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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
KENYATTA NATIONAL HOSPITAL

FOR THE YEAR ENDED  
30 JUNE 2016



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## **KENYATTA NATIONAL HOSPITAL**

# **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016**

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

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## **I. KEY HOSPITAL INFORMATION AND MANAGEMENT**

### **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:

- 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 30th June 2016 and who had direct fiduciary responsibility were as per the table of management team on page 9.

### **e) Fiduciary Oversight Arrangements**

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

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](mailto:knhadmin@knh.or.ke)

Web site: [www.knh.or.ke](http://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 Kipkemoi 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 Master 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.



**Prof. Isaac Ongubo Kibwage**  
**Principal, College of Health Sciences**

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

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



**Mr. Peter Kiplangat Tum**  
**Director, KMTC**

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

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



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

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

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



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

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

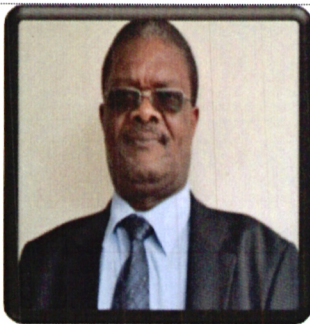
She holds a Doctorate in Education (Social Education and Ethics); Master of Economics and Social Studies, Bachelor of Education (Arts) and post-graduate Diploma in Community and Adult Education.



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

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

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



**Mr. 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.



**CPA Mrs. Mary Chebukati Wanyonyi**  
**Alternate to Principal Secretary, National Treasury**

Born in 1962, CPA Mrs. Wanyonyi is the Director General (Accounting and Quality Assurance) at the National Treasury (NT). She has over 10years experience as a District Accountant in various District Treasures. 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**





NAME	AREA OF RESPONSIBILITY	KEY PROFESSION/ACADEMIC QUALIFICATION
 <p>Lily Koros Tare</p>	<p>Chief Executive Officer</p>	<ul style="list-style-type: none"> <li>• Executive MBA finance Option</li> <li>• MBA Health Management</li> <li>• BCOM Administration</li> <li>• Post graduate diploma in international leadership in hospital management</li> </ul>
 <p>Mr. Carylus Odiango</p>	<p>Director, Corporate Services</p>	<ul style="list-style-type: none"> <li>• MBA in strategic Management</li> <li>• Executive MBA Leadership and international business Development</li> <li>• CPA(K) &amp; CPS (K)</li> <li>• BCOM (Accounting option)</li> </ul>
 <p>Dr. Bernard Githae</p>	<p>Director, Clinical Services</p>	<ul style="list-style-type: none"> <li>• MMED (Surgery)</li> <li>• MBChB</li> <li>• Bachelor of Medicine</li> </ul>



	<p>Director, Prime Care Centre</p>	<ul style="list-style-type: none"> <li>• MMED (Internal Medicine)</li> <li>• MBChB</li> <li>• Gastroenterology (fellow)</li> <li>• Postgraduate Certificate in Tropical Medicine</li> </ul>
	<p>Deputy Director, Corporation Secretary</p>	<ul style="list-style-type: none"> <li>• Masters In Law</li> <li>• MBA in Strategic Management</li> <li>• Bachelor Of Law</li> <li>• Post Graduate Diploma in law (KSL)</li> <li>• CPS(K)</li> <li>• Fellow of the chartered institute of arbitrators</li> </ul>
	<p>Deputy Director, Nursing Services</p>	<ul style="list-style-type: none"> <li>• BSc In Nursing</li> <li>• Diploma In Advanced Nursing</li> <li>• Kenya Registered Midwifery</li> <li>• Kenya Registered Nurse</li> <li>• Diploma In Public Health</li> </ul>
	<p>Deputy Director Human Resources</p>	<ul style="list-style-type: none"> <li>• MBA- Human Resource Management</li> <li>• Bachelor of Education</li> <li>• Higher diploma in Human Resource</li> </ul>

 <p>Mr. Michael Kihuga</p>	<p>Deputy Director, Finance</p>	<ul style="list-style-type: none"> <li>• MBA (Executive) - Finance</li> <li>• Bachelor Of Education</li> <li>• CPA (K)</li> <li>• CPS(K)</li> </ul>
 <p>Mr. Job Makanga</p>	<p>Deputy Director, Planning and Strategy</p>	<ul style="list-style-type: none"> <li>• Executive MBA (Strategic Management)</li> <li>• Bachelor of Science (Hotel &amp; Institutional Management)</li> </ul>
 <p>Dr. John Ong'ech,</p>	<p>Deputy Director Surgical Services</p>	<ul style="list-style-type: none"> <li>• Master in Public Health- International Health</li> <li>• Master of Medicine in Obstetrics and Gynaecology</li> <li>• Bachelor of Medicine and Surgery</li> <li>• Certificate in International Research, leadership and management.</li> </ul>
 <p>Eng. Richard Binga</p>	<p>Deputy Director, Facilities and Services</p>	<ul style="list-style-type: none"> <li>• BSC In Mechanical Engineering</li> <li>• Diploma In Project Planning &amp; Mgt</li> <li>• Maintenance Mgt In The Tourism &amp; Hospitality</li> </ul>

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	<p>Deputy Director, Diagnostic Services &amp; Health Information</p>	<ul style="list-style-type: none"> <li>• MMED (Pathology)</li> <li>• MBChB</li> </ul>
	<p>Deputy Director, Medical Services</p>	<ul style="list-style-type: none"> <li>• MSc (Gastroenterology)</li> <li>• MMED (Internal Medicine)</li> <li>• MBChB</li> <li>• Postgraduate Tropical Medicine</li> </ul>
	<p>Deputy Director, Pharmaceutical Services</p>	<ul style="list-style-type: none"> <li>• Bachelor Of Pharmacy</li> </ul>
	<p>Deputy Director, Supply chain management</p>	<ul style="list-style-type: none"> <li>• MBA Strategic Management</li> <li>• Bachelor Of Science in Zoology and Botany</li> <li>• Graduate Diploma In Purchasing &amp; Supplies</li> </ul>

	Deputy Director, Internal Audit and Risk	<ul style="list-style-type: none"><li>• MBA Corporate Management</li><li>• BCOM Accounting Option</li><li>• CPA(K)</li><li>• CPS (K)</li></ul>
	Deputy Director, Affiliation and Institutional Development	<ul style="list-style-type: none"><li>• Msc (Clinical Dermatology)</li><li>• MBchB</li><li>• Mgt Devpt Prog for managers in health</li></ul>

#### **IV. CHAIRMAN'S STATEMENT**

I am very pleased to report that Kenyatta National Hospital (KNH) has continued to perform well and remain one of the leading public Healthcare providers in the country.

The Hospital achieved a strong set of results for the fiscal year ending 30, June 2016 despite a significant rise in demand for our services, the continued tough financial constraint and increased cost of medical equipment and consumables.

This was a pivotal year for KNH in the development and early execution of the hospital strategic plan. Prompt emergency care and rapid diagnosis and treatment for non-urgent conditions are also key objectives and the vast majority of our patients are treated within the targets we have for their care.

