



KENYATTA NATIONAL HOSPITAL

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2016

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

Kenyatta National Hospital Strategy House

Paper laid on the
Table of the House
by the Leader of
the Majority
Party on

Wednesday

13th Sept 2017

(Afternoon)

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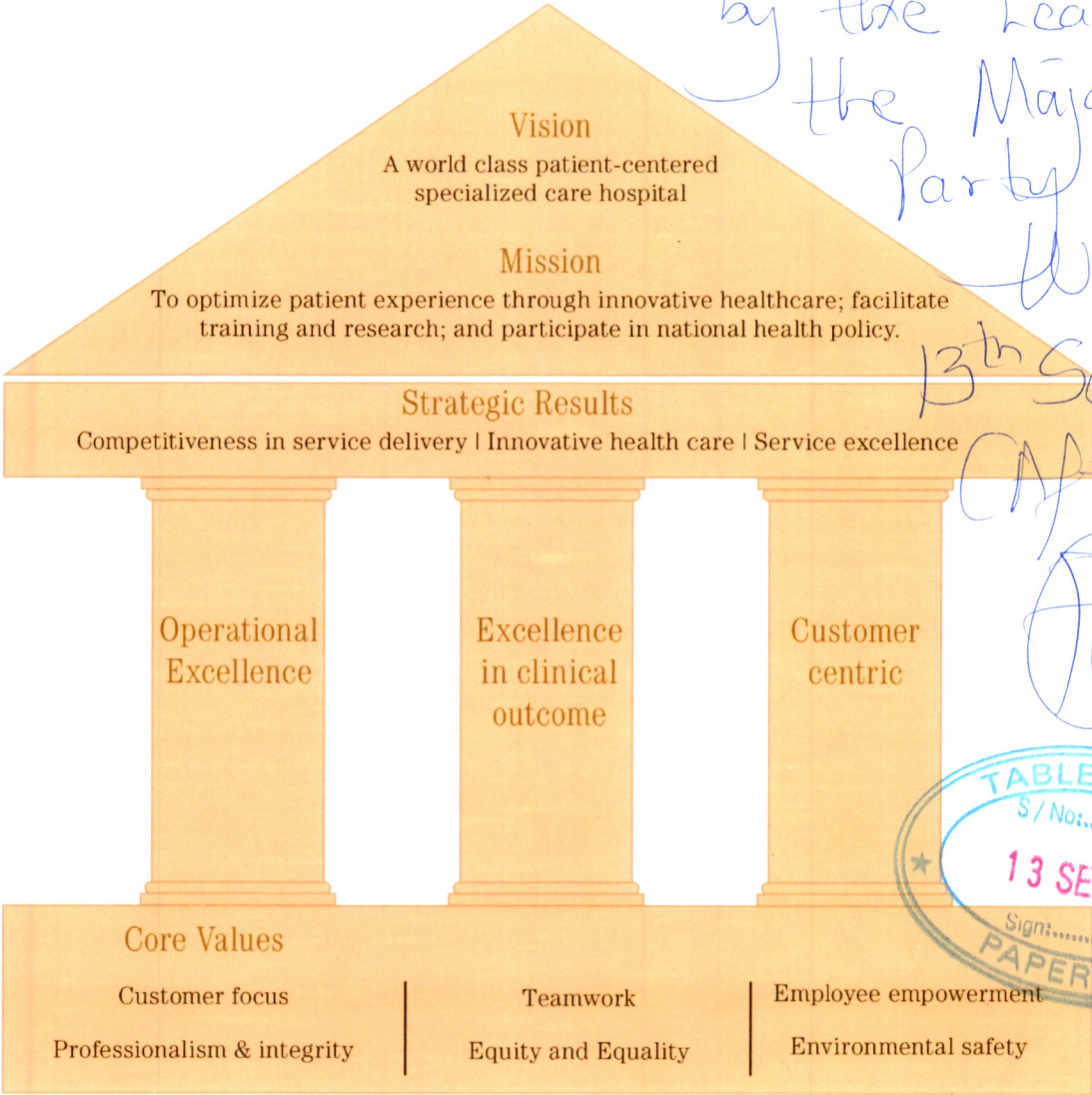


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Motto

We Listen, We Care.

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I Key Kenyatta National Hospital Information

a) Background information

Kenyatta National Hospital (KNH) was established in 1901 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. At cabinet level, KNH is represented by the Cabinet Secretary for Health who is responsible for the general policy and strategic direction of the Hospital.

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
- Chief Executive Officer
- Executive Management Committee
- Clinical Committee
- Finance and Administration Committee

d) Fiduciary Management

The key management personnel who held office during the financial year ended June 30, 2016 and who had direct fiduciary responsibility are as shown on page 9-12.

e) Fiduciary Oversight Arrangements

- Clinical Research and Ethics Committee
- Human Capital, Finance and Administration Committee
- Corporate Strategy and Enterprise Committee
- Risk and Audit Committee

f) Kenyatta National Hospital Headquarters

P. O. Box 20723 – 00202,

Hospital Road, off Ngong Road,

NAIROBI, KENYA

g) Contacts

Tel: +254 20 2726300, +254 20 2726550

Fax: +254 20 2725272

Email address: knhadmin@knh.or.ke

Web site: 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

II The Board of Management



Mr. Mark Kipkemai Arap Bor
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 masters of Arts degree in Government and a Bachelor of Arts Degree in Government.



Dr Kamau Thugge
Principal Secretary; National Treasury

Born 1957, Dr. Thugge is the Principal Secretary at the National Treasury. He previously worked in the Ministry of Finance as Head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor.

Prior to joining the Ministry of Finance, he worked with the International Monetary Fund (IMF) as Economist, Senior Economist and Deputy Division Chief.

Dr. Thugge holds a Bachelor of Arts (Economics) degree; Master's degree in Economics; and a Doctor of Philosophy (PhD) degree in Economics.



Dr. Nicholas Muraguri, OGW
Principal Secretary Ministry of Health

Dr. Muraguri is the Principal Secretary at the Ministry of Health. He previously worked in the Ministry of Health as Director of Medical Services. Prior to joining the Ministry of Health, he worked as Executive Director for the Joint United Nations Program on HIV; Director for National AIDS and STI Control Program, Director Division of Health Promotion-MoH; and Medical Officer at the District and Provincial levels in the Eastern region.

Dr. Muraguri holds a Bachelor of Medicine and Bachelor of surgery degree; Master in Public Health; Global Executive Masters of Business Administration and a postgraduate certificate in Applied Epidemiology.

II The Board of Management



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). 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.

II The Board of Management



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. Benn Shabaya Khadiagala
Alternate to Principal Secretary, Ministry of Health

Born 1957, Mr. Khadiagala is the Senior Chief Finance Officer at the Ministry of Health (MoH). Prior to joining MoH, he worked as the Chief Finance Officer, Ministries of Energy and Foreign Affairs; Deputy Chief Finance Officer at the Ministry of Transport; Senior Assistant Secretary at Ministry of Information, Transport & Communication; and District Officer, Office of the President.

He holds a Masters in Business Administration, Bachelor of Arts, and Diploma in Financial Management.

II The Board of Management



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. 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 Ag Secretary/CEO at the Commission for Implementation of the Constitution, 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 Corporation Secretary and Senior Assistant Director, Legal Services 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 (CI Arb) and a Certified Public Secretary-CPS (K).

III Management Team

Lily Koros Tare
Chief Executive Officer

- Executive Masters in Business Administration (Finance)
- Masters in Business Administration in Healthcare Management
- Bachelor of Commerce (Administration)
- Post graduate diploma in International leadership in Hospital Management



Mr. Carylus Odiango
Director, Corporate Services

- Masters in Business Administration (Strategic Management)
- Executive Masters in Business Administration (Leadership and International Business Development)
 - Certified Public Accountant-CPA (K)
 - Certified Public Secretary-CPS (K)
 - Bachelor of Commerce (Accounting)



Dr. Bernard Githae
Director, Clinical Services

- Masters of Medicine (Surgery)
- Bachelor of Medicine and Surgery (MBChB)



Dr. Henry Kioko
Director, Prime Care Centre

- Masters of Medicine (Internal Medicine)
- Bachelor of Medicine and Surgery (MBChB)
- Master of Science (Gastroenterology)
- Certificate in Tropical Medicine



III Management Team



Mr. Calvin Nyachoti
Deputy Director, Corporation Secretary

- Masters in Law (International Environmental law)
- Masters in Business Administration (Strategic Management)
 - Bachelor of Law
 - Post Graduate Diploma in law
- Fellow of the Chartered Institute of Arbitrators (CLArb)
- Certified Public Secretary -CPS(K)



Mrs. Philomena Maina
Deputy Director, Nursing Services

- Bachelor of Science in Nursing
- Diploma in Advanced Nursing
- Kenya Registered Midwifery
 - Kenya Registered Nurse
- Diploma in Public Health



Mrs. Joyce K. Ongayo
Ag. Senior Assistant Director, Human Resource & Administration

- Masters in Business Administration, Human Resource
 - Bachelor Of Arts
- Certified Public Secretary-CPS(K)
- Advanced Training In Personnel Management



Mr. Michael Kihuga
Deputy Director, Finance

- Executive Masters in Business Administration (Finance)
 - Bachelor of Education
- Certified Public Accountant-CPA (K)
- Certified Public Secretary-CPS (K)



Mr. Job Makanga
Deputy Director, Planning and Strategy

- Executive Masters in Business Administration (Strategic Management)
- Bachelor of Science (Hospitality & Institutional Management)

III Management Team



Dr. John Ong'ech
Deputy Director Surgical Services

- Master in Public Health-International Health
 - Master of Medicine in Obstetrics and Gynaecology
- Bachelor of Medicine and Surgery (MBChB)
- Certificate in International Research, leadership and management.



Eng. Richard Binga
Deputy Director, Facilities and Services

- Bachelor of Science In Mechanical Engineering
- Diploma In Project Planning & Management
 - Certified Energy Manager (AEE)
- Certified Measurement & Verification Professional (CMVP)



Dr. Elizabeth Odera
Deputy Director, Diagnostic Services & Health Information

- Masters of Medicine (Pathology)
- Bachelor of Medicine and Surgery (MBChB)
- Post Graduate Diploma in Endocrinology



Dr. Thomas Mutie
Deputy Director, Medical Services

- Masters of Science (Gastroenterology)
- Masters of Medicine (Internal Medicine)
- Bachelor of Medicine and Surgery (MBChB)
 - Certificate in Tropical Medicine

III Management Team



Dr. Godfrey Ombuya
Deputy Director, Pharmaceutical Services

- Bachelor of Pharmacy



Mrs. Rose K. Mugambi
Deputy Director, Supply Chain Management

- Masters in Business Administration (Strategic Management)
- Bachelor of Science in Zoology and Botany
- Graduate diploma in Purchasing and Supplies



Mr. Erick O. Otieno
Deputy Director, Internal Audit and Risk

- Masters in Business Administration (Corporate Management)
- Bachelor of Commerce (Accounting)
- Certified Public Accountant-CPA (K)
- Certified Public Secretary CPS (K)



Dr. Evanson Kamuri
Deputy Director, Affiliations and Institutional Development

- Master of Science (Clinical Dermatology)
- Master in Business Administration (Strategic Management)
- Bachelor of Medicine and Surgery (MBChB)

IV Chairman of the Board Statement

This year Kenyatta National Hospital (KNH) remained steadfast in all our healthcare initiatives and extremely positive and confident about the future of this great Hospital. The Board, Management and staff are conscious of the huge responsibilities, not just to our patients but also to their relatives, patients from the region and our stakeholders.

The Hospital achieved great milestones during the year ending 30, June 2016 despite a significant rise in demand for our services and increased cost of medical equipment and consumables.

During the past year, the Board focused on strengthening corporate governance and internal processes in order to establish a strong foundation of trust and transparency within and without. This has not only enhanced public confidence on our services through reengineering and expansion of our healthcare services.

Referrals cases to KNH increased by 0.7% compared to last year which represents an additional 3,937 patients. We also carried out over 2,500 planned surgery procedures. There was a 3.7% overall increase in the number of outpatients in our clinics while the number of outpatients undergoing renal dialysis increased by 18.2%.

