

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 12 SEP 2019

REPORT

TABLED
BY:

MAJORITY WHIP

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OF

THE AUDITOR-GENERAL

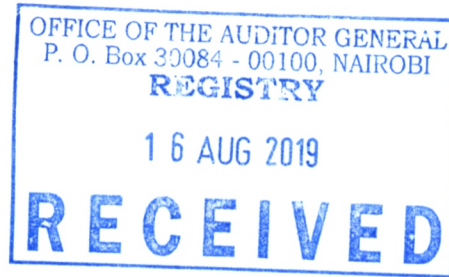
ON

THE FINANCIAL STATEMENTS OF
NATIONAL HOSPITAL INSURANCE
FUND

FOR THE YEAR ENDED
30 JUNE 2018

PARLIAMENT
OF KENYA
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2018

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

BOARD OF MANAGEMENT

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NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements
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KEY NHIF INFORMATION

Background information

The National Hospital Insurance Fund was established by the NHIF Act of Parliament on 31st December 1998. At cabinet level, the National Hospital Insurance Fund is represented by the Cabinet Secretary for Health, who is responsible for the general policy and strategic direction of National Hospital Insurance Fund. The National Hospital Insurance Fund is domiciled in Kenya and has 62 branch offices under 6 regions as follows; Nairobi, Central, Western, Coastal, North Eastern and Rift Valley.

Our Vision

To be a World Class Social Health Insurance Scheme

Our Mission

To provide accessible, affordable, sustainable and quality social health insurance through effective and efficient utilization of resources to the satisfaction of stakeholders

Our Core Values

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

- **Responsiveness to Customer Needs**

The Board of Management and the Management of NHIF believe that the success of the Fund depends largely on customer focus and will, therefore, ensure that customer responsiveness is practiced in the entire organization.

- **Professionalism and Integrity**

The Board of Management, Management and Employees of NHIF will act morally and ethically by consistently demonstrating high degree of probity in dealing with stakeholders.

- **Accountability and Transparency**

The Board of Management, the Management and employees of NHIF will remain accountable to all stakeholders of the Fund and will acknowledge responsibility for their decisions.

- **Efficiency and Effectiveness**

The Board and the Management will ensure the Fund maintains efficiency and effectiveness in all its processes and procedures so as to fulfil its mandate.

- **Creativity and Innovation**

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The Board and the Management and staff of NHIF will ensure the Fund enhances its creativity and innovation for improved service delivery and quality products.

- **Team Spirit and Staff Motivation**

The Board, the Management and staff of NHIF will ensure that the entire workforce is highly motivated and embraces team spirit through synergy in the furtherance of the Fund's mandate.

- **Passion and Enthusiasm**

The Board will ensure that the entire workforce of NHIF serves the Kenyan people with passion and enthusiasm.

Principal Activities

The Fund's core mandate is to provide healthcare financing to all its members and their declared dependants (spouse and children), who contribute either as employed persons, self-employed persons and or voluntary contributors. The NHIF membership is open to all Kenyans who have attained the age of 18 years and have a monthly income of more than Ksh 1,000.00.

The Fund has continued to expand its offerings in terms of healthcare benefit packages to all its members. The NHIF Supacover is a comprehensive and affordable health insurance scheme that offers the following to the NHIF members: *Outpatient services, Inpatient Services, Maternity Services, Imaging Services, Drug and Rehabilitation services, Renal Dialysis, Kidney transplant, Surgical Package, Oncology/Cancer Treatment, Emergency rescue services and overseas treatment.*

To enjoy the above benefits, the formal sector members' monthly contribution is between Kes. 150 and Kes. 1,700 based on an individual's pay scale and Kes. 500 monthly for the informal sector/self-employed.

NHIF has 61 fully autonomous branches across the country. Each of these branches offers all NHIF services including payment of benefits to hospitals or members or employers. Smaller satellite offices and service points in district hospitals also serve these branches.

Customer Service Charter

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

- ❖ Treating with courtesy and respect
- ❖ Upholding professionalism in serving
- ❖ Providing quality service
- ❖ Being accessible
- ❖ Providing accurate, relevant, timely and clear information
- ❖ Being responsive to customer needs and expectations

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- ❖ Monitoring and evaluating customer satisfaction levels
- ❖ Handling all customer information with utmost confidentiality
- ❖ Upholding ethics in a corruption free environment

Board of Management

The representation of the Board in the Financial Year 2017/2018 was as follows:-

NAME	TITLE/ REPRESENTING	DATE APPOINTED
Mrs. Hannah W. Muriithi	Chairperson	18 th April 2018
Mr. Geoffrey G. Mwangi	Chief Executive Officer	17 th November 2016
Dr. David Kariuki	PS/Ministry of Health	Alternate Member
Mr. Yusuf Ibrahim	PS /Min. of Public Service Youth & Gender	Alternate member
Mr. Joseph M. Kamau	PS /National Treasury	Alternate Member
Dr. Peter Cherutich	Director of Medical Services	Alternate Member
Mr. Akelo T. Misori	Central Organisation of Trade Unions	1 st March 2016
Mr. Mudzo Nzili	Kenya National Union of Teachers	1 st March 2016
Mrs. Gilda Odera	Federation of Kenya Employers	1 st March 2016
Dr. Elly Nyaim Opot	Kenya Medical Association	4 th September 2015
Mr. Latiff Shaban	Faith Based Healthcare Organisations	4 th September 2015

Other Key information of the Fund

Chief Executive Officer

Mr. Geoffrey G. Mwangi
P.O. Box 30443, 00100
Nairobi.

Registered Office

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

Corporate Bankers

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

Corporate Headquarters

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

Corporate Contacts

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

Corporate Bankers

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

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

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

Independent Auditors

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

Principal Legal Advisers

Akide & Co. Advocates
Blue Violets Plaza, 6th Floor, Suite 606
P.O. Box 34004-00100, Nairobi

Letangule & Company Advocates
4th Avenue Towers, 15th Floor
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Ashitiva Advocates
Victoria Towers, 1st Floor
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Lilan & Koech & Associates
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Maina & Maina Advocates
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Gitonga Kamiti Kairaria & Co Advocates
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Manyonge, Wanyama & Associates
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P.O. Box 100493-00101, Nairobi

HH Associate Advocates
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Humphrey & Company Advocates
Fortis Suites, 8th Floor
P.O. Box 21398-00100, Nairobi

McKay & Company Advocates
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Migos Ogamba & Company Advocates
Crawford Business Park, 4th Floor
P.O. Box 58387-00200, Nairobi

Kithure Kindiki & Associates
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KTK Advocates
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Mose, Mose & Millimo Advocates
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Avenue
P.O. Box 9403-00200, Nairobi

Kiptui, Kipkemei & Company Advocates
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P.O. Box 61435-00200, Nairobi

Ogolla, Okello & Company
The Green House, 1st Floor, Suite 14

Munyao Muthama Kashidi Advocates
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Orego & Odhiambo Company Advocates
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Mulongo, Oundo, Muriuki & Co. Advocates
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Muriuki, Mjagagua & Company Advocates
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Robison Harris Advocates
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Ngugi Mwangi & Company Advocates
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S. M. Chege & Company Advocates
Hillside Apartments, Ragati Road
P.O. Box 3496-00200, Nairobi

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Ogetto Otachi & Company Advocates
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P.O. Box 79438- 00200, Nairobi

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

Simba & Simba Advocates
Finance House, 6th Floor
P.O. Box 10312-00100, Nairobi

V. W. Maina & Company Advocates
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Walubengo Waningilo & Company
Ufundi Co-operative Plaza, 10th Floor
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Wekesa & Simiyu Advocates
Lenana Towers 8th Floor
P. O. Box 10299-00100, Nairobi




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THE BOARD OF MANAGEMENT




The Board of Management is representative of all key stakeholders and is charged with the running of the Fund through policy formulation and decision making on all policy matters. The following were the members of the Board of Management:

Name	Academic Qualifications	Date Of Appointment	Expiry Of Appointment
 <p>Mrs. Hannah Muriithi, EBS Position: Chairperson Date of Birth: 9th Dec. 1969</p>	<p>Masters in Business Administration (Strategic Management) Moi University, Bachelor of Laws (LLB), Hons. UON, Post Graduate Diploma (Dip, KSL) Kenya School of Law Certified Public Secretary (CPS.K)</p>	<p>18th April 2018</p>	<p>18th April 2021</p>
 <p>Dr. Peter Cherutich, M.B.Ch.B., Ph.D., M.P.H., OGW, MBS Alternate Member/Director of Medical Services</p>	<p>Bachelor of Medicine and Bachelor of Surgery (MBChB) University of Nairobi, Master of Public Health (University of Washington, USA), Doctor of Philosophy (PhD) in Global Health (University of Washington, USA) Certificate in Corporate Governance (Institute of Directors, Kenya) Strategic Leadership Development Programme (KSG)</p>	<p>3rd November 2017</p>	
 <p>Mr. Joseph M. Kamau Alternate Member/CS/The National Treasury</p>	<p>Masters in Economics (Financial Sector Policy) Bachelor in Economics and Mathematics MBA Finance</p>	<p>16th May 2016</p>	

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Name	Academic Qualifications	Date Of Appointment	Expiry Of Appointment
 <p>Mr. Yussuf Ibrahim Alternate Members/PS/Ministry of Public Service Youth & Gender Date of Birth: 12th Dec. 1970</p>	<p>Bachelor of Arts (Moi University) Higher Diploma in Human Resource Management (KNEC) Master of Science (Human Resource Development) University Putra Malaysia</p>	<p>26th May 2015</p>	
 <p>Mr. Lattif Shaban Health Based Organisations/Member Date of Birth: 1952</p>	<p>Diploma in Advanced Management and Leadership - Galilee International Management Institute Cambridge University General Certificate of Education Div. II</p>	<p>4th September 2015</p>	<p>4th September 2018</p>
 <p>Mr. M. O. Opot Health Based Organisations/Member Date of Birth: Oct. 1964</p>	<p>Bachelor of Medicine and Bachelor of Surgery (MB.CHB) University of Nairobi 1991 Masters of Medicine (MMed) in Surgery, University of Nairobi 1999 Fellow of the College of Surgeons of Southern, Eastern, and Southern Africa (FCS COSESCA) 2007 Executive Masters in Business Administration (EMBA) JKUAT, 2013</p>	<p>4th September 2015</p>	<p>4th September 2018</p>
	<p>Masters in Business Administration (MBAD) KeMU Bachelor of Science in Travel and Tourism Management (First Class Honors) KeMU Diploma in Tourism and Business Studies Y.M.C.A</p>	<p>1st March 2016</p>	<p>1st March 2019</p>

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Name	Academic Qualifications	Date Of Appointment	Expiry Of Appointment
 <p>Mr. Akelo M. T. Misori Central Organisation of Trade Unions/Member Date of Birth: 20th Feb. 1963</p>	<p>Bachelor of Education (Arts) Kenya University Diploma in Education Training on Conflict Management (Germany 2003) Training on Strengthening Social Dialogue and Decent Work 2018</p>	<p>1st March 2016</p>	<p>1st March 2019</p>
 <p>Mrs. Gilda Odera Federation of Kenya Employers Date of Birth: 25th Sept. 1966</p>	<p>PhD Candidate, Public Policy Administration, Specialization in Public Management and Leadership MA in Leading Innovation and Change, University of York St John, United Kingdom (Thesis: Women in Leadership: Challenges and Barriers) University of Nairobi, Upper Second Class Degree in Sociology.</p>	<p>1st March 2016</p>	<p>1st March 2019</p>
 <p>Mr. Geoffrey G. Mwangi CEO/ NHIF Board Secretary Date of Birth: 16th June 1969</p>	<p>Masters of Commerce degree (MCOM) Finance Option - Strathmore University (Thesis: Behavioral Finance Theory.</p> <p>He published publications titled: Behavioral factors influencing investment decisions in the Kenyan property market.</p> <p>Bachelor of Science in Business Administration (Bsc. BA) Accounting option - USIU</p> <p>Certified Public Accountant (CPA K)</p>	<p>17th November , 2016</p>	

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KEY MANAGEMENT TEAM

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



Geoffrey Gitau Mwangi - Chief Executive Officer

Mwangi is a financial Management specialist with a wealth of experience in accounting field. He is a Certified Public Accountant (CPA-K) and an active Member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has a wealth of experience in Finance and Accounting specializing in Healthcare Financing with extensive knowledge of health provider payment mechanisms. Mwangi holds a Master of Commerce (MCOM), Finance option from the School of Commerce and Management, Strathmore University. He also holds a Bachelor of Science in Business Administration (Bsc

BA) Accounting Option from the United States International University (USIU).

A Member of Joint Learning Network Costing Group, Mwangi participated in formulation of costing manual aimed at providing step by step guidance on costing for provider payment in low and middle income countries.

Dinah Jemelly Kirwa- Director, Corporate Services

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

She is an active member of Institute of Human Resources Management (IHRM) Kenya. Dinah is currently pursuing a PhD in Leadership & Governance. She is a holder of MBA in Philosophy in Human Resource Development from Moi University and a Post-graduate Higher Diploma in Human Resource Management from the Institute of Personnel Management. She also holds a Bachelor of Arts degree from University of Nairobi.

She has a certificate in Leadership for Health (LEHHO) from Strathmore University among other several professional workshops and seminars within and outside the Country.



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Nicodemus Ochieng' Odongo - Director, Strategy, Planning and Marketing

Odongo is a Planning, Policy, and Strategy specialist with a wealth of experience spanning over fifteen (15) years in Public Finance Management, Strategic Research, Economic & Budget Analysis and Marketing. He holds a Masters degree in Economics and a Bachelors degree in Economics both from the University of Nairobi. Odongo has trained in numerous fields including Advanced Tax Analysis and Revenue Forecasting; Pay and Grading strategies for change in the public administration international (PAI); Financial Management in the Public Sector; Balanced Scorecard (BSC) and Performance Management; QMS ISO 90001 Internal Auditors Course (BVKL); Research Skills Development and Strategic Planning.

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

Joseph Mutinda Mbuvi - Ag. Director Finance & Investments

Mbuvi is a financial management and internal audit specialist with a wealth of experience in audit and financial management. He's a member of ACFE, Institute of internal auditors, Kenya Institute of Management. He has an Executive Master of Business Administration (Finance) and a Bachelor of Commerce (Accounting). Mbuvi has trained in numerous fields including Corporate Governance, Leadership & Management, Financial Management and advanced trustee. Mbuvi has certificate



courses from several professional workshops and seminars within and outside the Country. He has work experience from the public sector and has moved through the ranks within NHIF for over 30 years.

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Ruth Makallah - Ag. Head of Legal Services/Corporation Secretary

Ruth is an advocate of the High Court of Kenya and commissioner for Oaths. She's a member of the Law Society of Kenya, Joint Learning Network on Universal Healthcare and Trustee Development Programme- Kenya. Ruth holds a Masters in Business Administration (MBA), Postgraduate Diploma in Law, Kenya School of Law and a Bachelor of Laws (LLB).

Ruth has a wide experience in Corporate Governance, Conduct of meetings and Minute writing, Legislative drafting course and Public Procurement & Framework Contracts and Agreements. She has certificates from several professional workshops and seminars attended within and outside the Country among them Joint learning Network on Management of Claims and Occupational Health and Safety Courses.

Mr. David Mulli - Head of Internal Audit

Mulli is an experienced auditor and accountant. He's is a Certified Public Accountant (CPA-K) and an active Member of the Institute of Certified Public Accountants of Kenya (ICPAK), a member of Institute of Internal Auditors, a Certified Ethics officer and a member of Institute of Ethics of South Africa. He is a member of ISACA (Information Systems Audit and Control Association).



Mulli holds a Masters in Commerce (Accounting & Finance) from KCA and Bachelor of Commerce (Accounting) from University of Nairobi. He's the Fund's ISO Lead Auditor. He has certificates from several professional workshops and seminars attended within and outside the Country.

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CHAIRPERSON'S STATEMENT

It is my great pleasure to present to you the financial report for the year 2017/2018. Once again, NHIF has demonstrated its commitment to deliver accessible & affordable health care to all Kenyans. As you will all recall, this financial year was marked by a long electioneering period and poor weather conditions. These factors made our Kenyan economy to take a downward trajectory thereby moving from a growth rate of 5.9 per cent in 2016 to a growth rate of 4.9 in 2017. In spite of these challenges, our organization remained focused in its mandate and was able to register good performance in member registration, revenue collection and in payment of benefits.



It is worth noting that the government instituted economic recovery measures under the 'Big Four' plan that was centered on achieving critical milestones in manufacturing, universal healthcare, affordable housing and food security. All these areas are closely related to our health care business and so achieving superb results in them does equally translate to our success.

In keeping with the provisions of the constitution of Kenya 2010 that guarantees the highest attainable standard of health as a basic right for every person, my board has been extremely cautious to ensure that decisions that are made adhere to the letter and the spirit of our constitution. In this regard more efforts have been put in place to ensure that all Kenyans and in particular those that find themselves in vulnerable circumstances are able to access healthcare services.

I am also happy to report that my board continued to support productive engagements with key stakeholders in the health sector in view of our noble responsibility to deliver universal health coverage to all Kenyans. In the last financial year, we embarked on building bridges with county governments in a bid to harness our collective energies in health care delivery. Indeed, these initiatives bore fruits when 21 county governments signed for a comprehensive medical scheme with NHIF.

As a board, we shall continue to engage with all key stakeholders both from the public and the private sector and steer the organization to greater heights and in line with Kenyan constitution and vision 2030.

.....
CHAIRPERSON - BOARD OF MANAGEMENT

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REPORT OF THE CHIEF EXECUTIVE OFFICER

Introduction



The end of a financial 2017/2018 gives us yet another opportunity to reflect on the gains that we have been able to obtain as an organization as well as to refocus on the future in line with our mandate to provide accessible, affordable, sustainable equitable and quality social health insurance to all Kenyans.

As the financial year comes to a close, I would like to appreciate the efforts that were laid down by our government in an effort to revamp our economy under the 'Big Four Plan' which prioritized achievements in nutrition and food security, universal health coverage,

affordable housing and a thriving manufacturing sector. It is no doubt that these efforts will go a long way in complementing our efforts towards building healthy workforce.

As an institution, we remain extremely dedicated to walk the nation towards universal health coverage. To this end, a number of initiatives were undertaken in the financial year 2017/2018. These include the expansion of service points, putting more resources in the ongoing biometric registration as well as refocusing our energies in protecting the poor under the vulnerable and the Older Persons and Persons with Severe Disabilities Programs (OP&PWD).

In addition, we were also able to ensure safe delivery for a sizeable number of mothers through Linda Mama Program. Moreover, we rolled out an Edu-Afya program which is meant to provide a health insurance to the secondary school students. These programs were run simultaneously with previously existing medical schemes which include the National Health Medical Scheme, & National Police & Prisons Officers Medical Scheme, the County Government Medical Schemes and other Enhanced Medical Schemes as our living demonstration to deliver on our obligations.

2017/18 Performance Review

In the 2017/2018 financial year, the total revenue was **Kes. 39.5 Billion** which included; **Kes. 2.2 Billion** Income from investments, **Kes. 44.6 Million** Surplus from the Civil Servants Medical Schemes, **Kes. 738.7 Million** Surplus from Disciplined services medical scheme, **Kes. 826.5 Million** Surplus from Secondary school Medical scheme, **Kes. 625.6 Million** Surplus from Health Insurance Subsidy Programme (HISP OVC), **Kes. 173.9 Million** Surplus from HISP OPPSD, **Kes. 225.2 Million** Surplus from County Medical Schemes, **Kes. 160.3 Million** Surplus from Parastatal and Other Private medical (POPM) schemes and **Kes. 1.5 Billion** from Free

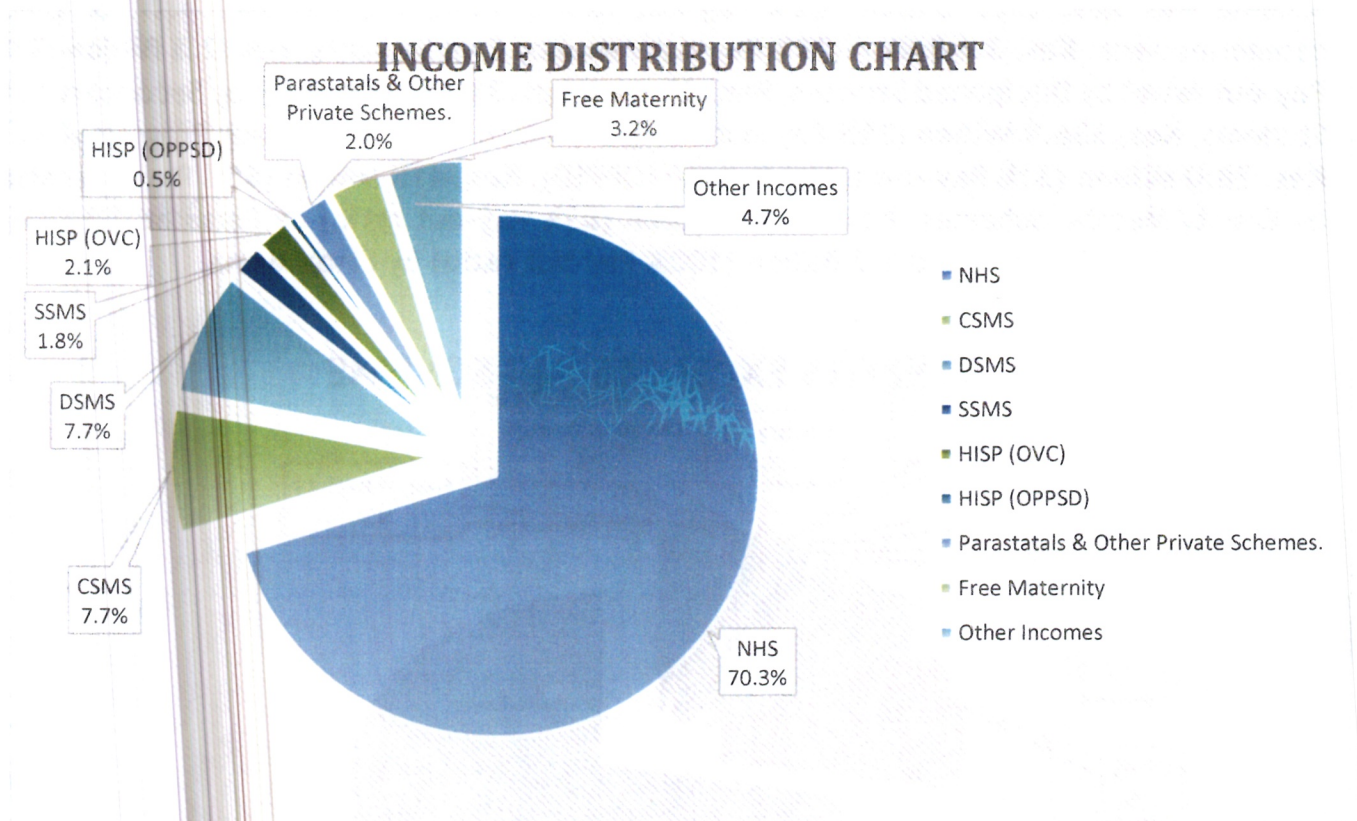
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Maternity (Linda Mama). This represented a 21% increase of the total revenue in 2017/2018 compared to the 2016/2017 financial year where the total revenue was **Kes. 32.7 Billion**.

