

PARLIAMENT
OF KENYA
LIBRARY



SPECIAL AUDIT REPORT OF THE AUDITOR-GENERAL
ON
NATIONAL HOSPITAL INSURANCE FUND
NHIF (PAYMENT PLATFORM, LINDA MAMA
PROGRAMME AND TENDER FOR CIVIL
SERVANTS, POLICE OFFICERS AND PRISON
WARDENS)
MINISTRY OF HEALTH



SEPTEMBER 2021



VISION

Accountability and effective management of public resources

MISSION

To audit and report on the management of public resources for improved service delivery to the Kenyan people.

CORE VALUES

Integrity
Objectivity
Professionalism Competence
Innovation
Team Spirit

MOTTO

Enhancing Accountability

TABLE OF CONTENTS

LIST OF TABLES	3
Abbreviations	4
1 EXECUTIVE SUMMARY	5
1.1 Introduction and Background	5
1.2 Terms of Reference	5
1.3 Scope of Work and limitation.....	5
1.4 Structure of the Report	6
1.5 Key Findings.....	6
1.6 Managerial Responsibility	21
1.7 Conclusion and Recommendations.....	25
2 INTRODUCTION AND BACKGROUND	27
2.1 Introduction.....	27
2.2 Background.....	27
2.3 Objective	27
2.4 Terms of reference	28
2.5 Scope of work and limitations.....	28
2.6 Approach and methodology	29
2.7 Report Structure	31
3 DETAILED FINDINGS	33
3.1 Use of the funds ICT platform.....	33
ICT Project Governance and Management.....	33
Project Identification & Planning.....	35
Review of Procurement Process.....	36
3.2 Linda Mama Programme.....	60
Programme Identification, Planning and Conceptualization.....	60
Linda Mama Programme Governance.....	66
Budget, Budgetary Control and financing.....	73
Review of claims for the Linda Mama programme.....	78
Physical verification of selected accredited hospitals for Linda Mama Programme.....	87
3.3 Procurement of Group Life Cover for Civil Servants, National Police Service and Kenya Prison Service.....	92

LIST OF TABLES

Table 1: Risk Assessment & sampling criteria 30

Table 2: Sample Size 31

Table 3: Contract’s for Integrated Revenue Management System 33

Table 4: Bidders for Provision of Integrated Revenue Collection System 38

Table 5: Tender Evaluation Committee Members..... 39

Table 6: Tender Evaluation Criteria 39

Table 7: Extracts from Bid Documents..... 40

Table 8: Cost of Hardware 46

Table 9: Transaction fees 47

Table 10: Agreed transaction fees..... 47

Table 11: Transaction charges 52

Table 12: Bank Collection and Commission Paid 53

Table 13: Missing Transfer Instructions 54

Table 14: Overpaid bank collection commission 55

Table 15: Commission from RTGS and EFT 56

Table 16: NBK service fee 57

Table 17: Agency Collection and Commission 57

Table 18: Commission paid outside the contract period 59

Table 19: Implementation Phases 63

Table 20: Phase One Reimbursement Rates 64

Table 21: Phase Two Reimbursement Rates 64

Table 22: Phase Three Reimbursement Rates 65

Table 23: Operations and Quality Assurance Committee Members 67

Table 24: Full Board Resolutions..... 67

Table 25: Internal Control Mitigation 70

Table 26: NHIF Annual and Supplementary Budget..... 74

Table 27: Development Expenditure 75

Table 28: Linda Mama Budgeted and Actual Revenue 76

Table 29: Linda Mama Budgeted and Actual Expenditure 76

Table 30: Linda Mama Utilization..... 77

Table 31: Amount Paid for Linda Mama 80

Table 32: Amount Outstanding for Linda Mama 81

Table 33: Linda Mama Utilization..... 81

Table 34: Bank payments vs. Utilization reports..... 82

Table 35: Duplicate M Number per Branch..... 84

Table 36: Administrative Fees..... 85

Table 37: Amount Outstanding as per the Healthcare Facilities 87

Table 38: Linda Mama Reimbursement Rates..... 89

Table 39: Claims above the Reimbursement Rates 89

Table 40: Oversight in Signed Contracts..... 90

Table 41: Challenges for Linda Mama Program..... 90

Table 42: Budgeted Amount vs. Actual Amount..... 93

Table 43: Premium Payable vs. Premium Received 94

Table 44: Tender Opening Committee 95

Table 45: List of Bidders 95

Table 46: Tender Processing Committee 96

Table 47: Technical Evaluation Scores for Bidders 97

Table 48: Financial Evaluation 97

Table 49: Summary of Preliminary, Mandatory, Technical and Financial Evaluation 98