The rise in demand saw referrals to KNH increase from last year by almost 0.7%, which represents an additional 3937 patients. We saw an additional 3937 outpatients and we carried out over 2500 planned operations and procedures. There was a 3.7% overall increase in the number of outpatients seen in our clinics while the number of outpatients in need of renal review increased by 18.2%.

Not only did we treat more inpatient and day cases, but we also saw a significant rise in the number of emergency admissions and A&E attendances. This inevitably created pressures across the Hospital, but despite this we achieved the majority of the targets and standards required.

#### **Focus**

Focus was also given to KNH Prime Care Centre where we equally adopted a go-to-market effectiveness review of the customer feedback, media analysis and stakeholders engagement. As a result, a client portfolio marketing approach was introduced to the Centre healthcare services, augmenting the facility rebranding and staff training on customer care. This enhancement will further support the development of client-centric and healthcare packages for our post-paid clients and corporate patients.

Over the year we have focused on the main driver in our care which is to ensure our patients receive safe, high quality care. To confirm our performance towards delivering this we continually measure a number of key indicators and outcomes. One of the most important 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 decision and a sign of a high level of attention to

detail and pleasingly, during the last 12 months. Our post-operative infections and hospital acquired infections remained low. This is testament to our staff and in particular our excellent cleaning and infection control teams.

The Hospital also sustained prompt emergency care and rapid diagnosis and treatment for emergency cases and majority of our patients are treated within the time limit we have placed in the service delivery charter. We are never complacent about this and hence continue to seek ways to further improve our performance

### **Priority and Sustainability**

In order to provide continued improvement in healthcare and drive an appropriate return to Kenyans, the cornerstone of KNH's business approach must be to remain vigilantly focused on its stated priorities.

We believe in the importance of having a clear set of priorities to guide us through a turbulent and ever-changing environment. Our aim is to achieve long term sustainable growth and deliver value to all our stakeholders.

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 learn where there are opportunities to improve and valuable insight into where our future focus needs to be.

It is also pleasing to have recognition through awards where during the year, our staff and the hospital received the highest number of national patient care, innovation and safety awards that KNH has ever had.

### **Research and Innovation**

KNH established a vibrant research department through a research policy to ensure our medical services is supported by informed findings. Supported by 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 has developed a culture of internal engagement not only in research but also where everyone is empowered to identify solutions to solve healthcare challenges, develop new approaches and disseminate the findings to allow adoption.

Beyond the challenging day-to-day healthcare issues, in terms of clinical practice and innovation, our teams are among the best in Kenya and a number of new treatments and procedures 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, reduced delays and reduced

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patient turnaround time. Similarly, the introduction of Lamaze training for expectant mothers has not only enhanced confidence in deliver among mothers during labor but has also increased preference for normal delivery.

The office of research is further helping investigators meet potential collaborators, seek funding, manage grants, agreements, and intellectual property, and gain access to the resources to be successful.

However the most significant investment during 2015/16 was in our Transformation through expanding cancer center to meet the increasing demand and reduce patient waiting time for treatment. Cancer patients are currently receiving treatment using Linear Accelerator courtesy of the Government that great supported procurement of the machine and expansion of the facility.

During 2015/16 we also continued to invest in new facilities and developments including refurbishing Prime Care Centre to hype our commitment to address the increasing demand for specialized healthcare from corporate clientele. 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. Pre-empting this fact, we renovated and equipped cardiac catheterization laboratory to spur the development of cardiac units.

However, we still remain ahead with our most ultramodern cutting-edge technology, equipment and experienced staff providing 24 hours service to the heart patients in this country. 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 well 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 seen us automating 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 over coming years.

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I am confident that we will meet that challenge as we focus on our vision which is a world class patients-centered care hospital and a renowned healthy provider in Kenya.

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

It is our commitment to involve even more staff in making improvements or changes for the better through the Chief Executive Officer forums. This will be the key aim of We Listen, We Care motto we have adopted.

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

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**

Sign



Date

10/02/2017

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

Kenyatta National Hospital (KNH) has been providing healthcare for the people of Kenya, East and Central Africa region for over a hundred years in a public healthcare demanding setting. The ideals by which KNH was first established have remained unchanged in over a century of service.

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.

This has helped us reinforce our healthcare foundation related to service excellence, quality and safety, leading clinical services and innovation. The emerging health needs of Kenyans have equally helped us to take the bold actions that will be needed to build a strong and sustainable future for health care in our region. We were honored to have created 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.

It was particularly rewarding to see our efforts acknowledged by patients, Government, partners, stakeholders and specifically by Kenya Bureau of Standards that recertified KNH following 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 assess 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 patient 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 coupled with the annual performance contract, we are poised to work differently and in new and

more collaborative ways to help ensure Kenyans and patients from the region have access to the health services they need when and where they need them most. We are proud of recent achievements which ensure that our patients are being treated using the most current and effective clinically based guidelines.

Realizing that our patient needs are diverse and require a portfolio of skills and resources to enable us to have the capability to meet these demands, the management has invested heavily in equipment and human capital.

Thus over KES 170 million were spend on training of staff across the disciplines to ensure that the hospital tape in the emerging skills and knowledge. Over 3000 staff were trained in various areas realigned to a more specialized and operational structure. There is no doubt that this will go a long way to serve the emerging health needs of Kenyans.

Our greatest asset in meeting these needs is also through the employees we hire. We injected in 132 additional staff to bring in new ideas and skills in line with the mission of and the needs of the patients. Furthermore we have continued to facilitate training of 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, ICU, theatre and Accident and Emergency during the period.

KNH has grown in size and services. The expansion of critical Care Unit from twenty one beds to current forty five beds shows that the hospital has advanced health care services. The new facilities have enables us to provide a higher level of comprehensive care and more access points for our patients care needs. We also know that addressing children's health challenges today will contribute to a healthier society tomorrow as many adult diseases have their beginning in childhood.

It is in this view that we focused on expansion of neonatal services where we created a Newborn Intensive Care Unit to ensure preterm and sick babies get a chance to benefits from specialized care.

We have also adopted quarterly assessment systems because we believe that standards that benchmark the quality of healthcare delivery are those that scrutinize the systems, facilities and policies through which care is experienced by our patients.

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The hospital's ICT network has grown from 1000 users in 2013 to the current 4000+ (over 80% of the staff have access to computing services) with the computer to staff ratio improving from 1:10 to 1:5 currently.

#### **Partnerships**

The increased demand for specialized referral healthcare has continued to increase an equal pressure on resources. In 2015/16 this evident made KNH to explore new frontiers to expand partnerships linkages to attract resources to complement pressure on our finances and facility. These partnerships have helped share resources through mentorships and collaborations. That starts with strengthening partnerships with local health service providers and fostering new relationships. The Old Mutual foundation supported the renovation of Accident and Emergency at a cost of over KES 18M, Dalbit petroleum put in over KES 10 M to renovate one of the children wards while supported the phase one of the public hands washing facility.