Kes.33 Billion Contributions were received from the National Scheme while premiums from Civil Servants Medical Schemes, Disciplined services medical scheme, Secondary school Medical scheme, Health Insurance Subsidy Programme (HISP OVC), HISP OPPSD, County Medical Schemes, Parastatal and Other Private medical (POPM) schemes and Free Maternity (Linda Mama) were **Kes. 3.63 Billion, 3.59 Million, 849 Million, 962.5 Million, 252 Million, 643.2 Million, 961 Million** and **1.5 Billion** respectively.



The overall growth in revenue was attributed to:

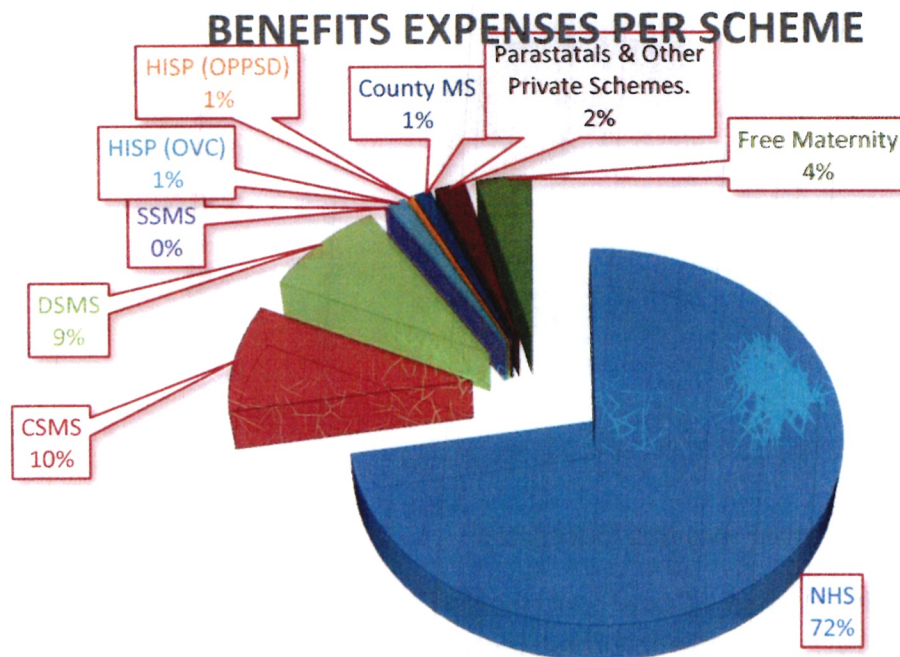
1. NHIF full implementation of new contribution rates
2. Membership growth from the informal sector due to:
 - a. Counties that have sponsored elderly persons and indigents in their Counties.
 - b. Introduction of new benefits for the National Scheme members
 - c. Implementation of the reviewed penalty policy that saw many members of the sector reactivating their membership status.
 - d. Working with Community health volunteers on recruitment of members through various partners.
3. Continued support by National and County Governments on the special schemes

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- 4. Premiums from private medical scheme to Parastatals, Hospitals and private companies.

The Fund's main objective is to finance health care through the member benefits. The total benefits paid out amounted to **Kes. 39.0 Billion** which translates to an overall benefit pay-out ratio of **82%** of total contributions received. Total benefits paid out from the National Scheme was **Kes. 29.5 Billion (82% Pay-out ratio)**, while the pay-out ratio for other categories were: **Kes. 3.6 Billion (99% Pay-out ratio)** by Civil Servants, **Kes. 2.8 Billion (93% Pay-out ratio)** by Disciplined Services, **Kes. 22.6 Million (3% Pay-out ratio)** by Secondary Sch. Students, **Kes. 336.9 Million (35% Pay-out ratio)** by Health Insurance Subsidy Program (OVC), **Kes. 78.0 Million (31% Pay-out ratio)** by HISP (OPPSD), **Kes. 418 Million (65% Pay-out ratio)** by County Medical Schemes, **Kes. 800.7 Million (83% Pay-out ratio)** by Parastatal & Other Private Medical Schemes and **1.5 Billion (100% Pay-out ratio)** by Linda Mama.



Review of Debt Management; Development of guidelines and Implementation

NHIF aspires to ensure that all uncollected debts are made good within the shortest time possible. Debt levels must be maintained at the bare minimum in line with best practice as failure to do so may affect service delivery to members. The Fund endeavors to develop effective methods of reducing debt and improve collections.

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Consequently, a Manual that addresses Debt Management, Penalty Administration and Prosecution in the Fund was developed, approved and shared with the all Branch Offices for implementation. It seeks to give clarity to the debt management processes while bringing uniformity in implementation that is envisaged to lead to reduction of bad debts through enhancing skills on sound Debt Management.

Member Registration

Membership of the Fund is both statutory (formal sector) and voluntary (informal sector) to all Kenyans over eighteen (18) years of age as follows;

- (i) Formal sector: which consists of members from the Private Sector (medium-sized and large companies) and the Public Sector;
- (ii) Informal sector: which comprises of members of micro-insurance sector namely the self-employed individuals and organized groups.

Though several initiatives have been directed at increasing member registration, the Fund has grown its membership from 6,804,857 in the FY 2016/2017 to 7,657,463 principal members in FY 2017/18. This growth is attributed to the various initiatives conducted which include: recruitment of community health volunteers, partnerships with various Counties, public education and local activations.

The Fund's current membership is illustrated in the table below;

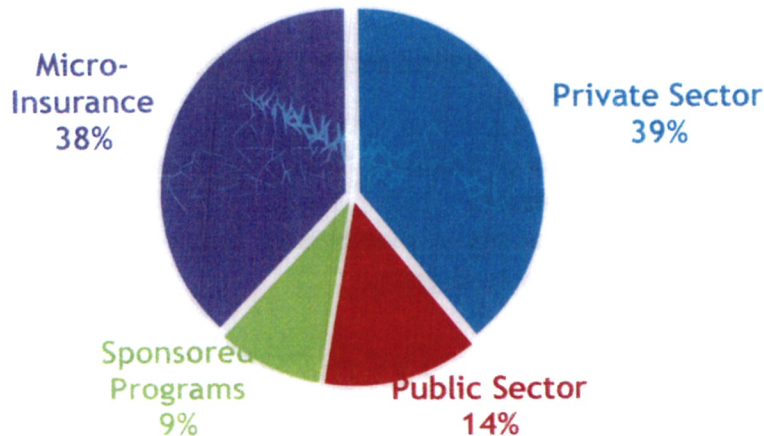
Sector	No. of Registered Members	% Registered Members
Private Sector	2,999,230	39%
Public Sector	1,039,149	14%
Sponsored Programs	701,783	9%
Micro-Insurance	2,917,301	38%
Total	7,657,463	

For 2017/2018 FY, majority of the NHIF membership at 39% is the private sector followed by the Micro-insurance which is at 38%. Private sector is made up of private businesses while Micro-insurance consists of voluntary contributors whom are predominantly self-employed.

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MEMBERSHIP PER SECTOR



Vision 2030 Flagship Projects

NHIF plays a key role under the social pillar in the achievement of Vision 2030. Consequently, the Fund has been implementing the following program to enhance social protection and inclusivity.

The *Health Insurance Subsidy Program (HISP)* is a program targeting vulnerable segments of the population. A total of 181,415 households are registered under the program countrywide consisting of beneficiaries under the GOK's Cash Transfer Program for Orphans & Vulnerable Children who are accessing benefits. A 45% benefit payout ratio has been realized.

Older Persons & Persons living with Severe Disabilities (OPSD) has a total of 42,000 households registered under the program across the country consisting of beneficiaries under the GOK's Cash Transfer Program for Older Persons and persons living with severe disabilities. The benefit payout ratio achieved is at 50%. The members of the program were to access the National Health Scheme benefits package dubbed NHIF SUPACOVER.

The *Free Maternity Program* tagged 'Linda Mama - Boresha Jamii' was launched in October 2016, followed by the signing of the MOU between the Government and the Fund in February 2017. Services for registered mothers' begun thereafter on 1st May 2017. Beneficiaries of the Linda Mama Program is in phase 3 of implementation, with the benefit package expanded to cover ante natal and post-natal care services at all contracted healthcare providers since 1st March 2018. So far, there have been 395,918 mothers registered with 223,459 deliveries done across the country. All Kenyan Mothers who have not registered for the NHIF Supacover are eligible through registration via mobile phone using *263#

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Inua Jamii 70+Program is a Government flagship program that rolled out in April 2018 and aims to extend coverage to older persons as part of its commitment to achieving Universal Health Coverage as underscored by in the Big Four Agenda.

Looking Ahead

The Fund's results continue to be a clear reflection of the success of its strategic thrust. We remain focused on meeting the needs of our clients, and are confident in our ability to continue to provide value for all of our stakeholders whilst prudently managing our resources. We have already had a positive start to 2018/2019 and expect to continue to realize healthy, sustainable growth through the current year and beyond

As we move forward we strive to accredit more hospitals to increase accessibility, re-categorize the hospitals to improve quality and integrate the biometric system to all accredited hospitals to ensure sustainability of our services by curbing fraud. We do acknowledge there is still more to be done but we continue to improve and build momentum towards the achievement of Universal Health Coverage.

The 2014 - 2018 Strategic Plan came to end and NHIF is now adopting the new Strategic Plan 2018 - 2022. The new Strategic Plan is expected to bring a change in the organizational structure which is meant to align the core thematic areas so as to drive the UHC Agenda

Closing remarks

In conclusion, as I invite all our stakeholders to internalise the financial report, I wish to register my appreciation to all stakeholders who have played different roles by keeping us focused on our mandate. Let us all join hands and make a firm resolve to continue to play our individual and collective responsibilities towards building a health Kenya.



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NICODEMUS O. ODONGO

Ag. CHIEF EXECUTIVE OFFICER

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CORPORATE GOVERNANCE REPORT

Principles of Corporate Governance

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

Management Board

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

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

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

Board Responsibilities

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

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

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

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

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

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

Composition of the Board

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

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

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

Responsibility for Financial Reporting

The Board of Management recognizes its responsibility to present a true and fair view of the state of the financial affairs of the Fund. The Fund's financial statements are prepared in

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accordance with International Financial Reporting Standards and the requirements of the PFM Act, the State Corporations Act and the NHIF Act.

Remuneration

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

Details of the Board of Directors' remuneration are set out on page 85.

Service Contracts and Compensation

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

Disclosure of Interests

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

Transparency

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

Role of the Chairman vs. the Chief Executive Officer

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

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Board Committees

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

The Board has set up the following committees:

1. Governance, Strategy & Human Resource Board Committee

It deals with the structure and establishment of the Fund, Staff and advisory matters. The following were the members of the committee in 2017/2018:

No.	Name of Member	Organisation	Position
1.	Mr. Akelo T. Misori	Central Organizations of Trade Unions (K)	Chairman
2.	Mrs. Gilda Odera	Federation of Kenya Employers	Member
3.	Dr. David Kariuki	Alt. Member/ PS Ministry of Health	Member
4.	Mr. Yussuf Ibrahim	Alt. Member/PS/Ministry of Public Service Youth & Gender	Member
5.	Mr. Joseph M. Kamau	Alt. Member/CS/The National Treasury	Member
6.	Mr. Lattif Shaban	Faith Based Organizations	Member
7.	Mr. Geoffrey Mwangi	Chief Executive Officer	Secretary

2. Operations and Quality Assurance Board Committee

It deals with matters relating to compliance with the NHIF Act, Employers, Healthcare Providers and other stakeholders. The following were the members of the committee in 2017/2018:

No.	Name of Member	Organisation	Position
1.	Dr. Elly Nyaim Opot	Kenya Medical Association	Chairman
2.	Dr. Peter Cherutich	Alt. Member/Director of Medical Services	Member
3.	Mr. Mudzo Nzili	Kenya National Union of Teachers/Kenya Union of Post Primary Education Teachers	Member

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4.	Mrs. Gilda Odera	Federation of Kenya Employers	Member
5.	Mr. Lattif Shaban	Faith Based Organizations	Member
6.	Dr. David Kariuki	Alt. Member/PS/ Ministry of Health	Member
7.	Mr. Geoffrey Mwangi	Chief Executive Officer	Secretary

3. Finance and Investment Board Committee

It deals with all financial and investment matters. The following were the members of the committee in 2017/2018:

No.	Name of Member	Organisation	Position
1.	Mr. Lattif Shaban	Faith Based Organizations	Chairman
2.	Mr. Joseph M. Kamau	Alt. Member/CS/The National Treasury	Member
3.	Mr. Akelo T Misori	Central Organization of Trade Unions	Member
4.	Dr. David Kariuki	Alt. Member/PS/ Ministry of Health	Member
5.	Dr. Peter Cherutich	Alt. Member/Director of Medical Services	Member
6.	Mr. Geoffrey Mwangi	Chief Executive Officer	Secretary

4. Audit and Integrity Assurance Board Committee

It deals with the internal control systems, fraud and integrity matters. The following were the members of the committee in 2017/2018:

No.	Name of Member	Organisation	Position
1.	Mrs. Gilda Odera	Federation of Kenya Employers	Chairman
2.	Mr. Joseph M. Kamau	Alt. Member/CS/The National Treasury	Member
3.	Mr. Yussuf Ibrahim	Alt. Member/PS/Ministry of Public Service Youth & Gender	Member
4.	Dr. Elly Nyaim Opot	Kenya Medical Association	Member
5.	Mr. Mudzo Nzili	Kenya National Union of Teachers/Kenya Union of Post Primary Education Teachers	Member
6.	Mr. David Mulli	Head of Internal Audit	Secretary

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Number of Board meetings held in the financial year 2017/2018

No.	Board Meetings	Number of Meetings
1.	Full Board	19
2.	Governance , Strategy & HR	9
3.	Finance & Investments	4
4.	Audit	3
5.	Operations & Quality Assurance	7

Corporation Secretary

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

External Auditors

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

Internal Auditors

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

Going Concern

The Board of Management submits this annual report and financial statements for the year ended 30 June 2018. The annual report and financial statements present, in the opinion of the directors, a fair, balanced and understandable assessment of the state of the affairs of the Fund's position and prospects. The Board reports that the business is a going concern and they have no reason to believe that the Fund will not be a going concern into the foreseeable future.

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MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The Fund, in this financial year, continued to play its role in raising and pooling of funds to finance health services. With the realization that many Kenyans postpone treatment due to lack of finances or are exposed to extreme financial hardship in the use of these services, His Excellency President Uhuru Kenyatta unveiled Universal Health Coverage as one of his presidential directives, “Big 4 Agenda” . Since then the Fund has made deliberate steps to facilitate the attainment of this goal by 2022.

The Fund is also continually enhancing programs with the most recent developments being made in the Linda Mama and the development, launching and rolling out of the Secondary School cover and Inua Jamii 70+ cover.

In FY2017/18 the Fund has managed to increase membership from 6,804,857 in the previous financial year to 7,657,463.

1. Key Stakeholder Groups and Engagements

NHIF continues to intensify collaborations and public engagement with all partners and stakeholders countywide to inculcate a sense of understanding and partnership towards increasing value to the members while delivering on the core mandate. The past Financial Year, various Stakeholders have had an influence on our Performance and sustainability. This include:-

i. National Government

During the period, NHIF enjoyed massive goodwill from the National government. The National Government has created awareness through public pronouncements urging the citizens to enrol with NHIF to access health services. This has had a major impact on the Membership Registration, Contributions collected and an Increase in the Benefit Payout ratio.

UHC is among the strategies to actualize one of the governments ‘Big Four Agenda’ of access to quality healthcare services. One of the strategies to attaining this agenda was the Health Insurance plan that the President rolled out towards the end of the FY 2017/18. There have been approximately 2 Million Secondary School students who have been registered to the NHIF database and are already accessing benefits. Eligible students are identified from the MOE database. The plan has been funded by the National Government and handed over to NHIF for management.

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Through the Ministry of Health, the National Government has implemented social protection programs such as Health Insurance Subsidy Program (HISP), Older Person & Persons with Severe Disabilities (OPPwSD) and the most recent Program, Linda Mama Project which is a Free Maternity Service for all expectant mothers. The Ministry has created awareness and provided funds in a timely manner allowing NHIF administer the program smoothly. Additionally such programs have played a key role in helping the organization achieve Universal Health Coverage.

ii. Members/Contributors

Previously our members have had a negative perception towards the Organisation but since we employed new strategies, members have embraced NHIF and are now our ambassadors; this was further boosted by the roll out of the new benefit packages and there has been a major shift in perception of NHIF.

Though several initiatives have been directed at increasing member registration, the Fund has grown its membership from 6,804,857 in the FY 2016/2017 to 7,657,463 principal members in FY 2017/18. This growth is attributed to the various initiatives conducted which include: recruitment of community health volunteers, partnerships with various Counties, public education and local activations.

iii. Healthcare Providers

The Hospitals have been one of our major stakeholders in driving change and perception. Healthcare providers are also a contact point of our customers and the experience they get in the hospitals is indirectly a reflection of NHIF.

Through constant engagement hospitals have been able to increase their capacity by offering more services and at the same time not compromising but improving on quality.

iv. County Governments

Through the County Governments, NHIF has been able to increase coverage and pooling by setting up Special Schemes for County Government employees. Over the period the Fund has engaged over 20 counties with an aim to target all 47 counties.

2. Commentary on Sustainability

Overall strategy for sustainability

The Fund developed a policy to ensure health and safety and protection of its environment both outside and inside the office and sensitized the staff on the same whereby staffs in 40 branches were trained on environmental sustainability. The challenges being that the training

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period was too short to cover all branch offices but recommended that all staff be trained and champion for environment to be identified in each branch office. The Fund further carried out capacity building for environment sustainability. The fund recycled waste paper and ensured proper disposal of obsolete computer items through contracted services providers for purposes of recycling waste paper and proper disposal of obsolete computer items. The fund also undertook an activity of planting trees whereby it planted 1000 trees at Kitui County. The Fund encouraged use of energy saving bulbs in all NHIF offices which prompted reduced consumption of electric energy.

The Fund also recommended for continuous capacity building and trainings on environment impact assessment. As an organization we strive to improve and provide benefits to our members to reach the optimum satisfaction levels. However, at the same time we are cautious that whatever we offer we deliver within our sustainability commitments. Thus over the period we have been able to achieve this as we collected over **Kes.39.2 Billion** and the benefit paid out amounted to **Kes. 37.1 Billion**, representing a **82%** benefit payout ratio. Over the past 12 months there have been various factors that have had an impact on the Organization:-

i) Political Environment

Being a political year, it was bound that the political environment would affect businesses mainly the formal sector. Some companies relocated to neighbouring countries, most cut down on recruitment thus limiting the Fund's capability on registering new members and ultimately on contributions for the sector. Though we remain optimistic on improving in the next financial year after the elections.

ii) Marketing Campaigns

In the quest to achieve Universal Health Coverage, the Fund embarked on various marketing campaigns to create awareness on the new benefit packages and different modes of premium payment. This really boosted the registration in the informal sector and benefit payout ratio as more members were aware of the benefits. The Fund's image has been enhanced through:

- Distinct brand appeal through the brand name NHIF Supacover
- Presence of strong brand cues with branches, satellite offices and presence in all Huduma Centers Countrywide
- Proactive communication and public education of our expanded product offering covering both increased benefits and payout
- Reliable and dependable service delivery through the implementation of a customer relationship management system.