Abbreviations

Abbreviation	Full Name
ANC	Antenatal Care
API	Application Programming Interface
COOP	Cooperative Bank of Kenya
CEO	Chief Executive Officer
CS	Cabinet Secretary
EFT	Electronic Fund Transfer
FY	Financial Year
ICT	Information and Communication Technology
ID	Identity Document
KCB	Kenya Commercial Bank
KPI	Key Performance Indicators
M Number	Member Number
MOU	Memorandum of Understanding
MOH	Ministry of Health
NBK	National Bank of Kenya
NHIF	National Hospital Insurance Fund
OAG	Office of the Auditor-General
PFMR	Public Finance Management Regulations
PPDA	Public Procurement and Disposal Act
PNC	Postnatal Care
PS	Principal Secretary
RTGS	Real Time Gross Settlement

1 EXECUTIVE SUMMARY

1.1 Introduction and Background

1.1.1 The special audit was triggered by a request from the Public Investment Committee (PIC) Ref NA/DCS/PIC/2018/172 dated 14 December 2018 to the Auditor-General requesting for a special audit at National Hospital Insurance Fund (NHIF) in respect to the following.

- Use of the NHIF fund's payment platform, JamboPay and any loss of funds that may have been occasioned while using the platform;
- Alleged misuse of funds meant for the 'Linda Mama' programme; and
- Procurement and award of insurance tender for civil servants, police officers and prison wardens.

1.1.2 Subsequent to the request by the Public Investment Committee, the Office of the Director of Public Prosecutions (DPP) vide a letter Ref: ODPP/CAM/018/5/1097 dated 28 February, 2019 also requested the Auditor-General to undertake an audit on "the acquisition, the use of NHIF fund's payment platform, JamboPay and any loss of funds that may have been occasioned while using the platform".

1.2 Terms of Reference

1.2.1 The special audit was guided by the following Terms of Reference:

- Review the identification, procurement and implementation of the NHIF ICT platform to establish any loss of funds that may have been occasioned while using the platform;
- Review the Linda Mama programme identification, governance, budgetary management and expenditure in line with Public Finance Management Act and Regulations; and
- Review procurement and award of insurance tender for civil servants, police and prison officers in line with the public procurement laws and regulations.

1.3 Scope of Work and limitation

1.3.1 The scope of work was limited to the review of the acquisition, the use of fund's payment platform, JamboPay and any loss of funds that may have been occasioned while using the platform for the financial years 2013/2014 to 2017/2018; the Linda Mama program for the period 2016/2017 and 2017/2018, the period when it was implemented

by NHIF and procurement and award of insurance tender for civil servants, police and prison officers.

1.3.2 The special audit encountered the following limitations:

- To comprehensively review JamboPay controls, security of data and information and IT processes, it was necessary for the special audit team to access the system both physically and logically, and conduct audit tests both on the system and the data maintained. For the review to be done, we requested NHIF to introduce the team to the JamboPay service provider, M/s. Webtribe ltd, a request that NHIF declined citing a court order.
- It was not possible to examine all the claims paid under the Linda Mama Programme because of the high number of claims. To address this limitation, transactions to be subjected to various audit tests were selected on sample basis;

1.4 Structure of the Report

1.4.1 The special audit report should be read in its entirety to fully comprehend the approach and the findings of the audit. The special audit has covered analysis and facts as understood with the aim of informing the Public Investment Committee, the Office of the Director of Public Prosecution and NHIF Board of Directors and Management for information and decision making cognizant of limitations noted herein.

