporary imprests and staff debtors amounting to Kshs.1,013,509 and Kshs.1,676,161 respectively have been outstanding for a considerably long period of time. Management has not explained steps taken to recover the outstanding debts.

Under the circumstances, the recoverability of Kshs.2,689,670 included in receivables from non-exchange transactions balance of Kshs.773,784,000 in the statement of financial position as at 30 June 2017 could not be confirmed.

## 8. Trade and Other Payables from Exchange Transactions

As similarly reported in 2015/2016, the trade and other payables from exchange transactions balance totaling Kshs.1,011,646,000 in the statement of financial position as at 30 June 2017 includes long outstanding accounts payables of Kshs.164,514,375 included under trade payables as per note 30 to the financial statements. No explanation has been provided for failing to clear these long outstanding account payables.
Consequently, it has not been possible to determine the accuracy and validity of the trade and other payables from exchange transactions balance of Kshs.1,011,646,000 included in the statement of financial position as at 30 June 2017.

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

## Key Audit Matters

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

## Responsibilities of Management and those Charged with Governance for the Financial Statements

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

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

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

Those charged with governance are responsible for overseeing the Hospital's financial reporting process.

**Auditor-General's Responsibilities for the Audit of the Financial Statements**

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.

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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Hospital's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue as a going concern or to sustain its services. If I

conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Hospital to cease as a going concern or to continue to sustain its services.

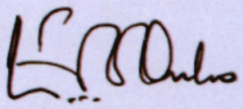
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Hospital to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

**Nairobi**

**15 May 2018**

# Statement of Financial Performance For the year ended June 30, 2017

| | Note | 2017 Kshs. '000' | 2016 Kshs. '000' |
|---|---|---|---|
| **Revenue from non-Exchange transactions** | | | |
| Grants from National Government | 6 | 7,082,830 | 6,667,179 |
| Donor funded projects grants | 7 | 131,798 | 150,995 |
| Public contributions & donations | 8 | 2,330 | 3,060 |
| | | **7,216,958** | **6,821,234** |
| **Revenue from Exchange transactions** | | | |
| Rendering of services | 9 | 4,006,602 | 4,559,746 |
| Sale of goods | 10 | 1,224 | 1,044 |
| Rental revenue from facilities | 11 | 132,917 | 129,826 |
| Interest income | 12 | 102,864 | 180,411 |
| | | 4,243,607 | 4,871,027 |
| **Total Revenue** | | **11,460,565** | **11,692,261** |
| **Expenses** | | | |
| Clinical costs | 13 | 1,552,463 | 1,811,367 |
| Employee costs | 14 | 8,207,622 | 7,698,143 |
| Board of management expenses | 15 | 19,244 | 14,877 |
| Depreciation and amortisation | 16 | 434,063 | 439,570 |
| Repair and maintenance | 17 | 231,154 | 220,676 |
| Administrative and general expenses | 18 | 751,642 | 549,296 |
| Donor funded projects expenses | 19 | 131,798 | 150,995 |
| **Total expenses** | | **11,327,986** | **10,884,924** |
| **Other Losses** | | | |
| Loss on sale of assets | 20 | (1,942) | (20,432) |
| Impairment loss | 21 | (658,358) | (623,788) |
| Medical service contracts loss | 22 | (377,271) | (841,422) |
| Foreign exchange transactions loss | 23 | (19) | (467) |
| | | **(1,037,590)** | **(1,486,109)** |
| **Deficit for the period** | | **(905,011)** | **(678,772)** |

The notes set out on pages 83 to 103 form an integral part of these financial statements

# Statement of Financial Position
# As at June 30, 2017

| | Note | 2017 Kshs. '000' | 2016 Kshs. '000' |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 24 | 1,145,994 | 2,040,604 |
| Receivables from exchange transactions | 25 | 1,178,717 | 1,093,208 |
| Receivables from non- exchange transactions | 26 | 773,784 | 134,933 |
| Inventories | 27 | 494,951 | 388,308 |
| **Total current assets** | | **3,593,446** | **3,657,053** |
| | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 28 | 11,609,470 | 11,597,155 |
| Intangible assets | 29 | 14,751 | 21,073 |
| **Total non-current assets** | | **11,624,221** | **11,618,228** |
| **Total assets** | | **15,217,667** | **15,275,281** |
| | | | |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 30 | 1,011,646 | 711,405 |
| Deposits from customers | 31 | 63,949 | 47,935 |
| Provision for leave pay | 32 | 141,151 | 125,102 |
| Deferred income | 33 | 166,932 | 165,998 |
| Employee benefit obligations | 34 | 286,830 | 310,830 |
| **Total Current Liabilities** | | **1,670,508** | **1,361,270** |
| | | | |
| **Non-Current Liabilities** | | | |
| Borrowings | 35 | 1,199,863 | 1,199,863 |
| **Total Liabilities** | | **2,870,371** | **2,561,133** |
| **Net Assets** | | **12,347,297** | **12,714,148** |
| Capital reserve | 36 | 5,477,266 | 4,795,028 |
| Accumulated fund | 37 | (2,185,242) | (1,280,231) |
| Revaluation reserve | 38 | 9,055,273 | 9,199,351 |
| **Total net assets and liabilities** | | **15,217,667** | **15,275,281** |

The Financial Statements set out on pages 77 to 103 were signed on behalf of the Board of Management by:

| | | |
|---|---|---|
| Lily Koros Tare | Michael Kihuga | Mr. Mark Bor |
| pp Chief Executive Officer | Deputy Director, Finance | Chairman Board of Management |
| | ICPAK No. 3884 | |
| Date 22.3.18 | Date 22/03/18 | Date 22/03/2018 |

# Statement of Changes in Net Assets
# For the Year Ended June 30, 2017

| | Note | Capital Reserve Kshs. '000' | Accumulated Fund Kshs. '000' | Revaluation Fund Kshs. '000' | Total Kshs. '000' |
|---|---|---|---|---|---|
| Balance as at July 1, 2015 | | 4,389,395 | (601,459) | 9,199,351 | 12,987,287 |
| Surplus/(Deficit) for the year | | | (678,772) | | (678,772) |
| Development grant | | 405,633 | | | 405,633 |
| **Balance as at June 30, 2016** | | **4,795,028** | **(1,280,231)** | **9,199,351** | **12,714,148** |
| **Balance as at July 1, 2016** | | **4,795,028** | **(1,280,231)** | **9,199,351** | **12,714,148** |
| Decrease in land value | 36 | (2,589) | | (144,078) | (146,667) |
| Development grant | 36 | 684,827 | | | 684,827 |
| Surplus/(Deficit) for the year | 37 | | (905,011) | | (905,011) |
| **Balance as at June 30, 2017** | | **5,477,266** | **(2,185,242)** | **9,055,273** | **12,347,297** |

# Statement of Cash Flows
# For the Year Ended June 30, 2017

| | Note | 2017 Kshs '000' | 2016 Kshs '000' |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Grants from national government | | 6,781,462 | 6,667,179 |
| Rendering of services | | 892,180 | 1,080,776 |
| Accounts receivables | | 1,983,094 | 1,699,453 |
| Deposits from customers | | 438,988 | 534,567 |
| Donor funded projects grants | | 109,814 | 167,667 |
| Doctors fee | | 38,363 | 137,233 |
| **Total Receipts** | | **10,243,901** | **10,286,875** |
| | | | |
| **Payments** | | | |
| Employee costs | | 7,986,023 | 7,621,715 |
| Goods and services | | 2,467,920 | 2,364,207 |
| Tax Expenses | | 33,738 | 19,600 |
| Board of Management expenses | | 19,244 | 14,547 |
| Donor funded projects expenses | | 132,274 | 151,008 |
| Patients deposit refunds | | 201,376 | 240,313 |
| Doctors fee | | 179,230 | 282,399 |
| **Total Payments** | | **11,019,805** | **10,693,789** |
| **Net cash flows from operating activities** | 39 | **(775,904)** | **(406,914)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant, equipment and intangible assets | | (196,655) | (343,267) |
| Proceeds on disposal of fixed assets | 20 | 377 | 518 |
| Foreign exchange gain | 23 | 269 | |
| Capital grants | 6 | | 405,633 |
| Interest income | 12 | 52,303 | 180,411 |
| **Net cash flows used in investing activities** | | **(143,706)** | **243,295** |
| | | | |
| Cash flows from financing activities | | | |
| Development partners grant | 33 | 25,000 | 25,000 |
| **Net cash flow from financing activities** | | 25,000 | 25,000 |
| **Net increase/(decrease) in cash and cash equivalents** | | **(894,610)** | **(138,619)** |
| **Cash and cash equivalents at July 1** | | **2,040,604** | **2,179,223** |
| **Cash and cash equivalents as at June 30** | 24 | **1,145,994** | **2,040,604** |

# Statement of Comparison of Budget and Actual Amounts For the Year Ended June 30, 2017

| Revenue | Original budget<br>Kshs. '000' | Adjustments<br>Kshs. '000' | Final budget<br>Kshs. '000' | Actual on comparable basis<br>Kshs. '000' | Performance difference<br>Kshs. '000' | <br>% | Material variances |
|---|---|---|---|---|---|---|---|
| Grants from national government | 6,661,462 | 421,368 | 7,082,830 | 7,082,830 | | 0% | |
| Donor funded projects grants | 11,208 | 128,234 | 139,442 | 131,798 | (7,644) | (5%) | |
| Public contributions & donations | 15,867 | (15,797) | 70 | 2,330 | 2,260 | 3229% | |
| Rendering of services | 7,336,834 | (2,300,104) | 5,036,730 | 4,006,602 | (1,130,128) | (20%) | a |
| Sale of goods | 2,500 | 2,500 | 5,000 | 1,224 | (3,776) | (76%) | a |
| Rental revenue from facilities | 181,497 | (49,509) | 131,988 | 132,917 | 929 | 1% | |
| Interest income | 117,150 | (21,100) | 96,050 | 102,864 | 6,814 | 7% | |
| **Total Revenue** | **14,326,518** | **(1,834,407)** | **12,492,110** | **11,460,565** | **(1,031,545)** | **(8%)** | |
| Expenditure | | | | | | | |
| Clinical costs | 4,382,754 | (2,481,123) | 1,901,631 | 1,552,463 | 349,168 | 18% | b |
| Employee costs | 7,941,245 | 547,577 | 8,488,822 | 8,207,622 | 281,200 | 3% | |
| Board of management expenses | 28,124 | | 28,124 | 19,244 | 8,880 | 32% | c |
| Depreciation and amortization | 375,000 | 26,458 | 401,458 | 434,063 | (32,605) | (8%) | |
| Repair and maintenance | 338,860 | 5,181 | 344,041 | 231,154 | 112,887 | 33% | d |
| Administrative and general expenses | 799,327 | (58,673) | 740,654 | 751,642 | (10,988) | (1%) | |
| Donor funded projects expenses | 11,208 | 128,234 | 139,442 | 131,798 | 7,644 | 5% | |
| **Total expenditure** | **13,876,518** | **(1,832,346)** | **12,044,172** | **11,327,986** | **716,186** | **6%** | |
| Other gains/(losses) | | | | | | | |
| Loss on sale of assets | - | | - | (1,942) | (1,942) | | |
| Impairment loss | (450,000) | 2,062 | (447,938) | (658,358) | (210,420) | 47% | e |
| Medical service contracts loss | - | | | (377,271) | (337,271) | | |
| Foreign exchange transaction loss | | | | (19) | (19) | | |
| **Surplus/(deficit) for the period** | | | | **(905,011)** | **(905,011)** | | |

## Explanation for material variances of budget versus actual

### a) Rendering of services and Sale of Goods

i. The unfavourable variance of 20% and 76% on rendering of services and sale of goods respectively is majorly due to the nationwide doctors' strike that lasted 100 days. The hospital could not realize the budgeted revenue as service provision was interrupted from the month of December 2016 to March 2017.

ii. Industrial unrest in the Health sector reduced the number of patients attended to from the planned 2,200 to less than 300 out-patients on average and from 2,133 to less than 640 in-patients per day during the strike period.

iii. Renal unit operations were curtailed to allow for renovation of the facility.