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iii) **Electronic Health Information Management System/Biometric Integration**
In the Financial Year we were able to fully integrate the accredited hospitals with biometric system, this will be a major step towards increasing efficiency and curbing of fraud.

iv) **Approval of Policies**
The Fund was able to approve various policies during the period, this is a major step towards improvement of processes by articulation of required steps when implementing a procedure. This is because policies set rules and guidelines for decision-making in routine situations.

v) **Information Technology Adoption**
Information technology remains pivotal in the Funds transformative agenda. Over the review period The Fund has focused on:

- Enhanced network in the 96 service points and 53 Huduma service centres country wide
- Enabling environment for businesses to submit contributions through the NHIF online platforms in-a-bid to enhance the ease of doing business in Kenya
- Digitization of registration, payments and claims processes for effective services
- Enabling members to register, make contributions, pay penalty and receive status updates via their mobile devices wherever they may be country wide.

In a bid to simplify access to health care, NHIF will leverage on technology to provide swift, secure and safe services. The Fund will soon be able to guarantee this through the use of biometrics.

vi) **Conformance to International Standards**
NHIF Quality Policy is, 'NHIF is committed to providing Quality Health Insurance that is affordable, accessible, and sustainable through the use of effective and efficient systems and procedures so as to meet or exceed the customer needs and expectations'. NHIF is committed to comply with requirements and continually improve the effectiveness of the Quality Management System (ISO 9001). Our key objectives:

- Achieve and maintain a level of quality which enhances the Fund's reputation with customers.
- Ensure compliance with the NHIF ACT and other relevant statutory and safety requirements.
- Endeavour to always maximize customer satisfaction through provision of Quality services

Occupational Health & Safety Policy is, 'It is the policy of NHIF not only to comply with the Health and Safety measures required by law, but also to act positively where it can to prevent injury, ill health, damage and loss arising from its operations. It considers the promotion of Health and Safety of its employees to be an essential part of responsible management.

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NHIF recognizes that the effective prevention of accidents and incidents depends as much on a committed attitude of mind to safety, as on design, operation and maintenance of plant and equipment and to this end, it will seek to encourage employee's participation in the contribution to the establishment and observance of safe working practices.

NHIF is conscious of Health, Safety responsibilities to stakeholders including customers, employees and society at large. Our key objectives are to:

- Ensure the health & safety status of our employees, work operations and the work environment.
- Comply with all applicable statutory and regulatory OHS requirements to which NHIF subscribes to.
- Educate employees on their OHS responsibilities and equip them with adequate authority and resources to carry out their duties successfully.
- Implement, sustain, expand upon and continuously improve our OHS Standard within our business and conform to appropriate benchmarking standards.
- Involve all employees, customers and strategic partners in improving our OHS standard.
- Recognize and reward good OHS performance.
- Regularly review our effectiveness and audit our performance in achieving our OHS objectives

Social Accountability Policy is, 'NHIF is committed to providing safe, healthy and humane working conditions for its personnel on a continual basis'. The Fund has Certification by SA: 8000:2008. NHIF has included the requirements of the SA: 8000 as an integral part of its service delivery and therefore subscribes to its principles below that;

- The Fund shall not engage in or support the use of Child labour as defined by law.
- NHIF shall not engage in or support the use of forced labour.
- NHIF shall provide safe, healthy and humane working Conditions for its personnel on a Continuous basis.
- NHIF shall respect the rights of all personnel to form and join trade unions of their choice And to bargain collectively
- NHIF shall not engage in or support discrimination
- NHIF shall not engage in or support the use of corporal punishment, mental or physical Coercion and verbal abuse.
- NHIF shall comply with applicable laws and industry on working hours.
- NHIF shall ensure that wages paid for a standard month shall meet the industry or legal Minimum standards.

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Based on the Triple Bottom Line concept it can be evidenced the Organization is of going concern;

- i) Financially we were able to achieve excess on total income as discussed in the CEO's report.
- ii) Socially we were able to impact our members by providing affordable, accessible and quality services. We were also able to undertake Cardiac programme as a CSR which had an impact on the improving livelihoods.
- iii) Environmentally, we were able to come up with eWaste Disposal Policy and at the same time by automating/digitizing our processes we were able to cut down on the use of paper.

Summary of Performance

In 2017-18 we have made strong progress in delivering our sustainability commitments. We have monitored progress against our Strategic Plan and increased member registration and revenue collection. We are also on track to increase member retention by end of 2017/18. The Fund's membership has shown significant growth over the years with the current number of members as at 30th June 2018 being **7.66** million. This is illustrated in the table below;

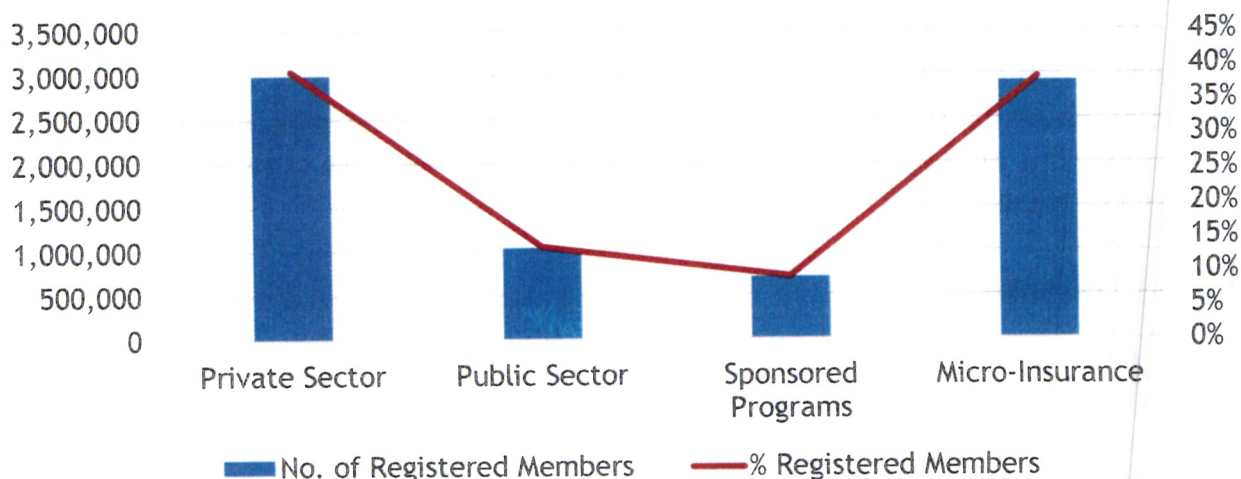
Membership per Sector

Sector	Number of Registered Members
<i>Private Sector</i>	2,999,230
<i>Public Sector</i>	1,039,149
<i>Sponsored Programs</i>	701,783
<i>Micro-Insurance</i>	2,917,301
Total	7,657,463

From the above table, members from the public and private sector which constitute mandatory contributors are 4,038,379 that is 53% of total enrolled population while voluntary contributors are 3,619,084 representing 47%.

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MEMBERS REGISTERED PER SECTOR



Membership growth

Principal members' growth

Membership growth is achieved through registration of new members. The growth in members for the financial period 2017/2018 averaged 13%.

The table below shows a 5-year trend of total principal members registered per sector.

Classification	2013/14	2014/15	2015/16	2016/2017	2017/2018
Micro-Insurance	1,606,179	1,989,420	2,235,892	2,608,832	2,999,230
Private Sector	2,237,515	2,455,900	2,689,753	2,898,174	2,917,301
Public Sector	826,545	865,649	926,414	972,239	1,039,149
Sponsored program	43,423	164,211	284,197	325,612	701,783
Total Membership	4,713,662	5,475,180	6,136,256	6,804,857	7,657,463
% growth	16%	16%	12%	11%	13%

Membership Growth per sector

The informal sector has been growing at a higher rate than the formal sector. It currently constitutes 48% of total membership. The sector is growing at a higher rate due to its potential as a virgin ground however more effort is needed on the retention of the already existing members.

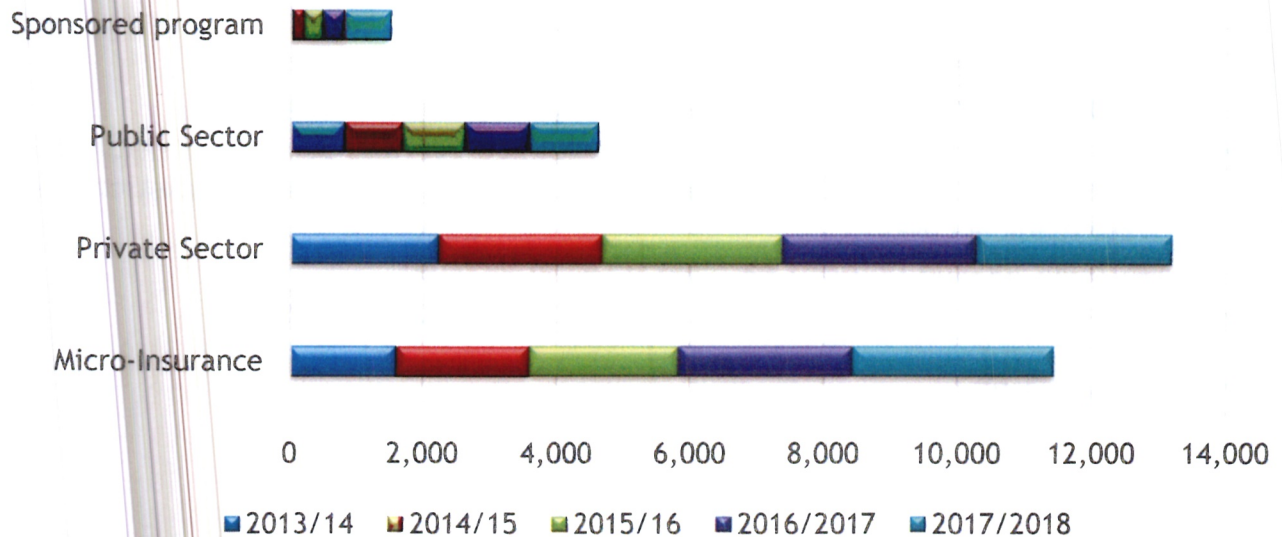
The chart below illustrates the growth in members per sector.

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MEMBERS GROWTH PER SECTOR CHART



Member Retention

Active membership

The total active membership for the financial year 2017/ 2018 currently stands at 4,807,286 principal members from both the formal and informal sectors. This constitutes 63% of the total enrolled members. Active membership in the formal sector was 3, 538, 0267 while that of the informal sector was 1,269,219. Membership in the informal sector has shown a tremendous growth during the financial year 2017/ 2018 with commendable efforts being made to recruit more members to the Fund from this sector.

Retention of informal sector members

More effort is required especially in the retention of existing members from the informal sector in order to achieve a sustained growth in revenues. Out of 3.6 million members from this sector, only 1,269,219 members were active or current in payment as at 30th June 2018. This represents a retention rate of 35%

REVENUE

The year has been very volatile due to the prolonged electioneering period and the shrinking economy which has by extension affected the performance of the Fund in revenue collection for the 1st half year of the financial period.

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NHIF's Financial Strategy identifies the following as sources of income:

- Contributions from members (statutory, voluntary and sponsorship)
- New products (HISP, Civil Servants & Disciplined Services Scheme, County Schemes, Parastatals, Secondary School Students, Universities & Other Institutions seeking private medical cover)
- Investment income (interest earnings & rental income)
- The Fund administers the Free Maternity project for the government

TOTAL EXPENDITURE

Main areas of the Funds expenses include:

- Benefit payments - payment to health care providers for the services rendered to the members of the various schemes;
- Administrative expenses - personnel, office administration and other administrative expenses related to benefit payments and investment incomes and
- Capital expenditure - Property, Plant and Equipment, EHMIS and rental income generating investments

During the period under review, a total of **Kes. 33,041,643,709** was collected in form of premium contributions under the National health scheme translating to 90% achievement against the annual target. This was achieved by developing and implementing debt management guidelines, reviewing the prosecution guidelines and carrying out risk based payroll audits. A total of **Kes. 14,558,124,455** was collected as premiums from the enhanced and managed schemes and from interest on investments and rental income translating to 108% achievement of target. The total collections were **Kes. 47.6 Billion** being **92%** of the overall revenue budget for 2017/2018 FY.

The cumulative Benefit pay-out ratio for the National scheme was **82%** at the end of the financial year. Benefits Payment trends reflected benefits paid out standing at **Kes. 39,061,341,237** paid out through the various benefit packages for the various schemes managed by the Fund.

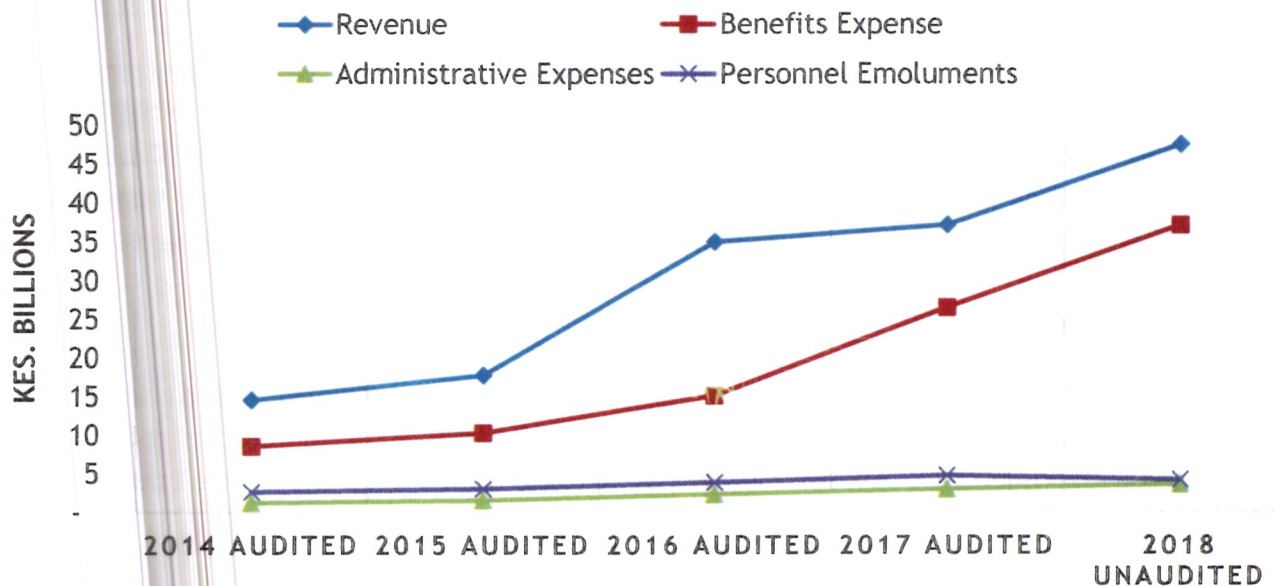
A 5-year comparison of revenue and expenditure is shown in the graph below:

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REVENUE VS EXPENDITURE GROWTH GRAPH



Governance

We monitor our sustainability performance as an integral part of our monthly performance management reporting regime. The NHIF Board receives quarterly reports on performance both in terms of Strategic measures and against government commitments laid out in the Performance Contracting Regulations of 2004. Internal audit regularly reviews internal sustainability reporting, focusing on validating data that supports external reports and performance against our business plan measures.

VISION 2030 FLAGSHIP PROJECTS

1. HEALTH INSURANCE SUBSIDY (HISP-OVC) PROGRAMME

The Health Insurance Subsidy Programme (HISP) is a government flag-ship Program under the Vision 2030 which is being implemented by NHIF and financed by the World Bank. It is a demand side financing mechanism where funds are channelled to NHIF on behalf of identified and targeted households classified as poor and vulnerable.

For HISP, the targeted group constitutes of beneficiaries of the Orphans & Vulnerable Children Cash Transfer Programme (OVC-CTP). The cash transfer beneficiaries are **targeted, identified and registered** to receive cash transfers by the Ministry of EAC, Labour and Social Protection. The HISP Scheme provides membership not only to the Orphan but to all members of the household.

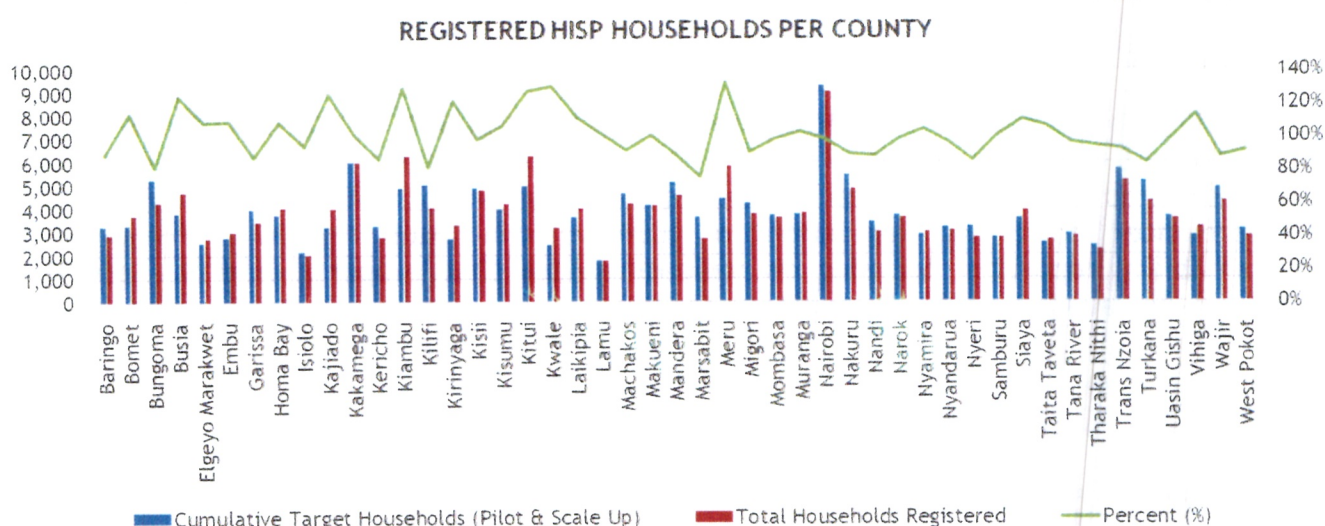
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The programme has used a Phased approach: **Phase I (2014-2016)** was a pilot targeting 21, 530 households spread within the 47 counties. **Phase II (2016-2018)**; HISP scale up commenced on 1st July 2016 which targets an additional **160,422** Households. Thus the total number of households under HISP is 181,968. The programme is currently in Phase II, where **181,315** households have been registered under the HISP which is **98%** achievement.

Registration status for HISP

NHIF is tasked with the role of ensuring registration and maintaining the database of the members accessing benefits through HISP. As at 30th June 2018, a total of **181,315** OVC households were registered against a target of 181,968 households across the country. This is **98%** achievement.



Financial Administration

NHIF has received premiums of **KES. 962,530,000** during the FY 2016-2018 in two tranches; March 2016 and April 2018 for 160, 422 households who were registered in Phase II. Access to benefits commenced on **1st December 2016 to 30th November 2018**. Noteworthy, the premiums received provide health insurance coverage to 160,422 households excluding the 21, 530 households registered during the HISP pilot. NHIF has requested for the deficit from the Ministry of Health however the funds are yet to be disbursed to NHIF.

Further, the cover period for HISP is ending on **30th November 2018** and NHIF made the request for premium to Ministry of Health in March 2018. However, the Ministry of Health is yet to disburse the funds for renewal of the cover.

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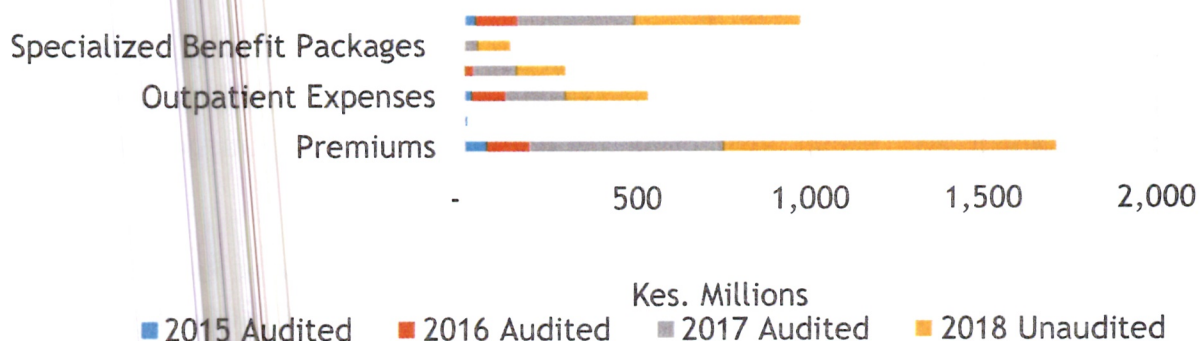
For the year ended June 30, 2018

HISP Benefit Analysis

The table below provides the detailed benefit analysis for HISP beneficiaries during financial year 2017/18. Utilization for outpatient services amounted to **Kes. 241,089,822** followed by inpatient services amounting to **Kes. 14,295,543** and special benefit packages amounting to **Kes. 81,545,026**. The table below shows the breakdown of services for the financial year 2017/18 compared to 2016/2017.