1.5 Key Findings

Use of the NHIF’s Information Communication Technology (ICT) Platform

1.5.1 This section reviews procurement of a Revenue Management System by National Hospital Insurance Fund as follows:

	Bid reference	Contract validity dates	Contract price (Kshs)
1	NHIF/O18/2013-2014: Provision of an Integrated Revenue Collection System	1 July 2014 -30 June 2018	49,513,440
2	RFP/ SSS-NO/001/2017-2018 Provision of an Integrated Revenue Management System	6 June 2019 -5 June 2020	495,205,588
	Total		544,719,028

A. PROVISION OF INTEGRATED REVENUE COLLECTION SYSTEM - NHIF/O18/2013-2014

- 1.5.2 The special audit established that in the financial year 2013/2014, the National Hospital Insurance Fund (NHIF) entered into contractual agreement with M/s. Webtribe Ltd at a contract sum of Kshs.49,513,440 to provide Integrated Revenue Collection Services to NHIF, yet the invitation to bid, tender document and tender processing was for Integrated Revenue Collection System, thereby contravening the provisions of the Public Procurement and Disposal Act, 2005 as detailed below.
- 1.5.3 The special audit reviewed the project governance and management framework, project identification and planning, procurement process and contract implementation and revenue collection and management in regard to the contract for “*Integrated Revenue Collection System*” branded as “*JamboPay*” between NHIF and M/s. Webtribe Ltd as follows:

ICT Project Governance and Management

- 1.5.4 It was established that NHIF did not constitute a formal project steering committee to provide advice, ensure delivery of the project outputs, as well as the achievement of project outcomes. This means that the project did not have a clear escalation path and a way to effectively steer it. This control deficiency led to poor project management and implementation as well as project timelines and objectives not being met fully. Under the circumstance, the special audit could not provide assurance that there was adequate project governance framework to ensure efficiency and effectiveness to project implementation.

Project Identification and Planning

- 1.5.5 Article 201 (a) of the Constitution of Kenya 2010 requires openness and accountability including public participation in financial matters. However, there was no evidence that relevant stakeholders including end users and technical staff (for expertise during acquisition, implementation and eventual maintenance and support of the system) were involved in identification of the project contrary to Article 201 (a) of the Constitution of Kenya, 2010. It was also established that the procurement of the Multipayment platform was not factored in the NHIF ICT Strategy. It was the responsibility of Mr. Simon Ole Kirgotty as the Accounting Officer to ensure adequate public participation in

identification of the project and Mr. Eliud W Karingo, General Manager ICT to ensure the need for Multipayment platform was factored in the NHIF ICT Strategy and the anchored in the NHIF Strategic Plan.

- 1.5.6 Section 72(1)(b) of the Public Finance Management Act, 2012 also requires an Accounting Officer for a national government entity to manage assets in a way that ensures the entity achieves value for money. Contrary to this requirement, there was no evidence that NHIF management had conducted a feasibility study to identify the economic viability of the project/ business case to establish value for money before initiating the project, contrary to Section 72(1)(b) of the Public Finance Management Act, 2012. It was the responsibility of Mr. Simon Ole Kirgotty the then Accounting Officer to ensure a feasibility study was conducted to establish project viability before commencing the project.

Review of Procurement Process

User requirements, procurement planning and budgeting

- 1.5.7 The need for procurement of the Multipayment platform was initiated via an internal memo dated 6 January, 2014 authored by Mr. Gilbert Kamau of the ICT Department and addressed to Mr. Karingo Njoka the General Manager in charge of ICT. The memo requested for procurement of a single interface to cater for mobile payment channels, bank payment channels and card payment channels. On 31 January, 2014, the General Manager - ICT wrote to the Chief Executive Officer requesting for procurement of an Integrated Revenue Collection System. On the same date (31 January, 2014), the Chief Executive Officer approved procurement of a **service** yet the request by the General Manager ICT related to procurement of a **system**.
- 1.5.8 According to Section 26(3a) of the Public Procurement and Asset Disposal Act (PPADA), 2005, all procurement should have been within the approved budget of the procuring entity and should have been planned by the procuring entity concerned through an Annual Procurement Plan. Further, Section 26(6) of the PPADA, 2005 required that a procuring entity not to commence any procurement procedure until it was satisfied that sufficient funds had been set aside in its budget to meet the obligations of the resulting contract.
- 1.5.9 A review of the Procurement Plan and Budget for the year 2013/2014 revealed that, the procurement of the Integrated Revenue Collection system was not factored in the

Annual Procurement Plan, and a provision for the same was not made in the Annual Budget contrary to Section 26(3a) of the Public Procurement and Asset Disposal Act (PPDA), 2005.