### b) Clinical Costs

Procurement of medical consumables was curtailed due to slowed activity in the hospital as a result of the nationwide doctors' strike during the period December 2016 to March 2017.

### c) Board of Management Expenses

Due to the 100 days nationwide doctors' strike that took place between December 2016 and March 2017, the board of management postponed trainings that were to take place abroad earlier scheduled for the third quarter of the financial year.

### d) Repair & Maintenance and Administrative Expenses

Procurement of consumables was curtailed due to slowed activity in the hospital as a result of the doctors' strike which took effect in December 2016 and ended in March 2017.

### e) Impairment Loss

This relates to the indigent cases that are provided medical care services but are unable to settle the medical bills on discharge. The indigent patients are released on unsecured credit and their bills have been fully provided for as doubtful debts.

The amount was above budget due to high number of patients cleared in the ward in December 2016 following the doctors' strike

### Changes between original and final budget

The approved original budget for FY 2016/17 was revised during the year due to the adverse effect of the nationwide industrial unrest in the health sector that saw doctors strike from December 2016 to March 2017 and due to the implementation of allowances awarded to nurses and health workers.

# Notes to the financial statements

## 1. General information

Kenyatta National Hospital is established by and derives its authority and accountability from State Corporations Act. The hospital is wholly owned by the Government of Kenya and is domiciled in Kenya. The hospital's principal activity is to receive patients on referral from other hospitals or institutions within or outside Kenya for specialized health care; provide facilities for medical education for the University of Nairobi Medical School, and for research either directly or through other co-operating health institutions; provide facilities for education and training in nursing and other health and allied professions; and participate as a national referral hospital in national health planning.

## 2. Statement of compliance and basis of preparation

The Hospital's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Hospital and all values are rounded to the nearest thousand (Ksh. '000'). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

## 3. Adoption of new and revised standards

**i. Relevant new standards and amendments to published standards effective for the year ended June 30, 2017**

IPSAS 33: First time adoption of accrual basis IPSAS

The hospital adopted IPSAS in the year ended June 30, 2014 and therefore provisions of first time adoption of accrual basis does not apply to the Hospital.

IPSAS 34: Separate financial statements

The hospital does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

IPSAS 35: Consolidated financial statements

The hospital does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

IPSAS 36: Investments in associates and joint ventures

The hospital does not have investments in associates or joint ventures and therefore the standard does not apply.

IPSAS 37: Joint arrangements

The Hospital does not have an interest in a joint arrangement and therefore the standard does not apply.

IPSAS 38: Disclosure of interests in other entities

The Hospital does not have interests in other entities and therefore the standard does not apply.

**ii. Early adoption of standards**

The hospital did not early – adopt any new or amended standards in year ending June 30, 2017.

## 4. Summary of significant accounting policies

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

## Notes to the Financial Statements continued

### a) Revenue recognition

### i. Revenue from non-exchange transactions

#### Grants from National Government

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

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

#### Donor funded projects grants

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

#### Public contributions and donations

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

**Donations in-kind:** The revenue from donations in kind is measured at fair value and recognized on obtaining control of the asset (goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits (including cost saving from the donation) or service potential related to the asset will flow to the hospital and can be measured reliably.

On initial recognition, gifts and donations including goods in-kind (tangible assets) are measured at their fair value as at the date of acquisition, which is ascertained by reference to an active market or by appraisal by a member of the valuation profession.

### ii. Revenue from exchange transactions

#### Rendering of services

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

#### Sale of goods

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

#### Rental Revenue from Facilities

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

#### Interest income

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

### b) Budget information

The original budget for financial year ended June 30, 2017 was approved by the Board of Management on 26 January 2016. Subsequent revisions and additional appropriations were made to the approved budget in accordance with specific approvals from the Board of Management and Ministry of Health. The additional appropriations are added to the original budget upon receiving the respective approvals in order to arrive to the final budget. Accordingly, the hospital recorded additional appropriation and revision of Ksh.1,699 million on the 2016-2017 budget following the Board's approval.

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

### c) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Hospital recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

The Hospital uses revaluation model for measurement of property, plant and equipment after initial recognition. The Hospital derecognizes items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when asset is de-recognized

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

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

### d) Intangible assets

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

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

### e) Financial instruments

#### Financial assets

**Initial recognition and measurement**

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

## Notes to the Financial Statements continued

### Loans and receivables

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

### Impairment of financial assets

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

### Financial liabilities

Initial recognition and measurement

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

### Loans and borrowing

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

### f) Inventories

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

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

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

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

### g) Provisions

Provisions are recognized when the Hospital has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Hospital expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

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

### Contingent liabilities

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

## Notes to the Financial Statements continued

### Contingent assets

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

### h) Nature and purpose of reserves

The reserves maintained by the hospital include;

### Capital reserve

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

### Revaluation reserve

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

### Accumulated Fund

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

### i) Changes in accounting policies and estimates

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

### j) Employee benefits

**Retirement benefit plans**

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

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

### k) Foreign currency transactions

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

### l) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings

have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

### m) Related parties

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

### n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, mobile money, cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

### o) Comparative figures

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

## 5. Significant judgements and sources of estimation uncertainty

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

### i. Estimates and assumptions

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

### ii. Useful lives and residual values

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

### iii. Provisions

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

Provisions made by the management include:

### Provision for Bad Debts

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

### Provision for leave Pay

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

### p) Subsequent events

Kenya Revenue Authority (KRA) had conducted an in-depth audit on KNH and issued an assessment on 1st July 2014 of a tax liability of KShs.592,860,909 relating to the period January 2010 to March 2014. KNH objected to the findings of KRA and appealed. On 7th February 2017, the Hospital paid KRA the tax not under dispute relating to withholding tax and VAT of KShs.18,022,978.

On 19th July 2017, KRA issued a reviewed and confirmed assessment amounting to KShs.170,590,114 which has now been recorded in the financial statements (see Note 25).

| 6. Grants from National Government | 2017 Kshs. '000' | 2016 Kshs. '000' |
|---|---|---|
| **Transfers from Ministry of Health** | | |
| Recurrent grants received | 6,781,462 | 6,553,579 |
| Recurrent grant receivable | 301,368 | 113,600 |
| Recognized in the statement of financial performance | **7,082,830** | **6,667,179** |
| | | |
| Capital grants receivable | 343,000 | 405,633 |
| Cancer Equipment received and construction of bunker | 341,827 | |
| **Capital grants recognized in Capital reserve** | **684,827** | **405,633** |

The amount received from the Ministry of Health during FY 2016/17 was KShs. 6,781,462. Recurrent grant of KShs. 301,368 and capital grant of Kshs. 343,000 were not received by June 30, 2017 and the same has been accrued as receivable (See note 26).

| 7. Donor funded projects grants | | |
|---|---|---|
| Assisted partners notification services | 4,699 | 14,016 |
| Cord blood immune reper | 92 | |
| ETROT study | 1,488 | |
| Girl study | 6,034 | 1,685 |
| HIV cascade training program | 2,115 | 787 |
| Hope study | 1,309 | 2,285 |
| Innovations Maker Project | | 7,362 |
| ITIPS(Micro bacterium TB infection) | 1,483 | |
| MHealth Study | 18,066 | 13,755 |
| Micro biota & preterm birth study | 2,108 | |
| Mwach Neo | 320 | |
| OPT project | 317 | |
| PACT-COE project | 82,785 | 97,849 |
| Partners in prevention study | 2,593 | 7,981 |
| Patient navigation programme | 3,439 | |
| Peck study | 422 | |
| Prevention of HIV transmission | 4,528 | 5,275 |
| **Total Donor funded projects grants** | **131,798** | **150,995** |
| | | |
| **Reconciliation of conditional grants: (See note 48)** | | |
| Balance unspent at beginning of year | 91,587 | 67,415 |
| Refunded to donor | (476) | |
| Current year receipts | 109,814 | 175,167 |
| Conditions met- transferred to revenue | (131,798) | (150,995 |
| **Conditions to be met-Liabilities** | **69,127** | **91,587** |

## 8. Public contributions and donations

| | 2017 Kshs. '000' | 2016 Kshs. '000' |
|---|---|---|
| General donations | 35 | |
| Donations in kind | 2,295 | 3,060 |
| **Total donations** | **2,330** | **3,060** |

General donations are contributions received from the public in form of cash.

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

## 9. Rendering of services

| | | |
|---|---|---|
| Medical Services | | |
| Accident and emergency services fee | 116,630 | 250,815 |
| Anaesthesia services fee | 29,790 | 87,446 |
| Burns unit services fee | 21,681 | 34,463 |
| Cancer centre services fee | 104,639 | 56,163 |
| Cardiology services fee | 67,509 | 70,885 |
| Comprehensive care centre services fee | 6,960 | 1,020 |
| Critical care unit services fee | 84,842 | 76,173 |
| Dental services fees | 19,526 | 26,475 |
| Ear nose & throat services fee | 61,817 | 67,534 |
| Farewell home services fee | 61,965 | 73,038 |
| General surgery services fee | 122,219 | 162,578 |
| Health information services charges | 47,632 | 54,260 |
| KPCC in-patient fee | 193,694 | 190,737 |
| Laboratory services fee | 346,176 | 368,854 |
| Medical gases income | 99,538 | 20,440 |
| Medicare centre consultation fee | 5,114 | 4,679 |
| Medicine Department services fee | 210,487 | 324,174 |
| Nursing procedures & consumables | 126,666 | 123,687 |
| Nutrition services fee | 58,493 | 58,043 |
| Occupational therapy services fee | 31,261 | 24,562 |
| Ophthalmology services fee | 31,128 | 32,626 |
| Orthopaedic services fee | 192,526 | 200,704 |
| Orthopaedic technology services fee | 5,895 | 7,246 |
| Paediatrics services fee | 183,554 | 127,367 |
| Paediatrics surgery services fee | 34,530 | 37,692 |
| Pharmaceutical services fee | 507,372 | 627,760 |
| Physiotherapy services fee | 58,953 | 63,449 |
| Plastic surgery services fee | 51,899 | 31,660 |
| Radiology services fee | 223,689 | 260,935 |
| Renal unit services fee | 102,087 | 75,623 |
| Reproductive health services fee | 448,483 | 578,250 |
| Sale of theatre consumables income | 110,004 | 168,565 |
| Theatre fee | 100,601 | 102,045 |
| TSSU/CSSD services fee | 17,403 | 40,283 |
| Other medical services fee | 29,243 | 25,560 |
| **Total medical services revenue** | **3,914,006** | **4,455,789** |

## Notes to the Financial Statements continued

### Administrative Services

| | 2017<br>Kshs. '000' | 2016<br>Kshs. '000' |
|---|---|---|
| Administration charges | 54,763 | 65,940 |
| Nursing school fee | 19,546 | 18,699 |
| Seminars and training fee | 18,287 | 19,318 |
| **Total administrative services revenue** | **92,596** | **103,957** |
| **Total rendering of services revenue** | **4,006,602** | **4,559,746** |

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

### 10. Sale of goods

| | | |
|---|---|---|
| Pigs will | 384 | 319 |
| Sale of stores | 745 | 342 |
| Tender documents | 95 | 383 |
| **Total sale of goods revenue** | **1,224** | **1,044** |