Not only did we treat more inpatient and outpatients, but we also saw a significant rise in the number of emergency admissions. This inevitably increased pressure on available resources across the Hospital, but we were happy to achieve set targets within the standards required.

Healthcare Service Diversification

KNH has remained focused on expansion of operations in order to meet the increasing demand, encompass various population segment needs and attract medical tourism.

The KNH Prime Care Centre (KPCC) has continued to attract patients from both middle and upper class Kenyans and patients from the region. The centre established customer care friendly systems thus reducing patient turnaround time at the Outpatient services. In order to ensure competitiveness of the facility, KPCC adopted a go-to-market review of the customer feedback, media analysis and stakeholders engagement. As a result, a client portfolio marketing approach was introduced to the healthcare services at the facility. Furthermore, KPCC was rebranded and staff trained on customer care to enhance and support the development of client-centric initiatives. The introduction of healthcare packages for our post-paid corporate clients has proved to be attractive to the clients.

Over the year, we have focused on the main driver in our care which is to ensure our patients receive safe and high quality care. The quality monitoring on our performance is continually assessed through regular quality audits, sharing of findings and initiating corrective actions. One of the most important monitoring indicators is mortality rates, which remained consistently low. Similarly, creating a clean and welcoming environment for our patients, visitors and staff is one of the deliberate decisions we have endeared. Post-operative infections and hospital acquired infections also remained well managed. This reaffirms our staff commitment to maintain a clean and infection free environment.

In an effort to enhance efficiency in service delivery, the Hospital has maintained an effective referral office to receive advance information and institute prior planning before referral patients get to Accident and Emergency. The office has enhanced clinical care for emergency referral cases as well as improved relations with referring hospitals. In addition, the Board has revitalized diagnosis services by procuring new equipment and encouraging equipment placement to complement the budget. This has improved diagnostic services and reduced patients waiting time. We are never complacent about this and hence continue to seek ways to further improve our performances.

Priority and Sustainability

In order to maintain improvement in healthcare and give value-for-money to Kenyans, the cornerstone of our business approach remains vigilantly focused on our stated priorities. This strategy has helped and guided us through the turbulent and ever-changing environment.

Customers are our most important asset and as stated in our motto “We Listen, We Care”, it was particularly pleasing that customer satisfaction survey 2015/16 showed that the majority of our patients and staff would recommend KNH as a place to receive care or to work. We are keen to receive customers’ feedback and identify opportunities to improve healthcare services.

It is pleasing to note that during the period, our staff received several recognition awards for exemplary nursing care, innovation and safety awards.

Research and Innovation

KNH believes in providing healthcare services based on informed decisions founded on research and innovation. We established a vibrant research department and a research policy to ensure our medical services are supported by informed findings. In collaboration with the joint KNH/UON Research and Ethics Team, over fifty research proposals were undertaken and we held ten joint medical scientific conferences and research symposiums. These have nurtured a culture of internal engagement not only in research but also empowered staff to identify solutions to solve healthcare challenges.

Research and dissemination have not only helped build capacity in clinical practice and innovation, but has also helped identify a number of new treatments and procedures which have been adopted. Accident and Emergency is one such area where we have reorganized patients’ flow using Lean Six Sigma medical practice. The procedure has enhanced patients flow and reduced patient turnaround time. Similarly, the introduction of Lamaze training for expectant mothers has not only enhanced mothers confidence in our maternity services but has also increased preference for normal delivery.

Research office has further helped to create linkages for research partnership, collaboration and opportunities for research funding. These engagements have further helped young researchers to acquire skills such as grants and intellectual property management as well as develop research agreements.

Expansion of Facilities

The most significant investment during 2015/16 was expansion of cancer center to meet the increasing demand and reduce patient waiting time. Cancer patients are currently receiving treatment using Linear Accelerator which the Government of Kenya funded the procurement of the machine and expansion of the facility.

The period 2015/16, we invested in refurbishing of Prime Care Centre to hype our commitment to address the increasing demand from corporate clientele for private specialized healthcare. We further revamped Corporate Outpatients to give our clients a one stop outpatient’s service. Leasing of diagnostic equipment in the laboratory has reduced the waiting time and increased patients turnover by ten percent. We renovated and equipped cardiac catheterization laboratory to spur the development of cardiac units to provide uninterrupted service to the patients suffering from heart diseases. The establishment of Ebola facility is a deliberate initiative that guarantees safe handling of infectious diseases especially hemorrhagic fevers. The facility is not only equipped with appropriate preventive gears to handle infectious diseases but is also manned by a highly skilled team who successfully participated in the control of Ebola in Western Africa.

While automation is a long journey and requires adequate funding, we adopted ICT implementation program in phases to cope with the limited resources. The model has enabled us to automate most of the nursing, outpatients and billing services. We are now focused to ensure the system is efficient and include

other service areas. Indeed we don't want to just automate, we want to transform our organization into one which has cutting edge IT systems to support the transformation, provide high quality, safe and responsive care to our patients now and in the coming years.

I am confident that we will overcome the challenges as we focus on our vision which is a world class patients-centered care hospital and a renowned health provider in Kenya.

Our key asset remains our staff. Their dedication and commitment is a source of great strength for KNH, for which I thank them. During 2015/16, the Board oversaw improvement of staff welfare to ensure employees who work in our hospitals give in their full potential in shaping how we deliver care.

It is our commitment to involve every staff in making decisions to improve or change the way we deliver services to patients. The introduction of quarterly staff open forums has promoted positive staff relations and teamwork.

I deeply appreciate the continued patronage of our customers and the unwavering confidence and trust placed in us by our valued shareholders.

Appreciation

Our success and many other achievements would not have been possible without the hard work and dedication of the Board of Directors. We are very fortunate to be supported by a strong group of hard-working Members of the Board of Directors. I take great pride in their huge contribution to KNH as they deliver exemplary policy guidance each day. On behalf of the Board, I would like to recognize the efforts of management and each of the partners and stakeholders. Thank you for the determination and spirit of excellence.

We are here to improve health and wellbeing of Kenyans, keep them mentally and physically well, to dedicate our efforts and skills when they are ill and when they cannot fully recover, we support them to the end of their lives.

Mr. Mark Bor

Chairman of the Board

Sign  Date 10/02/2017

V Report of the Chief Executive Officer

I warmly present to you the Annual Report for the financial year 2015/16 that outlines our journey of transformation. The ideals by which KNH was first established have remained unchanged in over a century. However the Hospital remains a centre of excellence in high technology diagnostic and curative facility that has continued to attract patients beyond our borders. The overwhelming response we received from the people demonstrated a long felt need for superior healthcare in a pleasant environment. Pursuing unsurpassed excellence in every aspect – quality, patient satisfaction, infrastructure, safety and more, we provided access to specialized surgeries, treatment technologies and expert medical care.

It was an exciting year where we had the privilege of engaging with patients, internal and external stakeholders whose insights helped inform our priorities and strategic directions.

Our unwavering commitment to serving our people is reflected through provision of a clean and welcoming environment for our patients, visitors and staff which represent a sign of a high level of attention to detail on our care. The aspiration to be ‘The Hospital of Tomorrow’ enables us to provide the most modern cutting edge treatments which go beyond advanced care.

It was particularly rewarding to see our efforts acknowledged by patients, Government, partners, stakeholders and specifically by Kenya Bureau of Standards that recertified KNH for sustainable maintenance of excellent quality Management System. In order to retain and keep up to the challenges, the Hospital has continued to implement 5S KAIZEN to improve internal processes and systems through regular staff training, benchmarking and adoption of health quality management models with sustainable benefits.

We do not take our legacy of over 100 years of healthcare service for granted, but we work hard to safeguard and sustain our good service to the next level as a model of healthcare for the future. The need to modernize and upgrade our customer care experience remains our top priority. We have maintained responsive customer care and patients affairs services to improve on customer feedback and address their concerns. Much of what we accomplished last year came as a result of timely feedback received from our patients. The patients’ voice has never been stronger as we introduced more ways for patients to talk to us. Our goal is not just to meet, but to exceed patients’ expectations as they experience care within KNH.

We have continued to implement our five-year Strategic Plan and together with the annual performance contract, we are poised to work differently to help ensure Kenyans and patients from the region have access to the health services they need when and where they need them most.

Realizing that our patient needs are diverse and require a portfolio of skills, the management has invested heavily on equipment and human capital. Over KES 170 million was therefore spent on training of staff across the disciplines to enrich the hospital pool with emerging skills and knowledge. Over 3,000 staff were trained in various areas and operational structures. We have no doubt that this will go a long way to serve the emerging healthcare needs of Kenyans.

Furthermore, we have hired over 130 additional staff to help energize KNH transformation agenda in healthcare today and preparing for the future. In addition, we have continued to facilitate training for post diploma courses on specialized nursing for both our staff and nurses from the East Africa Region. This facility graduated 300 specialized nurses on nephrology, neonatal care, ICU, theatre and Accident and Emergency during the period.

The expansion of Critical Care Unit from twenty one beds to current forty five beds demonstrates our commitment towards advanced health care services. The new facilities have enabled us to provide a high level of comprehensive care. We also know that addressing children's health challenges today will contribute to a healthier society tomorrow. It is in this view that we focused on expansion of neonatal services where we created a Newborn Intensive Care Unit to ensure preterm babies get a chance to benefit from specialized care.

KNH will continue to automate our services with a view to enhance efficiency and accountability. The hospital's ICT network has grown from 1,000 users in 2013 to the current 4,000 (over 80% increases) with staff access to computer ratio improving from 1:10 to 1:5.

Partnerships

The financial year 2015/16 witnessed an increased demand for specialized healthcare that necessitated us to explore new frontiers for partnerships to attract resources to complement our finances and facility. These partnerships have helped to share resources through mentorships and collaborations. The engagement with Old Mutual foundation supported the renovation of Accident and Emergency at a cost of over KES 18M. Dalbit Petroleum donated over KES 10 M to renovate one of the children wards while Bayer Healthcare supported the public hands washing facility.

The Jews Community through the Israel Embassy renovated the children cancer ward at over KES 3M while Family Bank established a playground for cancer children at a cost of over KES 4M. Others partners included Jubilee insurance and Kenya Power Pension Funds. The list is long from individuals, churches, Non-Governmental organization and corporate institutions that contributed cash and in kind amount to KES 48 million. These are many friends who have selflessly committed resources to transform life of the patients.

In an effort to strengthen the referral system, we have held fruitful discussions with county hospitals that have seen a reduction on non-deserving patients been refereed to KNH. We will continue to build these relations to develop innovative initiatives to ensure that all players in the health sector comply with referral guidelines.

Countering Fraud and Corruption

The management and staff remain committed to maintaining a honest and open atmosphere within KNH and ensuring unethical practices have been identified and rigorously investigated. The Corruption Prevention Committee (CPC) receives and assesses quarterly reports from the secretariat on public feedback presented directly or received from the suggestion boxes or from the email portal. These initiatives are also supported by departmental Integrity Assurance Officers (IAO) who are instrumental in creating an anti-fraud culture within KNH.

Salutation

We are very proud of our staff and volunteers for contributing to the tremendous achievements and for the excellent quality of care provided to patients. We are also very grateful for the support we have received from friends; individuals, organization and corporate institutions which have indeed insulated our resource gaps and given us synergies to render the most needed specialized healthcare.

I am proud to lead a family that is focused to rise to that challenge and deliver the best possible clinical outcomes, provide a high standard of customer services through excellent research, innovation and teaching.

Powered by our Vision – Patient-inspired healthcare without boundaries – we look forward to continuing the dialogue with patients and families to help shape the services we provide. We aim to work at the limits of science - bringing the highest levels of human knowledge and skill to save lives and improve health.

Lily Koros Tare

Chief Executive Officer

Sign

A handwritten signature in black ink, appearing to read 'Lily Koros Tare', written over a horizontal line.

Date 10-02-2017

VI Corporate Governance Statement

The Kenyatta National Hospital Board of Management recognizes the importance of corporate governance and as such it carries out its mandate with honesty, openness and integrity.

The Board is responsible for the corporate governance of the Hospital and is accountable to the Government for ensuring that the Hospital complies with the laws and the highest ethical standards and personal and corporate integrity.

Corporate Governance Structure and Internal Controls

Board of Management

The Board comprises eleven (11) Directors, six (6) of whom are non-executive directors including the Chairman, four (4) Directors are institutional representatives bringing on board closely-knit interests, experiences and balance from and by key Hospital stakeholders and the remaining director is the Chief Executive Officer of the Hospital.