Tender processing

- 1.5.10 Section 34 of the Public Procurement and Asset Disposal Act, 2005 required that procuring entities to prepare specific requirements relating to the goods, works or services being procured that give a clear, correct and complete description of what was to be procured and that allowed for a fair and open competition among those who may wish to participate in the procurement proceedings. The special audit reviewed the tender document for Tender No. NHIF/018/2013-2014 and established that apart from the title of the tender document NHIF/018/2013-2014 - '*Provision of Integrated Revenue Collection System*', the tender document was vague as it did not specify whether NHIF was interested in procuring a system or a service. The tender document could either have been interpreted as procurement for provision of a system owned by NHIF or a service where the system was owned by the solution provider.
- 1.5.11 An advertisement inviting interested bidders to bid for Tender No. NHIF/018/2013-2014 was titled "*Provision of Integrated Revenue Collection System*". Tenders were opened on 21 February, 2014 and seven (7) bidders submitted their bids. It was noted that the bids submitted by the seven (7) bidders were titled "*Provision of Integrated Revenue Collection System*".
- 1.5.12 According to the minutes of the Tender Evaluation Committee, M/s. Webtribe Ltd met all the requirement for technical evaluation and qualified for financial evaluation. After financial evaluation, the committee recommended award of contract to M/s. Webtribe Ltd for provision of Integrated Revenue Collection System at Kshs.49,513,440.
- 1.5.13 On 29 May, 2014, the Tender Evaluation Committee approved the award of contract to M/s. Webtribe Ltd on 29 May, 2014. Further, we reviewed the proposed solutions for the seven (7) bidders and established that because of lack of clarity in the tender document on whether NHIF intended to procure a System fully owned by NHIF or a Service managed by a vendor, four (4) bidders tendered for provision of a service while the other 3 bidders tendered for provision of a system.
- 1.5.14 As noted above, despite the bidders having tendered for different solutions as either system or a service, the Tender Evaluation Committee proceeded to evaluate all the bids recommending the tender to be awarded to M/s. Webtribe ltd. It was the

responsibility of the technical evaluation committee and the tender committee to ensure tender evaluation and award decisions complied with the invitation to tender and the bid document.

Contract award and implementation

- 1.5.15 Section 67 (2) of the Public Procurement and Asset Disposal Act, 2005 required procuring entities to notify both successful and unsuccessful bidders at the same time. On the contrary, NHIF management did not notify unsuccessful bidders contrary to Section 67 (2) of the Public Procurement and Asset Disposal Act, 2005. It was the responsibility of the Accounting Officer, Mr. Simon Ole Kirgotty to ensure both successful and unsuccessful bidders were notified.
- 1.5.16 On 15 August, 2014, NHIF entered a three-year (3) contract agreement with M/s. Webtribe Ltd for provision of Integrated Revenue Collection Service - Tender No. NHIF/018/2013- at a contract price of Kshs.49,513,440. This was VAT inclusive and a transaction fee ranging from 4 to 4.5 percent of transaction value.
- 1.5.17 The special audit noted that the contract was titled '*Provision for Integrated Revenue Collection Service*' a deviation from the Tender document by NHIF and bid document from M/s. Webtribe Ltd both of which were titled '*Provision of Integrated Revenue Collection System*'.
- 1.5.18 According to clause 35.6 of the Contract Agreement between NHIF and M/s. Webtribe Ltd on terms of payment, other hardware that were to be supplied by M/s. Webtribe Ltd included Point of Sales (POS) terminals and Network equipment. The total cost of the hardware to be delivered is as detailed below:

No.	Description	Units	Quantity	Unit Price	Total Amount (KSHS)
1	Networking Equipment	Each	20	50,000	1,000,000
2	Equipment, POS terminals	Lot	200	80,000	16,000,000
3	Web server	Lot	1	3,500,000	3,500,000
	Grand Total				20,500,000

- 1.5.19 Section 17 of the Public Procurement and Asset Disposal Regulations, 2006 required the Inspection and Acceptance Committee to inspect and test goods/ services delivered by a supplier and issue goods received note in accordance with the contract. With regard

to the hardware detailed in the table above, NHIF did not avail any evidence of goods received notes and interim or completion certificates from Inspection and Acceptance Committee contrary to Section 17 of the Public Procurement and Asset Disposal Regulations, 2006, an indication that the hardware were never delivered and therefore NHIF did not attain Value for Money for this procurement. Further, there was no evidence of commissioning of the solution provided.