### 11. Rental revenue from facilities

| | | |
|---|---|---|
| Commercial properties | 33,245 | 26,884 |
| Residential properties | 99,672 | 102,942 |
| **Total rental revenue** | **132,917** | **129,826** |

### 12. Interest income

| | | |
|---|---|---|
| Bank interest | 52,303 | 85,842 |
| Interest on short term deposits | 50,561 | 94,569 |
| **Total interest income** | **102,864** | **180,411** |

### 13. Clinical costs

| | | |
|---|---|---|
| Cardiology materials | 18,065 | 11,881 |
| Cleansing materials | 29,980 | 25,173 |
| Dental materials | 9,107 | 8,532 |
| Enteral & nutrition feed | 32,536 | 35,125 |
| Health information stationery | 6,253 | 10,682 |
| Laboratory chemicals & reagents | 141,814 | 168,054 |
| Medical gases | 103,690 | 113,305 |
| Orthopaedic materials | 6,767 | 13,671 |
| Patients food | 163,941 | 156,020 |
| Patients uniform & clothing | 34,900 | 99,007 |
| Pharmaceutical supplies | 551,899 | 539,730 |
| Radiology material & chemicals | 28,065 | 49,465 |
| Renal materials | 19,410 | 50,416 |
| Reproductive health consumables | 168 | 14,027 |
| Stock change | (106,643) | (23,663) |
| Surgical consumables | 247,113 | 225,254 |
| Sutures | 74,046 | 206,186 |
| Theatre consumables | 65,853 | 1,949 |
| Waste disposal expenses | 7,683 | 18,025 |
| Other clinical costs | 117,816 | 88,527 |
| **Total clinical costs** | **1,552,463** | **1,811,367** |

## Notes to the Financial Statements continued

Other clinical costs include: purchase of crockery & cutlery, insecticide & rodenticides, dressing and appliances, laundry detergents, radiotherapy materials, physiotherapy materials, ENT consumables, occupational therapy materials, ophthalmology materials, paediatric consumables, orthopaedic technology materials, CCU materials, SPU materials, infection control materials and tailoring materials.

### 14. Employee costs

| | 2017 Kshs. '000' | 2016 Kshs. '000' |
|---|---|---|
| Contribution to pension schemes | 356,702 | 341,078 |
| Employee satisfactory survey | - | 602 |
| Insurance | 56,202 | 32,193 |
| Pension administration costs | 11,295 | 12,150 |
| Defined benefit pension scheme deficit | 100,000 | 100,000 |
| Provision for leave pay (see note 32) | 16,049 | (16,268) |
| Salaries and wages | 7,303,343 | 6,765,869 |
| Staff medical expenses | 248,377 | 229,385 |
| Staff training & development | 87,864 | 160,494 |
| Staff welfare expenses | 3,151 | 8,267 |
| Travelling & accommodation | **24,639** | **64,373** |
| **Total employee costs** | 8,207,622 | 7,698,143 |

### 15. Board of Management expenses

| | | |
|---|---|---|
| Emoluments | 11,522 | 5,747 |
| Insurance | 847 | 476 |
| Mileage | 2,031 | 2,688 |
| Training | 4,844 | 5,966 |
| **Total Board of Management expenses** | **19,244** | **14,877** |

### 16. Depreciation and amortisation

| | | |
|---|---|---|
| Intangible assets | 6,322 | 9,031 |
| Property, plant and equipment | 427,741 | 430,539 |
| **Total depreciation and amortisation** | **434,063** | **439,570** |

### 17. Repair and maintenance expenses

| | | |
|---|---|---|
| Buildings | 65,909 | 39,860 |
| Medical equipment | 110,658 | 129,167 |
| Motor vehicle running expenses | 7,517 | 5,946 |
| Office equipment | 9,973 | 3,709 |
| Plant & machinery | 37,097 | 41,994 |
| **Total repair and maintenance expenses** | **231,154** | **220,676** |

### 18. Administrative and General expenses

| | | |
|---|---|---|
| Advertising and publicity expenses | 7,362 | 8,695 |
| Audit fees | 3,680 | 2,320 |
| Bank charges | 4,659 | 7,050 |
| Boiler fuel expenses | 104,341 | 108,222 |
| Cleaning services | 14,827 | 9,522 |
| Clearing & forwarding expenses | 2,600 | 12,959 |
| Computer consumables | 17,840 | 10,118 |
| Electricity expenses | 121,539 | 146,157 |
| General insurance | 11,785 | 8,342 |
| Legal expenses | 46,539 | 21,341 |
| Quality assurance expenses | 3,965 | 7,840 |

| | 2017 Kshs. '000' | 2016 Kshs. '000' |
|---|---|---|
| Research & development expenses | 19,424 | 10,543 |
| Security investigation expenses | 7,938 | 6,690 |
| Sports activities expenses | 16,090 | 19,632 |
| Staff uniform | 5,143 | 7,173 |
| Stationery expenses | 13,684 | 15,869 |
| Tax expense | 204,328 | 19,600 |
| Telephone expenses | 5,643 | 7,067 |
| Water & conservancy expenses | 90,652 | 95,746 |
| Other administrative expenses | 49,603 | 24,410 |
| **Total administrative and general expenses** | **751,642** | **549,296** |

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

## 19. Donor funded Projects expenses

| | | |
|---|---|---|
| Assisted partner notification | 4,699 | 14,016 |
| Cord blood immune reper | 92 | |
| ETROT study | 1,488 | |
| Girl study | 6,034 | 1,685 |
| HIV cascade training program | 2,115 | 787 |
| Hope study | 1,309 | 2,285 |
| Innovation maker project | | 7,362 |
| ITIPS (micro bacterium TB infection) | 1,483 | |
| M Health study | 18,066 | 13,755 |
| Micro biota & preterm birth study | 2,108 | |
| Mwach Neo | 320 | |
| OPT project | 317 | |
| PACT-COE project | 82,785 | 97,849 |
| Partners in prevention study | 2,593 | 7,981 |
| Patient navigation programme | 3,439 | |
| Peck study | 422 | |
| Prevention of HIV transmission | 4,528 | 5,275 |
| **Total donor funded projects expenses** | **131,798** | **150,995** |

## 20. Loss on sale of assets

| | | |
|---|---|---|
| Cost of assets disposed | 7,920 | 53,052 |
| Accumulated depreciation | (5,601) | (32,102) |
| Net book value of assets disposed | 2,319 | 20,950 |
| Sale proceeds on assets disposal | (377) | (518) |
| **Loss on sale of assets** | **1,942** | **20,432** |

## 21. Impairment loss

Allowance for impairment loss on receivables from exchange transactions (see note 25)

| | | |
|---|---|---|
| | **658,358** | **623,788** |

## 22. Medical service contracts loss

| | | |
|---|---|---|
| Contracts with NHIF | 165,201 | 411,777 |
| Free maternity program | 200,634 | 415,566 |
| Sponsored clinical projects | 11,436 | 14,079 |
| **Total medical services contracts loss** | **377,271** | **841,422** |

## 23. Foreign exchange transactions loss

| | 2017<br>Kshs. '000' | 2016<br>Kshs. '000' |
|---|---|---|
| Exchange difference on receivables transactions | (288) | (467) |
| Gain on exchange rate on dollar bank account | 269 | |
| **Loss on foreign exchange transactions** | **(19)** | **(467)** |

The gain on exchange rate for dollar bank account is the exchange difference as a result of the ruling rate as at June 30, 2017 and as at 1 July 2016

## 24. Cash and Cash Equivalents

| | | |
|---|---|---|
| Current accounts | 519,325 | 1,422,688 |
| On - call deposits | 610,335 | 600,163 |
| Staff mortgage deposit | 12,339 | 15,420 |
| Others (cash in hand/ MPESA) | 3,995 | 2,333 |
| Total cash and cash equivalents | 1,145,994 | 2,040,604 |

**Detailed analysis of the cash and cash equivalents**

| | | |
|---|---|---|
| Current accounts | | |
| National Bank of Kenya | 465,339 | 1,278,388 |
| Equity Bank | 50,077 | 114,884 |
| Kenya Commercial Bank | 3,909 | 29,416 |
| **Total current accounts** | **519,325** | **1,422,688** |
| | | |
| On - call deposits: | | |
| National Bank of Kenya | 163 | 163 |
| KCB | 610,172 | 600,000 |
| Euro Bank Ltd ( in liquidation) | 429,661 | 429,661 |
| Less: Provision for impairment | (429,661) | (429,661) |
| **Total on - call deposits** | **610,335** | **600,163** |

### Staff Mortgage deposit

| | | |
|---|---|---|
| Housing Finance Co. of Kenya | 12,339 | 15,420 |

### Cash in hand/MPESA

| | | |
|---|---|---|
| Cash In Hand/MPESA | | |
| Cash in Hand | - | 2,333 |
| MPESA | 3,995 | - |
| **Total cash in hand/MPESA** | **3,995** | **2,333** |
| **Total cash & cash equivalents** | **1,145,994** | **2,040,604** |

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

| | 2017 Kshs. '000' | 2016 Kshs. '000' |
|---|---|---|
| **25. Receivables from exchange transactions** | | |
| Medical services receivables | 6,367,014 | 5,699,323 |
| Rental receivables | 28,450 | 22,198 |
| Nursing school students receivables | 4,816 | 3,414 |
| Insurance compensation receivables | 23,684 | 23,684 |
| **Sub total** | **6,423,964** | **5,748,619** |
| Accrued interest income | 50,176 | 11,873 |
| Prepayments | 158,314 | 128,095 |
| **Sub total** | **6,632,454** | **5,888,587** |
| Less: Impairment allowance | (5,453,737) | (4,795,379) |
| **Total receivables from exchange transactions** | **1,178,717** | **1,093,208** |

As at June 30, 2017, trade receivables of Kshs. 5,454 million (2016: Kshs. 4,795 million) were impaired and fully provided for as bad and doubtful debt.