The Board defines the Hospital's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The directors bring a wealth of experience and knowledge to the Board's deliberations.

The Board has delegated authority for conduct of the day-to-day operations to the Chief Executive Officer. The Board nonetheless retains its responsibility for the overall stewardship of the Hospital and assumes responsibility for effective direction and control.

Board Meetings

The Board schedule of meetings is prepared annually in advance. The Board meets at least four (4) times for scheduled meetings and other occasions as may be necessary

Committees of the Board

The Board has four standing committees, which meet quarterly under the terms of reference set by the Board. The various Committees, their Terms of Reference and the meetings held in the year are as below: -

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 meeting in year under review.

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.

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 forge partnerships/linkages; reviews, assesses and advises of the Hospital 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.

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.

Board Accountability

Performance Contract

The Board annually signs a performance contract with the Government as well as setting Corporate Performance Strategies with Management and continues to perform an annual self-evaluation exercise to review and audit its role and success or otherwise to meet the challenges envisaged at the beginning of each year.

Training And Development

The Hospital recognizes the importance of having a well informed and fully empowered Board and Management. In this regard, relevant training and capacity development opportunities are organized to equip Directors and staff with skills and knowledge necessary to effectively perform their responsibilities

Conflict of Interest

The Directors are required to make written disclosures of any transaction in which they have interest and which would constitute a conflict of interest and abstain from voting when such matters are being considered.

Directors Emoluments

The Directors are entitled to a sitting and other allowances (where applicable) for every meeting attended, within the set Government guidelines. The aggregate amount of emoluments paid to the Directors during the financial year for services rendered are disclosed under note 14 to the Financial Statements.

Code of Ethics

The Hospital is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders. A formal code of ethics has been approved by the Board and is fully implemented to guide management, employees and stakeholders on acceptable behaviour in conducting business. All employees of the Hospital are expected to avoid activities and financial interests that could clash with their responsibilities to the Hospital.

Lily Koros Tare

Secretary to the Board

Sign



Date 10-02-2017

VII Corporate Social Responsibility Statement

As a responsible corporate citizen, our strategies are aligned with sustainable business practices that balance the needs and aspirations of a multitude of stakeholders. Even as change and challenge bring opportunity, KNH remains well positioned to succeed far into the future.

During 2015/16 we maintained and set aside resources to expand our healthcare services beyond the confines of work station to the local communities as medical outreaches where we attended to patients outside the hospital environment. This underlines the importance of our role as a provider of public healthcare services in Kenya. We continue to work closely with various partners to reach epicenters of most of our patients including counties, slum areas and institutions of learning. Our Corporate Citizenship has not only attracted public goodwill but has also help voluntary teams to move towards more integrated healthcare delivery and significantly create awareness on helped diagnose diseases early. These initiatives have also helped promote community-based healthcare individuals to look after the patients beyond clinical care and thus helped improve the quality of life for patients who might otherwise have been admitted to the hospital or ended up in long term care.

During the year, the hospital held three major outreaches where over 1000 members of the public were sensitized on cancer to enhance awareness, early detection to both better health outcomes and savings in treatment costs.

The profound social challenge among women associated with fistula is at the heart of the reproductive health specialists. The pain and loneliness associated with fistula is what our specialists are focused to eliminate through free fistula camps where more than 2000 women were screened and 1500 received surgery to stop leaking urine and or stool.

During times of challenges, it is more important than ever to have strong partnerships to ensure we continue to explore opportunities to work with others to improve care for our patients and optimize best value for money. It is through these initiatives that Novartis pharma services in collaboration with Ministry of Health launched a programme “Novartis Access” to subsidize the cost of drugs for non-communicable diseases (NCDs). KNH further organized a free screening for diabetes and cancer through Merck Healthcare Campaign Project that saw over 1500 members of the public screened and the sick treated.

Lily Koros Tare

Chief Executive Officer

Sign  Date 10-02-2017

VIII Report of the Board of Management

The Directors submit their report together with the audited financial statements for the year ended 30th June 2016 which show the state of the Hospital affairs.

Principal activities

Receiving of patients on referral; facilitate medical education and participate as a national referral hospital in national health planning.

Results

The financial results of the Hospital for the year ended June 30, 2016 are set out on from page 30

Board of Management

The members of the board of management who served during the year are shown on page 5 - 8.

Auditors

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

By Order of the Board

Lily Koros Tare

Secretary to the Board

Sign



Date 10-02-2017

IX 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.

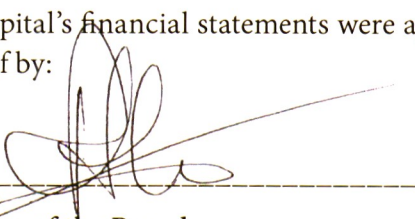
The Board is responsible for the preparation and presentation of the Hospital's financial statements, which give a true and fair view of the state of affairs of the Hospital for and as at the end of the financial year ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial 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 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, 2016, 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.

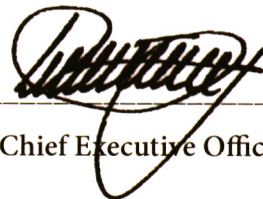
Nothing has come to the attention of the Board to indicate that the Hospital will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Hospital's financial statements were approved by the Board on 15th September, 2016 and signed on its behalf by:



Chairman of the Board



Chief Executive Officer

X Report of the Auditor-General on Kenyatta National Hospital

Telephone: +254-20-342330
 Fax: +254 - 20 - 314482
 E-mail: oag@oagkenya.go.ke
 Website: www.kenao.go.ke

REPUBLIC OF KENYA

P. O . Box 30084 - 00100
 NAIROBI



REPORT OF THE AUDITOR GENERAL ON KENYATTA NATIONAL HOSPITAL FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenyatta National Hospital set out on pages 30 to 70, which comprise the statement of financial position as at 30 June 2016, 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.

Management's Responsibility 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

1. Receivables from Exchange Transactions

- 1.1 As similarly reported in the year 2014/2015, the receivables from exchange transactions balance of Kshs.1,093,208,000 as at 30 June 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.
- 1.2 Further, receivables from exchange transaction 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 30 June 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.
- 1.3 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 30 June 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.
- 1.4 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.
- 1.5 The receivables from exchange transaction balance of Kshs.1,093,208,000 included in the statement of financial position as at 30 June, 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.
- 1.6 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.

Consequently, the validity and accuracy of the receivables from exchange transactions balance of Kshs.1,093,208,000 as at 30 June 2016 cannot be confirmed.

2.0 Receivables from Non-exchange Transactions

The receivables from non-exchange transactions balance of Kshs.134,933,000 as at 30 June 2016 includes staff receivables of Kshs.21,333,000 out of which temporary imprests 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.

Consequently, the validity and accuracy of the receivables from Non-exchange transaction balance of Kshs.134,933,000 as at 30 June 2016 cannot be confirmed.

3.0 Property, Plant and Equipment

3.1 Parcels of Land

As similarly reported in 2014/2015, the property, plant and equipment balance of Kshs.11,597,155,000 as at 30 June 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
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-209/13319	Upper hill	0.0217	1,600,000
Total		0.7847	50,600,000

Further, the property, plant and equipment balance of Kshs.11,597,155,000 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
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	329,000,000		

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.

3.2 Hospital Management Information Systems

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.

3.3 Refurbishment of Private Wing

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 30 June, 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 Ksh.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.

3.4 Provision of Hot Water Systems

The property, plant and equipment balance of Kshs.11,597,155.00 also includes capital work-in-progress valued at Kshs.40,211,000 out of which Kshs.6,383,748 relates to payment made on 30 June, 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 30 June 2016 is fairly stated.

4. Employees Costs

The statement of financial performance for the year ended 30 June 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 30 June, 2016 is fairly stated.

5. Administrative and General Expenses

Included in the statement of financial performance for the year ended 30 June 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 30 June 2016 cannot be ascertained.

6. Medical Service Contract Loss

- 6.1 Included in the statement of financial performance for the year ended 30 June 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 Ksh 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.
- 6.2 Further, included in the statement of financial performance for the year ended 30 June 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.

7. Borrowings

As previously reported, the borrowings balance of Kshs.1,199,863,000 reflected in the statement of financial position as at 30 June 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 30 June 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 30 June, 2016 and that the balance of Kshs.1,199,863,000 is fairly stated as at the same date.

8. Security Investigation Expenses

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 30 June 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 30 June 2016, could not be confirmed.

9. Trade and Other Payables from Exchange Transactions

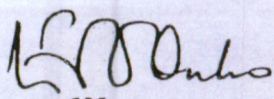
As similarly reported in 2014/2015, the trade and other payables from exchange transactions balance totaling of Kshs.711,405,000 includes long outstanding accounts payable balance of Kshs.65,799,329. No explanation has been provided for failing to clear these long outstanding account payables.

10. Board Members

The statement of financial performance reflect Board expenses totaling to kshs.14,877, 000 as at 30 June 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.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenyatta National Hospital as at 30 June 2016, 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.



FCPA Edward R. O. Ouko, CBS

AUDITOR-GENERAL

Nairobi

14 March 2017

XI Statement of Financial Performance for the Year Ended June 30, 2016

		2016	Restated 2015
	Note	Kshs. '000	Kshs. '000
Revenue from Non-Exchange Transactions			
Grants from National Government	5	6,667,179	6,629,033
Grants for Donor Funded Projects	6	150,995	163,065
Public Contributions & Donations	7	3,060	1,762 (R)
		6,821,234	6,793,859
Revenue from Exchange Transactions			
Rendering of Services	8	4,559,746	4,354,046 (R)
Sale of Goods	9	1,044	3,479 (R)
Rental Revenue from Facilities	10	129,826	129,351 (R)
Finance Income - External Investments	11	180,411	168,907
		4,871,027	4,655,783
Total Revenue		11,692,261	11,449,642
Expenses			
Clinical Cost	12	1,835,030	1,650,181 (R)
Employee Costs	13	7,698,143	7,245,531 (R)
Board Expenses	14	14,877	11,038
Depreciation and Amortization	15	439,570	444,501
Repairs and Maintenance	16	220,676	184,863 (R)
Administrative and General Expenses	17	525,633	512,760 (R)
Donor Funded Projects Expenses	18	150,995	163,065
Total Expenses		10,884,924	10,211,940
Other Gains/(Losses)			
Loss on Sale of Asset	19	(20,432)	(15,440)
Impairment Loss	20	(623,788)	(557,252) (R)
Medical Service Contracts Loss	21	(841,422)	(561,984) (R)
Foreign Exchange Transactions Loss	22	(467)	(362) (R)
		(1,486,109)	(1,135,038)
Surplus/(Deficit) for the Period		(678,772)	102,664 (R)

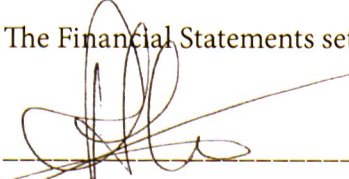
** (R) – Opening balances that have been restated and/or reclassified (See note 35).