1.5.20 NHIF therefore lost Kshs.20,500,000.00 being 41% of the contract price, as a result of undelivered hardware equipment's. It was the responsibility of Mr. Simon Ole Kirgotty as the Accounting Officer to ensure the right quality and quantity of goods and services were delivered by M/s. Webtribe Ltd.

B. RFP/ SSS-NO/001/2017-2018: PROVISION OF INTEGRATED REVENUE MANAGEMENT SYSTEM FOR FINANCIAL YEAR 2017/2018

1.5.21 The special audit established that on 4 June, 2018, NHIF entered into another contract with M/s. Webtribe Ltd for Provision of Integrated Revenue Management System - RFP/SSSM NO./001/2017-2018 at a contract sum of Kshs.495,205,588 inclusive of VAT.

1.5.22 However, the only request for procurement of the Revenue Management System solution that was availed was dated 5 February, 2018 by the Acting Director Finance and Investment Mr. Joseph M. Mbuvi via an internal memo to the CEO Ref: HF/FIN/29 VOL X/187.

1.5.23 Citing Section 124(12) (a) and (b) of the Public Procurement and Asset Disposal Act, 2015, the then Manager, Supply Chain Management, Ms. Pamela N. Marendi, via an internal memo Ref: HF/PROC/17/13 Vol. II/053 of 13 February, 2018 proposed Single Sourcing of the Integrated Revenue Management System from M/s. Webtribe Ltd.

1.5.24 The method of procurement was approved by the then Chief Executive Officer Mr. Geoffrey Mwangi. NHIF wrote to the Public Procurement Regulatory Authority-PPRA and an advertisement for intention to use Single Selection Method was provided.

1.5.25 The Public Procurement Regulatory Authority (PPRA) in their response advised NHIF to ensure that the specific conditions for use of the Single Source Selection Method were met. In addition, NHIF was also advised to adhere to the Act and Regulations issued under the repealed Public Procurement and Disposal Act, 2005 pursuant to Section 24 of the Interpretation and General Provisions Act Cap 2 of the Laws of Kenya.

- 1.5.26 As at the time of the audit, Kshs.179,298,575.74 had been paid to M/s. Webtribe Ltd in relation to Contract for Provision of Integrated Revenue Management System - RFP/SSSM NO./001/2017-2018.
- 1.5.27 However, considering the two contracts (Contract for provision of Integrated Revenue Collection Service - Tender No. NHIF/018/2013-2014 and Contract for Provision of Integrated Revenue Management System - RFP/SSSM NO./001/2017-2018) as one project for provision of a revenue collection solution to NHIF, because of the irregularities in the identification, tendering, evaluation and award of Procurement of Integrated Revenue Collection System - Tender No. NHIF/018/2013-2014 to M/s. Webtribe Ltd, it can be inferred that the single sourcing of M/s. Webtribe Ltd and the subsequent award of contract for Provision of Integrated Revenue Management System - RFP/SSSM NO./001/2017-2018 was also irregular.
- 1.5.28 The procurement was not done in the most efficient and effective manner. If appropriate/prudent investment appraisal had been conducted through cost benefit analysis at the project identification and planning phase as spelt out above, all the commissions paid to M/s. Webtribe Ltd amounting to Kshs. 884,429,882.72 could have been avoided.
- 1.5.29 It was further established that NHIF made an irregular payment for commission amounting to Kshs.188,134,601 to M/s. Webtribe Ltd. This commission comprised bank collection commissions of Kshs.153,053,703; Real Time Gross Settlement Transactions (RTGS) and Electronic Fund transfer commissions amounting to Kshs.31,362,143 and agency commissions amounting to Kshs.3,718,755. It was the responsibility of the Accounting Officer / Chief Executive Officer and Head of Procurement Department to ensure compliance with procurement laws.