The Jews Community through the Israel Embassy renovated one of the children cancer ward at over KES 3M, establishing a playground for cancer children by Family Bank at a cost of over KES 4M are just but to mention few of the many friends that have selflessly committed resources to transform life of the patients. Others include Jubilee insurance, Kenya Power Pension Funds and the list is long from individuals, churches, Non-Governmental organization and corporate institutions contributed in cash and kind to over KES 48m not to mention equipment worth millions.

Nevertheless we will continue to strive to improve further in delivering the highest level of care for our patients and the best possible experience for them and their families and careers.

Furthermore, we have held fruitful discussions with county hospitals that have seen a reduction on non-deserving patients referred to KNH.

We will continue to build these relations and others to develop innovative initiatives to ensure that all players in health comply with referral guidelines to allow KNH play its right role in health.

#### **Countering Fraud and Corruption**

The management and staff remains committed to maintaining an honest and open atmosphere within the KNH; ensuring all concerns involving potential fraud have been identified and rigorously investigated. The Corruption Prevention Committee

(CPC) receives and assesses quarterly reports from the secretariat on public concerns reported directly to the office, or received from the suggestion boxes or from the email portal. The committee through the departmental Integrity Assurance Officers (IAO) has been instrumental in creating an anti-fraud culture and provides specialist advice in keeping corruption policies up to date. By maintaining corruption and fraud levels at an absolute minimum KNH has ensured that more resources are available to provide better patient care and services.

**Salutation**

We are very proud of all our staff and volunteers for their tremendous achievements, which are the basis for this Hospital's success 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 gave us synergies to render the most needed specialized healthcare.

Finally 2015/16 promises to be one of our most challenging years yet but we intend to rise to that challenge and deliver the best possible clinical outcomes, provide a high standard of customer services, employ caring and cared for staff, spend money wisely and deliver excellent research, innovation and teaching.

We will continue to enhance our delivery models of care, foster bold new partnerships to engage public Private Partnerships and share innovative approaches to healthcare through a renewed focus on training and research.

Powered by our new Vision – Patient-inspired health care 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. We touch lives at times of basic human need, when our care and compassion are what matter most to people.

**LILY KOROS TARE**  
**CHIEF EXECUTIVE OFFICER**

Sign



Date

10/02/17

## **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**

#### **i) 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.

#### **ii) 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

#### **iii) 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: -

**(a) 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.

**(b) 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.

**(c) 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.

**(d) 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**

**i) 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.

**ii) 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

**iii) 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.

**iv) 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 in the accounts.

**v) 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**  
**CHIEF EXECUTIVE OFFICER**

Sign



Date

10/02/17

## **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 extend our healthcare services beyond the confines of work station to the local communities as medical outreaches where we attend 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 public some epicenters of most our patients including counties, slum areas and institutions of learning. Corporate Citizenship has not only attracted public goodwill but has also help voluntary teams to move towards more integrated healthcare delivery, significantly create awareness on help diagnose diseases early. This initiatives has 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 being admitted to hospital or ended up in long term care.

Incidents of cancer have steadily risen in the past few years to an extent where it has become the first highest cause of admission and deaths in KNH and also a significant burden for the Government. During the year, the hospital held three major outreaches where over 1000 members of 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

*Kenyatta National Hospital*

*Annual Report and Financial Statements for the year ended June 30, 2016*

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 10/02/17

**VIII. REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended 30<sup>th</sup> 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 results of the Hospital for the year ended June 30, 2016 are set out on page 31

**Directors**

The members of the board of management who served during the year are shown on page 4.

**Auditors**

The Auditor-General is responsible for the statutory audit of the Hospital in accordance with the section 81(4) of the Public Finance Management Act (PFM) 2012.

By Order of the Board

**LILY KOROS TARE**  
**CHIEF EXECUTIVE OFFICER**

Sign



Date

10/02/17

## **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.

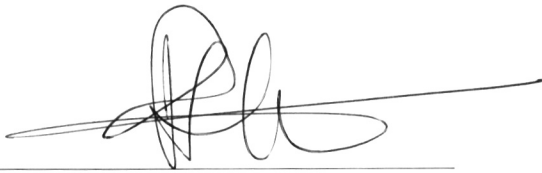
*Kenyatta National Hospital*

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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 15<sup>th</sup> September, 2016 and signed on its behalf by:



**CHAIRMAN**



**CHIEF EXECUTIVE OFFICER**

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

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

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenyatta National Hospital set out on pages 31 to 85, 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.

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

#### **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 disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial

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*Report of the Auditor-General on the Financial Statements of Kenyatta National Hospital for the year ended 30 June 2016*

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 30 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 prepayments totalling 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 the 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-13319	Upper hill	0.0217	1,600,000
<b>Total</b>		<b>0.7847</b>	<b>50,600,000</b>

Further, the property, plant and equipment balance of Kshs.11,597,155,000 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
<b>Total</b>			<b>329,000,000</b>

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 Hospitals 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 19<sup>th</sup> report that the National Land Commission revoke title deeds irregularly issued to private entities, and that 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 the 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 to 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 Center (KPCC - Private Wing) refurbishment. However, the contract was awarded to the third lowest bidder at Kshs.204,831,547.20 while the lowest bidder was Kshs.148,899,879.80 resulting to an unexplained over-payment of Kshs.55,931,667.40. Further, physical verification revealed that several defects, including broken door closures, paint peeling-off, telephone and nurse calls communication network bath tabs positioned too high for patients to use comfortably. The management did not provide explanations for the anomalies.

### **3.4 Provision of Hot Water Systems**

The property, plant and equipment balance of Kshs.11,597,155,000 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/247VOL.II of 16 April 2014. No explanation has been provided for why this legal requirement was breached. In the circumstance, the propriety of the legal fees 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 end in August 2010. However, information available indicates that on 1 August 2016 the rebates were increased to Kshs.4,000 per patient. No explanation has been provided why it took the Hospital eight years to review the NHIF contract. Had the contract been reviewed earlier, the losses totaling to Kshs.411,777,000 could have been avoided.

**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/FCM 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 Hospital's 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**

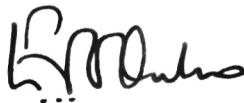
As similarly reported in 2014/2015, the trade and other payables from exchange transactions balance totaling to Kshs.711,405,000 includes long outstanding accounts payables balance of Kshs.65,799,329. No explanation has been provided for failing to clear these long outstanding account payables.