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

| | | |
|---|---|---|
| Beginning of year | 4,795,379 | 4,171,591 |
| Charge for the year | 658,358 | 623,788 |
| **End of year** | **5,453,737** | **4,795,379** |

| | | |
|---|---|---|
| **26. Receivables from non- exchange transactions** | | |
| Grant from National Government | 902,536 | 258,168 |
| Staff receivables | 15,816 | 21,333 |
| | 918,352 | 279,501 |
| Less: Impairment allowance (GoK grant) | (144,568) | (144,568) |
| **Total receivables from non - exchange transactions** | **773,784** | **134,933** |

| | | |
|---|---|---|
| **27. Inventories** | | |
| Pharmaceutical supplies | 308,329 | 182,152 |
| Maintenance supplies | 45,115 | 24,667 |
| Food supplies | 9,338 | 11,457 |
| Linen and clothing | 23,788 | 33,634 |
| General stores | 113,244 | 141,679 |
| | 499,814 | 393,589 |
| Less: Obsolete stock | (4,863) | (5,281) |
| **Total inventories** | **494,951** | **388,308** |

# Notes to the Financial Statements continued

## 28. Property, Plant and Equipment

| Cost or valuation | Free hold Land Kshs. '000' | Free hold Building Kshs. '000' | Plant, Machinery & medical equipment Kshs. '000' | Motor Vehicles Kshs. '000' | Furniture and fittings Kshs. '000' | Computers, copiers and faxes Kshs. '000' | Capital work in progress Kshs. '000' | Total Kshs. '000' |
|---|---|---|---|---|---|---|---|---|
| As at 1 July, 2015 | 4,014,600 | 6,753,455 | 3,920,459 | 93,847 | 272,884 | 184,596 | 420,797 | 15,660,639 |
| WIP Transfers to Intangible Assets | | | | | | | (26,986) | (26,986) |
| WIP expensed | | | | | | | (910) | (910) |
| Additions | | 18,652 | 238,716 | | 660 | 6,910 | 76,464 | 341,402 |
| Transfers from WIP | | 410,497 | 18,658 | | | | (429,154) | - |
| Disposals | | | (49,260) | | (3,598) | (194) | - | (53,052) |
| **As at June 30, 2016** | **4,014,600** | **7,182,604** | **4,128,573** | **93,847** | **269,946** | **191,312** | **40,211** | **15,921,093** |
| **As at 1 July, 2016** | **4,014,600** | **7,182,604** | **4,128,573** | **93,847** | **269,946** | **191,312** | **40,211** | **15,921,093** |
| Additions | | 101,304 | 298,177 | | 1,658 | 6,123 | 181,782 | 589,043 |
| Disposals | | | (7,312) | | (554) | (54) | | (7,920) |
| Transfer to KMTC & UoN | (146,667) | | | | | | | (146,667) |
| **As at June 30, 2017** | **3,867,933** | **7,283,908** | **4,419,438** | **93,847** | **271,049** | **197,381** | **221,993** | **16,355,549** |
| **Depreciation** | | | | | | | | |
| As at July 1, 2015 | | 1,345,017 | 2,236,571 | 65,936 | 167,610 | 110,365 | | 3,925,499 |
| Charge for the year | | 145,940 | 240,189 | 6,983 | 13,097 | 24,331 | | 430,541 |
| Disposal | | | (29,506) | - | (2,438) | (158) | | (32,102) |
| **As at June 30, 2016** | | **1,490,956** | **2,447,254** | **72,920** | **178,269** | **134,539** | | **4,323,938** |
| As at July 1, 2016 | | 1,490,956 | 2,447,254 | 72,920 | 178,269 | 134,539 | | 4,323,938 |
| Charge for the year | | 144,824 | 247,166 | 5,235 | 11,649 | 18,868 | | 427,741 |
| Disposal | | | (5,140) | | (409) | (52) | | (5,600) |
| **As at June 30, 2017** | **-** | **1,635,780** | **2,689,280** | **78,155** | **189,509** | **153,355** | **-** | **4,746,079** |
| **Net book value As at June 30, 2017** | **3,867,933** | **5,648,128** | **1,730,158** | **15,692** | **81,540** | **44,026** | **221,993** | **11,609,470** |
| **As at June 30, 2016** | **4,014,600** | **5,691,649** | **1,681,319** | **20,927** | **91,676** | **56,773** | **40,211** | **11,597,155** |

## 28. Property, Plant and Equipment continued

Included in land of Kshs.4 billion is a parcel of land L.R. No.209/13978 measuring 2.544Ha valued at Kshs.220 million which is jointly owned by Kenyatta National Hospital, University of Nairobi and Kenya Medical Training College. The value of land that is recognised in the Hospital financial statements in FY 2016/17 is a third proportion at KShs 73 million.

## 29. Intangible Assets - Software

| | 2017<br>Kshs. '000' | 2016<br>Kshs. '000' |
|---|---|---|
| Cost | | |
| At the beginning of the year (July1) | 31,408 | 2,558 |
| Additions | - | 1,864 |
| Transfers from Work in Progress | - | 26,986 |
| **At the end of the year (June 30)** | **31,408** | **31,408** |
| **Amortization** | | |
| At the beginning of the year | 10,335 | 1,304 |
| Charge for the year | 6,322 | 9,031 |
| **At the end of the year (June 30)** | **16,657** | **10,335** |
| **Net book value as at June 30** | **14,751** | **21,073** |

## 30. Trade and other payables

| | | |
|---|---|---|
| Trade and other payables | | |
| Trade payables | 471,979 | 344,409 |
| Accrued Expenses | 98,548 | 23,954 |
| Retention money | 35,963 | 25,911 |
| Remittances | 17,514 | 38,408 |
| Doctors fee | 217,001 | 200,809 |
| Tax Liability (Note 45) | 170,590 | |
| Other payables | 51 | 77,913 |
| **Total trade and other payables** | **1,011,646** | **711,405** |

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

## 31. Deposits from customers

| | | |
|---|---|---|
| Rent deposit | 2,058 | 2,489 |
| Admission deposit | 43,792 | 32,921 |
| Credit facility deposit | 13,393 | 12,270 |
| Caution money | 299 | 211 |
| Advance receipts | 4,407 | 45 |
| **Total deposits from customers** | **63,949** | **47,935** |

## 32. Provision for leave pay

| | | |
|---|---|---|
| Balance at the beginning of the year | 125,102 | 141,369 |
| Additional provision raised | 16,049 | |
| Provision utilised | | (16,268) |
| **Balance as at June 30,** | **141,151** | **125,102** |

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

| | 2017 Kshs. '000' | 2016 Kshs. '000' |
|---|---|---|
| **33. Deferred income** | | |
| Donor funded projects grants | 69,126 | 91,587 |
| Donations in kind (fixed assets) | 43,358 | 45,503 |
| Development Partners Grant* | 50,000 | 25,000 |
| Nursing school pre-paid fees | 4,448 | 3,908 |
| **Total deferred income** | **166,932** | **165,998** |

Deferred income movement Schedule

| Details | Donor funded projects grants Kshs. '000' | Donations in kind (Fixed assets) Kshs. '000' | Development partner grant Kshs. '000' | Nursing school pre-paid fees Kshs. '000' | Total Kshs. '000' |
|---|---|---|---|---|---|
| Balance b/f | 91,587 | 45,503 | 25,000 | 3,908 | 165,998 |
| Refunds | (476) | | | | (476) |
| Receipts during the year | 109,814 | 150 | 25,000 | 4,521 | 139,485 |
| Transfers to statement of financial performance | (131,798) | (2,295) | | (3,981) | (138,075) |
| **Deferred income** | **69,127** | **43,358** | **50,000** | **4,448** | **166,932** |

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

## 34. Employee benefit obligations

| | | |
|---|---|---|
| **National Social Security Fund** | **286,830** | **310,830** |

The amount owed to NSSF relates to arrears demanded from Kenyatta National Hospital for unpaid contributions for the years 2001 to 2009, the period in which the hospital had applied for exemption to the Minister of Labour after the movement of staff from the central Government. The initial arrears were KShs 311 million for which the hospital has paid Kshs. 24 million in FY 2016/2017.

## 35. Borrowings

| | | |
|---|---|---|
| **Spanish Loan** | **1,199,863** | **1,199,863** |

The GoK on 29 July 2005, guaranteed a loan of Euros 14 million (Kshs. 1,199,862,823) received from the Kingdom of Spain in form of medical equipment. The loan was repayable to the Permanent Secretary, Ministry of Finance in fifteen (15) years with a six year grace period by eighteen (18) half year equal instalments commencing on June 30, 2013. The credit was to attract a rate of interest of 3.0% per annum on reducing balance payable semi-annually on the 30 day of June and on the 30th day of December each year commencing on 30th day June 2008. The hospital is in negotiation with the National Treasury with a view of converting the loan into a capital grant.

## 36. Capital Reserve

| | | |
|---|---|---|
| As at July 1 | 4,795,028 | 4,389,395 |
| Development Grant | 684,827 | 405,633 |
| Decrease in land value | (2,589) | - |
| **As at June 30** | **5,477,266** | **4,795,028** |

Development Grant of Kshs.684,827,000 relates to capital grant receivable of Kshs.343, 000,000 for FY2016/17 and Kshs. 341,827,000 being cancer treatment equipment received and construction of bunker funded by GOK during the year.

Decrease in land value relates to adjustment made in FY 2016/17 on the land value and revaluation reserve for a parcel of land (LR No. 209/13978) that is jointly owned by UoN, KMTC and KNH previously treated as fully owned by the hospital. The parcel is valued at Kshs.220 million and the adjustment has been made to only recognize a third of the parcel value (Kshs. 73 million) by debiting the capital reserve with Kshs.2.6 Million and revaluation reserve by Kshs. 144 million.

## 37. Accumulated Fund

| | 2017<br>Kshs. '000' | 2016<br>Kshs. '000' |
|---|---|---|
| As at July 1 | (1,280,231) | (601,459) |
| Deficit for the year | (905,011) | (678,772) |
| **As at June 30** | **(2,185,242)** | **(1,280,231)** |

## 38. Revaluation reserve

| | | |
|---|---|---|
| As at July 1 | 9,199,351 | 9,199,351 |
| Adjustment in land value (see note 36) | (144,078) | - |
| **As at June 30** | **9,055,273** | **9,199,351** |

## 39. Cash generated from operations

| | | |
|---|---|---|
| **Net Surplus/(Deficit) for the year** | **(905,011)** | **(678,772)** |
| **Adjusted For: -** | | |
| Depreciation and amortization | 434,063 | 439,570 |
| Loss on disposal of fixed asset | 1,942 | 20,432 |
| Interest Income | (102,864) | (180,411) |
| Work in progress | | 910 |
| Foreign Exchange Gain (See Note 22) | (269) | |
| **Operating Deficit Before Working Capital Changes** | **(572,138)** | **(398,271)** |
| **Working capital adjustments** | | |
| (Increase) / Decrease in stock | (106,643) | (23,664) |
| (Increase) / Decrease in receivables | (381,361) | 166,951 |
| Increase / (Decrease) in payables | 292,255 | (179,662) |
| Increase / (Decrease) in deferred income | (24,066) | 43,998 |
| Increase / (Decrease) in provision for leave pay | 16,049 | (16,267) |
| Net cash outflow from operating activities | (775,904) | (406,914) |

## 40. Financial instruments

### Capital risk management

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

| | | |
|---|---|---|
| Revaluation Reserve | 9,055,273 | 9,199,351 |
| Accumulated Fund | (2,185,242) | (1,280,232) |
| Capital Reserve | 5,477,266 | 4,795,028 |
| **Total Funds** | **12,347,297** | **12,714,148** |
| Total Borrowings | 1,199,863 | 1,199,863 |
| Less: Cash and bank balances | 1,145,994 | 2,040,604 |
| **Net debt/(excess cash & cash equivalent)** | **53,869** | **(840,741)** |
| Gearing ratio | 9.7% | 9.4% |

### Financial risk management objectives

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

## Credit risk

### Exposure to credit risk

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

Credit risk in respect to trade receivables is limited due to the large number of customers who are mainly members of medical schemes. The financial condition of these clients in relation to their credit standing is evaluated on an ongoing basis. Medical schemes are forced to maintain minimum reserve levels.

Patients who do not have a medical scheme or an insurance cover, pay for the services out of pocket. The Hospital does have a significant credit risk exposure for individual customers who are not members of medical schemes or insurance cover.

The Hospital is exposed to credit-related losses in the event of non-performance by counterparties to hedging instruments. The counterparties are mainly NHIF and MOH. The Hospital monitors its positions and limits the extent to which it enters into contracts with any one party.