The notes set out on page 36 to 60 form an integral part of the Financial Statements

XII Statement of Financial Position as at June 30, 2016

		2016	Restated 2015
	Note	Kshs. '000	Kshs. '000
Assets			
Current Assets			
Cash & Cash Equivalents	23	2,040,604	2,179,223
Receivable from Exchange Transactions	24	1,093,208	1,379,431 (R)
Receivable from Non-Exchange Transaction	25	134,933	15,662 (R)
Inventories	26	388,308	364,644
		3,657,053	3,938,960
Non-Current Assets			
Property, Plant & -Equipment	27	11,597,155	11,735,138
Intangible Assets	28	21,073	1,253
		11,618,228	11,736,391
Total Assets		15,275,281	15,675,351
Liabilities			
Current Liabilities			
Trade and Other Payables from Exchange Transactions	29	711,405	875,325 (R)
Deposits from Customers	30	47,935	63,677 (R)
Provision for Leave Pay	31	125,102	141,369
Deferred Income	32	165,998	97,000 (R)
Employee Benefit Obligations	33	310,830	310,830
		1,361,270	1,488,202
Non-Current Liabilities			
Borrowings	34	1,199,863	1,199,863
Total Liabilities		2,561,133	2,688,065
Net Assets		12,714,148	12,987,287 (R)
Capital Reserves		4,795,028	4,389,395
Accumulated Fund		(1,280,231)	(601,460) (R)
Revaluation Reserve		9,199,351	9,199,351
Total Net Assets and Liabilities		15,275,281	15,675,351

The Financial Statements set out on pages 30 to 70 were signed on behalf of the Board of Directors by:


Chairman of the Board

Date 10-02-2017


Chief Executive Officer

Date 10-02-2017

XIII Statement of Changes in Net Assets for the Year Ended June 30, 2016

	Capital Reserve Ksh.'000	Accumulated Fund Ksh.'000	Revaluation Reserve Ksh.'000	Total Ksh.'000
Balance As At 30Th June 2014	4,111,045	(704,123)	9,199,351	12,606,273
(Deficit)/Surplus for the Year (Restated)		102,664		102,664
Development Grant	278,350			278,350
Balance As At 30Th June 2015	4,389,395	(601,459)	9,199,351	12,987,287
Surplus/(Deficit) for the Period		(678,772)		(678,772)
Development Grant	405,633			405,633
Balance As At 30Th June 2016	4,795,028	(1,280,231)	9,199,351	12,714,148

XIV Statement of Cash flows for the Year Ended June 30, 2016

		2016	Restated 2015
	Note	Ksh.'000	Ksh.'000
Cash Flows from Operating Activities			
Net Surplus/(Deficit) for the Year		(678,772)	102,664
Adjusted For: -			
Depreciation and Amortization	15	439,570	444,501
Work in Progress Expensed	27	910	
Investment Income	11	(180,411)	(168,907)
Donor Funded Projects Grant	6	(150,995)	(163,065)
Profit/(Loss) on Disposal of Fixed Asset	19	20,432	15,440
Operating Surplus / (Deficit) Before Working Capital Changes		(549,266)	230,633
(Increase) / Decrease in Stock		(23,664)	(39,793)
(Increase) / Decrease in Receivables		166,952	147,688
Increase / (Decrease) in Payables		(179,662)	52,054
Increase / (Decrease) in Deferred Income		68,998	25,918
Increase / (Decrease) in Provision for Leave Pay		(16,267)	31,826
Net Cash Outflow from Operating Activities		(532,909)	448,325
Cash Flows From Investing Activities			
Purchase of Property, Plant & Equipment	27	(341,402)	(487,099)
Purchase of Intangible Assets	28	(1,865)	
Proceeds from Sale of Fixed Assets		518	437
Investments Income	11	180,411	168,907
Gok Development Grant		405,633	278,350
Net Cash Outflows from Investing Activities		243,295	(39,405)
Cash Flows from Financing Activities			
Donor Funded Projects Grants	6	150,995	163,065
Net Cash Inflows from Financing Activities		150,995	163,065
(Decrease)/Increase in Cash and Cash Equivalents		(138,619)	571,985
Cash and Cash Equivalents at the Beginning		2,179,223	1,607,239
Cash and Cash Equivalents at the End		2,040,604	2,179,223

XV Statement of Comparison of Budget and Actual Amounts For the Year Ended June 30, 2016

	Original Budget 2016 Kshs. '000	Adjustments 2016 Kshs. '000	Final Budget 2016 Kshs. '000	Actual on Comparable Basis 2016 Kshs. '000	Performance Difference 2016 Kshs. '000	% Variance	Explanation of material variances
Revenue							
Grants from National Government	6,665,062		6,665,062	6,665,062		0%	
Gok Disaster	70,000	(67,883)	2,117	2,117		8%	
Grants for Donor Funded Projects	270,000	(118,887)	151,113	150,995	118		
Public Contributions & Donations				3,060	(3,060)		
Rendering of Services	5,754,096	(861,064)	4,893,032	4,560,791	332,241	7%	
Rental Revenue from Facilities	174,002	(15,949)	158,053	129,826	28,227	18%	(a)
Finance Income - External Investments	112,995	39,042	152,037	180,411	(28,374)	(19%)	(b)
Total Income	13,046,155	(1,024,741)	12,021,414	11,692,262	329,152	3%	
Expenditure							
Clinical Costs	2,437,657	(336,725)	2,100,932	1,835,030	265,902	13%	(c)
Employee Costs	7,834,541	51,141	7,885,682	7,698,143	187,539	2%	
Board Expenses	23,440	(600)	22,840	14,877	7,963	35%	(d)
Depreciation and Amortization	480,000	(80,000)	400,000	439,570	(39,570)	(10%)	
Repairs and Maintenance	878,277	(637,999)	240,278	220,676	19,601	8%	
General Expenses	1,640,228	(1,015,643)	624,585	525,633	98,951	16%	(e)
Donor Funded Projects Expenses	270,000	(118,887)	151,113	150,995	118	0%	
Loss on Sale of Asset				20,432	(20,432)		
Impairment Loss	420,000	175,867	595,867	623,788	(27,920)	(5%)	
Medical Service Contracts Loss				841,422	(841,422)		
Loss on Foreign Exchange				467	(467)		
Total Recurrent Expenditure	13,984,143	(1,962,846)	12,021,296	12,371,034	(349,737)	(3%)	
Surplus/(Deficit) for the Period	(937,988)	938,105	117	(678,772)	678,889		
Capital Budget Funding							
Gok Development/Capital Grant	337,750	74,386	412,136	313,729	(98,407)	(24%)	
Internal Savings							
Total Funding	337,750	74,386	412,136	313,729	(98,407)	(24%)	
Capital Expenditure	337,750	74,386	412,136	313,729	98,407	24%	(f)
Under/(Over) Utilization					98,407		

Budget Verses Actual Explanatory Notes

a) Rental revenue from facilities

The Hospital had anticipated revising and implementing rental charges during the year under review however; this was not accomplished resulting in the 18% unfavorable variance to the budgeted rental income. The implementation of the reviewed rental charges will be done in the FY 2016/2017.

b) Finance income - external investments

The Interest earned during the year from the investments was Kshs.95million while interest on bank deposit was Kshs.84 million. The income was 19% above the budget as the Hospital negotiated for better interest rates during the year.

c) Clinical Costs

The variance of 13% is mainly due to low absorption of the budget lines for surgical consumables, patient's food and pharmacy votes which had to be re-tendered as some of the items were initially awarded to special groups who failed to supply. Orthopedic items were not procured as anticipated as there were challenges with specifications.

d) Board Expenses

Board expenses for the period were below budget by 35% mainly due to the vacancies in the Board of Management.

e) General expenses

The actual general expenses was lower than budget by 16% occasioned by low boiler fuel cost obtained for the period, reduced electricity expenses and an increase in stock holding levels.

f) Capital Budget

The unutilized amount of Kshs. 98,407,054 relates to Capital projects which will be undertaken in the FY 2016/2017. These projects include: Medical equipment which were funded from emergency relief GoK grant (Kshs.67,883,000), Medical equipment for KPCC and General hospital (Kshs.30,524,054).

Notes to Financial Statements (Continued)

1. 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 indirect method. The financial statements are prepared on accrual basis.

2. Summary of significant Accounting Policies

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

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Hospital and can be measured reliably.

Government Grants

Recurrent Grant

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate recurrent expenditure 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 Grant

Government 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 of the non-current asset.

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 labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Notes to Financial Statements (Continued)

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.

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.

Rental income

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

b) Budget information

The annual budget is prepared on the accrual basis, that is, 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 entity 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. 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 this purpose are as follows;

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

Notes to Financial Statements (Continued)

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) 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.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method.
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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.

f) 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 by Ministry of Health, 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.

g) 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 Financial Statements (Continued)

h) 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.

i) Employee benefits

Retirement benefit plans

The Hospital operates a defined contribution retirement benefit scheme for eligible employees. The assets of the scheme are held separately from those of the Hospital in funds under the control of trustees. The scheme is administered by an independent administration company and is funded by contributions from the Hospital and employees. The Hospital's obligations to the staff retirement benefits plan are charged to the Statement of Financial performance as they fall due or, in the case of service gratuity, as they accrue to each employee.

The Hospital also makes contributions to the statutory defined contribution scheme, National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Act. The Hospital's obligations under the Scheme are limited to specific contributions legislated from time to time, which currently is at KShs.200 per employee per month.

The total pension expense recognized in the statement of Financial Performance of KShs.441 million (FY 2014/15: KShs.422 million) represents contributions payments to the scheme by the Hospital at rates specified in the rules of the scheme. The expense has been included in the employee costs.

j) 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.

k) 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.

l) Service concession arrangements

The Hospital analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Hospital recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through

Notes to Financial Statements (Continued)

ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Hospital also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers not surrendered or accounted for at the end of the financial year.

n) Comparative figures

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

o) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

p) Receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. Receivables are recognized initially at fair value and subsequently measured at amortized costs.

NHIF rebates are amounts owed by NHIF and are presented net of the loss resulting from the contracted rebate being lower than the amount the hospital spent in the treatment of NHIF Members. The debt is recognized at discharge when the invoice is raised and the loss expensed.

3. Significant judgments 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.

Notes to Financial Statements (Continued)

Impairment losses

These are estimates made in determining the impairment losses on receivables. Such estimates include the determination of the net realizable value or the recoverable amount of the asset. The movement on the impairment provision is set out in Note 24.

Any impairment losses are recognized as an expense in the Statement of Financial Performance whenever the carrying amount of an asset exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of impairment loss is limited to the assets carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is credited to the Statement of Financial Performance in the year reversals are recognized.

4. Financial Risk Management

The Hospital activities expose it to a variety of financial risks including credit, liquidity and market risks. The Hospital's overall risk management policies are set out by the board of management and implemented by management, and focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Hospital's performance by setting acceptable levels of risk.

a) Credit risk

Credit risk refers to the risk that a patient or counter party to financial instruments will default on its contractual obligations resulting in financial loss to the Hospital. It's primarily attributable to the hospital's receivables from the customers. Credit risk also arises from cash and cash equivalents, and deposits with banks as well as other receivables

Credit risk from balances with banks and financial institutions is managed according to the Hospital policies, investments of surplus funds are made only with approved counterparties.

b) Liquidity risk

Liquidity risk is the risk that the Hospital will not be able to meet its financial obligations as they fall due. The Hospital's approach to managing liquidity is to ensure, as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Hospital reputation.

The Hospital ensures it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligation. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political violence.

Notes to Financial Statements (Continued)

The table below analyzes maturity profile of the hospital's financial liabilities based on the remaining period using 30th June 2016 as a base to the contractual maturity date. They are the contractual undiscounted cash flows.

	Less than one month Kshs.'000	Less than one year Kshs.'000	Over one year Kshs.'000	Total Kshs.'000
2016				
Trade and other payables	376,834	377,700	295,906	1,050,440
Amount due to NSSF			310,830	310,830
Borrowings - Spanish			1,199,863	1,199,863
Total	376,834	377,700	1,806,599	2,561,133
2015				
Trade and other payables	115,551	595,076	466,745	1,177,372
Amount due to NSSF			310,830	310,830
Borrowings - Spanish			1,199,863	1,199,863
Total	115,551	595,076	1,977,438	2,688,065

c) Market risk

Market risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices and interest rates and will affect the Hospital income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimizing the returns on risk.

d) Foreign currency risk

Foreign currency risk arises on sales, purchases and borrowings denominated in currencies other than Kenya shillings. The Hospital is exposed to foreign exchange risks arising from future commercial transactions and recognized assets and liabilities that are denominated in foreign currency.

	EUR '000	USD '000
Year 2016		
Monetary assets		
Cash and bank balances		104
Monetary liabilities		
Borrowings	14,000	
Net open position	14,000	104
Year 2015		
Monetary assets		
Cash and bank balances		102
Monetary liabilities		
Borrowings- Spanish Loan	14,000	
Net open position	14,000	102

Notes to Financial Statements (Continued)

e) Capital Management

The Hospital monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital (reserves). Net debt is calculated as total borrowings less cash and cash equivalents. Reserves comprises of capital reserves, accumulated funds and revaluation reserves.