## **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**

	Note	2016 Kshs. `000	Restated 2015 Kshs. `000
<b>Revenue from non-Exchange transactions</b>			
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)
		<b>6,821,234</b>	<b>6,793,859</b>
<b>Revenue from Exchange transactions</b>			
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
		<b>4,871,027</b>	<b>4,655,783</b>
		<b>11,692,261</b>	<b>11,449,642</b>
<b>Expenses</b>			
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
		<b>10,884,924</b>	<b>10,211,940</b>
<b>Other gains/(losses)</b>			
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)
		<b>(1,486,109)</b>	<b>(1,135,038)</b>
		<b>(678,772)</b>	<b>102,664 (R)</b>

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

**XII. Statement of Financial Position  
As at June 30, 2016**

	Note	2016 Kshs. `000	2015 Kshs. `000
<b>Assets</b>			
<b>Current Assets</b>			
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
		<b>3,657,053</b>	<b>3,938,960</b>
<b>Non-Current Assets</b>			
Property, Plant & -Equipment	27	11,597,155	11,735,138
Intangible Assets	28	21,073	1,253
		<b>11,618,228</b>	<b>11,736,391</b>
<b>Total assets</b>		<b>15,275,281</b>	<b>15,675,351</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
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
		<b>1,361,270</b>	<b>1,488,202</b>
<b>Non-Current Liabilities</b>			
Borrowings	34	1,199,863	1,199,863
<b>Total Liabilities</b>		<b>2,561,133</b>	<b>2,688,065</b>
<b>Net Assets</b>		<b>12,714,148</b>	<b>12,987,287 (R)</b>
Capital Reserves		4,795,028	4,389,395
Accumulated Fund		(1,280,231)	(601,460) (R)
Revaluation Reserve		9,199,351	9,199,351
<b>Total net assets and liabilities</b>		<b>15,275,281</b>	<b>15,675,351</b>

The Financial Statements set out on pages 31 to 71 were signed on behalf of the Board of Directors by:

  
CHAIRMAN

Date.....10/02/2017

  
CHIEF EXECUTIVE OFFICE

Date.....10/02/17

**XIII. Statement of Changes in Net Assets  
For the Year Ended June 30, 2016**

	<b>Capital Reserve</b>	<b>Accumulated Fund</b>	<b>Revaluation Reserve</b>	<b>Total</b>
	<b>Ksh.`000</b>	<b>Ksh.`000</b>	<b>Ksh.`000</b>	<b>Ksh.`000</b>
<b>Balance as at 30th June 2014</b>	<b>4,111,045</b>	<b>(704,123)</b>	<b>9,199,351</b>	<b>12,606,273</b>
(Deficit)/Surplus for the year		102,664		<b>102,664</b>
Development grant	278,350			<b>278,350</b>
<b>Balance as at 30th June 2015</b>	<b>4,389,395</b>	<b>(601,459)</b>	<b>9,199,351</b>	<b>12,987,287</b>
Surplus/(Deficit) for the period		(678,772)		<b>(678,772)</b>
Development grant	405,633			<b>405,633</b>
<b>Balance as at 30th June 2016</b>	<b>4,795,028</b>	<b>(1,280,231)</b>	<b>9,199,351</b>	<b>12,714,148</b>

**XIV.Statement of Cash flows**  
**For the Year Ended June 30, 2016**

	Notes	2016 Ksh. `000	2015 Ksh. `000
Net Surplus/(Deficit) For The Year		<b>(678,772)</b>	<b>102,664</b>
<b>Adjusted For: -</b>			
Depreciation and Amortization	15	439,570	444,501
Work in Progress expensed	27	910	
Investment Income	11	(180,411)	(168,907)
Grant Projects	6	(150,995)	(163,065)
Profit/ Loss on disposal of fixed asset	19	20,432	15,440
<b>Operating Deficit Before Working Capital Changes</b>		<b>(549,266)</b>	<b>230,633</b>
(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
<b>Net Cash Outflow From Operating Activities</b>		<b>(532,909)</b>	<b>448,325</b>
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
<b>Net Cash Outflows From Investing Activities</b>		<b>243,295</b>	<b>(39,405)</b>
<b>Cash Flows From Financing Activities</b>			
Projects Grants	6	150,995	163,065
<b>Net Cash Inflows From Financing Activities</b>		<b>150,995</b>	<b>163,065</b>
<b>(Decrease)/Increase In Cash and Cash Equivalents</b>		<b>(138,619)</b>	<b>571,985</b>
<b>Cash and Cash Equivalents at the beginning</b>		<b>2,179,223</b>	<b>1,607,239</b>
<b>Cash and Cash Equivalents at the end</b>		<b>2,040,604</b>	<b>2,179,223</b>

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

	<b>Original Budget 2016 Kshs. '000</b>	<b>Adjustments 2016 Kshs. '000</b>	<b>Final Budget 2016 Kshs. '000</b>	<b>Actual on Comparable Basis 2016 Kshs. '000</b>	<b>Performance Difference 2016 Kshs. '000</b>	<b>% Variance</b>	<b>Explanati on of material variances</b>
<b>Revenue</b>							
GoK Recurrent Grants	6,665,062		6,665,062	6,665,062			
GoK Emergency Relief	70,000	(67,883)	2,117	2,117		0%	
Grants for donor funded projects	270,000	(118,887)	151,113	150,995	118	8%	
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)
<b>Total Income</b>	<b>13,046,155</b>	<b>(1,024,741)</b>	<b>12,021,414</b>	<b>11,692,262</b>	<b>329,152</b>	<b>3%</b>	
<b>Expenditure</b>							
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)		
<b>Total Recurrent Expenditure</b>	<b>13,984,143</b>	<b>(1,962,846)</b>	<b>12,021,296</b>	<b>12,371,034</b>	<b>(349,737)</b>	<b>(3%)</b>	
<b>Surplus/(Deficit) for the period</b>	<b>(937,988)</b>	<b>938,105</b>	<b>117</b>	<b>(678,772)</b>	<b>678,889</b>		

**Kenyatta National Hospital**

Annual Report and Financial Statements for the year ended June 30, 2016

**XVI.Statement of Comparison of Budget and Actual Amounts (continued)**

	<b>Original Budget 2016 Kshs. '000</b>	<b>Adjustments 2016 Kshs. '000</b>	<b>Final Budget 2016 Kshs. '000</b>	<b>Actual on Comparable Basis 2016 Kshs. '000</b>	<b>Performance Difference 2016 Kshs. '000</b>	<b>% Variance</b>	<b>Explanati on of material variances</b>
<b>Capital Budget Funding</b>							
GoK Development /Capital Grant	337,750	74,386	412,136	313,729	(98,407)	(24%)	
Internal Savings							
<b>Total Funding</b>	<b>337,750</b>	<b>74,386</b>	<b>412,136</b>	<b>313,729</b>	<b>(98,407)</b>	<b>(24%)</b>	
Capital Expenditure	337,750	74,386	412,136	313,729	98,407	24%	f)
<b>Under/(over) utilization</b>					<b>98,407</b>		

**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 the vacancies at the Board.

**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).

## **KENYATTA NATIONAL HOSPITAL**

### **Notes to Financial Statements for the year ended June 30, 2016**

#### **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**

###### **Fees**

The Hospital recognizes revenues from fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Hospital and the fair value of the asset can be measured reliably.

###### **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**

Government grants are recognized in statement of financial performance on a systematic basis over the periods in which the grants are intended to compensate.

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.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the

## **KENYATTA NATIONAL HOSPITAL**

### **Notes to Financial Statements for the year ended June 30, 2016**

Hospital with no future related costs are recognized in the statement of financial performance in the period in which they become receivable.