The carrying amounts of financial assets included in the statement of financial position represent the Hospital's maximum exposure to credit risk in relation to these assets. At 30th June 2016 and 30th June 2017, the Hospital did consider there to be a significant concentration of credit risk.

| | Total Amount Kshs. '000' | Fully performing Kshs. '000' | Past due Kshs. '000' | Impaired Kshs. '000' |
|---|---|---|---|---|
| **At June 30, 2017** | | | | |
| Receivables from exchange transactions | 6,632,454 | 1,178,717 | 658,358 | 5,453,736 |
| Receivables from non-exchange transactions | 918,352 | 773,784 | | 144,568 |
| Bank balances | 1,575,654 | 1,145,994 | | 429,660 |
| **Total** | **9,126,460** | **3,098,495** | **658,358** | **6,027,964** |
| | | | | |
| At June 30, 2016 | | | | |
| Receivables from exchange transactions | 5,888,362 | 1,092,984 | 623,788 | 4,795,379 |
| Receivables from non-exchange transactions | 279,501 | 134,933 | | 144,568 |
| Bank balances | 2,470,265 | 2,040,604 | | 429,660 |
| **Total** | **8,638,128** | **3,268,521** | **623,788** | **5,369,607** |

## Liquidity risk

The ultimate responsibility for liquidity risk management rests with the Directors of the Hospital, who have built an appropriate liquidity risk management framework for the management of the Hospital's short, medium and long-term funding and liquidity management requirements. The Hospital manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

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

| | Carrying Amount Kshs. '000' | Contractual cash flows Kshs. '000' | 0-12 months Kshs. '000' | 1-5 years Kshs. '000' | Beyond 5 years Kshs. '000' |
|---|---|---|---|---|---|
| **June 30, 2017** | | | | | |
| Trade & Other payables | 1,011,646 | 1,011,646 | 559,334 | 269,312 | 484,681 |
| Amount due to NSSF | 286,830 | 286,830 | | | 286,830 |
| Borrowings-Spanish | 1,199,863 | 1,199,863 | | | 1,199,863 |
| **June 30 , 2016** | **2,498,339** | **2,498,339** | **559,334** | **269,312** | **1,971,374** |
| Trade & Other payables | 711,405 | 711,405 | 286,054 | 81,523 | 208,679 |
| Amount due to NSSF | 310,830 | 310,830 | | | 310,830 |
| Borrowings-Spanish | 1,199,863 | 1,199,863 | | | 1,199,863 |
| **Total** | **2,222,098** | **2,222,098** | **286,054** | **81,523** | **1,719,372** |

## 41. Related party balances Nature of related party relationships

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

### Related party transactions

| | 2017 Kshs. '000' | 2016 Kshs. '000' |
|---|---|---|
| Transfers from Ministry of Health | 6,781,462 | 6,667,179 |

### Board of Management remuneration

| | | |
|---|---|---|
| Emoluments | 11,522 | 5,747 |
| Mileage | 2,031 | 2,688 |
| **Total Board of Management remuneration** | **13,553** | **8,435** |

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

**Key management compensation**

| | | |
|---|---|---|
| Gross Salaries | 110,795 | 101,483 |
| Gratuity | 11,321 | 19,222 |
| Total key management compensation | **122,116** | **120, 705** |

There were 17 members of senior management who served during the year

### Amount due from Related Parties

| | | |
|---|---|---|
| Ministry of Health | **902,536** | **258,168** |

## 42. Capital Commitments

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

| | | |
|---|---|---|
| Authorised but not contracted | 500,065 | 134,062 |
| Authorised and contracted | 204,787 | 211,117 |
| **Total capital commitments** | **704,852** | **345,179** |

## 43. Contingent Liabilities Defined Benefit pension Scheme Deficit

Actuarial valuation was done on the KNH Defined Benefit Pension Scheme as at June 30, 2014. The valuation showed benefits liability of Kshs. 8.6 billion against the schemes asset of Kshs. 5.8 billion equivalent to 67% with an underfunding thereon of 33% equivalent to Kshs. 2.8 billion. The scheme was closed to new members on June 30, 2011 except for members who were over 45 years and above in compliance to the notice of discontinuance and adoption of the amended scheme.

The scheme is in the process of executing a deed of closure with the Retirement Benefits Authority (RBA).

A request was made to the National Treasury for an allocation of funds towards the deficit and in the FY 2016/17 Kshs 100 Million was allocated and expended towards bridging the deficit as disclosed under note 14 to the Financial Statements.

The scheme is expected to carry out an actuarial valuation by 30th June, 2018 for which remedial plan will be developed and adopted by the KNH Board of management. The hospital shall then recognize in the books the updated deficit based on the latest valuation.

## 44. Pension and other post-employment benefit plan

The hospital operates staff superannuation scheme for its employees. The investments and the scheme's assets are managed by the investment manager of Pine Bridge & Genesis Kenya investments on behalf of the trustees.

## 45. Events after the reporting period

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

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

The revised liability in lieu of tax liability has been accrued in the financial statements for the year ended June 30, 2017(note 30).

## 46. Ultimate and Holding Entity

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

## 47. Currency

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

## 48. Donor funded projects transactions analysis

| Particulars | Opening Balance Kshs. '000' | Refund to donor Kshs. '000' | Receipts during the year Kshs. '000' | Recognised as revenue Kshs. '000' | Closing balance (Deferred) Kshs. '000' |
|---|---|---|---|---|---|
| **Project income:** | | | | | |
| PACT-COE | 54,013 | | 54,608 | 82,785 | 25,836 |
| Partners in Prevention Study | 6,686 | | 1,766 | 2,593 | 5,859 |
| Aids Care Treatment Services (ACTS) | 1,074 | | | | 1,074 |
| HIV acquisition during and after pregnancy (HADAP) | 254 | | | | 254 |
| Assisted partners notification services | 1,141 | 476 | 4,035 | 4,699 | |
| Prevention of HIV transmission | 16,110 | | 3,985 | 4,528 | 15,566 |
| Inormous study | 233 | | | | 233 |
| Innovations maker project | 3,004 | | | | 3,004 |
| HIV cascade training Program | 398 | | 1,888 | 2,115 | 171 |
| Management of postpartum haemor | 83 | | | | 83 |
| M Health study | 4,561 | | 19,207 | 18,066 | 5,702 |
| ITIPS | 1,077 | | 813 | 1,482 | 408 |
| Hope study | 1,975 | | 143 | 1,309 | 810 |

| Particulars | Opening Balance | Refund to donor | Receipts during the year | Recognised as revenue | Closing balance (Deferred) |
|---|---|---|---|---|---|
| Girl study | 978 | | 5,753 | 6,034 | 698 |
| Peck study | | | 1,459 | 422 | 1,037 |
| Mwach Neo | | | 403 | 320 | 83 |
| OPT study | | | 657 | 317 | 340 |
| Microbiota & preterm birth study | | | 3,849 | 2,109 | 1,741 |
| Patient navigation programme | | | 9,000 | 3,439 | 5,561 |
| Etrot study | | | 2,151 | 1,488 | 664 |
| Cord Blood Immune Reper | | | 96 | 92 | 4 |
| **Sub Total** | **91,587** | **476** | **109,814** | **131,798** | **69,127** |

# Progress on follow up of auditor recommendations

### 1. Receivables from Exchange Transactions

**1.1 Issue:** As similarly reported in the year 2014/2015, the receivables from exchange transactions balance of Kshs.1,093,208,000 as at June 30, 2016 includes receivables of Kshs.162,333,287, Kshs.93,376,066 and Kshs.3,286,110 for the National Hospital Insurance Fund (NHIF) rebate, Ministry of Health disaster debts and return to drawer (RD) cheques respectively which have been outstanding for more than one year. In addition, patients absconded without paying Kshs.47,484,724 during the year thus resulting to a cumulative total absconded patients' debt balance of Kshs.560,663,458 as at June 2016. No explanation has been provided by the management for failure to recover these long outstanding debts.

### Management comment

**NHIF rebate Receivable - Ksh.162,333,287:** A total of Ksh 5,984,302 of the debt has been paid by 30th June 2017. Demand letters for settlement of the outstanding debt has been made. KNH has since resubmitted rejected claims in the hospital amounting to Kshs.7,015,430 for onward processing and payment.

As a way forward, the hospital shall endeavor to have regular reconciliation of the account with NHIF and to strictly enforce the terms of the contract for non-payment of debts by NHIF.

**Ministry of Health disaster debts - Kshs.93,376,066:** The hospital is engaging the Ministry of Health on resolution of this debt.

| | |
|---|---|
| **Focal person:** | Mr. Michael Kihuga – Deputy Director, Finance |
| **Status:** | Resolution on-going |
| **Time frame:** | 30th June 2018 |

**Return to Drawer cheques - Kshs. 3,286,110:** The amount of Kshs.3,286,110 relates to personal cheques that were received in year 2004 and prior years for outstanding medical bills. These cheques were drawn by well-wishers who were helping patients to meet their medical bills obligations but were unfortunately dishonored upon presentation to the bank. Efforts to have the drawers replace the cheques have not been fruitful. Subsequently the Hospital has reversed the cheques to the respective patient debtor accounts and made provision for this amount as bad and doubtful debt. The hospital no longer accepts personal cheques as a mode of payment.

| | |
|---|---|
| **Focal person:** | Mr. Michael Kihuga – Deputy Director, Finance |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

**Abscondment - Ksh. 47,484,724:** Demand for payment of the debt has been done using available contact information in the patient records. To address the loss of revenue resulting from absconders the hospital has put various measures in place which include:

a) Sensitization of registration with NHIF as a way to cushion against out of pocket expense on medical bills.
b) Pre-admission credit and social assessment to determine economic status of patients with a view to fast tracking release on discharge.
c) The Hospital is in the process of building a day-care centre that will reduce the length of stay of patients in the hospital.
d) The Hospital is in the process of installing CCTV system in the main corridors to monitor movement.

| | |
|---|---|
| **Focal person:** | Mr. Michael Kihuga – Deputy Director, Finance |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

**1.2 Issue:** Further, receivables from exchange transactions balance of Kshs.1,093,208,000 include Kshs.311,040,712 due from the National Hospital Insurance Fund (NHIF) while the Fund's financial statements as at June 30, 2016 reflect Kshs.67,316,257 thus resulting to unexplained variance of Kshs. 243,724,455. No explanation has also been provided by the management for failure to reconcile the two sets of records.

### Management comment

Reconciliation of the balances as at June 30, 2016 has been carried out. The reconciliation revealed that the difference between NHIF and KNH records is majorly due to accounting treatment adopted for claims lodged.

The hospital recognizes debts for claims when a member of NHIF is clinically discharged and an invoice to NHIF is raised, which is in line with accrual accounting principle.

On the other hand, NHIF recognizes liability for the same claims only at payment authorization stage and omits all claims that are in earlier processing stages (received claims stage, quality assurance stage, new claims stage and system checking stage).

We have since held status meeting on 17th July 2017 on which we agreed on what each party is to handle and report back by end of August 2017.

| | |
|---|---|
| **Focal person:** | Mr. Michael Kihuga – Deputy Director, Finance |
| **Status:** | Resolution on-going |
| **Time frame:** | 30th June 2018 |

**1.3 Issue:** In addition, receivables from exchange transactions balance of Kshs. 1,093,208,000 include prepayments of Kshs.128,095,000 out of which repayments totaling Kshs. 31,733,575 related to supply contracts awarded to three firms at Kshs.15,792,611, Kshs.2,213,309 and Kshs.13,727,655. As observed in the previous year, the first prepayment is in dispute while the second one is under investigation. The third prepayment relates to a micro filming project at the Hospital which had not been completed as at June 30, 2016. Although the issue has been discussed by the Public Investment Committee, no action has been taken on the PIC recommendations that the three companies be investigated, prosecuted and the then Hospital Chief Executive Officer held accountable for the loss and surcharged.

### Management comment

**High Voltage Communications Limited - Kshs.15,792,611:** The amount was an advance payment made for the supply, delivery and installation of submersible pumping equipment into the helipad borehole and deflourination plants for boreholes at helipad and laundry.

The Hospital wrote to the contractor to refund the amount. The contractor declined and declared a dispute and matter was referred for arbitration. The arbitration was concluded on 26th November 2012 and the Tribunal made an award of Kshs.14,876,645 in favour of KNH. The process of recovery is ongoing.