Type of Benefit	2015	2016	2017	2018
Administrative Expenses	7,763,638	172,830	-	-
Outpatient Expenses	22,219,961	97,444,389	173,243,741	241,089,822
Inpatient Expenses	3,265,052	23,315,834	125,700,872	14,295,543
Specialized Benefit Packages	-	-	40,056,447	81,545,026
Total Expenses	33,248,651	120,933,053	339,001,060	336,930,391

PREMIUMS VS EXPENDITURE FOR HISP(OVC)



Key Milestones

1. Out of 356,000 OVC households in the Cash Transfer Program, NHIF is providing health insurance coverage to 50% of these households
2. NHIF is establishing linkages with the Single Registry at the Social Protection Secretariat (SPS). This will facilitate access to data for future scale up of HISP

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3. NHIF has strengthened the working relationship with the Ministry of Labour and Social Protection to the county level. This has allowed for easier targeting and access to beneficiaries for activities such as sensitization and engagement at the counties
4. NHIF has received an award from the International Social Security Association (ISSA) for HISP as an innovative program in 2017

2. OLDER PERSONS & PERSONS WITH SEVERE DISABILITY (OPPSD) SCHEME

Recent discussions in the past five (5) years have centred on increasing health coverage to the poor and vulnerable persons in society. Currently, approximately 46.7 percent of the population lives below the poverty line while 19.1 percent live in extreme poverty. A large proportion of the population is vulnerable to poverty because of a wide range of factors are unable to deal with livelihood shocks such as sickness, old age, unemployment and disability.

Government of Kenya through the Ministry of Health subsidizes the premiums of the beneficiaries of the Older Persons and Persons with Severe Disability Cash Transfer Programme. The OPWD program was rolled out in all 47 counties covering **42,000** households.

Targeting of Beneficiaries for OPPSD

The OPWD target group constitutes the households under the Older Persons and Persons with Severe Disability Cash Transfer Programme. The targeting and identification is carried out by the Ministry of Labour and Social Protection (ML&SP) through proxy means testing and community verification.

The 42,000 households were ranked by the Ministry of Labour and Social Protection as the poorest among in the database of beneficiaries in the Older Persons and Persons with Severe Disability cash transfer program

Registration Status

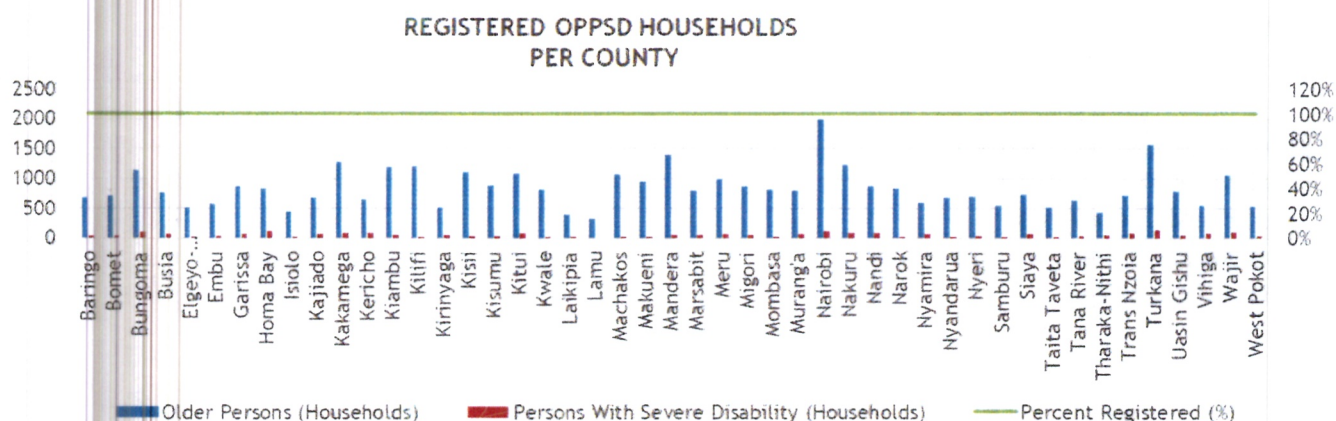
As at 30th June 2018, there are 42, 000 Older Persons and Persons with Severe Disability accessing health benefits following the scale down which took effect from 1st April 2017.

Notably, 203, 853 households are no longer accessing health benefits and are more vulnerable to financial risk as a result of out of pocket health expenditures.

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Access to Health Services

The 42,000 OPWD households have access to benefits as prescribed by under the National Scheme guidelines including inpatient, diagnostic testing, chronic care management and outpatient services among others to all NHIF members including HISP beneficiaries. Thus households have access to services.

Financial Administration

During the financial year, NHIF received premiums of **KES. 252,000,000** for 42,000 households on 20th June 2017 for an annual health insurance cover from 1st April 2017 to 31st March 2018.

Notably, the annual health insurance cover for the beneficiaries was due for renewal from 1st April 2018 at an annual premium of **KES. 252,000,000**. NHIF received **KES. 189,000,000** on 27th April 2018 from the Ministry of Health leaving a balance of **KES. 63,000,000**.

Access to Health Services

The 42,000 OPWD households have access to benefits as prescribed by under the National Scheme guidelines including inpatient, diagnostic testing, chronic care management and outpatient services among others to all NHIF members including HISP beneficiaries. Thus households have access to services.

Benefit Utilization

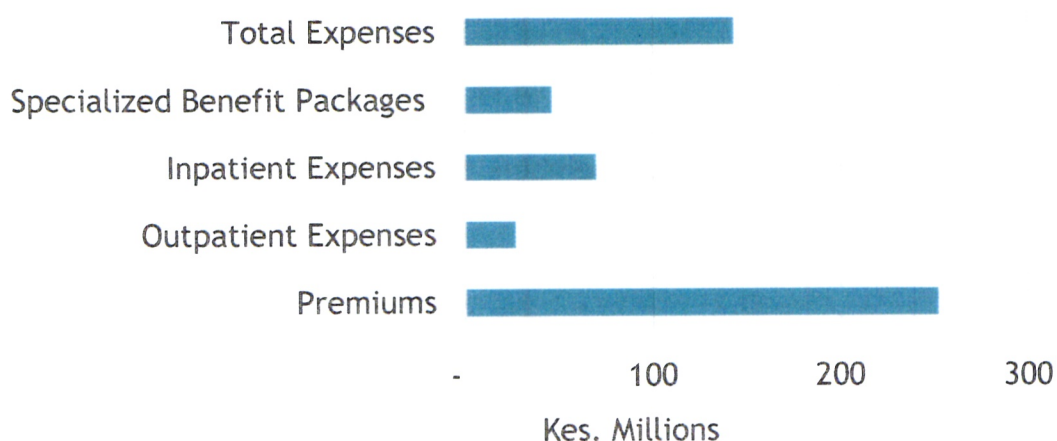
The table below provides the detailed benefit analysis for OPPSD beneficiaries for the period ending 30th June 2018. From the table, Outpatient services amounted to **KES. 26,792,314**, Inpatient services amounted to **KES. 9,791,383** and Specialized benefit packages amounted to **KES. 41,455,085**.

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Type of Benefit	Amounts (Kes.)
Outpatient Expenses	26,792,314
Inpatient Expenses	9,791,383
Specialized Benefit Packages	41,455,085
Total Expenses	78,038,782

PREMIUMS VS EXPENDITURE FOR OPPSD SCHEME



Challenges

- i. The scale down of the beneficiaries of OPWD greatly affected the households and exposed them to catastrophic health expenditures
- ii. Lack of drugs at the healthcare facilities and Poor services at the healthcare facilities have been cited by the OPWD beneficiaries as one of the challenges
- iii. NHIF service outlets are not accessible - distance to the NHIF branched putting into consideration their age

Way Forward

- i) Work closely with Communication department to ensure branding and presence of public education team to assist the branch office
- ii) Work closely with beneficiary welfare committee members in charge of communicating with the older persons by sharing requirements for registration and other necessary documentation in future undertaking such as this event
- iii) Capitalize on such events to bring on board more members - use such platforms as a communication strategy to reach the beneficiaries

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3. LINDA MAMA (Free Maternity)

In order to achieve Social Development Goals, the Government intends to adopt an insurance framework and National Hospital Insurance Fund has been identified to drive the process.

On 18th October 2017, Free Maternity Services Program was launched and branded LINDA MAMA. The Program is a Government initiative which aims to provide access to maternity services to all pregnant women in Kenya. The program was redesigned and the benefit package expanded to include antenatal, delivery and postnatal services to be accessed by all pregnant women in Kenya. In addition, access to service was expanded to include private and faith based facilities country wide.

Implementation of the Program

Implementation of the Linda Mama Program was to be realized in three (3) phases as follows:

- I. Phase I (1st April 2017) - Roll-out to private and faith based facilities to offer delivery services only
- II. Phase II (1st July 2017)-Roll-out to all public healthcare facilities to offer delivery services only
- III. Phase III (1st April 2018)- Roll-out of antenatal and postnatal services in addition to the delivery services

NHIF has implemented all the three (3) phases which involved the roll-out of the delivery services in 458 private and faith-based healthcare facilities and approximately 4,000 public facilities and introduction of antenatal and postnatal services.

Financial Administration

The Ministry of Health (MOH) has disbursed funds to NHIF for the implementation of the Linda Mama Program of Kes. 3,361,525,853 in the year 2017/2018:

Registration of Beneficiaries

All pregnant women who are Kenyan citizens are eligible to benefit from the programme. Registration of expectant women is done through the following access points:

- a) Mobile platform - USSD Code *263# and follows the simple steps
- b) Contracted health facility - through NHIF Health System
- c) NHIF country wide offices and Huduma centres.

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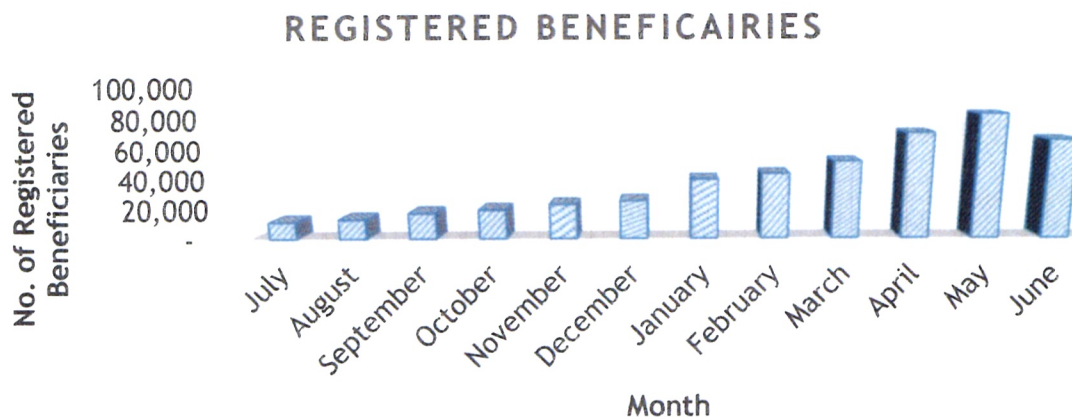
The registration requirements include the following:

- i. Pregnant women of age 18 years and above will be registered using their national identification cards and the Ante Natal Care records.
- ii. Pregnant women under 18 years will be registered using Ante Natal Care records and their guardians' national identification cards.
- iii. Pregnant women above 18 without national Identification cards will be registered using the Ante Natal Care records.

The registration of expectant mothers for twelve (12) months is summarized table below:

MONTH	BENEFICIARIES
July	11,103
August	12,864
September	16,974
October	19,143
November	22,845
December	25,149
January	39,699
February	43,365
March	59,490
April	70,485
May	82,678
June	80,722
TOTAL	484,517

From analysis, the number of confirmed pregnancies has gradually risen as shown in the graph below:



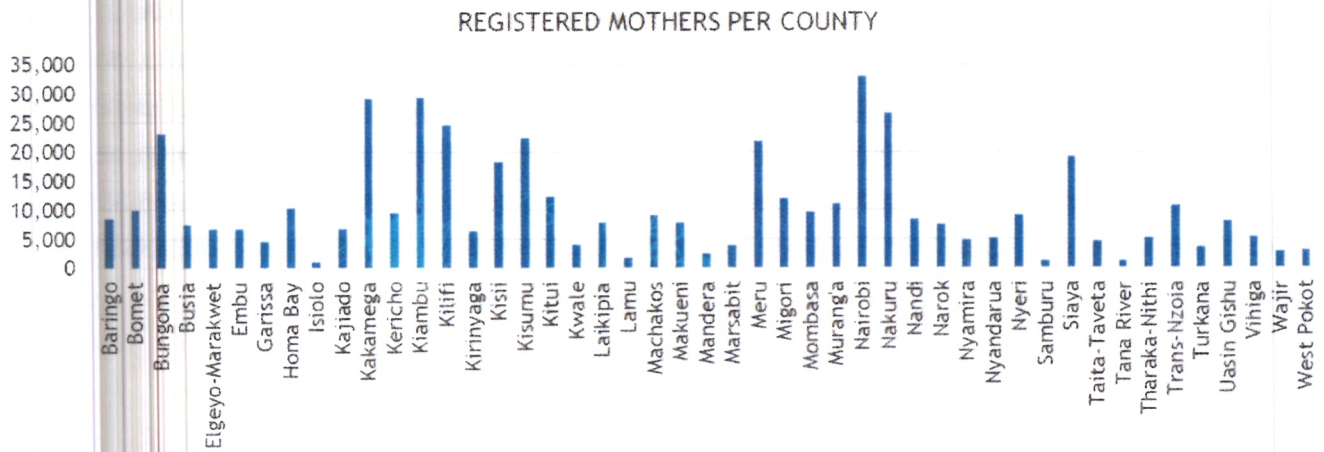
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Registration of Linda Mama July 2017-June 2018 per County

As shown in the graph below, the number of registered mothers has maintained a consistent growth with mothers enrolling for the program. The counties with high numbers of registered mothers include Tharaka Nithi, Bungoma, Kisii, Kakamega, Nairobi and Murang'a.



Contracting of Health Providers

Private and Faith Based Facilities

In line with the signed Memorandum of Understanding (MOU) between NHIF and the Ministry of Health, NHIF is required to continuously engage private and faith based health providers so as to expand the service network. During the month of April 2018, forty (40) new private facilities have been engaged and issued with contracts. However, the facilities are yet to formalize the contracts to effect implementation.

Public Facilities

On the other hand, 6000, public facilities are in the program to offer services.

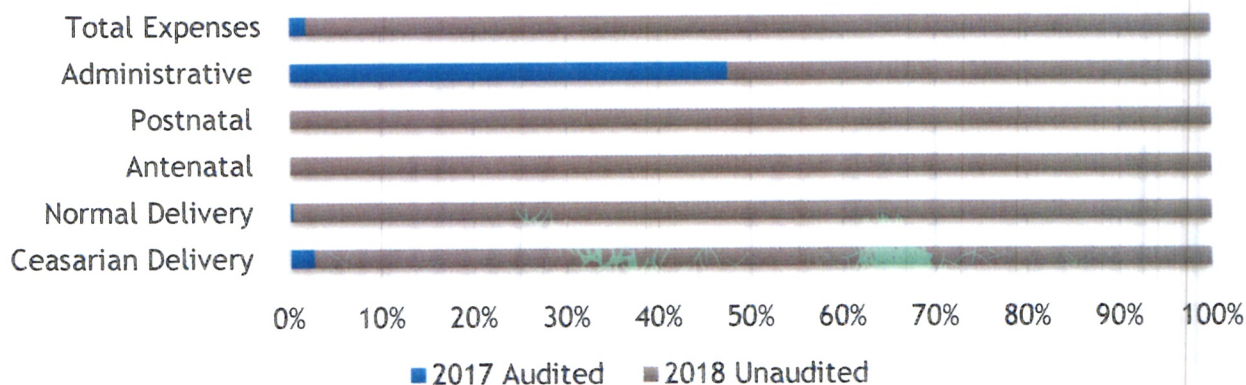
Utilization of Benefits

In the 2017/2018 FY, free maternity expenses amounted to Kshs. 1,488,460,969, the highest expenditure being on normal delivery. This is summarized in the table below:

Type of Benefit	2017	2018
Caesarian Delivery	5,461,000	198,695,425
Normal Delivery	4,880,000	1,253,550,212
Antenatal	-	14,960,085
Postnatal	-	1,508,947
Administrative	17,831,808	19,736,200
Total Expenses	28,172,808	1,488,450,869

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FREE MATERNITY EXPENDITURE CHART



Communication Strategy

As part of communication strategy, a branch managers meeting was organized to share information on the new developments in the Linda Mama Program and took place on 31st April 2018 at Panafric Hotel, in Nairobi. During the month of April 2018, there were 1,400 Linda Mama Program Implementation Manuals distributed to all branches. The manuals were to be shared with hospitals which were already contracted to offer maternity services under the program.

Notably, the work-plan and budget for the financial year 2017-2018 was developed and awaits the approval by the Principal Secretary, Ministry of Health.

Key Milestones

- a) NHIF held a quarterly branch managers meeting to discuss implementation of various programs and schemes including Linda Mama Program
- b) NHIF and Ministry of Health have held quarterly meetings to review progress of Linda Mama Program
- c) NHIF and MOH have held two preliminary meetings on 11th and 31st May 2018 which centred on the development of a Monitoring, Evaluation and Learning (MEL) Framework supported by Think-well Foundation and Bill and Melinda Gates
- d) NHIF rolled out an online reporting tool which is updated on a weekly basis by quality assurance officers in all NHIF branches. The tool reports on indicators such as pending claims, antenatal and postnatal visits, infrastructure challenges such as availability of computers, network among others

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Challenges and Remedial Measures

Challenges	Remedial Action
Lack of computers in some public facilities	Use of mobile phone for notification of deliveries; USSD *263*30#
Lack of documentation that delays claim processing especially in government facilities	Joint sensitization between MOH and NHIF
Increase in defaulters in the informal sector because of free maternity services	Enhanced marketing campaign.
Slow uptake by private and faith based facilities because of the low reimbursement rates	Continuous engagement with providers with private and faith based facilities. Proposed harmonization of the National Scheme Maternity Package and the Linda Mama Maternity Package
Low awareness by expectant women of Linda mama services in the private and faith based facilities.	Implementation of the communication strategy.

Way Forward

- Based on the foregoing, the following are the next steps; -
- Engagement of franchise healthcare facilities such as the Tunza network to enhance contracting of private and faith based facilities
- Approval of the Linda mama work plan FY 2018-2019.
- Continuous engagement of stakeholders for successful implementation of Linda Mama
- Roll-out of media campaign for Linda Mama in FY 2018-2019

4. INUA JAMII 70+ PROGRAM (IJP)

Inua Jamii 70+Program is a Government flagship program that rolled out in April 2018 and aims to extend coverage to older persons as part of its commitment to achieving Universal Health Coverage as underscored by in the Big Four Agenda.

The Ministry of Labour and Social Protection expanded the Older Persons Cash Transfer Program to cover all poor and vulnerable persons aged 70 years and above. Therefore, this group of beneficiaries are set to access health insurance cover through the National Hospital Insurance Fund (NHIF).

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Targeting of Beneficiaries for IJP 70+

The Inua Jamii 70+ program constitute individuals who are 70 years old and above. The targeting and identification is carried out by the Ministry of Labour and Social Protection and data shared with NHIF for registration. The database with over **484, 086** beneficiaries was shared in April 2018.

Following verification using IPRS, **101,589** beneficiaries were found to be below 70 years old and already NHF members, 1,667 beneficiaries were duplicates (appearing more than once in the list), **75,134** had existing NHIF numbers and 360 had their names different from IPRS database compared to the Ministry of Labour & Social Protection list.

The total number of eligible beneficiaries thus stand at **380,831**. NHIF has sort the guidance of the Ministry of Labour and Social Protection to ensure that the Fund has the total number of beneficiaries before requesting for premiums from the Ministry of Health

Registration Status for IJP 70+

As at **30th June 2018** a total of **390,178** beneficiaries have already been registered to be issued with cards.

Access to Health Services

Currently, the beneficiaries of Inua Jamii 70+ program are not accessing benefits due to the fact NHIF is yet to receive the premiums for the beneficiaries. However, the beneficiaries are eligible to access to benefits as prescribed by under the National Scheme guidelines including inpatient, diagnostic testing, chronic care management and outpatient services.

Financial Administration

Inua Jamii 70 + program is designed like the National Scheme cover where premiums per member is KES. 6,000 per annum. Expected premiums to be disbursed to NHIF is therefore **KES. 2,904,516,000.00** for annual insurance cover for the beneficiaries based on the cleaned up data by NHIF ICT department. The figures are expected to rise once the Ministry of Labour & Social Protection shares more data.

Key Milestones

NHIF was invited by the State Department for Social Protection, Pensions and Senior Citizens Affairs to participate during this year's Elder Abuse Awareness Day that was commemorated on **20th June 2018** at Dagoretti CDF grounds, Dagoretti Sub-County. The event was graced by various players in the Social Protection field especially those dealing with older persons.