#### **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.

##### **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 investment 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 Hospital differences that would require reconciliation between the actual comparable amounts and the budget amounts are presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

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

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Hospital recognizes such parts as individual assets with specific useful lives and

## **KENYATTA NATIONAL HOSPITAL**

### **Notes to Financial Statements for the year ended June 30, 2016**

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%

#### **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

## **KENYATTA NATIONAL HOSPITAL**

### **Notes to Financial Statements for the year ended June 30, 2016**

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.

##### **i. 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.

##### **ii. Contingent assets**

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

#### **g) 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.

## **KENYATTA NATIONAL HOSPITAL**

### **Notes to Financial Statements for the year ended June 30, 2016**

#### **h) Employee benefits**

##### **Retirement benefit plans**

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

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

#### **i) 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.

#### **j) 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.

#### **k) 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 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

## **KENYATTA NATIONAL HOSPITAL**

### **Notes to Financial Statements for the year ended June 30, 2016**

extent that an asset has been recognized, the Hospital also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

#### **l) 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.

#### **m) Comparative figures**

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

#### **n) 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.

#### **o) 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, are described below. The Hospital based its assumptions and

## **KENYATTA NATIONAL HOSPITAL**

### **Notes to Financial Statements for the year ended June 30, 2016**

estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Hospital. Such changes are reflected in the assumptions when they occur.

#### **ii. Useful lives and residual values**

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

- The condition of the asset based on the assessment of experts employed by the Hospital
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

#### **iii. Provisions**

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

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and the assumption was made that the areas stay the same in size for a number of years.

Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers.

The estimates are discounted at pre-tax discount rates that reflect current market assessments of the time value of money. The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance. The cost of ongoing programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

#### **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

## KENYATTA NATIONAL HOSPITAL

### Notes to Financial Statements for the year ended June 30, 2016

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.

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

	<b>Less than one month Kshs.`000</b>	<b>Less than one year Kshs.`000</b>	<b>Over one year Kshs.`000</b>	<b>Total Kshs.`000</b>
<b>2016</b>				
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
<b>TOTAL</b>	<b>376,834</b>	<b>377,700</b>	<b>1,806,599</b>	<b>2,561,133</b>
<b>2015</b>				
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
<b>TOTAL</b>	<b>115,551</b>	<b>595,076</b>	<b>1,977,438</b>	<b>2,688,065</b>

## KENYATTA NATIONAL HOSPITAL

### Notes to Financial Statements for the year ended June 30, 2016

#### 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.

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

#### 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
<b>Reserves balances</b>	<b>12,716,027</b>	<b>12,988,221</b>
Total borrowings	1,199,863	1,199,863
Less: Cash and Cash equivalent	(2,040,537)	(2,179,223)
Net debt	<b>(840,674)</b>	<b>(979,361)</b>
Gearing ratio	<b>(7%)</b>	<b>(8%)</b>

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

note	2016	2015
Unconditional grants	Kshs.'000	Kshs.'000
<b>5 Grant from National Government</b>		
Recurrent grant	6,665,062	6,629,033
Emergency relief grant	2,117	
<b>Total</b>	<b>6,667,179</b>	<b>6,629,033</b>
<b>6 Conditional grants(Donor funded projects)</b>		
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	
<b>Total</b>	<b>150,995</b>	<b>163,065</b>
<b>Reconciliation of conditional grants:</b>		
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	<b>91,587</b>	<b>67,415</b>
<b>7 Public contribution and donations</b>		
General donations		416
Donation in kind	3,060	1,346
<b>Total</b>	<b>3,060</b>	<b>1,762</b>

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

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 31b)

	<b>2016</b>	<b>2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>8 Rendering of services</b>		
<b>a) Medical Services</b>		
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
Paedriatics 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

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

	<b>2016</b>	<b>2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
Medical Gases Income	20,440	18,455
Orthopaedic technology unit fee	7,246	13,484
Other medical services fee	31,259	419,309
	<b>4,455,789</b>	<b>4,263,219</b>
<p>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</p>		
<b>b) Administrative Services</b>		
Seminars and training	19,318	18,582
Nursing School fee	18,699	9,150
Administration charges	65,940	63,094
	<b>103,957</b>	<b>90,827</b>
	<b>4,559,746</b>	<b>4,354,046</b>
<b>9 Sale of Goods</b>		
Sale of Stores	342	979
Tender documents	383	2,400
Pigs Will	319	100
	<b>1,044</b>	<b>3,479</b>
<b>10 Rental Income</b>		
Residential Properties	102,942	102,928
Commercial Properties	26,884	26,423
	<b>129,826</b>	<b>129,351</b>
<b>11 Finance income - external Investments</b>		
Bank Interest	85,842	108,511
Interest on short term deposits	94,569	60,396
	<b>180,411</b>	<b>168,907</b>

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

	<b>2016</b>	<b>2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>12 Clinical cost</b>		
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
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
	<b>1,835,030</b>	<b>1,650,181</b>

Other Clinical costs include: Purchase of Crockery & Cutlery, Insecticide & Rodenticides, Dressing and appliances, Laundry detergents, Radiotherapy materials, Physiotherapy materials, ENT consumables, Occupational Therapy materials, Ophthalmology materials, Paediatric consumables, Orthopaedic technology materials, CCU materials, SPU materials, Infection Control materials and Tailoring materials.

**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

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

	<b>2016</b>	<b>2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
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
	<b>7,698,143</b>	<b>7,245,531</b>
<b>14 Board expenses</b>		
Emoluments	5,747	4,950
Mileage	2,688	2,669
Insurance	476	731
Training	5,366	2,688
Valuation and Induction	600	
	<b>14,877</b>	<b>11,038</b>
<b>15 Depreciation and amortization expenses</b>		
Property, plant and equipment	430,539	443,964
Intangible assets	9,031	537
	<b>439,570</b>	<b>444,501</b>
<b>16 Repair and maintenance Expenses</b>		
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
	<b>220,676</b>	<b>184,863</b>
<b>17 Administrative and General expenses</b>		
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

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

	<b>2016</b>	<b>2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
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
	<b>525,633</b>	<b>512,760</b>

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

**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

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

	<b>2016</b>	<b>2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
M Health Study	13,755	2,128
Mgt Postpartum Hemorrhage Bakn balloon Study		928
GIRL STUDY	1,685	
	<b>150,995</b>	<b>163,065</b>
<b>19 Gain/ (Loss) on sale assets</b>		
Property plant and equipment	<b>(20,432)</b>	<b>(15,440)</b>
<b>20 Impairment loss</b>		
Allowance for impairment loss on receivables from exchange transactions (see note 23)	<b>(623,788)</b>	<b>(557,252)</b>
<b>21 Medical Service Contracts gain/ (Loss)</b>		
Contracts with NHIF	(411,777)	(393,109)
Free maternity Program	(415,566)	(162,572)
Sponsored clinical projects	(14,079)	(6,303)
	<b>(841,422)</b>	<b>(561,984)</b>
<b>22 Loss on Foreign Exchange Transactions</b>		
Loss on Foreign Exchange Transactions - KPCC	(467)	(362)
<b>23 Cash and Cash Equivalents</b>		
<b>a) Bank balances:</b>		
National Bank of Kenya	1,278,388	1,547,105
Equity Bank	114,884	14,178
Kenya Commercial Bank	29,416	35,787
	<b>1,422,688</b>	<b>1,597,070</b>
<b>b) Cash in Hand</b>		
Liquid Cash	2,333	858
	<b>2,333</b>	<b>858</b>