**Glotex Medical Kenya Limited – Kshs.13,727,655:** The amount was an advance payment made for the supply of nuclear medicine materials. The Supplier failed to perform and the Hospital demanded refund of the amount. The matter is under investigation with the CID as the firm is not registered with Registrar of Companies.

**Microtec Office Supplies - Kshs.2,213,309:** The Supplier was awarded the tender for delivery and installation of microfilming equipment and to microfilm inactive medical records at a contract sum of Kshs.3,688,849.72. The supplier delivered and installed the requisite microfilming equipment and embarked on the exercise of microfilming inactive files.

The supplier was paid an advance payment of 60% of the contract sum but only performed 34% of the work. The matter is currently under investigation with the CID.

| | |
|---|---|
| **Focal person:** | Mr. Calvin Nyachoti – Deputy Director, Corporation Secretary |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

**1.4 Issue:** The receivables from exchange transactions balance of Kshs.1,093,208,000, also, includes a sum of Kshs.96,361,633 in respect of letters of credit issued by the Hospital to foreign based firms for supply of various goods and services. As in the previous year, the goods and services have not been recognized and accounted for in these financial statements.

### Management comment

The letters of credit relate to consumables received in the hospital but were not expensed immediately due to inadequate documentation. Most of these items were of short shelves and were delivered to the user departments directly and consumed. The verification and identification is ongoing and the necessary adjustments will be finalized in the current financial year 2017/2018.

| | |
|---|---|
| **Focal person:** | Mr. Michael Kihuga – Deputy Director, Finance |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

**1.5 Issue:** The receivables from exchange transaction balance of Kshs.1,093,208,000 included in the statement of financial position as at June 30,, 2016 is the net amount obtained from the gross balance of Kshs.5,888,587,000 less impairment allowance of Kshs.4,795,379,000 as reflected in Note 24 to the financial statements. The impairment allowance of Kshs.4,795,379,000 includes long outstanding debts of Kshs.3,759,665,395 whose recoverability is doubtful. In addition, the impairment allowance of Kshs.4,795,379,000 includes a provision of Kshs.1,248,877,758 whose schedule of beneficiaries was not availed for audit review. The impairment allowance of Kshs. 4,795,379,000 was also not approved by the Accounting Officer.

### Management comment

These are services offered to patients for which the hospital anticipated to receive payment but did not. They include credits extended to indigents and absconders debts.

The provision includes historical debts dating back to year 2005 and prior years which the listing is ongoing.

The procedure and requirements for provision for bad & doubtful debt has been documented in the Hospital Credit Policy.

| | |
|---|---|
| **Focal person:** | Mr. Michael Kihuga – Deputy Director, Finance |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

**1.6 Issue:** The receivables from exchange transactions balance of Kshs.1,093,208,000 also includes accrued investment income of Kshs.11,873,000 out of which accrued investment income of Kshs.146,227 relates to a cash investment of Kshs.162,499 which was invested long time ago. However, it is not clear and the management has not explained why the interest of Kshs.146,227 was not credited to the Hospital's bank account as at the time of audit.

### Management comment

The Hospital had placed a call deposit on 2nd September, 1999 with National Bank of Kenya for Kshs.162,499 at an interest bearing account on the instructions of the court. The account was to be jointly held with the M/S J.A Guserwa and Co. Advocates awaiting the outcome of the hearing. The accumulated accrued interest as at 30th June 2016 was Kshs.146, 227 and was still a liability owed by the bank to the Hospital. The Hospital Management has instructed the bank to apply accumulated interest to date. The accumulated interest will be credited to the Hospitals bank in the financial year 2017/18 upon confirmation by the Bank.

| | |
|---|---|
| **Focal person:** | Mr. Michael Kihuga – Deputy Director, Finance |
| **Status:** | On-going |
| **Time frame:** | 30th June 2018 |

## 2. Receivables from Non-exchange Transactions

**Issue:** The receivables from non-exchange transactions balance of Kshs.134,933,000 as at June 30, 2016 includes staff receivables of Kshs.21,333,000 out of which temporary imprest and staff debtors amounting to Kshs.1,732,267 and Kshs.2,231,943 respectively have been outstanding for a considerably long period of time. Management has not explained steps taken to recover the outstanding debts.

### Management comment

Temporary Imprest - Kshs. 1,732,267: The long outstanding imprest is owed by former Hospital employees who left service due to death, dismissal, retirement or resignation before fully accounting for imprests issued to them in the course of their duty. Demand notes have been sent and recovery/repayment from the concerned has been instituted and all measures will be used to recover the amount.

Final dues (other than pension) for the staff that have left service as a result of death, dismissal, retirement or resignation have not been released as they are yet to clear with the Hospital. The debts owing will be netted off from the final dues payable to the officers or their next of kin.

| | |
|---|---|
| **Focal person:** | Mr. Michael Kihuga – Deputy Director, Finance |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

## 3. Property, Plant and Equipment

### 3.1 Parcels of Land

**Issue:** As similarly reported in 2014/2015, the property, plant and equipment balance of Kshs.11,597,155,000 as at June 30, 2016 includes (four) 4 parcels of land measuring 0.7847 hectares aggregate and valued at Kshs.50,600,000 which were excised and allocated to other parties as detailed below.

| LR No | Location | Hectares | Value |
|---|---|---|---|
| | Kshs 'm' | | |
| LRN-209/11460 | Upper hill | 0.316 | 23 |
| LRN-209/12767 | Upper hill | 0.226 | 17 |
| LRN-209/12822 | Upper hill | 0.221 | 9 |
| LRN-209/13319 | Upper hill | 0.0217 | 1.6 |
| Total | 0.7847 | 50.6 | |

Further, the property, plant and equipment balance of Kshs11,597,155,000 also includes three (3) parcels of land measuring of 4.471 hectares and valued at Kshs.329,000,000 as detailed below.

| LR No | Location | Hectares | Value |
|---|---|---|---|
| | Kshs. 'm' | | |
| LRN-209/14269 | Upper hill | 0.14 | 10 |
| LRN-209/14272 | Upper hill | 0.531 | 39 |
| LRN-209/11976 | Upper hill | 3.8 | 280 |
| Total | 329 | | |

Also, the property, plant and equipment balance of Kshs.11,597,155,000 includes a parcel of land measuring 1.3 hectares which belongs to National Quality Control Laboratory and not Kenyatta National Hospital. This parcel has been included in the financial statements as part of the Hospital land under title L.R NO. 25138.

In addition, land registration number LR/No 209/13978 valued at Kshs.220,000,000 and measuring 2.544 hectares located in Upper Hill has a title deed in the name of Kenyatta National Hospital but the land is owned by the Hospital together with the Kenya Medical Training College and the University of Nairobi.

It was not clear why the title deed reflected only Kenyatta National Hospital as the owner.

Although the issue has been discussed by the Public Investment Committee, no action seem to have been taken on the Committee's 19th report that the National Land Commission revoke title deeds irregularly issued to private entities, and the Ethics and Anti-Corruption Commission (EACC) investigates how the Hospital land

was allocated to individuals and that the then Hospital Chief Executive Officer be surcharged for any loss that may have been incurred.

### Management comment

Four parcels of land (0.7847 hectares) - Kshs.50,600,000 Vide Ministerial circular No.16/2006 of 29th June 2005, the Hospital together with the University of Nairobi-College of Health Sciences (UoN-CHS), Kenya Medical Training College (KMTC), and the National Quality Control Laboratory (NQCL) appointed an Ad hoc Committee to identify the illegally acquired land within the KNH complex using the PDP ref.no.42/21/95/04A dated 1st August 1995.

The Ad hoc Committee identified eight (8) parcels of land situated within the complex as having been irregularly/ illegally allocated to other parties.

The Ad hoc Committee made a comprehensive report of its findings to the Ministry of Lands with recommendations that caveats be placed on the aforementioned parcels to curtail any transactions thereof. Caveats were placed on the parcels of land.

The Report of the Commission of Inquiry into illegal/irregular allocation of public land dubbed 'the Ndungu Commission Report' recommended the revocation of the said parcels of land. The titles have to date not been revoked as recommended by the Commission.

The Hospital vide letters dated 22nd November 2011 and 23rd January 2012 requested the Ministry of Lands to issue the Hospital with the official search certificates of the above parcels of land and to further confirm whether caveats that had been place were still in force. The Ministry responded confirming that caveats were still in force in the following parcels of land:

- L.R. No. 209/12767
- L.R. No. 209/12822

No searches were done on L.R. No. 209/11460 and L.R. No.209/13319 since the Ministry was not able to locate the files.

A court process was initiated by Chal Developer Limited against NQCL, the Chief Land Registrar and the Attorney General vide HCCC No.599 of 2014 to have the caveat on L.R. No. 209/12767 removed. A court order dated 4th February 2015 withdrew the caveat registered by NQCL. The caveat was lifted on 4th November 2015.

The Hospital vide letter ref. no.KNH/CS/15/Vol.1/127 dated 27th January 2016 wrote to the National Land Commission (NLC) to:

i) Place caveats on the aforesaid four (4) titles; and
ii) Investigate the authenticity of the titles with a view to revocation of the same.

The NLC vide letter dated 4th March 2016 advised that they had directed the responsible directorate to take the necessary action. The Hospital has been following up with NLC vide our letters dated 11th May 2016 and 7th June 2016 respectively.

**One parcel of land (1.3 hectares) - Kshs. 220,000,000**

Land LRN-209/13978 (2.544 Hectares or 6.286 Acres) valued at Kshs.220 million is jointly owned between KNH and Kenya Medical Training College and University of Nairobi. The hospital has made adjustments in the books to recognize one third (1/3) of the parcel of land at a value of Kshs.73,333,333.

| | |
|---|---|
| **Focal person:** | Mr. Calvin Nyachoti – Deputy Director, Corporation Secretary |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

### 3.2 Hospital Management Information Systems

**Issue:** As similarly reported in 2014/2015, the property, plant and equipment balance of Kshs. 11,597,155,000 includes capital work-in-progress valued at Kshs.40,211,000 out of which Kshs.26,986,031 relates to payments made to Systems Partners for the provision of Hospital Information Systems. However, out of Kshs.26,986,031, Kshs.5,397,206 relates to 15% paid in addition to 60% paid earlier as a result of an amendment to the original

contract which had provided for 20% payment to be made after testing and commissioning of the system. Further, the project was to take a period of six (6) months in 2013, but as at the time of audit, the system was still under testing stage having not achieved its intended purpose.

In addition, the original contract and performance bond expired before completion of the project. No explanation has been provided for breach of the contract.

### Management comment

The ICT Board and Accenture consulting firm conducted a study in the year 2012 and developed an ICT master plan which would have cost Kshs.4 Billion to be implemented. The Hospital Management information system that was procured in year 2013 was a stop gap measure as the hospital waited funding of the ICT master plan.

The modules in the Funsoft HMIS as delivered required customization to ensure effective implementation. The subsequent customization that was carried out was not fully acceptable to KNH and resulted in a standoff with the vendor over additional payments that the vendor demanded relating to customization to suit user requirements.

The contract stipulated that 60% of the payment was due upon Supply, Delivery and Installation. The contract was amended after negotiations with the vendor to allow a further 15% payment on testing due to the extended implementation period bringing the total payments made so far to 75%.