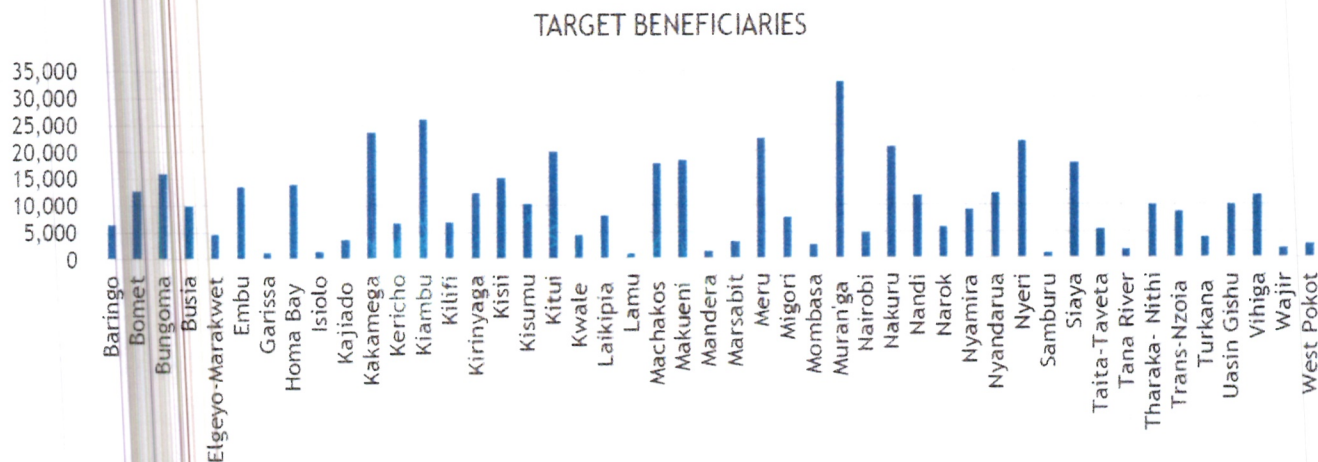
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During this exercise, a total of 50 beneficiaries were registered after verification from the provided database. About 10 opted to pay for themselves while awaiting the roll out of the program.

REGISTRATION REPORT INUA JAMII 70+ PROGRAM PER COUNTY



5. IMPLEMENTATION ARRANGEMENTS

Governance & Accountability

NHIF has an elaborate branch network and sophisticated management information system which is used to generate reports using various parameters to compile and submit quarterly and annual reports to the Ministry of Health and to the World Bank or as requested. In addition, NHIF tables reports to the Universal Health Oversight Committee and the Kenya Health Sector Support quarterly meetings held at and chaired by MOH.

Institutional arrangements

NHIF coordinates with the Ministry of Health, the Ministry of EAC, Labour and Social Protection and the County Governments to ensure the successful implementation of the subsidy programs; Linda Mama, HISP, OPWD and Inua Jamii Programs.

Vision 2030 Programs- Financial Challenges

Implementation of the HISP and OPWD programs has been not without challenges faced by NHIF is delays in disbursement of premiums which interferes with access to the health benefits and further exposes the poor and vulnerable to out of pocket expenditures.

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Program FY 2017/2018	Total Households/Beneficia- ries Registered	Premiums/ Budget (Kes.)	Funds Received (Kes.)	Balance (Kes.)
Linda Mama Program (LMP)	367,030 beneficiaries	5,000,000,000	3,361,525,853	1,638,474,147
Health Insurance Subsidy Program (HISP)	181,968 households	1,193,670,000	NIL	
Older Persons & Persons With Severe Disability (OPPSD)	42,000 households	252,000,000	189,000,000	63,000,000
Inua Jamii 70+ Program	484, 086	2,904,516,000	NIL	NIL

Recommendations

- Timely disbursement of premiums to ensure continuity of access to healthcare services
- Acceleration of sensitization efforts to increase awareness of the program to key stakeholders including the beneficiaries
- Accreditation of additional healthcare providers
- Accreditation and gazettment of additional facilities to increase options for members.

4. Disease Prevalence

A total of 10,876 conditions were reported during the period July to June of financial year 2017-18. Delivery was the most frequent in the period with 11% of the total notifications, followed by End-stage renal disease at 3%. Kidney failure had the highest ALOS at 6.1 whereas End-stage renal disease had the lowest ALOS. Top six most frequent conditions as at 30th June 2018 are tabulated below.

	Disease	ALOS	Prevalence
1	Normal delivery	2.9	11%
2	End-stage renal disease	2.4	3%
3	Caesarean section delivery	4.8	3%
4	Chronic kidney disease	6.1	3%

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5	Pneumonia	5.3	3%
6	Plasmodium falciparum malaria	3.7	3%

Utilization of benefit packages

The expanded benefits package currently offered has increased health care access for NHIF members and at the same time boosted the health care providers' ability to provide more effective care to both NHIF members and the Kenyan citizen. The table below illustrates the utilization of the NHIF benefits packages;

Top expenditure per healthcare Benefits Packages

Period	2017/2018	2016/2017	Growth
Healthcare Benefit Package	Amount (Kes)	Amount (Kes)	%
1. Inpatient Services	14,695,395,233	12,048,865,574	22%
2. Outpatient Services	7,512,551,228	5,075,532,866	48%
3. Surgeries (Major and Minor)	3,622,114,046	2,091,611,416	73%
4. Renal Dialysis	1,763,415,726	1,247,216,500	41%
5. Maternity Services	1,533,079,255	1,628,589,332	-6%
6. Free Maternity(Linda mama)	1,488,460,969	28,172,808	5183%
7. Cancer treatment	1,367,193,712	1,232,149,150	11%
8. Optical (Managed Schemes)	738,440,079	158,747,955	365%
9. Dental (Managed Schemes)	559,545,537	373,651,683	50%
10. Specialized Surgeries	548,059,958	274,110,673	100%
11. MRI	434,031,838	651,582,821	-33%
12. CT-Scan	285,069,617	311,512,561	-8%
13. Kidney Transplant	64,796,889	21,709,305	198%
14. Rehabilitation for Drugs & Substance Abuse	54,386,371	32,472,977	67%

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The above table highlight a comparison between FY 2016/17 and FY 2017/18 with free maternity having the highest growth (5183%), followed by optical benefits package mainly offered to the managed scheme members by (365%) then kidney transplants (198%) among others.

5. Quality Management Plan

A Quality management plan was developed. It involves monitoring of Quality health indicators, health outcome indices and conducting the quality improvement programs that include sensitization of branches, HCPs and conducting quality audits.

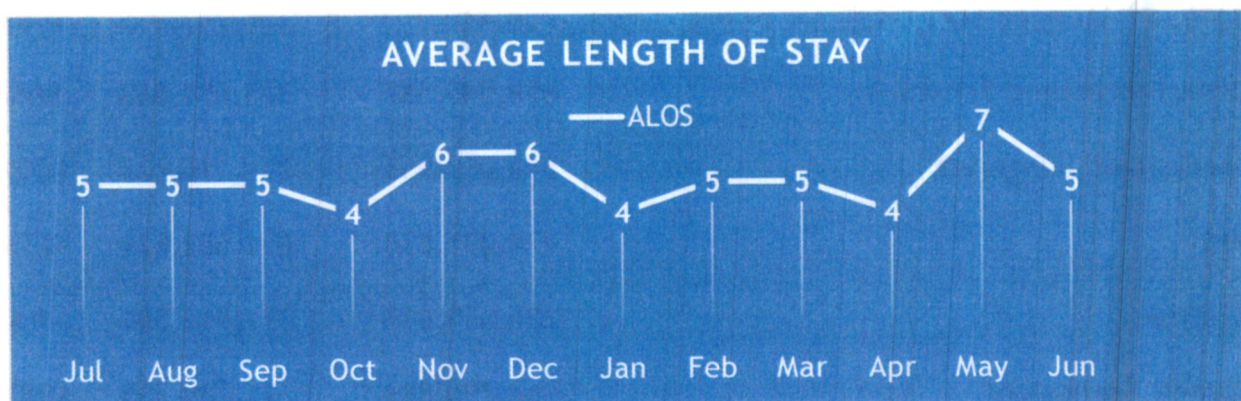
Quality Indicators: Morbidity

The table below shows the top 5 diseases reported during the period as coded by the healthcare providers using the WHO ICD 10 codes.

Outpatient Morbidity		Inpatient Morbidity	
Acute upper respiratory infections	15%	Deliveries	4%
Malaria	8%	Malaria	3%
Intestinal Infectious Diseases	7%	Renal Failure	2%
Hypertensive diseases	6%	Intestinal Infectious Diseases	2%
Diseases of the Oesophagus, Duodenum & Stomach	6%	Influenza & Pneumonia	1%

Average Length of Stay

Average length of stay was 4days. The ALOS trend for the financial year is as represented in the graph below.



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CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Over the period the Organisation approved various policies mainly touching on Customer Service, Corporate Governance, Benefits and Financial Management. The approved policies will ensure efficient and standardized services.

Our Corporate Social Responsibility (CSR) program echoes our brand essence 'Afya yetu Bima yetu' which means 'Our Health Our Insurance' and NHIF is committed to ensuring that the CSR Program is an integral part of its basic strategy and plans. The target is to provide value addition to customers, employees' welfare and community relations while supporting our environment. The Fund has a CSR policy that outlines the organizations commitment to good business practices, which provide value to all strategic stakeholders.

Social Sustainability

In line with the NHIF CSR policy, NHIF has responsibility for the impact of its decisions and activities on the society and the environment through transparent and ethical behaviour that is consistent with sustainable development and the welfare of the society. The Fund is committed to creating a positive impact to Kenyans by ensuring new corporate values to accessing affordable, quality health care services, and engaging in societal initiatives that enhance the wellbeing of the community at large.

In a bid to give back to the society, the Fund has been engaging in Social Sustainability activities. During the year under review, the Fund undertook the following programs:

The Management of Mental Health

The financial year 2017/18, Fund identified and adopted the management of mental health as its long term CSR activity. The thinking of mental health was occasioned by the fact that for years there has been inadequate measures put in place to manage the condition. Only recently, in 2016, is when the government through ministry of health launched the first mental health strategy 2017-2021 and the mental health policy 2015-2030.

In the financial year 2017/18 the fund resolved to impact the lives of the mentally challenged community in Kenya while creating awareness on mental health care. Sports leads to a connection between people thereby leading to a sense of community and wellbeing. NHIF supported Mathari hospital bid to have a sports day and promote the culture to adopt healthier habits and cohesiveness with the mentally ill. Mathari mental health sports day was the held on 19th may 2018. The theme for the sports day was physical activity for better mental health. The main objective being promotion of mental health awareness in the community.

A team from communications and public education collaborated with Ruaraka branch during the sports day that attracted members of the public, survivors of mental illness and the medical fraternity in Mathare hospital. The fund used the platform to educate the public of our benefit packages, and conduct registration. The main objectives of the sports day were NHIF sensitization, to create a forum for interaction between members of the public and

NATIONAL HOSPITAL INSURANCE FUND

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mental health professionals, to promote physical exercises as a preventive and therapeutic measure against mental health and promote health awareness thereby decreasing stigma associated with mental health.

Cardiac Program

The NHIF @50 Cardiac Program was rolled out in September 2016 with an aim to alleviate suffering amongst NHIF members who are in need of treatment interventions pertaining to cardiac conditions. A review of beneficiary cases in need of heart treatment and therapeutic interventions by NHIF at various accredited facilities demonstrated that treatment delays and lapses in disease complications and occasional discontinuity of enlisted beneficiaries to follow up on management of the diagnosed disease conditions to be attributed to the lengthened durations of waiting.

In October 2017, NHIF through a partnership with Agile Global Health, an international healthcare management company, funded the first of a series of local surgical operations, setting a new pace in heart treatment in Kenya that before this had heavily relied on overseas care. This was against a backdrop of a waiting list of about 1,435 in the country. Since then, over 644 cases ranging from open-heart surgery, interventional cardiology to diagnostic procedures have done under the package. This ambitious initiative enabled patients like Young Blessing Sila, who underwent open heart surgery locally, to receive a second chance in life.

Six hospitals namely; Mater Hospital, The Karen Hospital, Tenwek Hospital, Gertrude's Children Hospital, Nairobi Hospital and Coast Provincial General Hospital were involved in the NHIF Cardiac programme and combined, were able to handle over 644 open heart surgeries under the cover by the end of 2017. 49.5% of open heart surgeries were rheumatic heart diseases of both mitral and aortic valves. So far, over 400 patients have benefited, after undergoing various surgical and medical interventions.

NHIF assists Baby Michelle



NHIF in 2017 assisted Baby Michelle Awour Otondi who had suffered 55% burns that left her severely incapacitated earlier on in 2015. NHIF dispatched an ambulance to Kisumu County and the child was taken to Kenyatta National Hospital to undergo specialized surgical care for the reconstruction of her face to enable her eyes see properly under light. NHIF has facilitated the treatment through hospital payments to KNH whose doctors have actively taken care of Baby Michelle. NHIF continues to stand with Baby Michelle in order to ensure that she gets all the relevant care.

Medical Camps

NHIF supports local communities in informal settlements through free medical camps to identify common health problems and give free medical information to the community

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members. Community members are also advised on nutrition and checked on body mass index, hypertension, diabetes, flu and general wellness with further referral of specialized treatment.

Internship Program

NHIF offers work integrated learning for graduate students for their qualification and for those who would like to experience the world of working during their school vacation. Due to the training nature of this program, the intern will be based at a directorate for a period of at least 6 months. As an intern you will be assigned to a Manager whose role will be to provide support as well as regular feedback on your performance and development.

Our internship program is open to the following academic areas: Corporate Services, Legal affairs, Finance & Investment, Insurance, Human Resources & Administration, ICT, Customer Care, Marketing, Strategy & Planning, Operations, Standards & Quality Assurance, Audit and Actuarial. We look for the best talents to help us develop cutting edge ideas and achieve growth. In return, we invest in their intellectual ability, encourage early responsibility and support their ambition and progress. With our coaching, guidance and global reach, the future is yours to explore.

NATIONAL HOSPITAL INSURANCE FUND
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REPORT OF THE BOARD OF MANAGEMENT

The Board of Management submit their report together with the financial statements for the year ended June 30, 2018 which show the state of the Fund's affairs.

Principal activities

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

Results

The results of the Fund for the year ended June 30, 2018 are set out on pages 57- 107. Below is the summary of the surplus made during the year

Board of Management

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

Auditors

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

By Order of the Board,



.....
NICODEMUS ODONGO

Ag. CHIEF EXECUTIVE OFFICER

DATE:

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2018

STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES

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

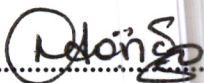
The Board are responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board accept responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act 2012 and the State Corporations Act. The Directors are of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2018, and of the Fund's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Fund's financial statements were approved by the Board on and signed on its behalf by:



Ag. CHIEF EXECUTIVE OFICER



CHAIRPERSON

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOSPITAL INSURANCE FUND FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Hospital Insurance Fund set out on pages 57 to 100, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Hospital Insurance Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with National Hospital Insurance Fund Act, 1998.

Basis for Adverse Opinion

1.0 Inaccuracies in the Financial Statements

The following discrepancies were noted between the balances in the financial statements and balances in the supporting schedules:

Item	Financial Statements Balance (Kshs)	Supporting Schedules Balance (Kshs)	Variance (Kshs)
Other Income			
Interest on investment	1,859,477,224	1,857,535,800	1,941,424
Staff Costs			
Staff Costs	4,179,069,661	4,174,922,564	4,147,097
Finance Expenses			
Finance Expenses	315,770,266	315,760,968	9,298
Trade and Other Receivables			
Outstanding contributions	3,143,657,067	3,108,472,510	35,184,557
Interest Receivable	107,110,161	103,354,669	3,755,492

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

Item	Financial Statements Balance (Kshs)	Supporting Schedules Balance (Kshs)	Variance (Kshs)
Trade and Other Payables	5,458,176,094	5,446,826,193	11,349,901
Contributions			
Self-employed contributions	3,880,651,567	3,874,774,672	5,876,895
Total	18,943,912,040	18,881,647,376	62,264,664

Further, the statement of comparative budget and actual amounts reflects actual income for the year of Kshs.49,242,494,591 and actual expenditure of Kshs.45,846,782,444. However, the statement of financial performance reflects total income of Kshs.39,513,824,440 and total expenditure of Kshs.39,217,901,574 resulting in unreconciled difference of Kshs.9,728,670,151 and Kshs.6,628,880,,870 respectively.

Consequently, the accuracy, completeness and validity of the financial statements for the year ended 30 June 2018 could not be confirmed.

2.0 Property, Plant and Equipment

2.1 Land Situated at Karen – 10 Hectares

As previously reported, included in the property, plant and equipment balance of Kshs.14,122,454,327 in the statement of financial position as at 30 June 2018 is land valued at Kshs.298,589,665 which includes an amount of Kshs.93,712,675 for land Ref. No.LR 24968/2 measuring 10 hectares situated at Karen. However, the ownership of this particular parcel of land is in dispute and the matter is in court. Further, information available indicate that the DCI has commenced investigation to establish whether there was fraud in the transfer of ownership of the land and prosecute any person who may have been identified as having breached the law as per the PIC recommendations on the 21 and 22 report.

2.2 Proposed Resource Centre at Karen Land

As previously reported, included in the property, plant and equipment balance of Kshs.14,122,454,327 as at 30 June 2018 is work in progress balance of Kshs.1,444,687,484 being payments for drawings and designs for the proposed Resource Centre and whose construction has not yet commenced since the land was acquired fifteen years ago. As noted in the previous year, the management has however explained that construction of the Resource Centre has not yet commenced because of lack of approval from parent Ministry and the land ownership dispute in court.

Although the issue had been discussed by the Public Investment Committee, no action appears to have been taken on the PIC recommendations of 22 report that the Fund should expeditiously pursue the prosecution and conclusion of the case to its logical conclusion.

2.3 Construction of Multi Storey Car Park

As reported in prior years, National Hospital Insurance Fund entered into an agreement with local construction firm for construction and completion of a multi storey car park at a contract sum of Kshs.909,709,305. According to information available, the project commenced in May 2002 and was scheduled for completion in August 2003. Records available, however, indicate that the contract sum was later revised upwards to Kshs.1,179,611,756 representing approximately 30% above the original contract sum of Kshs.909,709,305.

Although records available indicate that the car park was completed in July 2008 at a total cost of Kshs.3,342,120,239, a further amount of Kshs.626,635,998 and Kshs.4,706,521 was incurred in 2009/2010 and 2010/2011 respectively on the Car Park increasing its total expenditure to Kshs.3,973,462,758 as at 30 June 2011 or resulting to an increase of approximately 337% over and above the original contract sum of Kshs.909,709,305. Further and as similarly observed in the prior years' reports, the escalation of costs of the car park by 337% over and above the original cost has not been justified.

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

2.4 Integrated Revenue Management System

The property, plant and equipment balance of Kshs.14,122,454,327 includes additions to computers and related equipment of Kshs.973,387,872. The additions further include the total cost of proposed acquisition of an Integrated Revenue Management System of Kshs.495,205,588. Available information indicate that on 4 June 2018, the Fund entered into a contract ref RFP/SSSM NO./001/2017-2018 with an IT Solutions firm for provision of Integrated Revenue Management System. Although the Fund had not acquired the system as at 30 June 2018, the total cost of the system was included under additions to computers and related equipment thus resulting to an overstatement of property, plant and equipment by Kshs.495,205,588. Further, the total amount accrued under trade payables in respect to the system amount to Kshs.469,591,506 resulting in unexplained variance of Kshs.25,614,082.

Further information indicate that the procurement of the system was single sourced as no evidence of competitive bidding was availed for audit verification. This is contrary to Section 96 of the Public Procurement and Assets Disposal Act, 2015 which require the accounting officer to take such steps as are reasonable to bring the invitation to tender to the attention of all those who may wish to submit tenders. Further, although direct procurement method was used, no evidence was availed to the effect that the underlying circumstances met the conditions set for direct procurement as laid down in Section 91 of the Act. Management was therefore in breach of the Public Procurement and Assets Disposal Act, 2015 and the propriety of Kshs.495,205,588 charged in the financial statements in respect of the Integrated Revenue Management System could not be confirmed.

In the circumstances, it has not been possible to ascertain whether the property, plant and equipment balance of Kshs.14,122,454,327 as at 30 June 2018 is fairly stated.

3. Short Term Investments

As previously reported, included in the statement of financial position as at 30 June 2018 is short term investments balance of Kshs.17,787,153,816 which is net of provision for impaired investments of Kshs.1,304,410,609 as disclosed in note 26 to the financial statements for the previous year. The provision includes an amount of Kshs.49,500,000 which had been deposited by the Fund on 26 June 2001 at the Consolidated Bank Ltd in Nairobi. The entire deposit of Kshs.49,500,000 was off-set by the Bank against a guarantee executed by the former Fund Chief Executive Officer on behalf of Euro Bank Ltd. It is not clear and the management has not explained the circumstances under which the Fund's deposit was used as a guarantee by the then Chief Executive Officer.