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

	<b>2016</b>	<b>2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>c) Short term deposits:</b>		
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)
	<b>615,583</b>	<b>581,296</b>
<b>Total cash &amp; cash equivalents</b>	<b>2,040,604</b>	<b>2,179,223</b>

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
<b>Sub total</b>	<b>5,888,587</b>	<b>5,551,022</b>
Less: Impairment allowance	(4,795,379)	(4,171,591)
	<b>1,093,208</b>	<b>1,379,431</b>

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
<b>End of year</b>	<b>4,795,379</b>	<b>4,171,591</b>

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

	<b>2016</b>	<b>2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>25 Receivable from non- exchange transactions</b>		
GoK Recurrent grant	258,168	144,568
Staff receivables	21,333	15,662
	<b>279,501</b>	<b>160,230</b>
Less: Impairment allowance (GoK Grant)	(144,568)	(144,568)
	<b>134,933</b>	<b>15,662</b>
<b>26 Inventories</b>		
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
	<b>393,589</b>	<b>364,644</b>
Less: Obsolete stock	(5,281)	
<b>Total</b>	<b>388,308</b>	<b>364,644</b>

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

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

**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
<b>COST OR VALUATION</b>								
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)
<b>As at 30th June, 2015</b>	<b>4,014,600</b>	<b>6,753,456</b>	<b>3,920,459</b>	<b>93,847</b>	<b>272,883</b>	<b>184,596</b>	<b>420,797</b>	<b>15,660,637</b>
<b>As at 1st July, 2015</b>	<b>4,014,600</b>	<b>6,753,456</b>	<b>3,920,459</b>	<b>93,847</b>	<b>272,883</b>	<b>184,596</b>	<b>420,797</b>	<b>15,660,637</b>
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)
<b>As at 30th June 2016</b>	<b>4,014,600</b>	<b>7,182,605</b>	<b>4,128,573</b>	<b>93,847</b>	<b>269,946</b>	<b>191,312</b>	<b>40,211</b>	<b>15,921,091</b>
<b>DEPRECIATION</b>								
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)
<b>As at 30th June 2015</b>		<b>1,345,017</b>	<b>2,236,571</b>	<b>65,936</b>	<b>167,610</b>	<b>110,365</b>		<b>3,925,499</b>
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	13,096	24,331		430,539
Disposal			(29,506)		(2,438)	(158)		(32,102)
<b>As at 30th June 2016</b>		<b>1,490,956</b>	<b>2,447,253</b>	<b>72,920</b>	<b>178,269</b>	<b>134,538</b>		<b>4,323,936</b>
<b>NET BOOK VALUE</b>								
<b>As at 30th June 2016</b>	<b>4,014,600</b>	<b>5,691,649</b>	<b>1,681,320</b>	<b>20,927</b>	<b>91,676</b>	<b>56,774</b>	<b>40,211</b>	<b>11,597,155</b>
<b>As at 30th June, 2015</b>	<b>4,014,600</b>	<b>5,408,439</b>	<b>1,683,888</b>	<b>27,910</b>	<b>105,273</b>	<b>74,231</b>	<b>420,797</b>	<b>11,735,138</b>

## KENYATTA NATIONAL HOSPITAL

### Notes to Financial Statements for the year ended June 30, 2016

#### 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 valued at Ksh. Kshs.0.22Billion which is jointly owned by Kenyatta National Hospital (KNH), University of Nairobi and Kenya Medical Training College. The land was set aside as recreational ground for the three institutions. KNH is the custodian of the title document.

<b>28 Intangible Assets - Software</b>	<b>Kshs.'000</b>
<b>Cost or Valuation</b>	
<b>As at 30th June 2014</b>	<b>2,558</b>
Additions	
<b>As at 30th June 2015</b>	<b>2,558</b>
Additions	1,864
Transfers from Work in Progress	26,986
<b>As at 30th June 2016</b>	<b>31,408</b>
<b>Amortization</b>	
As at July	767
Charge for the year	537
<b>As at 30th June 2015</b>	<b>1,304</b>
As at 1st July 2015	1,304
Charge for the year	9,031
<b>As at 30th June 2016</b>	<b>10,336</b>
<b>Net Book Value</b>	
<b>As at 30th June 2016</b>	<b>21,073</b>
<b>As at 30th June 2015</b>	<b>1,253</b>

	<b>2016</b>	<b>2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>

#### 29 Trade and other payables from exchange transactions

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
	<b>711,405</b>	<b>875,325</b>

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

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

	<b>2016</b>	<b>2015</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>30 Deposit from customers</b>		
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	
	<b>47,935</b>	<b>63,677</b>
<b>31 Provision for leave pay</b>		
Balance at the beginning of the year	141,369	109,544
Additional provision raised		31,826
Provision utilised	(16,268)	
<b>Balance as at 30th June</b>	<b>125,102</b>	<b>141,369</b>
The provision was calculated based on the leave entitlement due to staff at year end adjusted for; experience adjustment in relation to the forfeiture of leave and leave taken trends and Salary scales applicable at the time of realization of leave by employees.		
<b>32 Deferred income</b>		
<b>a) Donor funded projects grants</b>		
Opening balance	74,915	57,825
received during the year:	167,667	180,154
utilised during the year:	(150,995)	(163,065)
Closing balance	<b>91,587</b>	<b>74,915</b>
<b>b) Donations in Kind assets</b>		
Opening balance	18,511	9,683
Additions during the year:	30,052	10,153
Amortization for the year:	(3,060)	(1,324)
Closing balance	<b>45,503</b>	<b>18,511</b>
<b>c) Zarina &amp; Naushad Foundation donation</b>	<b>25,000</b>	
<b>d) Nursing school-pre paid Fees</b>		
Opening balance	3,574	
received during the year:	19,034	3,574
utilised during the year:	(18,699)	
Closing balance	<b>3,908</b>	<b>3,574</b>
<b>TOTAL</b>	<b>165,998</b>	<b>97,000</b>

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

	2016	2015
	Kshs.'000	Kshs.'000
<b>33 Employee benefit obligations</b>		
<b>NSSF arrears</b>	<b>310,830</b>	<b>310,830</b>

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.

**34 Borrowings**

<b>Spanish Loan</b>	<b>1,199,863</b>	<b>1,199,863</b>
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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
<b>i) Effect due to restatement on year 2015</b>	
Increase in Public contributions & donations	21
Increase in Surplus	21
Decrease in Deferred income	(21)
Increase in Net assets/ Equity	21

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

**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.

	<b>Kshs.'000</b>
<b>i) Effect due to restatement on year 2015</b>	
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.