	2016	2015
	Kshs.'000	Kshs.'000
Capital reserves	4,795,028	4,389,395
Accumulated funds	(1,278,353)	(600,526)
Revaluation reserves	9,199,351	9,199,351
Reserves balances	12,716,027	12,988,221
Total borrowings	1,199,863	1,199,863
Less: Cash and Cash equivalent	(2,040,537)	(2,179,223)
Net debt	(840,674)	(979,361)
Gearing ratio	(7%)	(8%)

Unconditional grants

5 Grant from National Government

Recurrent grant	6,665,062	6,629,033
Emergency relief grant	2,117	
Total	6,667,179	6,629,033

6 Conditional grants(Donor funded projects)

HIV Cascade Training Program	787	766
M Health Study	13,755	2,128
Innovations Maker Project	7,362	5,229
Partners in Advanced Care & Treatment -Centre Of Excellence(PACT-COE)	97,849	91,414
Life Course Study	5,275	4,322
Assisted Partners notification services	14,016	20,184
Partners in Prevention Study	7,981	31,256
Hiv Acquisition During and After Pregnancy (HADAP)		6,838
Management of Postpartum Haemor		928
Girl Study	1,685	
Hope Study	2,285	
Total	150,995	163,065
Reconciliation of conditional grants:		
Balance unspent at beginning of year	67,415	57,825
Current year receipts	175,167	172,655
Conditions met- transferred to revenue	(150,995)	(163,065)
Conditions to be met Liabilities	91,587	67,415

Notes to Financial Statements (Continued)

	2016 Kshs.'000	2015 Kshs.'000
7 Public contribution and donations		
General donations		416
Donation in kind	3,060	1,346
Total	3,060	1,762
Donations in kind were capital in nature and the amount recognized is the amortized value while the net book value is deferred to be earned over the life of the assets. (see note 32b)		
8 Rendering of services		
a) Medical Services		
Reproductive health fee	578,250	461,143
Pharmaceutical fee	627,760	539,370
Laboratory Fee	368,854	297,353
Medicine services fee	324,174	379,336
Radiology Fee	260,935	196,941
Accident and Emergency fee	250,815	117,662
Orthopaedic services fee	200,704	204,591
Prime Care Centre In-Patient Fee	190,737	164,391
Sale of Theatre Consumables	168,565	47,004
General surgery fee	162,578	12
Paediatrics services fee	127,367	152,622
Nursing Procedures and consumables	123,687	102,989
Theatre fee	102,045	348,820
Anaesthesia fee	87,446	110,382
Renal Unit Fee	75,623	94,877
Farewell Home Services fee	73,038	70,511
Critical Care Unit fee	76,173	63,528
Cardiology services Fee	70,885	84,581
Ear Nose & Throat services fee	67,534	73,460
Physiotherapy services Fee	63,449	64,022
Nutrition fee	58,043	53,635
Health Information charges	54,260	48,700
Cancer Centre services Fee	56,163	33,139
TSSU/ CSSD charges	40,283	6,425
Burns unit services fee	34,463	
Ophthalmology fee	32,626	31,783
Plastic Surgery fee	31,660	10,815
Dental fees	26,475	28,653
Paediatrics surgery fee	37,692	
Occupational Therapy Fee	24,562	25,226

Notes to Financial Statements (Continued)

	2016 Kshs.'000	2015 Kshs.'000
Medical Gases Income	20,440	18,455
Orthopaedic technology unit fee	7,246	13,484
Other medical services fee	31,259	419,309
	4,455,789	4,263,219

Other Medical services fee include: Income from manufacturing Unit, Endoscopy fees, Palliative Care income, Mental Health fees, Couple Counseling Centre fees and Public Health Income

b) Administrative Services

Seminars and training	19,318	18,582
Nursing School fee	18,699	9,150
Administration charges	65,940	63,094
	103,957	90,827
Rendering of Services	4,559,746	4,354,046

9 Sale of Goods

Sale of Stores	342	979
Tender documents	383	2,400
Pigs Will	319	100
	1,044	3,479

10 Rental Income

Residential Properties	102,942	102,928
Commercial Properties	26,884	26,423
	129,826	129,351

11 Finance income - external Investments

Bank Interest	85,842	108,511
Interest on short term deposits	94,569	60,396
	180,411	168,907

12 Clinical cost

Pharmaceutical supplies	539,730	464,872
Surgical consumables	225,254	94,328
Sutures	206,186	161,341
Laboratory Chemicals & Reagents	168,054	114,137
Patients Food	156,020	145,808
Medical Gases	110,804	132,299
Patients Uniform & Clothing	96,402	65,341
Renal materials	50,416	53,141

Notes to Financial Statements (Continued)

	2016	2015
	Kshs.'000	Kshs.'000
Radiology material & Chemicals	49,460	42,865
Enteral & Nutrition Feed	31,280	29,895
Cleansing Materials	20,697	32,667
Waste disposal expenses	18,025	17,589
Reproductive Health consumables	14,027	15,277
Cardiology materials	11,881	19,627
Health Information Stationery	10,440	5,448
Orthopaedic materials	9,901	2,242
Dental Materials	8,532	9,822
Theatre consumables	1,949	83,388
Other clinical costs	105,969	160,093
	1,835,030	1,650,181

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.

13 Employee costs

Salaries and wages	6,765,869	6,322,569
Contribution to Pension Schemes	441,078	421,786
Staff medical expenses	229,385	210,015
Staff Training & Development	160,494	128,121
Travelling & Accommodation	64,373	49,961
Insurance	32,193	56,829
Pension Administrative Costs	12,150	17,357
Staff welfare expenses	8,267	7,068
Employee satisfactory survey	602	
Provision for leave pay (see note 30)	(16,268)	31,826
	7,698,143	7,245,531

14 Board expenses

Emoluments	5,747	4,950
Mileage	2,688	2,669
Insurance	476	731
Training	5,366	2,688
Valuation and Induction	600	
	14,877	11,038

Notes to Financial Statements (Continued)

	2016 Kshs.'000	2015 Kshs.'000
15 Depreciation and amortization expenses		
Property, plant and equipment	430,539	443,964
Intangible assets	9,031	537
	439,570	444,501
16 Repair and maintenance Expenses		
Medical Equipment	129,167	66,600
Buildings	39,860	41,480
Plant & Machinery	41,994	49,214
Motor Vehicle running expenses	5,946	25,544
Office Equipment	3,709	2,027
	220,676	184,863
17 Administrative and General expenses		
Electricity Expenses	138,569	147,696
Boiler fuel Expenses	108,222	110,685
Water & Conservancy expenses	94,814	76,998
Bank Charges	23,095	25,691
Sports Activities	19,632	25,367
Legal Expenses	21,341	18,461
Stationery	14,600	10,450
Clearing & Forwarding expenses	12,959	6,813
Research & Development expenses	10,543	2,419
Cleaning Services	9,522	8,230
Computer Consumables	9,095	17,159
Advertising and Publicity expenses	8,695	3,603
General Insurance	8,342	10,999
Quality Assurance expenses	7,840	3,780
Staff Uniform	7,131	1,474
Telephone Expenses	6,896	7,371
Security Investigation expenses	6,690	3,693
Audit Fees	2,320	4,060
User fee review expense	2,265	4,957
Change in Inventory level	(23,663)	(39,793)
Other Administrative and general Expenses	36,725	62,648
	525,633	512,760

Other Administrative and general costs include: Internet Services, Fire & safety Expenses, Newspaper and Periodicals, Corporate Branding, Tender Committee Allowance, Seminars and workshops for Senior Management, Corporate governance and CPC Expenses, Chaplaincy Materials, Purchase of Accountable Documents, Preparation of Financial Statements expenses

Notes to Financial Statements (Continued)

	2016 Kshs.'000	2015 Kshs.'000
18 Donor funded Projects expenses		
Partners in Prevention Study	7,981	21,798
Gender Based Violence Recovery Centre (GBVRC)		99
HIV Acquisition During and After Pregnancy (HADAP)		6,838
Partners in Advanced Care & Treatment - Centre Of Excellence (PACT-COE)	97,849	91,414
TOWA		380
GBVRC - Pathfinder Alpha plus		223
Life Course Study	5,275	4,322
Assisted partner notification	14,016	20,184
IRIM		998
HOPE Study	2,285	7,690
TB in HIV infected Women		69
Innovation Maker Project	7,362	5,229
HIV Cascade training program	787	766
M Health Study	13,755	2,128
Mgt Postpartum of Hemorrhage Bakn balloon Study		928
Girl Study	1,685	
	150,995	163,065
19 Gain/ (Loss) on sale assets		
Property plant and equipment	(20,432)	(15,440)
20 Impairment loss		
Allowance for impairment loss on receivables from exchange transactions (see note 24)	(623,788)	(557,252)
21 Medical Service Contracts gain/ (Loss)		
Contracts with NHIF	(411,777)	(393,109)
Free maternity Program	(415,566)	(162,572)
Sponsored clinical projects	(14,079)	(6,303)
	(841,422)	(561,984)
22 Loss on Foreign Exchange Transactions		
Loss on Foreign Exchange Transactions - KPCC	(467)	(362)
23 Cash and Cash Equivalents		
a) Bank balances:		
National Bank of Kenya	1,278,388	1,547,105
Equity Bank	114,884	14,178
Kenya Commercial Bank	29,416	35,787
	1,422,688	1,597,070

Notes to Financial Statements (Continued)

	2016 Kshs.'000	2015 Kshs.'000
b) Cash in Hand		
Liquid Cash	2,333	858
	2,333	858
c) Short term deposits:		
National Bank of Kenya	162	162
KCB	600,000	563,512
Housing Finance Co. of Kenya	15,420	17,621
Euro Bank Ltd (in liquidation)	429,661	429,661
Less: Provision for Euro Bank	(429,661)	(429,661)
	615,583	581,296
Total cash & cash equivalents	2,040,604	2,179,223

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

24 Receivable from exchange transactions

Medical services receivables	5,724,935	5,263,248
Insurance compensation receivables	23,684	23,684
Accrued Investment Income	11,873	9,963
Prepayments	128,095	254,127
Sub total	5,888,587	5,551,022
Less: Impairment allowance	(4,795,379)	(4,171,591)
	1,093,209	1,379,431

As at 30th June 2016, trade receivables of Kshs. 4.795 billion (2015: Kshs. 4.171 billion) were impaired and fully provided for.

Reconciliation of allowance for impairment of receivables from exchange transactions

Beginning of year	4,171,591	3,614,339
Charge for the year	623,788	557,252
End of year	4,795,379	4,171,591

25 Receivable from non- exchange transaction

GoK Recurrent grant	258,168	144,568
Staff receivables	21,333	15,662
	279,501	160,230
Less: Impairment allowance (GoK Grant)	(144,568)	(144,568)
	134,933	15,662

26 Inventories

Pharmaceutical supplies	182,152	230,808
Maintenance supplies	24,667	47,092
Food Supplies	11,457	4,009
Linen and clothing	33,634	50,452
General Stores	141,679	32,284
	393,589	364,644
Less: Obsolete stock	(5,281)	
Total	388,308	364,644

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

Notes to Financial Statements (Continued)

27. Property, Plant & -Equipment

	Freehold Land	Freehold Building	Plant, Machinery & Medical Equipment	Motor vehicles	Furniture and fittings	Computers, copiers and faxes	Capital work in progress	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
COST OR VALUATION								
As at 1st July, 2014	4,014,600	6,749,256	3,740,465	93,847	271,953	151,767	190,808	15,212,696
Additions		4,200	5,770			204	477,249	487,422
Transfers from WIP			212,051		2,560	32,650	(247,260)	
Disposals			(37,827)		(1,629)	(25)		(39,481)
As at 30th June, 2015	4,014,600	6,753,456	3,920,459	93,847	272,883	184,596	420,797	15,660,637
As at 1st July, 2015	4,014,600	6,753,456	3,920,459	93,847	272,883	184,596	420,797	15,660,637
WIP Transfer to Intangible asset							(26,986)	(26,986)
WIP Expensed							(910)	(910)
Additions		18,652	238,716		660	6,910	76,464	341,403
Transfers from WIP		410,497	18,658				(429,154)	
Disposals			(49,260)		(3,599)	(194)		(53,053)
As at 30th June 2016	4,014,600	7,182,605	4,128,573	93,847	269,946	191,312	40,211	15,921,091
Depreciation								
As at 1st July, 2014		1,206,339	2,009,660	56,591	153,651	78,576		3,504,816
Charge for the year		138,678	249,089	9,345	15,039	31,813		443,964
Disposal			(22,177)		(1,080)	(24)		(23,282)
As at 30th June 2015		1,345,017	2,236,571	65,936	167,610	110,365		3,925,499
As at 1st July, 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		430,539
Disposal			(29,506)		(2,438)	(158)		(32,102)
As at 30th June 2016		1,490,956	2,447,253	72,920	178,269	134,538		4,323,936
NET BOOK VALUE								
As at 30th June 2016	4,014,600	5,691,649	1,681,320	20,927	91,676	56,774	40,211	11,597,155
As at 30th June, 2015	4,014,600	5,408,439	1,683,888	27,910	105,273	74,231	420,797	11,735,138