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

Management has resolved to commission the HMIS as is and has reached an agreement with the vendor that there shall be no further claim for additional funds as far as the implementation is concerned. The system was fully commissioned in June 2017 and all rights of ownership documents handed over.

| | |
|---|---|
| **Focal person:** | Mr. Michael Kihuga |
| **Status:** | On-going |
| **Time frame:** | 30th June 2018 |

## 3.3 Refurbishment of Private Wing

**Issue:** The property, plant and equipment balance of Kshs.11,597,155,000 includes capital work-in-progress valued at Kshs.40,211,000. As reported in 2014/2015, the capital work-in-progress was Kshs.420,797,000 out of which kshs.168,888,213 related to payments made on June 30,, 2015 to Aram Investments for Kenyatta Prime Care Centre (KPCC – Private Wing) refurbishment. However, the contract was awarded to the third lowest bidder at Kshs.204,831,547.20 while the lowest bidder was Kshs.148,899,879.80 resulting to an unexplained over-payment of Kshs.55,931,667.40. Further, physical verification revealed that several defects, including broken door closures, paint peeling-off, telephone and nurse calls communication network bath tabs positioned too high for patients to use comfortably.

The management did not provide explanations for the anomalies.

### Management comment

**Tender Award:** The said lowest bidder who had quoted Kshs.148,299,879.80 failed the technical stage and therefore could not proceed to the financial stage. The technical evaluation criterion of setting limits within plus (+) or minus (–) 10% of the official limits was provided for in the standard tender documents.

The evaluation criteria was set and carried out as per the Terms of Reference set out in the Procurement Regulations 2006 clauses 46 – 54 and the Public Procurement and Disposal Act Section 66 which mandated the committee to carry out preliminary, technical and financial evaluation.

Pursuant to Public Procurement and Disposal Act 2005 section 9(c)(i) and Public Procurement Regulation 2006 Section 29 on tender document which states that:

The Authority shall avail the standard tender documents to procuring entities. In addition the (PPOA) Public procurement & Disposal General Manual section 7(g) indicates that standard tender documents have been developed by the PPOA and MUST be used with minor necessary modifications.

Subject to the above provision of the Law, the Hospital prepared a tender document from the standard tender document availed by PPOA. The criteria set out were a provision derived from the standard tender document.

The 1st and 2nd lowest bidders were therefore non-responsive based on this criterion.

**Defects:** The defects noted like broken door closures and paint peeling off occurred during the project defect liability period. The contractor was instructed to attend to the defects within the period of defects liability. These defects have been resolved.

The contractor installed voice and data cables up to the user point socket as per the contract. Telephone head sets were not part of the contract but were procured separately. The nurse call communication system provided by the contractor did not meet specifications and was therefore rejected and was not paid The hospital is in the process of procuring a new nurse call system.

| | |
|---|---|
| **Focal person:** | Mr. Richard Binga – Deputy Director, Facilities & Service |
| **Status:** | Resolved |
| **Time frame:** | 30th June 2018 |

### 3.4 Provision of Hot Water Systems

**Issue:** The property, plant and equipment balance of Kshs.11,597,155.00 also includes capital work- inprogress valued at Kshs.40,211,000 out of which Kshs.6,383,748 relates to payment made on June 30,, 2015 to Wilken Solar for the provision of hot water at the Hospital's KPCC. The hot water systems worked for only five months, (from 3 October) 2014 to 20 March, 2015) before they broke down. Therefore, the Hospital did not get value for money spent on the hot water systems.

In the circumstance, it has not been possible to ascertain the ownership status of the parcels of land in dispute, the propriety of the expenditure totaling Kshs.211,215,295.20 on work-in-progress and whether the balance of Kshs.11,597,155,000 as at June 30, 2016 is fairly stated.

### Management comment

The hot water system was installed and handed over to the Hospital in October, 2014. Failure of the hot water system in March 2015 was occasioned by power surge from the KPLC power supply line on 19th March 2015 which damaged the water re-circulation pump motor and the booster electrical elements. The cause of the damage could not be attributed to the contractor.

In order to address the power surge and restore the hot water system, the hospital awarded a contract for additional works that included phase failure relays and surge protector in the bill of quantities. The system has been restored and is now fully functional.

The cost of replacing the damaged items (circulation pump and heating elements) was Kshs. 623,000. The additional works were to enhance protection and upgrade the power supplied which included relays surge protectors, thermostats, pressure switches, armoured cables and labour. This cost the Hospital Kshs.879,200.

The additional money spent was to make the system work after initially investing 6.3million in solar panels and tanks which form the bulk of the solar water heating system. In this case no money was lost as the heating was repaired and is currently working efficiently.

| | |
|---|---|
| **Focal person:** | Mr. Richard Binga – Deputy Director, Facilities & Service |
| **Status:** | Resolved |
| **Time frame:** | 30th June 2018 |

### 4. Employee Costs

**Issue:** The statement of financial performance for the year ended June 30, 2016 reflects employee costs totaling to Kshs.7,698,143,000 in relation to which the following anomalies were noted:

i) The law/regulation used to pay locum/overtime of Kshs.422,140,127 and staff medical out-patient allowance of Kshs.78,117,605 included in the employee cost was not presented for audit review.

ii) The locum/overtime of Kshs.238,356,841 and unexplained special locum/overtime of Kshs.183,783,286 paid to the Hospital's doctors and nurses amounted to double payments as overtime services were paid/ catered for under extraneous allowance paid during the year.

iii) The payment of staff medical out-patient allowance of Kshs.78,117,605 amounted to double payment as the Hospital has also incurred staff medical in/outpatient expenses of Kshs.229,385,000 on the staff.

iv) The Hospital has 4,754 staff comprised of 200 doctors, 25 dentists, 14 pharmacists 1,718 nurses, 463 administrative staff and 586 paramedics and others. However, the staff establishment approved by the parent Ministry was not made available for audit review.

v) The Hospital has two doctors who have attained the mandatory retirement age of sixty years but are still in service.

In the circumstances, it has not been possible to ascertain the propriety of the expenditure totaling Kshs.500,207,732 on Locum/overtime and medical allowance and whether the expenditure of Kshs.7,698,143,000 in the statement of financial performance for the year ended June 30,, 2016 is fairly stated.

### Management comment

**Locum/overtime - Kshs. 422,140,127:** A locum Nurse is a Nurse/Doctor who works in the place of the regular Nurse or Doctor when the regular nurse is absent or when the Hospital is short of Nurses or Doctors. The hospital management engages locum nurses and doctors to address capacity gaps in highly specialized areas such as Intensive Care Unit, Burns Unit, New born Unit, Specialized Surgery, Theatres, Pediatrics, Cancer Treatment Centre, Maternity and Orthopaedic departments.

Approval for engagement of nurses and doctors on locum was granted by the Board of management through Board resolution 10/97 of 4th December, 1997. A review of the rates was approved by the Board vide MIN 21/2001.

**Staff medical outpatient allowance - Kshs.78,117,605:** Payment of Out-patient Medical allowance is factored in the current CBA. The same will be re-negotiated in the next CBA with a view to deleting it from the payroll.

**Locum/overtime - Kshs. 238,356,841 and Special locum/overtime -Kshs. 183,783,286:** The Government introduced extraneous allowances vide circular Ref. No. MSPS/7/1A/VOL.IV/lar22 of 19th December, 2011. The payment is to compensate Nurses and Doctors for working under strenuous environment such as exposure to infections, needle pricks.

Any overtime worked is compensated by way of time off as stipulated in the Terms and Conditions of Service, Collective Bargaining Agreements and as provided in the Employment Act, 2007. Locum is paid to address capacity gaps in line with Board approval.

**Staff composition:** The Hospital was declared a State Corporation vide Kenya Gazette Legal Notice No. 109 of 1987.

Consequently, the Parent Ministry separated and transferred KNH payroll from the Ministry Headquarters to KNH with effect from 1st July, 1987. The establishment was 6,193 staff by then. However, the Parent Ministry did not provide documentation of the approved establishment.

In July 2009, the Ministry reduced the establishment from 6,193 to 4,754 based on in-post as at 30th June 2009. On 24th June 2014, the Hospital commissioned Delloite and Touch to conduct a Job Evaluation exercise. This will be presented to the Parent Ministry for approval once the SRC Job Evaluation report is released.

**Doctors due for retirement:** The two doctors are; Dr. Medhat Mohammed Amin (Gynae-oncology), 62 years and Dr. Henry Otieno Abwao (Oncology), 65 years. We wish to clarify that Dr. Amin and Dr. Abwao are not general medical practitioners. They are medical specialists whose experience, knowledge, skills and technical competences are not readily available in the local market. Indeed, Dr. Amin's training (Gynae-oncology is not available in the local Universities at the moment.

However, Management has identified three (3) Doctors for training once the curriculum being developed by the UON is approved.

The Hospital has further trained Dr. Antony Ndiritu P/No. 533396 in Cancer Treatment Centre. Upon expiry of Dr. Abwao's contract on 24th July, 2017, Dr. Ndiritu is expected to take over.

| | |
|---|---|
| **Focal person:** | Mr. Elphas Choge – Deputy Director, Human Resource |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

### 5. Administrative and General Expenses

Included in the statement of financial performance for the year ended June 30, 2016 is administrative and general expenses totaling to Kshs.525,633,000. The balance includes legal fees amounting to Kshs.21,341,000 paid to law firms for legal representation of the Hospital but without the Attorney- General approval and concurrence as required by the Attorney-General Circular Ref. AG/CONF/6/E/247 VOL.II of 16 April 2014. No explanation has been provided for why this legal requirement was breached. In the circumstance, the propriety of legal fees was totaling to kshs.21,341,000 for the year ended June 30, 2016 cannot be ascertained.

### Management comment

Further to the concern raised by the Auditor, the hospitals stopped all legal fees payments and sort the direction of the Attorney General.

On 6th April 2017, the AG guided through circular no. AG/CON/6/D/144 VOL.II stated that corporations may proceed to appoint external advocate from its panel of advocates to represent it, as and when necessary, and particularly in routine and non-complex matters where the state corporations is unable to represent itself. The hospital is expected to seek AGs approval for complex matters.

A review of all the cases found that they were all within the guidance of the circular. All future cases are complied with 100%.

| | |
|---|---|
| **Focal person:** | Mr. Michael Kihuga – Deputy Director, Finance |
| **Status:** | Resolved |
| **Time frame:** | 30th June 2018 |

### 6. Medical Service Contract Loss

**6.1 Issue:** Included in the statement of financial performance for the year ended June 30, 2016 is a medical services contracts loss of Kshs.841,422,000 out of which Kshs.411,777,000 relates to losses from the National Hospital Insurance Fund (NHIF). This balance is net of rebate received from the NHIF and expenditure incurred by the Hospital in treating NHIF members. According to information available, the Hospital entered into a contract with the NHIF in August 2008 to treat NHIF members at a rebate rate of Kshs.2,400 for inpatient care per day. The contract will in August 2010. However information available indicates that on 1 August 2016 the rebates were increased to Kshs. 4,000 per patient. No explanation has been provided why it took the Hospital eight years to review the NHIF contract. Had the contract been reviewed earlier, the losses totaling to Kshs.411,777,000 could have been avoided.

### Management comment

This is actual loss arising from unfavorable contracts with NHIF. The loss arises as a result of medical bills incurred by patients being higher than the rebate reimbursed by NHIF.

Efforts were made to have the contracts renewed.

The hospital continued to offer services to NHIF beneficiaries on expired contracts following a directive from Ministry of Health to continue offering services until new contracts are negotiated.