**i) Restatement**

**Effect due to restatement on year 2015**

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**

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016****Kshs.'000**

Services reclassified from Other income to rendering of services:	
Seminars and training	18,582
Sale of items/ services	35,413
<b>Increase in Rendering of Services</b>	<b>53,995</b>

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<b>Net Increase due to reclassification</b>	<b>53,995</b>
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<b>Net decrease due to Restatement and Reclassification</b>	<b>63,145</b>
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**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
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Decrease in Trade payable	(16,341)
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Increase in Net assets/ Equity	16,341
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**ii) Re-classification**

Expenses reclassified from Administrative and General expenses to Clinical Costs:

General expenses (Cleansing services)	(33,060)
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**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

**Kshs.'000**

General expenses (Disaster management expenses)	(1,654)
General expenses (KPCC expenses)	(161,640)
<b>Decrease in Administrative and General expenses</b>	<b>(196,353)</b>
Expenses reclassified from Administrative and General expenses to Other Gains and Losses:	
General expenses (Provision for bad and doubtful debts)	(557,252)
General expenses (NHIF, Free maternity and partners projects losses)	(561,984)
<b>Decrease in Administrative and General expenses</b>	<b>(1,119,236)</b>
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)
<b>Decrease in Administrative and General expenses</b>	<b>(28,296)</b>
Expenses reclassified from Administrative and General expenses to Employee Costs:	
General expenses (Staff Training & Development)	(128,718)
<b>Decrease in Administrative and General expenses</b>	<b>(128,718)</b>
<b>Net decrease in Administrative and General expenses</b>	<b>(1,472,604)</b>
<b>Net decrease due to restatement and reclassification</b>	<b>(1,488,946)</b>

**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
<b>Net decrease in Clinical costs</b>	<b>(55,261)</b>

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

	<b>Kshs.'000</b>
Increase in Surplus	55,261
Decrease in Trade payable	(55,261)
Increase in Net assets/ Equity	55,261
<b>ii) Reclassification</b>	
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
<b>Increase in Clinical Costs</b>	<b>196,353</b>
<b>Net increase due to restatement and reclassification</b>	<b>141,093</b>

**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**

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

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016**

ii)	<b>Reclassification</b>	<b>Kshs.'000</b>
	Expenses reclassified from Administrative and General expenses to Employee Costs:	
	General expenses (Staff training & development)	128,718
	<b>Increase in Employee Costs</b>	<u><b>128,718</b></u>
	<b>Net increase due to restatement and reclassification</b>	<u><u><b>126,837</b></u></u>
g)	<b>Repairs and Maintenance</b>	
	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)	<b>Restatement</b>	
	<b>Effect due to restatement on year 2015</b>	
	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)	<b>Reclassification</b>	
	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
	<b>Increase in Repairs and Maintenance</b>	<u><b>28,296</b></u>
	<b>Net increase due to restatement and reclassification</b>	<u><u><b>24,993</b></u></u>

**KENYATTA NATIONAL HOSPITAL****Notes to Financial Statements for the year ended June 30, 2016****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.

<b>i) Restatement</b>	<b>Kshs.'000</b>
<b>Effect due to restatement on year 2015</b>	
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
<b>ii) Reclassification</b>	
Staff receivables reclassified from receivables from exchange transactions to receivables from non-exchange transactions	
Debtors (Staff receivables)	(15,579)
<b>Net increase due to restatement and reclassification</b>	<b><u>(7,435)</u></b>

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

**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.

<b>j) Restatement</b>	<b>Kshs.'000</b>
<b>Effect due to restatement on year 2015</b>	
Increase in Deferred income	3,574
Decrease in Deferred income	(823)
Net Increase in Deferred income	<u>2,750</u>
increase in receivables from exchange transactions	3,574
Decrease in receivables from exchange transactions	(802)
Net Increase in receivables from exchange transactions	<u>2,772</u>
Increase in public contributions and donations	21
Increase in Surplus	21
Increase in Net assets/ Equity	21
<b>ii) Reclassification</b>	
Re-classification of Trade and other payables from exchange transactions to Deferred Income	
Payroll remittances (Nursing school prepaid fees)	802
<b>Net Increase due to Restatement and reclassification</b>	<u><u>3,552</u></u>

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

**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.

<b>Effect due to restatement on year 2015</b>	<b>Kshs.'000</b>
Increase in deposits from customers	116
Increase in trade and other receivables	116
Increase in Net assets/ Equity	<u><u>116</u></u>

**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:

<b>Reported balance</b>	<b>954,975</b>
<b>Effect due to restatement on year 2015</b>	
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)	<u>(3,303)</u>
<b>Net Decrease in trade payables due to restatement</b>	<b>(78,848)</b>
<b>Effect due to reclassification</b>	
Reclassification as per note 34j(ii)	<b>(802)</b>
<b>Restated balance 2014/15</b>	<b><u><u>875,325</u></u></b>

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

**Kshs.'000**

**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

**n) Accumulated Fund**

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)
<b>Restated balance as at June 30, 2014</b>	<b>(703,552)</b>
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)
<b>Net Increase in Surplus due to restatement</b>	<b>84,996</b>

<b>Restated Surplus for year 2014/15</b>	<b>102,664</b>
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<b>Restated Accumulated Fund as at 30/06/2015</b>	<b>(601,460)</b>
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## **KENYATTA NATIONAL HOSPITAL**

### **Notes to Financial Statements for the year ended June 30, 2016**

#### **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.

	<b>2016</b>	<b>2015</b>
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.

	<b>2016</b>	<b>2015</b>
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:

	<b>2016</b>	<b>2015</b>
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**

## **KENYATTA NATIONAL HOSPITAL**

### **Notes to Financial Statements for the year ended June 30, 2016**

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.

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

**I. 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.	<p><b>Receivables from Exchange Transactions</b></p> <p>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.</p>	<p><b>Temporary imprests and staff debtors</b></p> <p>The amount is owed by staff members who have left service either through death, resignation or dismissal.</p> <p>The amount due to the hospital will be netted off from the last dues relating to salaries to the staff upon clearance.</p> <p><b>Inpatients abscondment</b></p> <p>Measures have been put in place to curb abscondment. These include:</p> <p>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</p>	<p>CPA M. Kihuga Deputy Director, Finance</p> <p>CPA C. Odiango Director, Corporate Services</p>	<p>Ongoing</p> <p>On Implementation</p>	<p>June 2017</p> <p>Immediate</p>
1.2	<p>Further, the receivables from exchange transactions balance of Kshs.1,387,800,000 also includes Kshs.475,260,981 due from National</p>	<p>Reconciliation with NHIF on the difference in amount reported by the two institutions has been carried out.</p>			

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

	<p>Hospital Insurance Fund (NHIF) while the NHIF financial statements as at 30 June, 2015 reflects Kshs.56,982,180 resulting to unreconciled variance of Kshs.418,278,801.</p>	<p>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).</p>			
<p>1.3</p>	<p>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.</p>	<p><b>High Voltage Communications ltd. - Kshs.15,792,611</b>                  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 favor 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.</p> <p><b>Microtec Office Supplies Kshs.2,213,309</b>                  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 -</p>	<p>CS Calvin Nyachoti  Deputy Director, Corporation Secretary</p>	<p>Not resolved</p>	<p>June 2017</p>