Notes to Financial Statements (Continued)

27. Property, Plant & Equipment continued

Included in land of Ksh 4 billion is a parcel of land L.R. No.209/13978 measuring 2.544Ha (Ksh. Kshs.0.22Billion) which is jointly owned by KNH, UON-CHS and KMTC. The land was set aside as recreational grounds to be utilized by the three (3) institutions and KNH is the custodian of the title document

28. Intangible Assets - Software

Cost or Valuation		Kshs.'000
As at 30th June 2014		2,558
Additions		
As at 30th June 2015		2,558
Additions		1,864
Transfers from Work in Progress		26,986
As at 30th June 2016		31,408
Amortization		
As at July		767
Charge for the year		537
As at 30th June 2015		1,304
As at 1st July 2015		1,304
Charge for the year		9,031
As at 30th June 2016		10,336
Net Book Value		
As at 30th June 2016		21,073
As at 30th June 2015		1,253

29. Trade and other payables from exchange transactions

	2016	2015
	Kshs.'000	Kshs.'000
Trade payables	344,409	581,574
Accrued Expenses	23,954	64,791
Retention money	25,911	27,991
Payroll Remittances	38,408	33,758
Doctors fee	200,809	162,532
Other Payables	77,913	4,679
	711,405	875,325

Other payables include: Unpaid Salaries, Over recovery from Staff and Unclaimed Suppliers invoices.

30. Deposit from customers

Rent Deposit	2,489	3,148
Admission deposit	32,921	48,506
Credit facility deposit	12,270	11,907
Caution Money	211	116
Advance receipts	45	
	47,935	63,677

Notes to Financial Statements (Continued)

	2016 Kshs.'000	2015 Kshs.'000
31 Provision for leave pay		
Balance at the beginning of the year	141,369	109,544
Additional provision raised		31,826
Provision utilised	(16,268)	
Balance as at 30th June	125,102	141,369
The provision was calculated based on the leave entitlement due to staff at year end adjusted for; experience adjustment in relation to the forfeiture of leave and leave taken trends and Salary scales applicable at the time of realization of leave by employees		
32 Deferred income		
a) Donor funded projects grants		
Opening balance	74,915	57,825
received during the year:	167,667	180,154
utilised during the year:	(150,995)	(163,065)
Closing balance	91,587	74,915
b) Donations in Kind assets		
Opening balance	18,511	9,683
Additions during the year:	30,052	10,153
Amortization for the year:	(3,060)	(1,324)
Closing balance	45,503	18,511
c) Zarina & Naushad Foundation donation	25,000	
d) Nursing school-pre paid Fees		
Opening balance	3,574	
received during the year:	19,034	3,574
utilised during the year:	(18,699)	
Closing balance	3,908	3,574
TOTAL	165,998	97,000
33 Employee benefit obligations		
NSSF arrears	310,830	310,830

NSSF arrears of Kshs. 311 million relates to NSSF demand from Kenyatta National Hospital for unpaid contributions for the year 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 hospital has not met the obligation of paying the arrears due to budgetary constraints and is in negotiation with the National Treasury with a view of the Government funding the arrears.

Notes to Financial Statements (Continued)

	2016 Kshs.'000	2015 Kshs. '000
34 Borrowings		
Spanish Loan	1,199,863	1,199,863

The GoK on 29th 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 installments commencing on 30th June 2013. The credit was to attract a rate of interest of 3.0% per annum on reducing balance payable semiannually on the 30th 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.

35 Restatement of errors and Reclassification

a) Public contributions & donations

Public contributions & donations in the financial statements of 2014/15 has been restated by Kshs. 21,355 which relates to cutlery donated, initially recognized as deferred income instead of income for the year. The effect of the restatement on the financial statements is as summarized below.

	Kshs.'000
i) Effect due to restatement on year 2015	
Increase in Public contributions & donations	21
Increase in Surplus	21
Decrease in Deferred income	(21)
Increase in Net assets/ Equity	21

b) Rent revenue from facilities

Rent revenue from facilities has been restated in the financial statements of 2012/13, 2013/14 and 2014/15 by Kshs. 550,000, 600,000 and Kshs. 600,000 respectively which relates to rental income erroneously recognized in respect to a tenant who did not take up an advertising space offer. The effect of the restatement on the financial statements is as summarized below.

i) Effect due to restatement on year 2015	
decrease in opening Accumulated fund	1,150
Decrease in Receivable from exchange transactions	1,750
Decrease in Rent revenue from facilities	(600)
Decrease in Surplus	(600)
Decrease in Net assets/ Equity	(600)

c) Rendering of services

Rendering of services in the financial statements of 2014/15 has been restated by Kshs.9,150,370 due to unrecognized revenue for Nursing school which was erroneously omitted. In addition revenue totaling to Kshs. 53,994,741 has been reclassified. The effect of the restatement and reclassification on the financial statements is as summarized below.

Notes to Financial Statements (Continued)

i) Restatement

Effect due to restatement on year 2015	Kshs.'000
Increase in rendering of services	9,150
Increase in Employee costs	2,145
Increase in receivables from exchange transaction	9,893
Increase in deferred income	2,772
Increase in deposit	116
Increase in Surplus	9,150
Increase in Net assets/ Equity	9,150

ii) Reclassification

Services reclassified from Other income to rendering of services:

Seminars and training	18,582
Sale of items/ services	35,413
Increase in Rendering of Services	53,995
Net Increase due to reclassification	53,995
Net decrease due to Restatement and Reclassification	63,145

d) Administrative and General expenses

Administrative and General expenses in the financial statements of 2014/15 has been restated by Kshs.19,314,338 due to payments made to suppliers totaling to Kshs.16,341,290 which were debited to expense accounts instead of trade payables account and invoices totaling to Kshs.2,973,048 were debited to accounts payable instead of respective expense accounts. In addition, Administrative and General expenses totaling to Kshs.1,472,604,479 were reclassified. The effect of the restatement and reclassification on the financial statements is as summarized below.

i) Restatement

Effect due to restatement on year 2015	
Decrease in Administrative and General expenses	(19,314)
Increase in Administrative and General expenses	2,973
Net decrease in Administrative and General expenses	(16,341)
Increase in Surplus	16,341
Decrease in Trade payable	(16,341)
Increase in Net assets/ Equity	16,341

ii) Re-classification

Expenses reclassified from Administrative and General expenses to Clinical Costs:

General expenses (Cleansing services)	(33,060)
General expenses (Disaster management expenses)	(1,654)
General expenses (KPCC expenses)	(161,640)
Decrease in Administrative and General expenses	(196,353)

Notes to Financial Statements (Continued)

Expenses reclassified from Administrative and General expenses to Other	Kshs.'000
Gains and Losses:	
General expenses (Provision for bad and doubtful debts)	(557,252)
General expenses (NHIF, Free maternity and partners projects losses)	(561,984)
Decrease in Administrative and General expenses	(1,119,236)
Expenses reclassified from Administrative and General expenses to Repairs and Maintenance:	
General expenses (transport operating expenses)	(22,831)
General expenses (KPCC expenses Repairs and Maintenance expenses)	(84)
General expenses (Maintenance of KNH Estate)	(5,382)
Decrease in Administrative and General expenses	(28,296)
 Expenses reclassified from Administrative and General expenses to Employee Costs:	
General expenses (Staff Training & Development)	(128,718)
Decrease in Administrative and General expenses	(128,718)
Net decrease in Administrative and General expenses	(1,472,604)
Net decrease due to restatement and reclassification	(1,488,946)

e) Clinical costs

Clinical Costs in the financial statements of 2014/15 has been restated by Kshs.55,260,532 due to +payments made to suppliers totaling to Kshs.55,388,422 which were debited to expense accounts instead of trade payables account and invoices totaling to Kshs.127,890 which were debited to accounts payable instead of expenses account. In addition, expenses totaling to Kshs.196,353,271 were re-classified. The effect of the restatement and reclassification on the financial statements is as summarized below.

i) Restatement

Effect due to restatement on year 2015

Decrease in Clinical costs	(55,388)
Increase in Clinical costs	128
Net decrease in Clinical costs	(55,261)
Increase in Surplus	55,261
Decrease in Trade payable	(55,261)
Increase in Net assets/ Equity	55,261

ii) Reclassification

Expenses reclassified from Administrative and General expenses to Clinical Costs:

General expenses (Cleansing services)	33,060
General expenses (Disaster management expenses)	1,654
General expenses (KPCC expenses Clinical expenses)	161,640
Increase in Clinical Costs	196,353
Net increase due to restatement and reclassification	141,093

Notes to Financial Statements (Continued)

f) Employee cost

Employee cost in the financial statements of 2014/15 has been restated by Kshs.1,881,173 due to payments made to suppliers totaling to Kshs.3,943,153 which were debited to expense accounts instead of trade payables account and invoices totaling to Kshs.2,061,980 erroneously omitted. In addition expenses totaling to Kshs.128,718,499 were re-classified. The effect of the restatement and reclassification on the financial statements is as summarized below.

i) Restatement

Effect due to restatement on year 2015

	Kshs.'000
Decrease in Employee costs	(3,943)
Increase in Employee costs	2,062
Net decrease in employee cost	(1,881)
Increase in Surplus	1,881
Increase in Rendering of services	2,145
Increase in receivables from non-exchange transactions	83
Decrease in Trade payable	(3,943)
Increase in Net assets/ Equity	1,881

ii) Reclassification

Expenses reclassified from Administrative and General expenses to

Employee Costs:

General expenses (Staff training & development)	128,718
Increase in Employee Costs	128,718
Net increase due to restatement and reclassification	126,837

g) Repairs and Maintenance

Repairs and maintenance expenses in the financial statements of 2014/15 has been restated by Kshs.3,303,155 due to payments made to suppliers which were debited to expense accounts instead of trade payables account. In addition expenses totaling to Kshs.28,296,386 have been reclassified. The effect of the restatement and reclassification on the financial statements is as summarized below.

i) Restatement

Effect due to restatement on year 2015

Decrease in Repairs and Maintenance	(3,303)
Increase in Surplus	3,303
Decrease in Trade payable	(3,303)
Increase in Net assets/ Equity	3,303

ii) Reclassification

Expenses reclassified from Administrative and General expenses to Repairs and Maintenance:

General expenses (Transport operating expenses)	22,831
General expenses (Maintenance of KNH estate)	5,382
General expenses (KPCC expenses)	84
Increase in Repairs and Maintenance	28,296
Net increase due to restatement and reclassification	24,993

Notes to Financial Statements (Continued)

h) Receivable from exchange transactions

Receivable from exchange transactions in the financial statements of 2014/15 has been restated by Kshs.8,143,167 due to unrecognized revenue earned from Nursing school totaling to Kshs.9,893,167 and Kshs.1,750,000 relating to rental income erroneously recognized in respect to a tenant who did not take up advertising space offer. In addition, Staff receivables totaling to Kshs.15,578,662 have been reclassified to Receivables from non-exchange transactions. The effect of the restatement and reclassification on the financial statements is as summarized below.

i) Restatement

Kshs.'000

Effect due to restatement on year 2015

Increase in receivables from exchange transactions	9,893
Decrease in receivables from exchange transactions	(1,750)
Net Increase in receivables from exchange transactions	8,143
Increase in deferred income	3,574
Increase in deposit	116
increase in rendering of services	6,204
Increase in Surplus	6,204
Increase in Net assets/ Equity	6,204

ii) Reclassification

Staff receivables reclassified from receivables from exchange transactions to receivables from non-exchange transactions

Debtors (Staff receivables)	(15,579)
Net increase due to restatement and reclassification	(7,435)

i) Deferred income

Deferred income in the financial statements of 2014/15 has been restated by Kshs.2,750,441 due to errors of omission relating to unrecognized revenue for Nursing school totaling to Kshs.3,573,667 which was erroneously omitted and errors of principle totaling Kshs.823,225 relating to public donations of Kshs.21,355 (see note 30a) and Kshs.801,870 which had been reclassified to deferred income was recognized as revenue. The effect of the restatement and reclassification on the financial statements is as summarized below.

j) Restatement

Effect due to restatement on year 2015

Increase in Deferred income	3,574
Decrease in Deferred income	(823)
Net Increase in Deferred income	2,750
increase in receivables from exchange transactions	3,574
Decrease in receivables from exchange transactions	(802)
Net Increase in receivables from exchange transactions	2,772
Increase in public contributions and donations	21
Increase in Surplus	21
Increase in Net assets/ Equity	21

Notes to Financial Statements (Continued)

ii) Reclassification

Kshs.'000

Re-classification of Trade and other payables from exchange transactions to Deferred Income	
Payroll remittances (Nursing school prepaid fees)	802
Net Increase due to Restatement and reclassification	3,552

k) Deposits from customers

Deposits from customers in the financial statements of 2014/15 has been restated by Kshs.116,000 due to errors of omission relating to unrecognized caution money for Nursing school students erroneously omitted. The effect of the restatement on the financial statements is as summarized below.