Linda Mama Programme

Programme Identification, Planning and Conceptualization

- 1.5.30 On 18 October, 2016, the Government of Kenya through the Ministry of Health and in collaboration with the National Hospital Insurance Fund (NHIF) launched an expanded free maternal care program dubbed “Linda Mama, Boresha Jamii”. This program was a bid to achieve universal access to quality maternal healthcare as well as reduce maternal morbidity and mortality rates in the country. The Linda Mama programme replaced free maternal care programme.

- 1.5.31 NHIF accepted to partner with the Ministry of Health in provision of services under the Linda Mama programme by managing funds provided by the Government of Kenya to cover all eligible women and their infants. A Memorandum of understanding (MOU) was signed on 28 February, 2017 between NHIF and MOH on the implementation of the Linda Mama programme by NHIF.
- 1.5.32 The package of benefits comprised of Antenatal Care (ANC), Maternity Deliveries and Postnatal Care (PNC), in accordance with the national guidelines. The package further included both outpatient and in-patient management for conditions and complications during pregnancy, delivery and postnatal care; as well as treatment for newborn babies within the one-year period under the programme.
- 1.5.33 The implementation of the Linda Mama programme was to be realized in 3 Phases. At the time of the special audit, all the three phases of the Linda Mama program had been implemented by NHIF namely, reimbursement of claims for antenatal care, delivery, postnatal care and care of the infant at the contracted healthcare facilities.
- 1.5.34 The Linda Mama programme targets all pregnant women who are Kenyan citizens. The eligible persons are required to register using either their National ID cards or a guardian's National ID card if under 18 years. Registration is done through various access points (USSD code), using a mobile phone.
- 1.5.35 Upon verification, it was established that in thirteen of the sampled facilities selected for audit namely; Diani Health Centre, Kaviani Hospital, Cottolengo Chaaria, Consolota Hospital Nkubu, St. Mary's (Mumias) Hospital, Kisumu District Hospital, Kericho District Hospital, Longisa County Referral Hospital, Tenwek Hospital, Mercy Mission Hospital, Nakuru Level 5 Hospital, Jaramogi Oginga Odinga Teaching and Referral Hospital and Kakamega County Government Teaching and Referral Hospital the facilities used the Antenatal Care (ANC) booklet number to register mothers instead of using the National ID card. This was a red flag as it could lead to registration of non-Kenyan citizens or non-existent citizens.

Programme Governance

- 1.5.36 The Operations and Quality Assurance Committee of the NHIF Board is responsible for providing oversight of all the programs at NHIF including the Linda Mama program.
- 1.5.37 The special audit established that the contract management system is not being utilized and NHIF has not finalized signing of contracts for some healthcare facilities which are

already offering Linda Mama services. There is a risk of lack of conflict resolutions mechanism in case of conflict between NHIF and healthcare facilities in the absence of contracts that may lead to litigation. It is the responsibility of the Head of Legal Department to ensure contract agreements are signed with respective service providers.

Budget, Budgetary Control and Financing

1.5.38 It was noted that the supplementary budget for financial year 2016/2017, was not balanced. The total revenue was Kshs.41,377,817,449, while the total expenditure was Kshs.41,516,126,396 resulting in a variance of Kshs.138,308,947. This is contrary to Section 33(c) of the Public Finance Management Regulations (PFMR), 2015 which requires that a budget shall be balanced.

1.5.39 It was also noted that during the period under review, the budgeted amount for development expenditure was below the minimum 30 per cent of the total budget as stipulated in Section 15(2)(a) of the Public Finance Management Act (PFMA), 2012 as follows:

Financial Year	Total Budgeted expenditure	30% of the total budget	Budgeted Development expenditure	Variance	% Allocated for development
2016/2017	41,516,126,396	12,454,837,919	863,200,000	11,591,637,919	2%
2017/2018	51,594,992,447	15,478,497,734	1,970,269,869	13,508,227,865	4%
2018/2019	66,658,395,352	19,997,518,606	7,608,999,000	12,388,519,606	11%
Total	159,769,514,195	47,930,854,259	10,442,468,869	37,488,385,390	7%

1.5.40 During the financial years 2016/2017 and 2017/2018, the budgeted revenue for Linda Mama programme was a total of Kshs.6,098,000,000 while the actual revenue received from the Ministry of Health amounted to Kshs.3,361,525,853. Therefore, the total budget for Linda Mama programme was under funded by Kshs.2,736,474,147.