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

		<p>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.</p> <p>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</p> <p><b>Glutex Medical Kenya Ltd.</b> <b>Kshs.13,727,655</b></p> <p>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.</p> <p>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</p>			
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**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

		and necessary adjustments have been made in the accounts of 2014/2015.			
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 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.	<b>Property, Plant and Equipment</b>				
2.1	<b>Parcels of Land</b> 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	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.	CS Calvin Nyachoti  Deputy Director, Corporation Secretary	Not resolved	June 2017

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

	<p>at Kshs.329,000,000 whose ownership is contested between Kenyatta National Hospital, Kenya Medical Training College, and National Quality Control Laboratory. 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.</p>	<p>Four parcels belonging to KNH have been encroached by private developers as reported to the Ndung'u Commission. These are as follows:-</p> <ol style="list-style-type: none"> <li>1. LR 209/12767 - 0.2260 Ha - Chal Developers Ltd (Tittle Issued on 30/09/96).</li> <li>2. LR 209/12822 - 0.1221 Ha - Grace Njoki Gakiria (Tittle Issued on 06/06/97).</li> <li>3. LR 209/11460 - 0.3164 Ha - Isaac G Wanjohi.</li> <li>4. LR 209/13319 - 0.0217 Ha Margaret Nyakerario Onyari &amp; Petronilla Muli</li> </ol> <p>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</p>			
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**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

		files with a view to placing caveat on them. No developments have taken place on these parcels of land.			
2.2	<p><b>Hospital Management information Systems</b></p> <p>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. 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.</p>	<p><b>Implementation</b></p> <p>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.</p> <p>The project implementation team (PIT) returned a verdict of 50% delivery by the vendor due to challenges as follows:</p> <ul style="list-style-type: none"> <li>➤ Inadequate user requirements assessment</li> <li>➤ Lack of requisite ICT infrastructure at KNH</li> <li>➤ Capacity challenges on vendor</li> </ul> <p>The PIT has recommended the way forward as follows:</p> <ul style="list-style-type: none"> <li>➤ The project be commissioned as is</li> <li>➤ That neither SPL nor KNH makes any demands for further payments or refund of funds already paid.</li> <li>➤ That a maintenance contract be negotiated with the vendor</li> <li>➤ The hospital to embark on getting a more robust HMIS</li> </ul> <p>The management is in the process of</p>	<p>Mr. Job Makanga</p> <p>Deputy Director, Planning &amp; Strategy</p>	<p>Not resolved</p>	<p>June 2017</p>

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

2.3	<p><b>Refurbishment to Private Wing</b>                  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 provide explanations for these anomalies.</p>	<p>implementing the above recommendations.</p> <p><b>Tender Award</b>                  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.</p> <p>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.</p> <p>Pursuant to Public Procurement and Disposal Act 2005 and Public Procurement Regulation 2006 Section 29 on tender document which states that:-</p> <ol style="list-style-type: none"> <li>1. <i>"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".</i></li> <li>2. <i>"Pursuant to Section 9(c) (i) of the Act, the Authority shall avail the</i></li> </ol>	<p>Mrs. Rose Njoroge  Deputy Director, Supply chain management</p>		
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**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

		<p><i>standard tender documents to procuring entities.”</i></p> <p>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.</p>			
		<p>The 1<sup>st</sup> and 2<sup>nd</sup> lowest bidders were therefore non-responsive.</p> <p><b>Defects</b></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Eng. R. Binga</p> <p>Deputy Director, Facilities &amp; Service</p>		
2.4	<p><b>Provision of Hot Water Systems</b></p> <p>The property, plant and equipment</p>	<p>The hot water system was</p>	<p>Eng. R. Binga</p>	<p>Tendering</p>	<p>Decembe</p>

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

	<p>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.</p> <p>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.</p>	<p>successfully installed and handed over to the Hospital during the period KNH Prime Care Centre (KPCC) was under rehabilitation.</p> <p>Failure of the hot water system in March 2015 was occasioned by:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Measures Taken by management</p> <p>a) In order to address power spike and surge, the hospital has invited bids for additional works</p>	<p>Deputy Director, Facilities &amp; Service</p>	<p>process ongoing</p>	<p>r 2016</p>
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**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

		<p>on the hot water heating system that include phase failure relays and surge protector in the bill of quantities.</p> <p>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.</p>			
3.	<p><b>National Hospital Insurance Fund (NHIF)</b></p> <p>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. Available information indicates that the contract provided for a variation for the rate of rebate depending on quality management reports and</p>	<p>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.</p> <p>The contracts also provide for enhanced rebate rates.</p> <p>The new contracts and enhanced rates are expected to minimize the loss reported in earlier periods</p>	CPA C. Odiango Director, Corporate Services	On implement ation	Immediat e

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

	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.	<p><b>Free Maternity Loss</b></p> <p>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 receives 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.</p>	<p>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.</p> <p>The management will endeavour to negotiate for a favourable rebate to control the loss attributable to the free maternity program.</p>	CPA C. Odiango Director, Corporate Services	Not resolved	June 2017
5.	<p><b>Borrowings</b></p> <p>As previously reported, the borrowings balance of Kshs.1,199,863,000 as at 30 June, 2015 relates to a loan received in</p>	The Government of the republic of Kenya and the Government of the Kingdom of Spain signed a loan agreement on 31st January 2006 for		Not Resolved	June 2017

## KENYATTA NATIONAL HOSPITAL

### Notes to Financial Statements for the year ended June 30, 2016

	<p>2007/2008 from the kingdom of Spain, in form of medical equipment. 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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>The Hospital in response to the above requested the National</p>	<p>Dr. Kamuri</p> <p>Deputy Director, Affiliation &amp; institution Development</p>		
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**KENYATTA NATIONAL HOSPITAL**

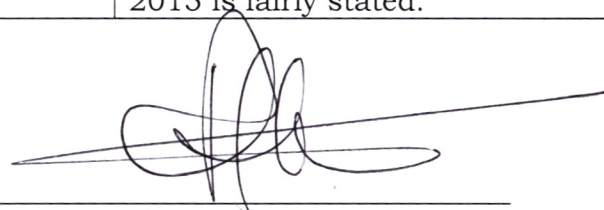
**Notes to Financial Statements for the year ended June 30, 2016**

		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.	<b>Unsupported Costs</b>				
6.1	<b>Subsistence Allowance</b> 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 implement ation	Septembe r 2016
6.2	<b>Restated Expenditures</b> 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.	The restated amount of 18,436,000 relates to Loose Tools expensed which were initially recognized as assets	CPA M. Kihuga  Deputy Director Finance	Resolved	

**KENYATTA NATIONAL HOSPITAL**

**Notes to Financial Statements for the year ended June 30, 2016**

	Consequently, the restated accumulated deficit fund balance of Kshs.684,734,000 for the year ended 30 June, 2015 could not be confirmed.				
7.	<p><b>Trade and Other Payables from Exchange Transactions</b></p> <p>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.</p>	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	In the process of resolving	June 2017



**CHAIRMAN**

Date.....

10/02/2017



**CHIEF EXECUTIVE OFFICER**

Date.....

10/02/17