Effect due to restatement on year 2015

Increase in deposits from customers	116
Increase in trade and other receivables	116
Increase in Net assets/ Equity	116

l) Trade and other payables from exchange transactions

The effect of restatement and reclassification on Trade and other payables from exchange transactions in the financial statements of 2014/15 is as summarized below:

Reported balance	954,975
Effect due to restatement on year 2015	
Correction as per note 34d(i)	(16,341)
Correction as per note 34e(i)	(55,261)
Correction as per note 34f(i)	(3,943)
Correction as per note 34g(i)	(3,303)
Net Decrease in trade payables due to restatement	(78,848)
Effect due to reclassification	
Reclassification as per note 34j(ii)	(802)
Restated balance 2014/15	875,325

m) Loss on Foreign Exchange Transactions

Loss on Foreign Exchange Transactions in the financial statements of 2014/15 has been restated by Kshs.361,926.35 due to unrecognized foreign exchange loss which was erroneously omitted. The effect of the restatement on the financial statements is as summarized below.

Effect due to restatement on year 2015

Increase in Loss on Foreign Exchange Transactions	362
Decrease in receivables from exchange transactions	(362)
Decrease in Surplus	(362)
Decrease in Net assets/ Equity	(362)

Notes to Financial Statements (Continued)

n) Accumulated Fund

Kshs.'000

The effect of restatement and reclassification on Accumulated Fund in the financial statements of 2014/15 is as summarised below:

Reported Balance as at June 30, 2014	(702,402)
Correction as per note 34b(i)	(1,150)
Restated balance as at June 30, 2014	(703,552)
Reported Surplus for year 2014/15	17,668
Effect due to restatement on year 2015	
Correction as per note 34a(i)	21
Correction as per note 34d(i)	16,341
Correction as per note 34e(i)	55,261
Correction as per note 34f(i)	1,881
Correction as per note 34g(i)	3,303
Correction as per note 34c(i)	9,150
Correction as per note 34b(i)	(600)
Correction as per note 30m	(362)
Net Increase in Surplus due to restatement	84,996
Restated Surplus for year 2014/15	102,664
Restated Accumulated Fund as at 30/06/2015	(601,460)

36 Related party disclosures

The key management personnel (as defined by IPSAS 20 "Related party disclosures") are the members of Kenyatta National Hospital board of Management, and the Executive management committee made up of the Chief Executive Officer, Directors and Deputy Directors.

The Board of management consists of members appointed by the cabinet secretary for Health and the chief Executive Officer. The Directors attend meetings of the board but are not members.

	2016 Kshs.'000	2015 Kshs.'000
The aggregate remuneration	8,335	7,619
Number of persons	11	10

The Executive Management Committee consists of the Chief Executive Officer, Directors and Deputy Directors. The aggregate remuneration of members of Executive Management committee and the number of managers are determined on a full – time equivalent basis receiving remuneration within the category.

	2016 Kshs.'000	2015 Kshs.'000
The aggregate remuneration	101,483	101,241
Number of persons	19	18

37 Capital Commitments

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

Notes to Financial Statements (Continued)

	2016 Kshs.'000	2015 Kshs.'000
Authorised but not contracted	134,062	44,306
Authorised and contracted	211,117	92,188

38 Contingencies

a) Kenyatta National Hospital Staff Superannuation Scheme Deficit

The actuarial deficit of the staff superannuation scheme as at 30th June 2011 amounted to Kshs. 3,549 million. The viable financing option based on actuarial advice is a monthly installment of Kshs. 56.5 million that will clear the deficit over a period of 6 years from 30th June 2012 resulting in an annual expenditure of Kshs. 815 million of which the government has allocated Kshs. 100 million leaving Kshs. 715 million unfunded for the year. Discussions with the government to fully fund the deficit are ongoing.

The hospital may need to fund the deficit if the negotiation with the government to fully fund the deficit does not succeed.

b) Tax Liability

Kenya Revenue Authority carried out an in-depth audit for the period January 2010 to March 2014. In their assessment dated 1st July 2014, Kenyatta National Hospital should pay a total amount of Kshs.593 million being unpaid taxes and penalties thereon. The hospital has appealed against this assessment.

39 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 (Pine bridge & Genesis Kenya Investments) on behalf of the trustees.

XVII Progress on Follow up of Auditor Recommendations

Ref. No.	Issue / Observation from Auditor-General	Management comment	Focal Point person to resolve issue	Status	Time frame
1	Receivables from Exchange Transactions	Temporary imprests and staff debtors The amount is owed by staff members who have left service either through death, resignation or dismissal. The amount due to the hospital will be netted off from the last dues relating to salaries to the staff upon clearance. Inpatients abscondment Measures have been put in place to curb abscondment. These include: a). Pre-admission credit assessment b). All inpatients must be in uniform c). Manning of exits d). Social assessment to be intensified e). Installation of CCTV system f). 24-hours security surveillance	CPA M. Kihuga Deputy Director, Finance	Ongoing	June 2017
1.1	As previously reported in the year 2013/2014, the receivables from exchange transactions balance of Kshs.1,387,800,000 as at 30 June, 2015 includes receivables from temporary imprests and staff debtors amounting to Kshs.1,013,509 and Kshs.2,807,797 respectively which have been outstanding for a considerably long period of time. Similarly, the balance of Kshs.1,387,800,000 include Kshs.3,286,110 for Return of drawer (RD) cheques which have been outstanding for more than a year. In addition, information availed for audit review indicated that the inpatients absconded without paying Kshs.52,051,778 during the year resulting to a cumulative total absconded amount of Kshs.513,178,734.			On Implementation	Immediate
1.2	Further, the receivables from exchange transactions balance of Kshs.1,387,800,000 also includes Kshs.475,260,981 due from National Hospital Insurance Fund (NHIF) while the NHIF financial statements as at 30 June, 2015 reflects Kshs.56,982,180 resulting to un-reconciled variance of Kshs.418,278,801.	Reconciliation with NHIF on the difference in amount reported by the two institutions has been carried out. It has been established that the difference is majorly due to failure by NHIF to recognize claims as and when the claims are received (failure to accrual all claims as at the reporting date).	CPA M. Kihuga Deputy Director, Finance	Reconciliation ongoing	June 2017

Ref. No.	Issue / Observation from Auditor-General	Management comment	Focal Point person to resolve issue	Status	Time frame
1.3	In addition, the receivables from exchange transactions balance of Kshs.1,387,800,000 includes prepayments totaling Kshs.31,733,575 relating to supply contracts for three firms of Kshs.15,792,611, Kshs.2,213,309 and Kshs.13,727,655. As similarly observed 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, 2015.	High Voltage Communications Ltd. - Kshs.15,792,611 KNH wrote to the firm to refund the advance money paid but High Voltage Ltd declared this as a dispute and in line with clause 12 on special conditions, and clause 22 on general conditions, of the contract the matter was referred for arbitration. The arbitration was finalized on 26/11/2012. The arbitral award was delivered in favour of KNH. However, owing to the fact the other party had not settled their part of the arbitration fee, there was a delay in delivery of the actual ruling. The Hospital is in the process of pursuing recovery as ruled. Microtec Office Supplies Kshs.2,213,309 The above firm was awarded the tender to deliver and install microfilming equipment and to microfilm inactive medical records tender KNH/USAID/T/16/1999 – 2000 dated 6th May, 1999 for a contract sum of Kshs.3,688,848.72. Microtec delivered and installed the requisite microfilming equipment and embarked on the exercise in medical record department from December 1999 as per LSOs issued to them. The supplier was prepaid 60% but performed 34% of the work. At the time the exercise stalled, 953,152 records had been filmed and 1,954,188 records had not been filmed. The matter is currently under investigation by CID Glotech Medical Kenya Ltd. Kshs.13,727,655 The advance payment was made for supply of nuclear medicine materials. The supplier failed to perform and the Hospital demanded refund of the amount advanced. It has been established through our lawyer that the firm is not registered. The matter is currently under investigation by CID.	CS Calvin Nyachoti Deputy Director, Corporation Secretary	Not resolved	June 2017

Ref. No.	Issue / Observation from Auditor-General	Management comment	Focal Point person to resolve issue	Status	Time frame
1.4	Also the receivables from exchange transactions balance of Kshs.1,387,800,000 includes 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. In the circumstance, in the absence of any other information, it has not been possible to confirm the validity and accuracy of the receivables from exchange transactions balance of Kshs.1,387,800,000 as at 30 June, 2015.	The outstanding letter of credit relates to goods that were received in the Hospital. The verification and identification process has been carried out, relevant documentation will be completed and necessary adjustments have been made in the accounts of 2014/2015. The process of investigating the letters of credit is ongoing in order to ensure resolution and necessary book entries.	Mrs. Rose Njoroge Deputy Director, Supply chain management	Not resolved	June 2017
2	Property, Plant and Equipment				
2.1	Parcels of Land As reported I 2013/2014, the property, plant and equipment balance of Kshs.11,736,391,000 as at 30 June, 2015 includes four (4) parcels of land with a total of 0.6862 hectares valued at Kshs.50,600,000 which have been excised and allocated to other parties. Further, the property, plant and equipment balance of Kshs.11,736,391,000 also includes three(3) parcels of land with a total of 4.471 hectares valued at Kshs.329,000,000 whose ownership is contested between Kenyatta National Hospital, Kenya Medical Training College, and National Quality Control Laboratory.	Three of the seven parcels of land all fall within the KNH complex and are jointly owned between KNH and Kenya Medical Training College (L.R. No. 209/14269 and L.R. No. 209/114272) and; KNH and National Quality Control Labs (L.R.No.209/11976). Consultations are being held between the parties and the Commissioner of Lands to resolve the issues of ownership. Four parcels belonging to KNH have been encroached by private developers as reported to the Ndung'u Commission. These are as follows:- 1. LR 209/12767 - 0.2260 Ha - Chal Developers Ltd (Tittle Issued on 30/09/96). 2. LR 209/12822 - 0.1221 Ha - Grace Njoki Gakiria (Tittle Issued on 06/06/97).	CS Calvin Nyachoti Deputy Director, Corporation Secretary	Not resolved	June 2017