Although the Public Investment Committee recommended in the 21 report that;

- (i) The then CEO of NHIF be held accountable for any losses incurred in the irregular investment of the surplus funds in Consolidated Bank and therefore be surcharged for Kshs.40,065,205.45, being the value of the un-deposited cheque No.022477 of 23 September 2002 from Euro Bank;
- (ii) The then Consolidated Bank's CEO and Finance Manager should be held accountable for colluding with NHIF to mismanage the invested funds;
- (iii) In view of the fact that the Fund had no capacity to provide guarantee for a loan to a private bank, Consolidated Bank should pay the amount of Kshs.49.5 million owed to the Fund;
- (iv) The then Senior Management of Consolidated Bank including the then Managing Director, and Finance Manager should also be held accountable for colluding with NHIF to mismanage the invested funds.
- (v) The former Managing Director of Consolidated Bank should be surcharged for the funds that were advanced to Euro Bank in overnight lending. He should further be held accountable for the Kshs.49.5 million which the Bank could not recover from Euro Bank and consequently offset the same against the fixed deposits of NHIF.
- (vi) NHIF should relentlessly pursue Consolidated Bank for recovery of Kshs.49.5 million;
- (vii) NHIF CEO must ensure that all financial investments by the Fund are done in accordance with Treasury Circular No.10 of 1992 and section 28(1) of the Public Finance Management Act.

No action appear to have been taken to recover the Kshs.49,500,000 the Fund lost. In the circumstance, it has not been possible to confirm whether the short term investment balance of Kshs.17,787,153,816 is fairly stated.

4. Unquoted Investments

As disclosed at note 27 to the financial statements, unquoted investment balance of Kshs.385,342,946 as at 30 June 2018 includes a balance of Kshs.331,142,946 in respect of a loan advanced by the Fund to Moi Teaching and Referral Hospital (MTRH) at an interest rate of 2.5% per annum. However, the loan was not supported with a signed loan agreement between the Fund and MTRH. Although the management has acknowledged the omission, it was not clearly explained how the anomaly will be resolved and the fall back plan in case of default by the Hospital. Further, the loan balance has not been reflected in MTRH financial statements for the year ended 30 June 2018. The unquoted investment balance of Kshs.385,342,946 also includes Consolidated bank shares of Kshs.54,200,000 which are not traded and for which no dividend have been paid in the past. Under the circumstances, the investment in Consolidated bank shares is impaired. Consequently, the validity of unquoted investment balance of Kshs.385,342,946 as at 30 June 2018 could not be confirmed.

5.0 Trade and Other Receivables

5.1 Temporary Imprest

The trade and other receivables balance of Kshs.4,787,930,583 as at 30 June 2018 include temporary imprest of Kshs.27,488,747 out of which Kshs.1,055,254 has been outstanding for years and whose recoverability is doubtful. This is contrary to Section 93 (5) of the Public Finance Management Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Section 93 (6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate. Consequently, the recoverability of the imprest amount of Kshs.1,055,254 is doubtful.

5.2 Interest Receivable

The trade and other receivables balance of Kshs.4,787,930,583 also include interest receivables of Kshs.107,110,161. However, and as reported in the previous year, the balance includes Kshs.1,712,243.78 whose supporting documents were not availed for audit review. Further, a recalculation of interest receivable during the year shows a balance of Kshs.103,354,669 which differ with the reported balance of Kshs.107,110,161 resulting in unexplained variance of Kshs.3,755,492.

5.3 Ageing Analysis

The trade and other receivables ageing analysis at note 28 to the financial statements cast to Kshs.3,716,006,861 which differ with the total trade and other receivables balance of Kshs.4,787,930,583 as disclosed at note 28 to the financial statements resulting in unexplained difference of Kshs.1,071,923,722.

Consequently, the accuracy and validity of trade and other receivables balance of Kshs.4,787,930,583 as at 30 June 2018 could not be confirmed.

6. Staff Costs

The staff costs expenditure of Kshs.4,179,069,661 as disclosed in note 17 to the financial statements include an amount of Kshs.8,777,057 paid to sixty five (65) officers employed during the year. However, the supporting recruitment documents including advertisements of the vacancies, short listing, interviewing and recruitment reports were not availed for audit verification.

Consequently, the propriety of the expenditure totalling Kshs.8,777,057 included under staff cost for the year ended 30 June 2018 could not be confirmed.

7. Staff Welfare

Included under other operating expenses as disclosed at note 19 to the financial statements is expenditure on staff welfare of Kshs.39,784,850 for the year ended 30 June 2018. A review of the staff welfare expenditure revealed that an amount of Kshs.1,460,000 was paid to nine (9) board members and one staff as Christmas gift during the year under review. However, management did not provide justification or the basis for this payment.

Consequently, the propriety of the expenditure totalling to Kshs.1,460,000 paid as Christmas gift and included under staff welfare could not be confirmed for the year ended 30 June 2018.

8. Board Expenses

As disclosed at note 18 to the financial statements, board expenses of Kshs.38,613,988 includes seminars and conferences expenditure amounting to Kshs.13,115,573. The expenditure on seminars and conferences includes Kshs.4,633,631 paid to Harvard Business School for training of two board members on the 2018 Session of Audit Committee in a New Era of Governance course. However, board approval for this training was not availed for audit verification. In addition, it was not clear why the training was not done locally to minimize on the expenditure. Further, the board expenditure on seminars and conferences include an amount of Kshs.993,220 that was paid as imprest to two officers for payment of per diem to board members attending a devolution conference in Kakamega and Mombasa ASK show. However, the imprest were directly expensed under board expenses. The seminars and conferences expenditure also includes an unsupported balance of Kshs.3,923,119 described as transfer to provisions. Although management has explained that these are imprest issued for board expenses and wrongly described as transfers to provisions, no evidence was availed to support this claim.

Under the circumstances, the propriety of board expenses of Kshs.38,613,988 for the year ended 30 June 2018 could not be confirmed.

9. Claims Payable

The statement of financial position reflects claims payable balance of Kshs.540,013,236 as at 30 June 2018 and includes claims due to Kenyatta National Hospital (KNH) totalling to Kshs.55,276,819. However, information available indicate that the records at KNH reflects that the Fund owes KNH Kshs.712,187,022 in un-paid claims resulting in

unexplained variance of Kshs.656,910,203. No clear justification was provided for failing to reconcile and clear these long outstanding claims.

Consequently, the accuracy and validity of claims payable balance of Kshs.540,013,236 as at 30 June 2018 could not be confirmed.

10. Trade Creditors

Trade creditors balance of Kshs.700,113,542 as at 30 June 2018 and as disclosed at note 34 to the financial statements includes balances totalling to Kshs.605,011,512 that were accrued before the respective goods were received and service rendered in full contrary to the generally accepted accounting principles (matching concept) as detailed below:

Tender Number	Activity	Contract Sum Kshs.	Audit Observations
NHIF/069/2017-2018	Contract for supply and delivery of promotional material-eco-friendly Shopping	1,950,000	Delivery of the materials was done on 20 August 2018 after the closure of the year.
NHIF/021/2017-2018	Contract for partitioning of NHIF call centers	34,684,283	The contract was signed on 4 April 2018 and the work had not commenced as at 30 June 2018.
NHIF /050/2017-2018	Refurbishment and partitions at Mesora Centre-Buru-Buru Branch Office	6,242,490	No contract, invoice or certificate of work done was availed and therefore it was not established whether the work had commenced as at the close of the year.
NHIF/027/2017-2018	Contract for printing, supply and delivery of brochures, reflective jackets and round neck T-shirts	26,660,776	The delivery of the items was done after the closure of the year under review.
RFP NHIF/047/2017-2018	Contract for partitioning of NHIF Mombasa Branch Office	10,230,022	The contract was signed on 31 May 2018 and the work had not commenced as at 30 June 2018.
NHIF/053/2017-2018	Contract for printing, supply and delivery of NHIF 2 forms quantity 5000 @1800 and NHIF 26 Forms QTY 3000@1400	11,400,000	Only Qty 1,000 were delivered in 2017/2018
NHIF /27/2017-2018	Contract for printing ,supply and delivery of Eco-Friendly Shopping Bags QTY 15000@650	9,750,000	It was observed that the branded shopping bags were delivered on 20/08/2018 after the closure of the year.
NHIF /27/2017-2018	Contract for printing, supply and delivery of QTY 15000 PCS@2950 Golf Umbrellas	14,250,000	Delivery was done on 20/12/2018 after the end of the year.

Tender Number	Activity	Contract Sum Kshs.	Audit Observations
DP NO. NHIF/007/2017-2018	Contract for Development of NHIF API for member registration	20,252,434	The contract commenced on 1st July 2018. In addition agent API implementation checklist is dated 1 October 2018.
RFP/SSSM 001/2017-2018	Contract for provision of Integrated Revenue Management System	469,591,507	The work had not commenced at the closure of the year.
Total		605,011,512	

Consequently, the accuracy and validity of trade creditors balance of Kshs.700,113,542 as at 30 June 2018 could not be confirmed.

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

Key Audit Matters

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

Other Matter

1. Special Audit

The Public Investments Committee requested the Auditor-General vide letter of ref. NA/DCS/PIC/2018/172 dated 14 December 2018 to carry out a special audit on the Fund and submit a special report on the same to Parliament. As at the time of this report, the special audit was still in progress and the report had therefore, not been finalized. The special audit report when completed may bring to light issues not captured in the course of this statutory audit report.

2. Budgetary Performance

During the year under review, the Fund's actual revenue amounted to Kshs.49,242,494,591 against budgeted revenue of Kshs.51,594,992,475 resulting in a revenue shortfall of Kshs.2,352,497,884. Further, actual expenditure for the year amounted to Kshs.45,846,782,444 against budgeted expenditure of Kshs.47,990,419,988 resulting in an overall under absorption of Kshs.2,143,637,544. It is therefore clear that the Fund did not fully achieve its budget objectives which adversely

affected delivery of the intended services to the public. Therefore, there is need for the Fund to review its budget making process with a view to coming up with a vibrant budget implementation follow up mechanism and feedback process with a view to ensuring that all projects and activities are implemented as planned for the Fund to meet its mission and objectives for the benefits of the Citizens of Kenya.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Non Compliance with Public Procurement and Assets Disposal Act, 2015

During the year under review, the Fund engaged a Company for provision IT related services including emailing filtering solution at a total cost of Kshs.11,323,440 out of which an amount of Kshs.944,574 was paid in advance leaving an outstanding balance of Kshs.10,378,866 as at 30 June 2018. However, the Company was identified through quotations despite the amounts exceeding maximum threshold of Kshs.2,000,000 for quotations as contained in the Public Procurement Regulations. This is also contrary to Section 96 of the Public Procurement and Assets Disposal Act, 2015 which require the Accounting Officer to take such steps as are reasonable to bring the invitation to tender to the attention of all those who may wish to submit tenders. Management was therefore in breach of the law and the propriety and value for money of the related expenditure totalling to Kshs.11,323,440 for the year ended 30 June 2018 could not be confirmed.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on

the audit procedures performed, I confirm that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but

is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

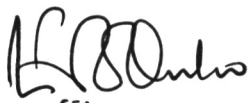
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on

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

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

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

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



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

Nairobi

23 May 2019

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2018

STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2018

	Note	2018	2017
REVENUES		Kes	Kes
Contributions from NHS	6	33,041,643,709	29,858,615,338
Surplus from CS Medical Scheme	7	44,624,453	166,385,569
Surplus from NPS & KPS Medical Scheme	8	738,729,480	-
Surplus from Secondary Sch. Medical Scheme	9	826,507,907	-
Surplus from HISP OVC Program	10	625,599,609	222,474,774
Surplus from HISP (OPPSD) Program	11	173,961,218	-
Surplus from County Medical Scheme	12	225,200,070	165,332,706
Surplus from Parastatal & Other Private Schemes	13	160,268,109	98,445,025
Free Maternity Program	14	1,488,450,869	28,172,808
Other Incomes	15	2,188,839,018	2,108,495,639
TOTAL REVENUES		39,513,824,440	32,647,921,860
OPERATING EXPENSES			
NHS Benefit Expenses	16	29,486,946,645	21,963,838,108
Free Maternity Benefit Expenses	14	1,488,450,869	28,172,808
Staff Costs	17	4,179,069,661	4,715,908,503
Board Expenses	18	38,613,988	27,360,517
Other Operating Expenses	19	2,902,069,967	2,432,660,856
Depreciation of PPE	20	565,905,017	586,740,096
Amortization of Intangible Assets	21	7,603,276	6,969,670

NATIONAL HOSPITAL INSURANCE FUND

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For the year ended June 30, 2018

Total Operating Expenses		(38,668,659,424)	(29,761,650,557)
Operating Surplus		845,165,017	2,886,271,303
Finance Expenses	22	(315,770,266)	(267,603,821)
Surplus Before Taxation		529,394,750	2,618,667,482
Tax Expense	23	(233,471,884)	(267,077,394)
SURPLUS AFTER TAXATION		295,922,867	2,351,590,088

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2018

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018	2017
		Kes	Kes
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	20	14,122,454,327	13,103,788,341
Intangible Assets	21	8,236,882	15,840,158
Receivable - South B Estate Mortgage	24	12,332,506	16,825,992
Fixed Interest Investments (Bonds)	25	34,200,000	34,200,000
Long Term Deposits	26	911,125,980	734,425,255
Unquoted Investments	27	385,342,946	69,507,912
Total Non-Current Assets		15,473,692,641	13,974,587,658
Current Assets			
Trade and Other Receivables	28	4,787,930,583	5,317,399,455
Short Term Deposits	29	17,787,153,816	16,879,113,329
Cash and Bank Balances	30	3,951,353,501	1,231,463,271
Total Current Assets		26,526,437,899	23,427,976,055
TOTAL ASSETS		42,000,130,540	37,402,563,713
EQUITY AND LIABILITIES			
Capital and Reserves			
Accumulated Fund	31	12,209,923,340	12,209,923,340
Surplus Funds	32	22,694,889,981	22,398,967,115
Total Capital and Reserves		34,904,813,321	34,608,890,455
Current Liabilities			
Claims Payables	33	540,013,236	290,774,877
Other Trade Payables	34	5,446,826,194	1,350,647,455
Tax Payable	35	36,615,826	40,042,787
Provision for Liabilities	36	1,071,861,963	1,112,208,138
Total Current Liabilities		7,095,317,219	2,793,673,258
TOTAL EQUITY AND LIABILITIES		42,000,130,540	37,402,563,712

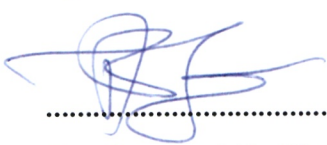
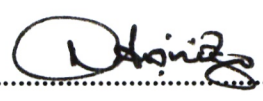
NATIONAL HOSPITAL INSURANCE FUND
Reports and Financial Statements
For the year ended June 30, 2018

The financial statements on pages 57 to 107 were approved by the Board of Management onand signed on its behalf by:

Ag. Chief Executive Officer

Ag. Head of Finance

Chairperson






Mr. Nicodemus O. Odongo

Mr. Bernard K. Njenga
ICPAK Membership
No. 4975

Mrs. Hannah W. Muriithi EBS

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

Note	Accumulated Fund	Retained Earnings	Total
	Kes	Kes	Kes
	31	32	
At July 1, 2016	12,209,923,340	20,047,377,027	32,257,300,367
Changes in the year / Total comprehensive income	-	2,351,590,088	2,351,590,088
At June 30, 2017	12,209,923,340	22,398,967,115	34,608,890,455
			
At July 1, 2017	12,209,923,340	22,398,967,115	34,608,890,455
Changes in the year / Total comprehensive income	-	295,922,867	295,922,867
At 30th June, 2018	12,209,923,340	22,694,889,981	34,904,813,321

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements
For the year ended June 30, 2018

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 Kes	2017 Kes
OPERATING ACTIVITIES			
Cash generated/used from/in operations	37	4,065,270,966	1,263,871,714
Tax Paid	23	(233,471,884)	(267,077,394)
Net cash generated from operating activities		3,831,799,083	996,794,320
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	20	(1,584,571,004)	(849,008,736)
Purchase of Intangible Assets	21	-	(22,809,828)
Proceeds from disposal of property, plant and equipment	15	8,524,260	8,436,712
Interest from investment	15	1,860,220,651	1,721,921,042
Proceeds from sale of South B estate	24	4,493,486	12,738,114
Purchase of Long term Deposit	26	(176,700,726)	(4,061,398)
(Purchase)/Redemption of unquoted investment	27	(315,835,034)	16,529,528
Net cash used in investing activities		(203,868,367)	883,745,433
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		3,627,930,716	1,880,539,753
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	37(a)	18,110,576,600	16,230,036,846
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		21,738,507,316	18,110,576,600

The notes set out on pages 57 to 107 are an integral part of these financial statements

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30 2018

	Original Budget	Adjustments	Final budget	Actual	Variance	Percentage Difference	Explanation
	2017/2018 Kes	2017/2018 Kes	2017/2018 Kes	2017/2018 Kes	2017/2018 Kes	2017/2018 %	Notes No.
INCOME							
National Scheme	36,647,811,354	-	36,647,811,354	33,035,766,814	(3,612,044,540)	-10%	
Interest from Investment	1,259,787,874	-	1,259,787,874	1,860,091,511	600,303,637	48%	38 a
Rental Income	319,177,558	-	319,177,558	316,295,629	(2,881,929)	-1%	
Civil Servants Medical Scheme	3,626,651,048	(2,951,048)	3,623,700,000	5,095,519,893	1,471,819,893	41%	38 b
NPS & KPS Medical Schemes	-	3,589,354,170	3,589,354,170	4,035,805,560	446,451,390	12%	38 c
Free maternity (Linda Mama)	5,400,000,000	(1,552,000,000)	3,848,000,000	2,961,525,853	(886,474,147)	-23%	38 d
HISP (OVC)	-	962,530,000	962,530,000	-	(962,530,000)	-100%	38 e
HISP (OPPSD)	-	252,000,000	252,000,000	189,000,000	(63,000,000)	-25%	38 f
County Schemes	83,984,551	418,614,620	502,599,171	653,260,500	150,661,329	30%	38 g
Parastatals Medical Schemes	-	590,032,349	590,032,349	1,095,228,832	505,196,483	86%	38 h
TOTAL INCOME	47,337,412,384	4,257,580,091	51,594,992,475	49,242,494,591	(2,352,497,884)		
RECURRENT EXPENDITURE							
(a) Personnel Emoluments	4,225,040,316	44,973,382	4,270,013,698	4,179,069,661	90,944,037	2%	

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2018

(b) Administration Expenses	2,881,594,228	120,077,048	3,001,671,276	3,040,600,932	(38,929,656)	-1%	
(c) Tax Expense	188,968,181	-	188,968,181	196,158,552	(7,190,371)	-4%	
(d) Finance Cost	311,374,195	(100,000,000)	211,374,195	315,769,968	(104,395,696)	-33%	38 i
Total Admin. Expenses	7,606,976,920	65,050,430	7,672,027,350	7,732,065,114	(59,571,764)		
Benefits Expenses							
National Scheme	29,048,189,800	(1,032,350,500)	28,015,839,300	28,562,900,448	(547,061,148)	-2%	
Civil Servant Medical Scheme	3,626,651,048	(184,136,048)	3,442,515,000	3,579,075,547	(136,560,547)	-4%	
NPS/ KPS Medical Schemes	-	3,050,951,045	3,050,951,045	2,850,624,690	200,326,355	7%	
Free Maternity	5,400,000,000	(1,552,000,000)	3,848,000,000	1,488,450,869	2,359,549,131	159%	38 j
HISP (OVC)	-	818,150,500	818,150,500	336,930,391	481,220,109	143%	38 k
HISP (OPPSD)	-	214,200,000	214,200,000	78,038,782	136,161,218	174%	38 l
County Schemes	83,984,551	343,224,745	427,209,296	418,019,958	9,189,338	2%	
Parastatals Medical Schemes	-	501,527,497	501,527,497	800,676,645	(299,149,148)	-37%	38 m
Total Benefit Expenses	38,158,825,399	2,159,567,239	40,318,392,638	38,114,717,331	2,203,675,308		
TOTAL RECURRENT EXPENSES	45,765,802,319	2,224,617,669	47,990,419,988	45,846,782,444	2,143,637,544		
SURPLUS	1,571,610,065	2,032,962,422	3,604,572,487	3,395,712,147	208,860,340		

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

- i. The statement of comparison of budget and actual amounts excludes other incomes as revenue which are included in the Statement of Comprehensive Income like Agency Commissions, Miscellaneous Receipts and Proceeds on Disposal totalling Kes. 12,322,739.
- ii. Income from Civil Servants Medical Scheme in the statement of comparison of budget and actual amounts has actual revenue received in the year which includes paid up arrears for prior years while in the Statement of Comprehensive Income is reported surplus after deducting benefits incurred by the members of the scheme giving a difference of Kes. 5,054,287,662.
- iii. Income from NPS & KPS, Free Maternity, HISP-OPPSD, County and Parastatal medical schemes in the statement of comparison of budget and actual amounts has actual revenue received in the year while Statement of Comprehensive Income is reported surplus after deducting benefits incurred by the members of the scheme giving a difference of Kes. 6,717,270,765.
- iv. There were no payments received for HISP - OVC thus the nil income in the statement of comparison of budget and actual amounts while the Statement of Comprehensive Income is reported surplus after deducting benefits incurred by the members of the scheme basing the revenue on accrued income. This gives a variance of Kes. -481,594,050
- v. Income from Secondary school student's medical scheme had not been budgeted for thus excluded in the statement of comparison of budget and actual amounts but its surplus of Kes. -826,507,907 is reported in the Statement of Comprehensive Income.
- vi. Total Operating Expenses in the statement of comparison of budget and actual amounts excludes depreciation, amortization and benefit expenses on enhanced schemes all totalling Kes. 7,307,626,715 which are reported in the statement of comprehensive income and separately in the notes respectively.
- vii. Tax Expense in the statement of comparison of budget and actual amounts excludes VAT on property (Kes. 37,250,527) which is included in the statement of comprehensive income.