1.5.41 It was the responsibility of the Director Finance and Investment to ensure budgets were prepared in compliance with Public Finance Management Regulations, 2015.

Review of Claims for the Linda Mama Programme

1.5.42 In 2016/2017 and 2017/2018, NHIF received a total of Kshs.3,361,525,853 from the National Government towards the Linda Mama Programme. However, as at the time of the special audit, an additional Kshs.2,000,000,000 was provided for 2018/2019

increasing the cumulative amount to Kshs.5,361,525,853 towards the programme. NHIF had paid claims amounting to Kshs.4,285,727,440 under the Linda Mama Programme as at 31 March 2019.

- 1.5.43 NHIF Management failed to provide service contracts with over 758 healthcare facilities for review yet the facilities had been paid a total of Kshs.1,918,243,488. It is not clear the basis NHIF used to reimburse the healthcare facilities for the services provided without contracts. Article 4 of the MOU stipulates that NHIF was to contract Healthcare facilities to participate under the Linda Mama program. It was the responsibility of Head of Legal Department to ensure contracts were in place between NHIF and the service providers before effecting payments.
- 1.5.44 According to the Public Finance Regulation 2015, Section 104 (1), All receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.
- 1.5.45 It was noted that various claims amounting to Kshs.506,000 were not supported by either a copy of birth notifications or an antenatal card contrary to Public Finance Regulation 2015, section 104 (1).
- 1.5.46 The reimbursement rates for caesarian section delivery was Kshs.5,000 for Level 4 and 5 hospitals and Kshs.17,000 for Referral Hospitals. Furthermore, the reimbursement rate for normal delivery was Kshs.2,500, Kshs.3,500, Kshs.5,000, Kshs.6,000 and Kshs.17,000 depending on the level of the hospital.
- 1.5.47 It was noted that several hospitals were paid over and above the prescribed rate resulting in an overpayment of Kshs.688,000. It was the responsibility of Director Finance and Investment Benefits and claims officer to ensure payments were made in accordance with approved rates.
- 1.5.48 The Linda Mama program was intended to benefit all pregnant women who are Kenyan citizens. However, for one to access the benefits they have to be registered. On completion of the registration, the pregnant woman would be assigned a unique identification known as an M number. The M number is used to determine if a mother is registered when processing a claim. If a claim has no M number or an invalid M number, it is rejected.
- 1.5.49 "One M" number corresponds to one pregnant mother and is only valid for one year. We noted that the same M numbers were used to raise more than one claim amounting to

Kshs.162,500 indicating that the same mother had delivered more than once within one year as detailed in the table below:

NHIF Branch	Number of Claims	Amount (Kshs)
Bomet Area Office	1	5,000
Eldoret	2	34,000
Homa Bay Branch Office	7	35,000
Kakamega Area Office	3	15,000
Kericho Area Office	1	5,000
Meru Area Office	1	2,500
Mumias Area Office	1	6,000
Nyeri Area Office	12	60,000
Total	28	162,500

1.5.50 According to the MOU between MOH and NHIF, NHIF was to reimburse the healthcare facilities for costs incurred by the beneficiaries of service entitlement under the Program. We reviewed data from the Enterprise Resource Planning (ERP) system and noted that NHIF had paid more than the invoice amount resulting in an overpayment of Kshs.27,581,275.

1.5.51 It was the responsibility of Director Finance and Investment Benefits and the respective claims officer to ensure payments were done in a prudent and responsible manner.

Procurement of Group Life Cover for Civil Servants, National Police Service and Kenya Prison Service.

Procurement Plan and Budget

1.5.52 The procurement of a Group Life Cover for Civil Servants, National Police Service and Kenya Prison Service was provided for in the procurement plan for the financial year 2017/2018 at an amount of Kshs.3,623,700,000 for civil servants’ medical scheme and Kshs.3,589,354,170 for National Police Service and Kenya Prisons Service medical schemes.

1.5.53 According to the contract agreement between NHIF and The Ministry of Public Service, Youth and Gender and The National Police Service and The Kenya Prisons Service, NHIF was to receive premium amounting to Kshs.8,409,505,560 from the two Government departments, however only Kshs.7,659,505,560 was received as follows:

Description	Premium Payable	Amount Received (Kshs)	Variance (Kshs)
Civil Servants Medical Scheme	3,623,700,000	3,623,700,000	-
NPS and KPS Medical Scheme	4,785,805,560	4,035,805,560	750,000,000
Total	8,409,505,560	7,659,505,560	

1.5.54 At the time of the audit, there was no evidence that the balance of Kshs.750,000,000 had not been received from The National Police Service and The Kenya Prisons Service yet the contract validity for the first 12 months ended in September 2018.