Ref. No.	Issue / Observation from Auditor-General	Management comment	Focal Point person to resolve issue	Status	Time frame
	In addition, land registration number LR/No.209/13978 valued at Kshs.220,000,000 and measuring 2.544 hectares has a title deed but the land is jointly owned by Kenyatta National Hospital, Kenya Medical Training College and the University of Nairobi. It is not clear why the parcel should be shown as if it is wholly owned by the hospital.	3. LR 209/11460 - 0.3164 Ha - Isaac G Wanjohi. 4. LR 209/13319 - 0.0217 Ha - Margaret Nyakerario Onyango & Petronilla Muli The hospital Management has been following this issue with the Ministry of Lands and in a letter received by the Hospital ref: ADM1/33 dated 8th February 2012 the Minister confirmed that LR 209/12767 and LR 209/12822 have caveats while files for the remaining two (2) are missing at the registry of lands. The Hospital vide letter ref. KNH/ CS/15 vol.1/ (100) dated 12th April 2012 requested the Minister to revoke the two titles with caveats so that they may revert to Kenyatta National Hospital. The Minister was further requested to expedite the tracing of the two remaining files with a view to placing caveat on them. No developments have taken place on these parcels of land.			
2.2	Hospital Management information Systems The property, plant and equipment balance of Kshs.11,736,391,000 includes capital work in progress of Kshs.420,797,000 out of which Kshs.26,986,031 relate to payment made to Systems Partners for the provision of Hospital Information Management System. However, out of Kshs.26,986,031 paid, Kshs.5,397,206 relates to 15% paid in addition to 60% paid earlier as a result of addendum to the original contract which had provided for 20% payment to be made after testing and commissioning of the system.	Implementation The HMIS project expected to be completed in four months from March 2013. However this was not realized up to November 2015 when the last contract extension was made. The project implementation team (PIT) returned a verdict of 50% delivery by the vendor due to challenges as follows: • Inadequate user requirements assessment • Lack of requisite ICT infrastructure at KNH • Capacity challenges on vendor The PIT has recommended the way forward as follows: • The project be commissioned as is	Mr. Job Makanga Deputy Director, Planning & Strategy	Not resolved	June 2017

Ref. No.	Issue / Observation from Auditor-General	Management comment	Focal Point person to resolve issue	Status	Time frame
	Further the project was to take a period of six (6) months in the year 2013/2014, but as at the time of this 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.	- That neither SPL nor KNH makes any demands for further payments or refund of funds already paid. - That a maintenance contract be negotiated with the vendor - The hospital to embark on getting a more robust HMIS The management is in the process of implementing the above recommendations.			
2.3	Refurbishment to Private Wing The property, plant and equipment balance of Kshs.11,736,391,000 includes capital work in progress of Kshs.420,797,000 out of which Kshs.168,888,213 relate to payment made on 30 June, 2015 to Arma 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 bidding was Kshs.148,899,879.80 resulting to unexplained over payment of Kshs.55,391,667.30. Further, physical verification revealed that several defects like broken door closures, paint peeling-off, telephone and nurse calls communication network are not working and bath tabs are too high for patients use. The management did not provided explanations for these anomalies.	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 + or - 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 and Public Procurement Regulation 2006 Section 29 on tender document which states that:- 1. "The standard tender documents for purposes of Section 29 (b) of the Act shall be as set out in the Third Schedule to these Regulations". 2. "Pursuant to Section 9(c) (i) of the Act, the Authority shall avail the standard tender documents to procuring entities." Subject to the above provision of the Law the Hospital set out standard tender document for above tender and what was evaluated was not outside the tender documents.	Mrs. Rose Njoroge Deputy Director, Supply chain management		

Ref. No.	Issue / Observation from Auditor-General	Management comment	Focal Point person to resolve issue	Status	Time frame
		The 1st and 2nd lowest bidders were therefore non-responsive. 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. Telephones were not part of the contract and therefore the contractor could not undertake the same. Separate arrangement was undertaken to address communication in the Prime Care Centre. The nurse call communication system provided by the contractor did not meet specifications and was therefore rejected. This was not paid for and was subsequently omitted from the contract.	Eng. R. Binga Deputy Director, Facilities & Service		
2.4	Provision of Hot Water Systems The property, plant and equipment balance of Kshs.11,736,391,000 also includes capital work in progress of Kshs.420,797,000 out of which Kshs.6,383,748 relate to payment made on 30 June, 2015 to Wilken Solar for the provision of hot water at hospitals KPCC. Further, the hot water systems worked for only five months that is from 3 October, 2014 to 20 March, 2015. The hospital did not get value for the money spent on hot water systems. In the circumstances, 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 that the balance of Kshs.11,736,391,000 as at 30 June, 2015 is fairly stated.	The hot water system was successfully installed and handed over to the Hospital during the period KNH Prime Care Centre (KPCC) was under rehabilitation. Failure of the hot water system in March 2015 was occasioned by: a). Power spike and surge which single phased the re-circulation pump motor which ensures user points continuously receive hot water. This affected the booster elements which enable heating during the night and morning when sun is unavailable for panel to heat the water.	Eng. R. Binga Deputy Director, Facilities & Service	Tendering process ongoing	December 2016

Ref. No.	Issue / Observation from Auditor-General	Management comment	Focal Point person to resolve issue	Status	Time frame
		b). Lack of regular water supply to solar tanks due to failure of the Hospital's automatic pump system can not avail water to the solar tanks and panels all the time. The above was not foreseen as power surge occur when KPLC suddenly switches on and off transmitting unconditioned power especially to heavy installation switch gear in the hospital. Measures Taken by management a). In order to address power spike and surge, the hospital has invited bids for additional works on the hot water heating system that include phase failure relays and surge protector in the bill of quantities. b). As a contingency measure the hospital is undertaking rehabilitation of the existing two high level tanks to ensure continuous supply of water to solar tanks and panels.			
3.	National Hospital Insurance Fund (NHIF) Included in the general expenses of Kshs.2,016,393,000 in the statement of financial performance for the year ended 30 June, 2015 is National Hospital Insurance Fund (NHIF) loss of Kshs.392,649,000 (2013/2014 – loss:Kshs.347,941,000). This loss is net of rebate received from the NHIF and the amount the Hospital spent in the treatment of NHIF members. Available records indicate that 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. However, the contract expired in August, 2010 and had not been renewed as at 30 June, 2015.	The Hospital has signed new contracts negotiated with NHIF expanded services initially not covered by NHIF under the expired Comprehensive care contract. These services include: Oncology at fee for service, MRI, CT Scan, Renal services. The contracts also provide for enhanced rebate rates. The new contracts and enhanced rates are expected to minimize the loss reported in earlier periods	CPA C. Odiango Director, Corporate Services	On implementation	Immediate

Ref. No.	Issue / Observation from Auditor-General	Management comment	Focal Point person to resolve issue	Status	Time frame
	Available information indicate that the contract provided for a variation for the rate of rebate depending on quality management reports and increase scope of services. However, this rebate rate has remained the same despite the continued losses. Management has not explained what action it has taken to mitigate the impact of the loss.				
4.	Free Maternity Loss The general expenses of Kshs.2,016,393,000 also includes a loss of Kshs.162,572,000 (2013/2014 – Loss; Kshs.133,900,000) occasioned by the free maternity services offered by the Hospital as per the letter ref.ACC/FCMHS/1/28A dated 1 April, 2014 from the Cabinet Secretary, Ministry of Health which communicated the decision of the Government to reimburse Kshs.17,500 per delivery. However, Kenyatta National Hospital being a referral hospital receive complicated maternal referrals. As a result, the costs are higher and the reimbursable amount of Kshs.17,500 which has remained the same despite the high costs is inadequate. The hospital will therefore continue to incur losses if the reimbursable amounts are not reviewed.	The Hospital is awaiting outcome of the on-going discussions between the Government and NHIF on the taking up of the free maternity program by NHIF. The management will endeavour to negotiate for a favourable rebate to control the loss attributable to the free maternity program.	CPA C. Odiango Director, Corporate Services	Not resolved	June 2017
5.	Borrowings As previously reported, the borrowings balance of Kshs.1,199,863,000 as at 30 June, 2015 relates to a loan received in 2007/2008 from the kingdom of Spain, in form of medical equipment.	The Government of the republic of Kenya and the Government of the Kingdom of Spain signed a loan agreement on 31st January 2006 for the credit of kshs.1.2 billion that was to be used to finance the supply of medical equipment for KNH. Upon acceptance and commission of the equipment, all the items were capitalized in the KNH books with a corresponding entry being long term debt.	Dr. Kamuri Deputy Director, Affiliation & institution Development	Not Resolved	June 2017

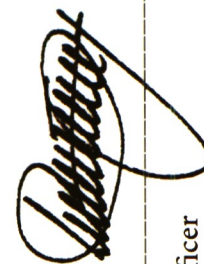
Ref. No.	Issue / Observation from Auditor-General	Management comment	Focal Point person to resolve issue	Status	Time frame
	Available information indicate that the loan was payable by the Hospital at an interest rate 3% per annum on a reducing balance for the first six (60) years and thereafter, the interest plus principal for the next nine (9) years with effect from 1 July, 2008. However, and according to records availed for audit review, no interest has been paid or accrued in the seven financial years 2008/2009, 2009/2010, 2010/2011, 2011/2012, 2012/2013, 2013/2014 and 2014/2015. Although indications are that the management has sought assistance from the Ministry of Health towards settlement of the loan, response from the ministry was not availed for audit review. As a result, it has not been possible to confirm the accuracy of the loan and that the long term liability balance of Kshs.1,199,863,000 as at 30 June, 2015 is fairly stated.	There have been several correspondences on this subject matter with the National Treasury with a view of having the loan taken over by the Government. The investment secretary vide letter ref: DGIPE/LOANS/10 dated 3rd May 2012, requested for more details on the loan to facilitate review of the credit terms. The same has been provided vide letter ref: KNH/FIN/278 dated 25th May 2012 and further communication is awaited. The National Treasury vide letter reference DGIPE/P/7/50 dated 4th June 2014 has asked the hospital to make repayment of the due loan arrears Kshs.1,571,355,318.25 composed of Kshs.915,473,184.30 principle amount and Kshs.655,882,133.95 interest therein to be paid by 30th June 2014. The Hospital in response to the above requested the National Treasury vide letter reference KNH/FIN/278 dated 13th June 2014 to take over the entire loan citing reasons why the Hospital is not able to repay this obligation. Follow and consultative meetings are in progress with a view to resolving the issue.			
6.1	Unsupported Costs Subsistence Allowance The employee costs figure of Kshs.7,104,007,000 in the statement of financial performance includes additional subsistence allowance of Kshs.725,060 paid to two doctors whose supporting documents and regulations were not availed for audit verification. In the circumstances, the propriety of the Kshs.725,060 included in the employees costs of Kshs.7,104,007,000 for the year ended 30 June, 2015 could not be confirmed.	The recovery of Kshs. 725,060 is in the process of being effected against the two doctors	Mrs. J. K. Ongayo Deputy Director Human Resources	On implementation	September 2016

Ref. No.	Issue / Observation from Auditor-General	Management comment	Focal Point person to resolve issue	Status	Time frame
6.2	Restated Expenditures The statement of changes in net assets accumulated deficit fund balance of Kshs.684,734,000 includes restated accumulated deficit fund balance of Kshs.479,125,000 as at 30 June, 2013. Further, the restated accumulated deficit fund balance of Kshs.479,125,000 includes unsupported restated expenditure of Kshs.18,436,000 for the year ended 30 June, 2013. Consequently, the restated accumulated deficit fund balance of Kshs.684,734,000 for the year ended 30 June, 2015 could not be confirmed. Trade and Other Payables from Exchange Transactions The trade and other payables from exchange transactions balance of Kshs.954,975,000 includes long outstanding accounts payables of Kshs.76,298,473. No explanation has been provided for failing to clear these long outstanding account payables. Consequently it has not been possible to ascertain whether the trade and other payables from exchange transaction balance of Kshs.954,975,000 as at 30 June, 2015 is fairly stated.	The restated amount of 18,436,000 relates to Loose Tools expensed which were initially recognized as assets The long outstanding accounts payable have been circularized. The process of investigating each invoice is ongoing with an aim of confirming the debt status. Approval to write back invoices that are not claimed or payable will be sort from the Board once investigation is completed	CPA M. Kihuga Deputy Director Finance CPA M. Kihuga Deputy Director, Finance	Resolved In the process of resolving	June 2017



Chairman of the Board

Date 10-02-2017



Chief Executive Officer

Date 10-02-2017



KENYATTA NATIONAL HOSPITAL

Hospital Road | P. O. Box 20723-00202 Nairobi, Kenya | Tel: +254 (20) 272 6300-9
Direct Line +254 (20) 724 4000 / 424 3000 | Call toll (Free) 1521 | Cell: + 254 722 427 820 | Fax: 272 5272
Email: knhadmin@knh.or.ke | Website: www.knh.or.ke | Facebook: Kenyatta National Hospital



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