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

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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

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

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

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

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements
For the year ended June 30, 2018

Amendment / Interpretation to a standard	Effective date	Impact
<p>IFRS 9: Financial Instruments (Issued 24 July 2014)</p>	<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The standard contains requirements in the following areas:</p> <ul style="list-style-type: none"> • Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised • Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures • Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39 <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<p>IFRS 15: Revenue from Contracts with Customers</p>	<p>Applicable to an entity's first annual IFRS financial statements for a period beginning</p>	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> • Identify the contract with the customer

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2018

Amendment / Interpretation to a standard	Effective date	Impact
<i>(Issued 28 May 2014)</i>	on or after 1 January 2018	<ul style="list-style-type: none"> • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation. <p>Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p> <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<p>IFRIC 22: Foreign Currency Transactions and Advance Consideration</p> <p><i>(Issued 8 December 2016)</i></p>	Applicable to annual reporting periods beginning on or after 1 January 2018	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary. <p>The Interpretations Committee came to the following conclusion:</p> <ul style="list-style-type: none"> • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. • If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2018

Amendment / Interpretation to a standard	Effective date	Impact
<p><i>Recognition of Deferred Tax Assets for Unrealised Losses</i> (Amendments to IAS 12)</p> <p>(Issued 19 January 2016)</p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends IAS 12 <i>Income Taxes</i> to clarify the following aspects:</p> <ul style="list-style-type: none"> • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. • An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<p><i>Disclosure Initiative</i> (Amendments to IAS 7)</p> <p>(Issued 29 January 2016)</p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends IAS 7 <i>Statement of Cash Flows</i> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.</p> <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<p><i>Clarifications to IFRS 15 'Revenue from Contracts with Customers'</i></p>	<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>Amends IFRS 15 <i>Revenue from Contracts with Customers</i> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.</p>

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2018

Amendment / Interpretation to a standard	Effective date	Impact
(Issued 12 April 2016)		The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.
<i>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)</i> (Issued 20 June 2016)	Effective for annual periods beginning on or after 1 January 2018	Amends IFRS 2 <i>Share-based Payment</i> to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.
<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)</i> (Issued 12 September 2016)	Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after 1 January 2018 and only available for three years after that date	Amends IFRS 4 <i>Insurance Contracts</i> provide two options for entities that issue insurance contracts within the scope of IFRS 4: <ul style="list-style-type: none"> • an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; • an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach. <p>The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.</p> <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<i>Transfers of Investment Property (Amendments to IAS 40)</i>	Effective for annual periods beginning on or after 1 January 2018	The amendments to IAS 40 <i>Investment Property</i> : <ul style="list-style-type: none"> • Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the

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Amendment / Interpretation to a standard	Effective date	Impact
<i>(Issued 8 December 2016)</i>		<p>definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.</p> <ul style="list-style-type: none"> The list of examples of evidence in paragraph 57(a) - (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list. <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<p><i>Annual Improvements to IFRS Standards 2014-2016 Cycle</i></p> <p><i>(Issued 8 December 2016)</i></p>	<p>The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017</p>	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> IFRS 1 - Deletes the short-term exemptions in paragraphs E3-E7 of IFRS 1, because they have now served their intended purpose IFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10-B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> IAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>

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ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Amendment / Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> <i>(Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	<p>IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</p> <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<i>IFRS 17 Insurance Contracts</i> <i>(Issued 18 May 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2021	<p>IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.</p> <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> <i>(Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations

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		<ul style="list-style-type: none"> • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<p><i>Prepayment Features with Negative Compensation (Amendments to IFRS 9)</i></p> <p>(Issued 12 October 2017)</p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.</p> <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<p><i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)</i></p> <p>(Issued 12 October 2017)</p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Clarifies that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</p> <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<p><i>Annual Improvements to IFRS Standards 2015-2017 Cycle</i></p> <p>(Issued 12 December 2017)</p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> • IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. • IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are

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		<p>recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.</p> <ul style="list-style-type: none"> • IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows <i>generally</i> when calculating the capitalisation rate on general borrowings. <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<p><i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i></p> <p><i>(Issued 7 February 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>The amendments in <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i> are:</p> <ul style="list-style-type: none"> • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. • In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
<p><i>Amendments to References to the Conceptual Framework in IFRS Standards</i></p> <p><i>(Issued 29 March 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2020</p>	<p>Together with the revised <i>Conceptual Framework</i> published in March 2018, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i>. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised <i>Conceptual Framework</i>. Some</p>

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		<p>pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised <i>Conceptual Framework</i>.</p> <p>The management have evaluated the impact of this new standard and interpretation and had no significant impact on the organization's financial statements.</p>
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The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

(iii) *Early adoption*

The Fund did not early adopt any new standards and/or interpretation that are in issue but not yet effective.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) **Revenue Recognition**

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

- i) Revenue is generally recognized in the income statement on accrual basis. Best estimates of what is receivable are included in the accounts.
- ii) Finance income comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iii) Rental income is recognised in the income statement as it accrues using the effective lease agreements.

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iv) Other income is recognised as it accrues.

b) Benefit Expenses (Claims)

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

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

c) Property, Plant And Equipment

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

d) Depreciation and Impairment of Property, Plant And Equipment

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

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

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

e) Intangible Assets

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

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f) Amortisation and impairment of intangible assets

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

g) Finance and Operating Leases

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

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

h) Fixed Interest Investments (Bonds)

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

i) Unquoted Investments

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

j) Trade and Other Receivables

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

k) Cash and Cash Equivalents

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

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the Central Bank of Kenya and at various commercial banks at the end of the financial year.

l) Trade & Other Payables

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

m) Retirement Benefit Obligations

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

n) Budget information

The original budget for FY 2016-2017 was approved by the National Assembly on 8th of June 2016. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Fund upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded additional appropriations 1st March 2017 on the 2016-2017 budget following the governing body's approval.

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

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

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

o) Comparative Figures

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

p) Subsequent Events

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

r) Taxation

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

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

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and assumptions

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

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Useful lives and residual values

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

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

Provisions

Provisions for bad and doubtful debts when raised, management determines an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

	2018 Kes	2017 Kes
6 CONTRIBUTIONS		
Standard Contribution	26,999,176,606	24,895,219,946
Self Employed Contributions	3,880,651,567	2,765,759,265
Late Contributions	1,929,821,320	2,007,082,353
Penalties	231,994,217	190,553,775
Total	33,041,643,709	29,858,615,338

This is recognised in accordance with the NHIF Act, through Standard Contributions and Self Employed contributions.

7 SURPLUS FROM CIVIL SERVANTS (CS & DS) SCHEME

Premiums	3,623,700,000	4,036,715,203
Expenses:		
Group Life Expenses	696,076,557	811,049,228
Administrative Expenses	308,467,316	186,970,407
Outpatient Expenses	782,842,520	757,911,136
Inpatient Expenses	1,142,868,589	1,485,541,622
Specialized Benefit Packages	448,448,136	438,680,485
Evacuation Services	200,372,429	190,176,757
Expenses		
Total Expenses	3,579,075,547	3,870,329,634
Deficit/Surplus for the Year	44,624,453	166,385,569

The Fund entered into a contract with the government to provide private medical insurance cover to civil servants and members of the disciplined services.

8 SURPLUS FROM NPS & KPS MEDICAL SCHEME

Premiums	3,589,354,170	-
Expenses:		
Group Life Expenses	126,640,340	-
Administrative Expenses	371,735,498	-
Outpatient Expenses	843,620,934	-
Inpatient Expenses	1,000,496,638	-
Specialized Benefit Packages	342,250,527	-
Evacuation Services	165,880,753	-
Expenses		
Total Expenses	2,850,624,690	-
Deficit/Surplus for the Year	738,729,480	-

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The Fund entered into a contract with the government to provide private medical insurance cover to the members National Police Service & Kenya Prisons Service.

	2018 Kes	2017 Kes
9 SURPLUS FROM SECONDARY SCHOOL STUDENTS MEDICAL SCHEME		
Premiums	849,085,617	-
Expenses:		
Group Life Expenses	-	-
Administrative Expenses	21,507,180	-
Outpatient Expenses	265,330	-
Inpatient Expenses	805,200	-
Specialized Benefit Packages	-	-
Evacuation Services Expenses	-	-
Total Expenses	22,577,710	-
Deficit/Surplus for the Year	826,507,907	-

The Fund entered into a contract with the government to provide private medical insurance cover to Students in Public Secondary Schools.

10 SURPLUS FROM HISP (OVC) PROGRAM		
Premiums	962,530,000	561,475,833
Expenses:		
Administrative Expenses	-	-
Outpatient Expenses	241,089,822	173,243,741
Inpatient Expenses	14,295,543	125,700,872
Specialized Benefit Packages	81,545,026	40,056,447
Total Expenses	336,930,391	339,001,060
Surplus for the Year	625,599,609	222,474,774

The funds were awarded by the world bank through the Ministry of Health to the Fund to administer a Health Insurance Subsidy programme - OVCT which is aimed at providing comprehensive medical cover to a selected group of the most vulnerable (very poor) in some selected counties in the country.

11 SURPLUS FROM HISP-OPPSD PROGRAM		
Premiums	252,000,000	-
Expenses:		
Outpatient Expenses	26,792,314	-
Inpatient Expenses	9,791,383	-
Specialized Benefit Packages	41,455,085	-

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Total Expenses	78,038,782	-
Surplus for the Year	173,961,218	-

The government through the Ministry of Health entered into an MOU to administer a Health Insurance subsidy programme for Older Persons and Person's with severe disabilities. This program had been reported under the NHS in the prior year.

	2018 Kes	2017 Kes
12 SURPLUS FROM COUNTY MEDICAL SCHEME		
Premiums	643,220,028	404,812,619
Expenses:		
Group Life Expenses	83,397,637	27,089,474
Outpatient Expenses	75,778,720	19,483,795
Inpatient Expenses	203,819,028	110,940,443
Specialized Benefit Packages	55,024,572	68,478,172
Evacuation Services	-	13,488,028
Total Expenses	418,019,958	239,479,913
Surplus for the Year	225,200,070	165,332,706

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

13 PARASTATALS AND OTHER PRIVATE MEDICAL SCHEMES		
Premiums	960,944,754	181,803,848
Expenses:		
Group Life Expenses	13,345,977	-
Outpatient Expenses	131,440,277	1,717,430
Inpatient Expenses	592,335,942	60,756,832
Specialized Benefit Packages	63,554,449	16,903,730
Evacuation Services	-	3,980,830
Total Expenses	800,676,645	83,358,823
Surplus for the Year	160,268,109	98,445,025

The Fund entered into contracts with parastatals to offer private medical insurance cover to the employees of the parastatals at a premium.

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	2018 Kes	2017 Kes
14 FREE MATERNITY		
Premiums	1,488,450,869	28,172,808
Expenses:		
Ceasarian Delivery Expenses	198,695,425	5,461,000
Normal Delivery Expenses	1,253,550,212	4,880,000
Antenatal Expenses	14,960,085	-
Postnatal Expenses	1,508,947	-
Administrative Expenses	19,736,200	17,831,808
Total Expenses	1,488,450,869	28,172,808

This is a managed scheme sponsored by the government of Kenya through the Ministry of Health.

15 OTHER INCOMES

Interest On Investments	1,859,477,224	1,720,595,185
Hospital Accreditation Fee	-	3,050,000
Interest from Disposal South B Estate	743,427	1,325,857
Rent From Properties	316,295,629	372,088,926
Recoveries out of Provision	-	-
Agency Commissions	2,032,824	1,916,664
Miscellaneous Receipts	1,765,655	1,082,295
Proceeds On Disposal	8,524,260	8,436,712
Total	2,188,839,018	2,108,495,639

Other incomes are those that accrue to the Fund from Short and long term Investments as well as services rendered to third parties.

16 BENEFIT EXPENSES

Outpatient Expenses	5,105,478,234	4,123,176,764
Inpatient Expenses	12,052,847,235	10,265,925,804
Specialized Benefit Packages	11,404,574,980	7,459,235,540
Evacuation Services	924,046,197	115,500,000
Total	29,486,946,645	21,963,838,108

These are medical benefits paid out to health care facilities for providing medical services to members of the national scheme.

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	2018 Kes	2017 Kes
17 STAFF COSTS		
Basic Salary	2,899,135,109	2,343,899,527
Gratuity / Pension Contributions	307,485,859	295,776,096
N.S.S.F - Employer Contributions	4,480,316	4,192,800
Other Allowances	967,968,376	948,122,143
Termination Benefits- VER/VSJ	-	1,123,917,936
Total	4,179,069,661	4,715,908,503

NO OF STAFF

	2018	2017
Permanent - Management	593	589
Permanent - Unionisable	1,337	1,175
TOTAL	1,930	1,764

18 BOARD EXPENSES

Sitting Allowance	7,940,000	8,071,000
Seminars And Conferences	13,115,573	4,520,868
Accommodation	1,922,710	1,741,910
Honoraria	226,666	640,000
Mileage And Per Diem	10,591,528	8,540,722
Lunch All. & Refreshments	970,850	1,407,512
Travel - Local	3,846,661	2,438,505
Total	38,613,988	27,360,517

19 OTHER OPERATING EXPENSES

Group Personal Accident/Group	46,218,138	35,643,454
Medical Expenses /Ex-Gratia (Inpatient)	290,603,799	193,069,590
Subscriptions & Contributions	39,580,736	34,678,458
Audit Expenses	4,534,000	4,016,800
Legal Expenses	140,078,247	78,243,351
Security Expenses	69,371,886	59,528,924

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Transport Operating Exp.	177,874,298	177,007,366
Transport Allowance	1,474,488	1,134,379
Travel & Accommodation	312,302,013	308,658,209
Postage	16,021,974	15,128,587
Telephone Expenses	87,413,169	80,978,988
Official Entertainment	38,570,516	32,416,550
Electricity, Water & Conservancy	15,647,756	14,355,701
Uniforms & Clothing	5,967,596	5,702,492
Newspapers/ Periodicals/ Books	7,146,956	6,769,948
Printing & Stationery-General	68,725,026	69,781,845
Advertising & Publicity	731,980,878	558,666,420
Security Printing	19,912,926	69,752,954
Show Expenses	21,885,765	10,603,029
Cleaning Materials & Services	34,972,203	32,759,659
Computer Stationary & Material	21,151,723	19,347,983
Rent & Rates	178,947,371	158,532,506
Insurances and Licenses	37,432,298	43,187,934
Staff Welfare	39,784,850	35,267,264
Training Expenses	196,278,493	192,518,433
Bad Debts Write Off	-	27,465,038
Maintenance of Office Equipment	146,224,663	80,393,842
Maintenance of Computer	151,968,200	87,051,152
Total	2,902,069,967	2,432,660,856

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20 PROPERTY, PLANT AND EQUIPMENT

2017/2018	Land	Buildings	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	EHIMS (BIOMETRIC)	Capital work in progress	Total
	Kes	Kes	Kes	Kes	Kes	Kes	Kes	Kes
COST								
At July 1, 2017	298,589,665	9,752,032,988	391,722,457	1,758,592,596	2,369,164,582	1,037,490,241	1,444,687,484	17,052,280,013
Additions	-	-	-	973,387,872	152,283,884	458,899,248	-	1,584,571,004
Transfers	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
At 30 June 2018	298,589,665	9,752,032,988	391,722,457	2,731,980,468	2,521,448,466	1,496,389,489	1,444,687,484	18,636,851,016
DEPRECIATION								
At July 1, 2017	-	1,520,317,198	274,311,348	827,525,184	843,008,755	483,329,187	-	3,948,491,672
Charge for the year	-	136,131,817	28,519,490	85,831,116	54,216,062	261,206,532	-	565,905,017
Eliminated on disposal/transfer	-	-	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-	-	-
At 30 June 2018	-	1,656,449,015	302,830,839	913,356,300	897,224,816	744,535,719	-	4,514,396,690
NBV At 30 June 2018	298,589,665	8,095,583,973	88,891,618	1,818,624,167	1,624,223,649	751,853,770	1,444,687,484	14,122,454,326

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20(a) PROPERTY, PLANT AND EQUIPMENT (Kes) (Continued)

2016/2017 FY	Land	Buildings	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	EHIMS (BIOMETRIC)	Capital work in progress	Total
	Kes	Kes	Kes	Kes	Kes	Kes	Kes	Kes
COST								
At July 1, 2016	298,589,665	9,583,454,453	343,746,257	2,139,144,395	2,203,758,167	-	1,634,578,339	16,203,271,276
Additions	-	16,610,992	47,976,200	403,852,201	127,483,102	253,086,241	-	849,008,736
Transfers	-	151,967,543	-	(784,404,000)	37,923,313	784,404,000	(189,890,856)	-
Disposals	-	-	-	-	-	-	-	-
As at 30th June, 2017	298,589,665	9,752,032,988	391,722,457	1,758,592,596	2,369,164,582	1,037,490,241	1,444,687,484	17,052,280,013
DEPRECIATION								
At July 1, 2016	-	1,384,185,381	251,576,805	928,775,980	797,213,409	-	-	3,361,751,576
Charge for the year	-	136,131,817	22,734,542	120,871,859	45,795,346	261,206,532	-	586,740,096
Eliminated on disposal/transfer	-	-	-	(222,122,655)	-	222,122,655	-	-
Impairment loss	-	-	-	-	-	-	-	-
As at 30th June, 2017	-	1,520,317,198	274,311,348	827,525,184	843,008,755	483,329,187	-	3,948,491,672
NBV as at June 30, 2017	298,589,665	8,231,715,790	117,411,108	931,067,412	1,526,155,827	554,161,054	1,444,687,484	13,103,788,341

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	2018 Kes	2017 Kes
21 INTANGIBLE ASSETS		
COST		
As at 1st July	142,313,050	119,503,222
Additions	-	22,809,828
Disposals	-	-
As at June 30	142,313,050	142,313,050
Amortization		
As at 1st July	126,472,892	119,503,222
Charge for the year	7,603,276	6,969,670
As at June 30	134,076,168	126,472,892
NBV as at June 30	8,236,882	15,840,158
22 FINANCE EXPENSES		
Bank Charges	16,380,663	10,750,654
Commissions	299,389,603	256,853,167
TOTAL	315,770,266	267,603,821
23 TAX EXPENSES		
With Holding Tax Expense	196,221,356	219,870,013
Vat Expense - Property A/C	37,250,527	47,207,381
Total	233,471,884	267,077,394
24 RECEIVABLE - SOUTH B ESTATE MORTGAGE		
Opening Balance as at 1st July/ Quarter	16,825,992	29,564,106
Less Payments Received in the Year	(4,493,486)	(12,738,114)
Balance Receivable as at June 30	12,332,506	16,825,992
<p>The Fund sold houses in South B estate to staff members through mortgage at a rate of 6%. The recovery for the year and balance as at 30 June 2018 is shown above.</p>		
25 FIXED INTEREST INVESTMENTS (BONDS)		
In Central Bank of Kenya 12.5% 12- Year Infrastructure Bond	34,200,000	34,200,000
	34,200,000	34,200,000

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	2018 Kes	2017 Kes
26 LONG TERM DEPOSITS		
NBK (Car Loan)	56,446,181	55,771,424
Savings & Loan	854,679,799	678,653,831
Total	911,125,980	734,425,255

The Fund has held deposits in NBK and KCB as guarantee for staff Car Loan and Mortgages respectively issued at negotiated interest rate to the Fund's employees.

27 UNQUOTED INVESTMENTS

Consolidated Bank Shares	54,200,000	54,200,000
MTRH Loan	331,142,946	15,307,912
Total	385,342,946	69,507,912

MTRH Loan refers to a loan advanced by the Fund to the Moi Teaching and Referral Hospital (MTRH) earning an interest of two and half percentage (2.5%) per annum. The interest is recognised among interest on investments under other incomes.

28 TRADE AND OTHER RECEIVABLES

Civil Servants Scheme Receivables	597,007,217	2,068,827,110
Electricity Deposit	1,342,384	1,332,384
Fuel Deposit	150,000	150,000
HISP (OVC) Receivable	561,475,833	-
Hospital Surcharges	29,182,350	-
Interest Receivable	107,110,161	120,057,864
Letter Of Credit	10,000,000	6,500,000
Mpesa Revenue Receivable	88,076,629	-
Outstanding Contributions	3,143,657,067	2,852,859,226
R/D Cheques	13,471,596	11,517,676
Rent Deposit	33,715,682	26,954,611
Rent Receivable	151,731,502	161,343,123
Staff Medical Scheme Deposit A	3,900,000	3,900,000
Staff Receivables	3,926,074	3,794,312
Sundry Prepayments	15,441,537	1,987,285
Telephone Deposits	253,804	253,804
Temporary Imprest	27,488,747	57,922,060
Total Receivables	4,787,930,583	5,317,399,455

At June 30, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	2,991,938,368	4,584,302,327
Between 30 and 60 days	45,629,921	50,376,995
Between 61 and 90 days	22,048,334	18,836,495
Between 91 and 120 days	22,240,627	22,561,635
Over 120 days	634,149,611	641,322,004

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	2018 Kes	2017 Kes
29 SHORT TERM INVESTMENTS		
NBK Call Deposits	-	1,100,000,000
KCB Call Deposit	1,505,153,816	3,274,113,329
Co-op Call Deposit	2,300,000,000	2,913,000,000
CBK Treasury Bills	8,430,000,000	5,240,000,000
Equity Bank Call Deposit A/C	5,552,000,000	4,352,000,000
Total	17,787,153,816	16,879,113,329

The call deposits and Treasury Bills in the stated banks are held for periods less than six months.