The Hospital has negotiated new contracts with NHIF which include expanded services initially not covered. These services include; oncology at fee for service, MRI, CT Scan, Renal services.

| | |
|---|---|
| **Focal person:** | Mr. Carylus Odiango – Director, Corporate Services |
| **Status:** | Resolved |
| **Time frame:** | 30th June 2018 |

**6.2 Issue:** Further, included in the statement of financial performance for the year ended June 30, 2016 is a medical services contracts loss of Kshs.841,422,000 out of which the sum of Kshs.415,566,000 relates to free

maternity program offered by the Hospital, as per letter ref. ACC/FCH HS/1/28A dated 1 April 2014 from the Cabinet Secretary, Ministry of Health which communicated the decision of the Government to reimburse the Hospital sum of Kshs.17,500 for every delivery. However, Kenyatta National Hospital being a referral hospital receives complicated maternal referrals and as a result maternity costs are higher but the reimbursable sum of Kshs.17,500 per delivery has remained the same despite the high costs. The Hospital may, therefore, continue to incur losses if the reimbursable amounts are not reviewed.

### Management comment

The loss arises from difference between cost of offering maternity services and the reimbursement given by Government of Kshs. 17,500 per delivery.

The Hospital's cost of offering free maternity services includes the cost of maternity related complications that require specialized treatments in renal, intensive care unit and pre-term care. The cost also includes pre-natal and post-natal care. The management had appealed to Principal Secretary, MOH for review of the reimbursement rate to Kshs.39,000.

The MoH has indicated that the free maternity process will be transferred to the Linda Mama program under the NHIF scheme which is expected to reimburse costs incurred.

| | |
|---|---|
| **Focal person:** | Michael Kihuga – Deputy Director, Finance |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

## 7. Borrowings

**Issue:** As previously reported, the borrowings balance of Kshs.1,199,863,000 reflected in the statement of financial position as at June 30, 2016 relates to a loan received in 2007/2008 from the Kingdom of Spain in form of medical equipment. According to information available, the loan was repayable by the Hospital at an interest rate of 3% per annum on a reducing balance for the first six (6) years and thereafter, the interest plus principal for the next nine (9) years with effect from 1 July 2008. However records examined indicated that, no interest has been paid or accrued in the eight financial years between 2008/2009 and 2015/2016. Further, the accrued interest, loan repayment and loan balance confirmation certificate as at June 30, 2016 were not availed for audit review. Although indications are that the management has sought assistance from the Ministry of Health towards settlement of the loan, the response from the Ministry on the matter was not availed for audit review. As a result, it has not been possible to confirm the accuracy of the borrowings balance reflected in the statement of financial position as at June 30,, 2016 and that the balance of Kshs.1,199,863,000 is fairly stated as at the same date.

### Management comment

The Government of the republic of Kenya through the National Treasury and the Government of the Kingdom of Spain signed a loan agreement on 31st January 2006 for the credit of Kshs.1.2 billion with a view to on-lending the resources to KNH.

The subsidiary agreement between the Hospital and the National Treasury was never concluded, though the Hospital had to recognize the Asset (equipment) after acceptance and commissioning report in its books with a corresponding entry being long term debt.

The Hospital Management through various correspondences to National Treasury since January 2008 to date has been consistent in their request for the Government to take over the Loan and convert it into a grant due to financial constraints it's facing.

Consultations with the National Treasury, Investment Secretariat, are ongoing with a resolution expected in the FY 2017/2018.

| | |
|---|---|
| **Focal person:** | Michael Kihuga – Deputy Director, Finance |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

### 8. Security Investigation Expenses

**Issue:** The statement of financial performance under administrative and general expenses reflects security investigation expenses totaling to Kshs.6,690,000 in respect of meal allowances paid to the Hospitals security officers for the year ended June 30, 2016. However, the regulations that support of the payments were not availed for audit review. No explanation has been provided for paying security officers meals allowances for working in their duty stations. Consequently, the propriety of expenditure totaling to Kshs.6,690,000 included in administrative and general expenses statement of financial performance for the year ended June 30, 2016, could not be confirmed.

### Management comment

Following the concerns raised by the auditor, the Chief Executive Officer appointed a task force to bench marking on the payment of allowance to security officers. The terms of reference are but not limited to visiting other Government Parastatals to establish how they handle payment of any allowance to the State Security agencies including the National Public Service. The team found that many institutions have MOUs with the state security agencies and that security officers are seconded to the institutions based MOU.

The hospital is in the process of negotiating an MOU with the National Public Service to formalize the relationship and related payments.

| | |
|---|---|
| **Focal person:** | Mr. Elphas Choge – Deputy Director, Human Resource |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

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

**Issue:** As similarly reported in 2014/2015, the trade and other payables from exchange transactions balance totaling of Kshs.711,405,000 includes long outstanding accounts payable balance of Kshs.65,799,329. No explanation has been provided for failing to clear these long outstanding account payables.

### Management comment

Analysis of all the long outstanding accounts payable has been carried out and the invoices totaling to Kshs.3,204,795 have been paid.

Reconciliations have been undertaken for invoices totaling Kshs. 22,832,925/09. Support documentation is ongoing for write back and necessary adjustments in the books as these invoices are not claimed by suppliers.

| | |
|---|---|
| **Focal person:** | Michael Kihuga – Deputy Director, Finance |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

### 10. Board Members

**Issue:** The statement of financial performance reflects Board expenses totaling to kshs.14,877,000 as at June 30, 2016. However, a review of records on the Board members indicated that the Hospital has eleven board members with one community constituting 36% of the Board contrary to the National Cohesion and Integration Act 2008 which state that no single ethnic community should constitute more than 33% of the board members of a national institution. In the circumstance, the Board as currently constituted is in breach of the Law.

### Management comment

The hospital was established by Legal notice no.109 of 1987 which provides the Board compositions being made up of;

a) A non-executive Chair appointed by the President.

b) The Director/CEO,

c) PS of the Ministry of Health,

d) PS of the National Treasury,

e) Principal, College of health sciences, University of Nairobi,

f) Principal, KMTC

g) Not more than 5 members appointed by Minister of Health.

The appointment of any person to the Board is out of control of the hospital management.

| | |
|---|---|
| **Focal person:** | Mr. Calvin Nyachoti – Deputy Director, Corporation Secretary |
| **Status:** | Unresolved |
| **Time frame:** | 30th June 2018 |

**CHAIRMAN**

Date 22/03/2018

**pp CHIEF EXECUTIVE OFFICER**

Date 22/03/2018

# APPENDIX 1: PROJECTS IMPLEMENTED BY KENYATTA NATIONAL HOSPITAL

**Table 9: Projects implemented funded by development partners**

| | Project title | Donor | Period/ duration | Donor commitment | Separate donor reporting required as per the donor agreement (Yes/No) | Consolidated in these financial statements (Yes/No) |
|---|---|---|---|---|---|---|
| 1. | Construction and equipping of Surgical Day Care Center | Naushad and Zarina Mehrali | 2016-2017 | 100M | Yes | Yes (under work in progress) |
| 2. | Burns Management Centre and Pediatric Emergency Centre (BADEA) | BADEA, OFID, Saudi Fund for Development | 2013 | | Yes | No |
| 3. | The East African Kidney Institute | ADB | 2016 | | Yes | No |

**Table 10: Status of Projects completion**

| No. | Project | Total project Cost | Total expended to date | Completion % to date | Budget | Actual per quarter | Sources |
|---|---|---|---|---|---|---|---|
| 1. | Construction and Equipping of Cancer Center | 350M | 300M | 98% | 300M | 350M | GoK |
| 2. | Construction and Equippin Care Center g of Surgical Day | 210M | 120M | 70% | 210M | | Merali/KNH |
| 3. | Upgrade of KNH's Renal Unit | 200M | - | Design stage complete | 200M | - | GoK |
| 4. | Burns Management Centre and Pediatric Emergency Centre (BADEA). | 2.7B | Design stage complete | | | - | Development partner |
| 5. | Construction of 300-Bed Hospital | 3B | | Tender evaluation complete | | | PPP |

| No. | Project | Total project Cost | Total expended to date | Completion % to date | Budget | Actual per quarter | Sources |
|---|---|---|---|---|---|---|---|
| 6. | Construction of an Accommodation, Training & Shopping Complex | 5B | | Concept note developed | | | PPP |
| 7. | Micro-wave for processing Waste Treatment | 19M | | Tender evaluation | 15M | | KNH |
| 8. | The East African Kidney Institute | 2B | | Design | | | ADB |

# APPENDIX 2: TRANSFERS FROM THE MINISTRY OF HEALTH FY 2016/17 KENYATTA NATIONAL HOSPITAL

Recurrent Grants Bank Statement Date

| Bank Statement Date | Amount (Kshs.) | FY to which the amounts relate |
|---|---|---|
| 9-Aug-16 | 555,121,795.10 | 2016/2017 |
| 5-Sep-16 | 555,121,795.10 | 2016/2017 |
| 21-Oct-16 | 520,121,795.10 | 2016/2017 |
| 21-Nov-16 | 555,121,795.10 | 2016/2017 |
| 16-Dec-16 | 35,000,000.00 | 2016/2017 |
| 21-Dec-16 | 555,121,795.10 | 2016/2017 |
| 8-Feb-17 | 555,121,795.10 | 2016/2017 |
| 15-Mar-17 | 555,121,795.10 | 2016/2017 |
| 15-Mar-17 | 555,121,795.10 | 2016/2017 |
| 24-Apr-17 | 120,000,000.00 | 2016/2017 |
| 3-May-17 | 555,121,795.10 | 2016/2017 |
| 3-May-17 | 555,121,795.10 | 2016/2017 |
| 13-Jun-17 | 555,121,795.10 | 2016/2017 |
| 29-Jun-17 | 555,121,795.10 | 2016/2017 |
| 4-Jul-17 | 301,368,000.00 | 2016/2017 |
| Total | 7,082,829,541.20 | |
| Capital Grants | | |
| 4-Jul-17 | 343,000,000.00 | 2016/17 |

The amount received from the Ministry of Health during FY 2016/17 was KShs. 6,781,462. Recurrent grant of KShs. 301, 368, 000 and capital grant of Kshs. 343, 000, 000 were not received by 30th June 2017 and the same has been accrued as receivable.

(See note 26)

# Additional information

## Nursing School

### Courses offered

Post Basic Diploma in Specialized Nursing

1. Critical Care Nursing
2. Peri-operative Nursing
3. Nephrology Nursing
4. Accident & Emergency Nursing
5. Neonatal Nursing

*(All courses are approved by Nursing Council of Kenya)*

**Admission Requirements**

- KRN/M, KRCHN, BScN
- Two years working experience
- KCSE C-
- NCK Registration Certificate
- Valid NCK practice license

### Nursing School Calendar

April intake - Nephrology and Accident & Emergency

- Applications by 31st December each year
- Commencement by 3rd Monday of April

September Intake - Critical Care, Peri-opertive and Neonatal

- Applications by 31st May each year
- Commencement by 1st Monday of September

*Fees Payment*

*Tuition fee Kshs. 232,000 (Exclusive of accommodation, meals and NCK fee)*

## NHIF Benefit Package

All NHIF members and their declared dependants can now access the following services in the Hospital and NHIF will pay for thier medical bills subject to the following limits;

| DETAIL | RATE (KSHS) | NATURE OF BENEFIT |
|---|---|---|
| Inpatient | 4,000 per day | Comprehensive |
| Caesarian Section | 30,000 | Comprehensive |
| Normal Delivery | 10,000 | Comprehensive |
| Chemotherapy & | Full cost per session | Pre-authorization required |
| Radiotherapy | | |
| RT Planning | 8,000 | Co-payment/ pre-authorization required |
| Renal Transplant | 500,000 | Co-payment/ pre-authorization required |
| Dialysis | 9,500 - per session | Up to two sessions per week |
| MRI | 15,000 | Co-payment/ pre-authorization required |
| CT Scan | 8,000 | Co-payment/ pre-authorization required |
| Surgical package<br>• Minor surgery<br>• Major Surgery | <br>40000<br>130,000 | Co-payment/ pre-authorization required |