30 BANK AND CASH BALANCES

Cash in Hand	1,252,734	598,545
Cash at Bank	3,550,257,345	1,230,864,726
Cash in Transit	399,843,422	-
Total	3,951,353,501	1,231,463,271

The bulk of the cash at bank was held at Cooperative Bank of Kenya, Equity Bank and Kenya Commercial Bank, the Fund's main bankers.

31 ACCUMULATED FUND

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

Changes in the year	-	-
Total	12,209,923,340	12,209,923,340

32 RETAINED EARNINGS

The Fund made a surplus after tax of **Kes. 284,572,967** in 2017/2018 financial year compared to **Kes. 2,351,590,088** in previous financial year 2016/2017. The drop in the surplus is attributed to the full implementation of the enhanced benefit packages dubbed special benefit packages introduced in the year to meet member's needs. This amount goes to the retained earnings which is fully utilised for the benefit of the members.

Changes in the year	295,922,867	2,351,590,088
Total	22,694,889,981	22,694,889,981

	2018 Kes	2017 Kes
33 TRADE PAYABLES (Claims)		
Claims Payable	540,013,236	290,774,877

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	2018 Kes	2017 Kes
34 OTHER TRADE PAYABLES		
Accruals	80,000	1,202,885
Agency General Payment (Staff Payables)	84,645	65,522
Agency: Group Personal Life/ Ac	1,472,383	32,141,023
Civil Servants Group Life Scheme	-	-
Legal Fees NHIF Tenants	157,000	157,000
Pension Payable	434,696	374,618
Rent Deposits	22,480,499	22,480,499
Retention Money	21,400,858	7,590,244
Rockefeller Foundation Grant	12,415	12,415
Salary Clearance Accounts	97,870,487	11,021,266
Tender Refundable Deposits	1,745,000	1,265,000
Trade Creditors	700,113,542	105,780,633
Unapplied Funds Control Account	137,825,911	-
Value Added Tax (Agency A/C)	75,927,575	22,227,243
Value Added Tax on Property	543,042	427,842
W.H.T Payable - Creditors	13,678,723	10,621,543
Civil Servants Scheme Deferred Income	-	-
Disciplined Services Deferred Income	446,451,390	-
Secondary Schools Deferred Income	1,658,003,884	-
HISP (OVC) Deferred Income	-	401,054,167
HISP (OPPSD) Deferred Income	126,000,000	189,000,000
County Scheme Deferred Income	53,559,572	63,600,044

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Para, Uni & other schemes Deferred Income	244,082,397	109,798,319
Free Maternity Program Deferred Income	1,844,902,176	371,827,192
Total	5,446,826,194	1,350,647,455

35 WITHHOLDING TAX PAYABLE

W. H. Tax Payable - Investments	34,482,270	35,892,345
W. H. Tax on Rent	2,133,556	4,150,443
Total	36,615,826	40,042,787

36 PROVISION FOR LIABILITIES

Provision for Civil Servants Scheme	280,643,692	294,822,579
Provision for External Audit Fees	5,000,000	4,966,000
Provision for Open Heart Surgery	296,078	307,791,943
Provision for VER/VSI	349,084,193	504,627,617
Provision For Salary Arrears	436,838,000	-
Total	1,071,861,963	1,112,208,138

Provision of Kes. 280,643,692 for Civil Servants Scheme was created as per IAS 37 to cater for pending fee for service claims, capitation payments relating to the scheme for various hospitals including Clinix and Meridian hospitals. Provision of Kes. 296,078 is the remaining provision balance from sponsorship for Open heart surgery program. Provision of Kes. 349 Million for Voluntary Early Retirement and Voluntary Separation Incentive was the balance in the year under review. The Fund made Provisions of Kes. 437 Million to cater for salary arrears under the pending CBA.

37 NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of Operating Surplus to Cash Generated from Operations

	2018	2017
	Kes	Kes
Operating Surplus	529,394,750	2,618,667,482
Depreciation	565,905,017	586,740,096
Amortization	7,603,276	6,969,670
Gain On Disposal Of Property, Plant & Equipment	(8,524,260)	(8,436,712)
Interest From Investments	(1,860,220,651)	(1,721,921,042)
Operating Surplus before Working Capital Changes	(765,841,867)	1,482,019,493

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Working Capital Changes		
(Increase)/decrease in Trade and Other Receivables	529,468,872	(1,391,085,912)
Increase / (Decrease) in Claims Payables	249,238,359	(24,542,345)
Increase/ (Decrease) in Other Trade Payables	4,096,178,739	974,332,130
Increase/ (Decrease) in Tax Payable	(3,426,961)	(59,711,746)
Increase/ (Decrease) in Provisions	(40,346,176)	282,860,094
	4,831,112,833	(218,147,779)
Cash Generated From Operations	4,065,270,966	1,263,871,714

b) Analysis of cash and cash equivalents

Short term deposits	17,787,153,816	16,879,113,329
Cash at bank	3,550,257,345	1,230,864,726
Cash in hand	1,252,734	598,545
Cash in Transit	399,843,422	-
Balance at end of the Year	21,738,507,316	18,110,576,600

38 NOTES EXPLAINING VARIANCE BETWEEN ACTUAL EXPENDITURE AND BUDGET

- Interest from investments surpassed the target by 48% because enhanced and managed schemes premiums were received and invested in call deposits.
- Civil Servants Medical scheme premiums includes arrears paid by GoK.
- NPS & KPS Medical scheme includes differed income since the scheme started in the 2nd Quarter of the FY.
- Free Maternity funds did not meet the target by 23% because the government did not release all the funds as expected. There was a balance of Kes. 886,474,147 by close of the year on 30th of June 2018.
- HISP OVC funds include accrued income for the year ended 30th June 2018.
- HISP OPPSD funds include accrued income for the year ended 30th June 2018.
- More Counties than budget signed up for the enhanced scheme and other amounts are differed income from the signed up Counties for the next financial year since they sign up at different times of the year.
- More Parastatals, Universities and Private Companies than budget signed up for the enhanced scheme and other amounts are differed income from the signed up Parastatals, Universities and Private Companies for the next financial year since they sign up at different times of the year.
- Finance cost underscored target by 32% because of closure of branch operations accounts.
- Benefits paid in respect Free Maternity fell way below the budgeted amounts because of the delayed implementation of the programme.

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- k) Benefits paid in respect to HISP (OVC) fell below the target because out of 356,000 OVC households in the Cash Transfer Program, NHIF is providing health insurance coverage to 50% of these households
- l) Benefits paid in respect to HISP (OPPSD) fell below the target due to various reasons making them not access healthcare services including the scale down by the sponsor, lack of drugs in local healthcare facilities, distance from NHIF branch offices etc.
- m) More Parastatals, Universities and Private Companies than projected signed up for the private medical scheme thus surpassing budget of utilisation

40 CONTINGENT LIABILITIES

	2018	2017
	Kes	Kes
Bank guarantees	10,000,000	6,500,000
Legal claims against the Fund	-	-
Total	10,000,000	6,500,000

The bank guarantees relates to the Fund's motor vehicles' fuel, service and general repairs held with Vivo energy, Total Kenya and Toyota Kenya.

The Fund has a civil suit filed by Meridian Medical Centre in the High Court of Kenya, Milimani Commercial Courts (Civil suit No.345 of 2013).The Plaintiff filed the claim to be paid for services offered to Civil Servants and Disciplined Force Medical Pilot project. As the amount to be awarded by the courts cannot be determined, this contingent liability is hereby disclosed by the way of note as per IAS 37.

Consultants commissioned to carry out a feasibility study on the development on the parcel of land at Karen Area, Nairobi, have raised claims for services rendered. The extent of liability to the Fund shall be known once the necessary approvals are received. This contingent liability is hereby disclosed by the way of note as per IAS 37.

41 CAPITAL COMMITMENTS

There were no capital commitments in the year.

42 FINANCIAL RISK MANAGEMENT

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

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

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a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Fund. The Fund has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The Fund's exposure and the credit rating of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by setting counterparty limits that are reviewed and approved by management at regular interval.

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

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

Column1	Total Amount	Fully performing	Past due	Impaired
	Kes	Kes	Kes	Kes
30th June 2018				
Due from related parties	1,158,483,050	1,158,483,050	-	-
Trade receivables	3,594,552,531	3,594,522,531	-	-
Bank balances	3,544,380,540	3,544,380,450	-	-
Total	8,297,416,030	8,297,416,030	-	-
30th June 2017				
Due from related parties	2,068,827,110	2,068,827,110	-	-
Trade receivables	5,317,399,455	5,317,399,455	-	-
Bank balances	1,230,864,726	1,230,864,726	-	-
Total	8,617,091,291	8,617,091,291	-	-

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

The clients under the fully performing category are paying their debts as they continue benefiting. The default rate is low. Part of the debt that is past due is not

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impaired and continues to be paid. The finance department is actively following up on this debt. The debt that is impaired has been fully provided for. However, the finance department is pursuing various measures to recover the impaired debt.

b) Liquidity risk

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

The table below analyses the Fund's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

At End of Year	2018	2017
	Kes	Kes
Trade payables	540,013,236	290,774,877
Tax Payable	36,615,826	40,042,787
Other Trade Payables	1,073,826,776	215,367,734
Provisions	1,071,861,963	1,112,208,138
Deferred Income	4,372,999,418	1,135,279,721
Total	7,095,317,219	2,793,673,258

c) Market Risk

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

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

The Fund's Internal Audit Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

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

i) Interest rate risk

Interest rate risk is the risk that the organisation's financial condition may be adversely affected as a result of changes in interest rate levels. The organisation's

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interest rate risk arises from bank deposits. This exposes the organization to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the organization's deposits.

Management of interest rate risk

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

Sensitivity analysis

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Kes 180.1 million (2017: Kes 190.5 million). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kes 904.9 million (2017: Kes 952.5 million)

ii) Foreign exchange risk

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

iii) Price risk

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

43 CAPITAL RISK MANAGEMENT

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

The capital structure of the Fund comprises the following funds:

At End of Year	2018	2017
	Kes	Kes
Revaluation reserve	-	-
Retained earnings	22,694,889,981	22,398,967,115
Capital reserve	12,209,923,340	12,209,923,340

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Total Funds	34,904,813,321	34,608,890,455
Total borrowings	-	-
Less: cash and bank balances	3,951,353,501	1,231,463,271
Net debt/(excess cash and cash equivalents)	(3,951,353,501)	(1,231,463,271)
Gearing	-111%	-104%

44 RELATED PARTY DISCLOSURES

a) Nature of related party relationships

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

The Fund is related to:

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

b) Related party transactions

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

GoK finances the Civil Servants Medical Scheme, National Police & Kenya Prisons Service Medical Scheme, Secondary School Students Medical Scheme, HISP OVC & OPPSD Schemes and Free Maternity (Linda Mama). The transactions have been shown under notes 6, 7, 8, 9, 10 & 13 respectively.

c) Key Management remuneration

	2018	2017
	Kes	Kes
Board of Management	38,613,988	27,360,517
Compensation to the CEO	8,880,000	8,880,000
Key Management	52,024,800	45,942,180
Total	99,518,788	82,182,697

Members of the board of management have been shown on pages 8 to 10 while key management team are on pages 11 to 13.

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45 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

The total future minimum lease payments due to third parties under Non-cancellable operating leases are as follows:

	2018	2017
	Kes	Kes
Payable within one year	174,845,417	65,301,993
Payable after one year but not later than 5 years	404,956,369	167,012,926.62
Total	579,801,786	232,314,920

46 INCORPORATION

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

47 EVENTS AFTER THE REPORTING PERIOD

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

48 CURRENCY

The financial statements are presented in Kenya Shillings (Kes)

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APPENDIX 1: DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS

	Balance as at June 30, 2018	Balance as at June 30, 2017	Account Number
Financial institution	Kes	Kes	
a) Current account			
Kenya Commercial Bank	555,775,422	71,222,455	1107111226
Kenya Commercial Bank	(3,750)	408,870	1167080416
Kenya Commercial Bank	-	17,049	1110094787
Kenya Commercial Bank	-	1,028,151	1103165461
Kenya Commercial Bank	-	13,963	1110137230
Kenya Commercial Bank	-	1,813,858	1102590185
Kenya Commercial Bank	-	1,801,285	1106972929
Kenya Commercial Bank	-	2,535	1108159206
Kenya Commercial Bank	-	180,353	1156819407
Kenya Commercial Bank	-	55,159	1129758419
Kenya Commercial Bank	-	25,162	1107828074
Kenya Commercial Bank	-	893,921	1108012809
Kenya Commercial Bank	-	148,729	1105195619
Kenya Commercial Bank	-	256,898	1106350162
Kenya Commercial Bank	-	103,940	1111480079
Kenya Commercial Bank	-	339,028	1103190954
Kenya Commercial Bank	-	1,153,060	1102209430
Kenya Commercial Bank	-	75,382	1106055446
Kenya Commercial Bank	-	176,495	1106444345
Kenya Commercial Bank	-	106,009	1105204693
Kenya Commercial Bank	-	138,643	1111571562
Kenya Commercial Bank	-	80,607	1157616607
Kenya Commercial Bank	-	56,684	1107185858
Kenya Commercial Bank	-	393,916	11037770764
Kenya Commercial Bank	-	57,907	1102955604
Kenya Commercial Bank	-	501,396	1105275477
Kenya Commercial Bank	-	190,967	1103770985
Kenya Commercial Bank	-	470,807	1108016634
Equity Bank	786,671,258	131,834,517	0170263180280
Equity Bank	109,475,442	-	0170273733939
Equity Bank	-	-	0170263318584
National Bank of Kenya	-	201,750	01001082644100
National Bank of Kenya	2,078,460	-	01023033223900
National Bank of Kenya	-	209,895	01023017121600
National Bank of Kenya	-	159,503	01001000904000
National Bank of Kenya	101,537,267	189,851,061	01003000904002
National Bank of Kenya	616,984,514	857,307,329	01023000904000
National Bank of Kenya	174,217,491	45,651,300	01003000904001
National Bank of Kenya	-	780,879	01001050698901
National Bank of Kenya	-	33,740	01023086732400
National Bank of Kenya	-	370,457	01001033918901
National Bank of Kenya	-	491,838	010010000904009
National Bank of Kenya	-	558,750	01001000904005

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National Bank of Kenya	-	2,181,767	01001043152900
National Bank of Kenya	-	209,438	01001028501201
National Bank of Kenya	-	224,219	01001000904007
National Bank of Kenya	-	701,439	01001039029901
National Bank of Kenya	-	101,466	01001016960100
Cooperative Bank of Kenya	1,004,158,547	35,685,578	01141162180500
Cooperative Bank of Kenya	185,751,570	37,925,912	01136011317300
Cooperative Bank of Kenya	-	-	01141011317300
Safaricom	13,611,123	-	M-Pesa
Sub-Total	3,550,257,345	1,386,194,066	
b) On - call deposits			
Kenya Commercial Bank		18,959,512	MM1718178039
Kenya Commercial Bank	1,500,000,000	1,050,000,000	MM1712463876
Kenya Commercial Bank	4,571,567	4,571,567	MM1608200071
Kenya Commercial Bank	582,249	582,249	MM1608200073
Kenya Commercial Bank		1,400,000,000	MM1715468778
Kenya Commercial Bank		800,000,000	MM1715130810
Equity Bank	1,500,000,000	1,400,000,000	227371
Equity Bank	500,000,000	-	0170367301373
Equity Bank	600,000,000	-	0170368569271
Equity Bank	1,500,000,000	1,500,000,000	0170373299294
Equity Bank	1,200,000,000	1,200,000,000	0170373299217
Equity Bank	252,000,000	252,000,000	227404
National Bank of Kenya	-	400,000,000	01329000904066
National Bank of Kenya	-	300,000,000	01329000904067
National Bank of Kenya	-	400,000,000	01329000904068
Cooperative Bank of Kenya	700,000,000	700,000,000	01132011317348
Cooperative Bank of Kenya	300,000,000	400,000,000	01132011317346
Cooperative Bank of Kenya	700,000,000	800,000,000	01132011317349
Cooperative Bank of Kenya	300,000,000	713,000,000	01132011317350
Cooperative Bank of Kenya	300,000,000	300,000,000	01132011317347
Central Bank of Kenya	8,430,000,000	5,240,000,000	03-10-00030-7
Sub- total	17,787,153,816	16,879,113,328	
c) Fixed deposits account			
Central Bank of Kenya	34,200,000	34,200,000	03-10-00030-7
Sub- total	34,200,000	34,200,000	
d) Staff car loan/ mortgage			
Savings & Loan - Mortgage	889,807,629	678,653,831	MM1333800212
NBK - Car Loan	56,147,317	55,771,424	01021032515200
Sub- total	945,954,945	734,425,255	
Grand Total	22,311,689,211	19,033,932,649	

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APPENDIX 2: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
No Reference	<p><i>Proposed Resource Centre at Karen Land</i></p> <p><i>Included in the property, plant and equipment balance of Kshs.13, 103,788,341 as at 30 June 2017 is capital work in progress balance of Kshs. 1,444,687,484 as disclosed in note 17 to the financial statements, being payments for drawing and designs for the proposed resource centre. Construction of the resource centre has not yet commenced since the land</i></p>	<p>It is true that as at 30 June 2016 there is work in progress of Kshs. 1,444,687,484 in respect of payments for the proposed Resource Centre on the Karen Land whose construction has not yet commenced. The amount comprises arbitration award to Architects and further payments to other consultants and professionals that had been engaged. They include quantity surveys, business plans and financial analysis consultancy, legal fees, architectural design services fees and feasibility study.</p> <p>In the year 2001/2002 the Fund planned to build a Resource Centre on the land acquired in Karen at a cost of Kshs. 93,712,675.00. The establishment and implementation of a Resource Centre on the land was approved by the board in 2002.</p> <p>The then Chief Executive commissioned consultants in accordance with the Architects and Quantity Surveyors Act Cap</p>	<p>Kenya Law Courts AG</p>	Not Resolved	2018/2019FY

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

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>333,846,784 were arrived at after settlement deeds were entered into on 24th June 2011. The claims were fully paid.</p> <p>The Original Project was revised to a Medical Center of Excellence and a Vision 2030 flagship project for the Ministry of Health. The Karen Medical center of excellence project lead to litigations from the consultants.</p> <p>The following are the legal proceedings commenced by the Consultants in respect to the Karen Medical Centre of Excellence.</p> <ol style="list-style-type: none"> 1. High Court Civil Suit No. 504 of 2016: National Hospital Insurance Fund Vs. Baseline Architects Ltd. The Fund Succeeded in the matter. The Court set aside the Arbitral Award. 2. Rebman Ambalo Malala T/A Ujenzi Consultants Vs NHIF HCCC NO. 25 OF 2016 - Pending 3. Comm Case No. 255 Of 2016 - NHIF Vs. Eng. Peter Scott And Manga And Associates - Pending 			

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



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Ag. CHIEF EXECUTIVE OFFICER

Date.....



.....
CHAIRPERSON

Date.....

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APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds			Where Recorded/recognized							
	Date received as per bank statement	Nature: Recurrent / Development / Others	Total Amount Kes	Statement of Financial Performance Kes	Capital Fund Kes	Balance B/F from previous FY Deferred Income	Receivables	2017/2018 FY Deferred Income	Receivables	Total Transfers during the Year Kes
Ministry of Public Service, Youth and Gender	9/4/2017	Direct Payment	3,623,700,000	3,623,700,000	-	-	2,068,827,110	-	597,019,217	5,095,507,893
	3/20/2018		1,471,807,893							
Ministry of Health - OPPSD	4/27/2018	Direct Payment	189,000,000	252,000,000	-	189,000,000	-	126,000,000	-	189,000,000
Ministry of Health - HISP		Donor Fund	-	962,530,000	-	401,054,167	-	-	561,475,833	
Ministry of Health - Free Maternity	7/3/2017	Direct Payment	835,462,567	1,488,450,869	-	371,827,192	-	1,844,902,176	-	2,961,525,853
	7/6/2017		130,000,000							
	7/10/2017		15,813,286							
	12/21/2017		1,980,250,000							
Ministry of Education-SSSMS	5/10/2018	Direct Payment	2,507,089,500	849,085,617	-	-	-	1,658,003,884	-	2,507,089,500
Ministry of Interior office of the president - NPS&KPS	11/20/2018	Direct Payment	3,285,805,560	3,589,354,170	-	-	-	446,451,390	-	4,035,805,560
	1/18/2018		750,000,000							
19 Counties (List provided)	Various	Direct Payment	653,260,500	643,220,028	-	63,600,044	-	53,559,572	-	653,260,500
39 Parastatals & others (List provided)	Various	Direct Payment	1,095,228,832	960,944,754	-	109,798,319	-	244,082,397	-	1,095,228,832
Total			16,537,418,138	12,369,285,437	-	1,135,279,721	2,068,827,110	4,372,999,418	1,158,495,050	16,537,418,138