Tender Processing

1.5.55 Eleven (11) bidders bid for the tender out of which the following three firms qualified for financial evaluation:

S/No	Name of bidder	Amount (Kshs)
1	M/s UAP Life Assurance Ltd	797,623,500
2	M/s Britam Life Assurance Company Kenya Ltd	836,946,330
3	M/s Pioneer Assurance Company Ltd	852,284,830

1.5.56 M/s UAP Insurance was disqualified because they used the wrong sum assured of Kshs.105,979,000,000 for calculation of the premium instead of the correct sum assured of Kshs.121,495,000,000. The use of the wrong sum assured by M/s UAP Insurance was as a result of failure to incorporate the last expense cover for Civil Servants Scheme thereby understating premiums payable. Consequently, two bidders' M/s Britam Assurance and M/s Pioneer Assurance emerged the top two successful bidders.

1.5.57 The preliminary, mandatory, technical and financial evaluation results have been summarized in the table below:

S/N	NAME OF FIRM	Evaluation Phase	Reason for Rejection
1	M/s Sanlam Life Insurance	Preliminary	Did not properly fill the tender form
2	M/s APA Insurance	Preliminary	Provided wrong tender security
3	M/s Jubilee Insurance	Preliminary	Did not properly fill the tender form
4	M/s ICEA Lion Insurance	Preliminary	Provided a tender security whose validity period was less than the required amount of 150 days
5	M/s Madison Insurance	Mandatory	Did not provide certified copies of PIN/VAT certificate, tax compliance and certificate of incorporation.
6	M/s Gemina Insurance	Mandatory	Did not provide a certified CR12 and NSSF compliance certificate
7	M/s Liberty Life Assurance	Technical	Scored 72.5% which was below required 80%
8	M/s CIC Group	Technical	Scored 72.5% which was below required 80%
9	M/s UAP Insurance	Financial	Used the wrong sum assured to calculate the premium
10	M/s Britam Life Assurance		Awarded the tender
11	M/s Pioneer Insurance		Awarded the tender

1.5.58 The evaluation committee recommended both bidders' M/s Britam Life Assurance Ltd and M/s Pioneer Life Assurance Ltd be awarded the tender at a contract sum of Kshs.836,946,330 on co-insurance basis at a co-insurance proportion of 52% and 48% respectively. The evaluation committee report did not provide justification on how the proportions were arrived at. The committee further recommended that M/s Britam Assurance having the lower premium of Kshs.836,946,330 be the Lead Underwriter.

Tender Award

1.5.59 In a letter ref HF/PROC/VOL.II/341 dated 17 November, 2017, the Manager Supply Chain Management issued a professional opinion to the Chief Executive Officer recommending award of the tender to M/s Pioneer Insurance and M/s Britam Assurance on coinsurance at a premium of Kshs.836,946,330. On 21 November, 2017, the Chief Executive Officer

approved award of the tender to M/s Britam Life Assurance Company (Kenya) at 52% being the lead underwriter and Pioneer Assurance Company Limited at 48% as co-insurer at a total premium of Kshs.836,946,330.

1.5.60 On 5 December 2017, NHIF sent notification of award to M/s Britam Life Assurance and M/s Pioneer Assurance Company vide letter ref HF/C/814 VOL.XXVIII/261. Furthermore, notification letters were sent to the unsuccessful bidders on 5 December 2017.

1.5.61 A contract between NHIF, M/S Britam Life Assurance and M/S Pioneer Assurance was signed on 8 January, 2018 commencing date being 1 January to 31 December, 2018 at a contract sum of Kshs.836,946,330 inclusive of VAT. According to the contract, the Lead insurer M/s Britam Life Assurance, was to be paid the premium and apportion the respective premium to the co-insurer, M/s Pioneer Assurance Company.

Public Procurement Administrative Review Board

1.5.62 A request for review was lodged by M/s CIC Life Assurance Limited to the Public Procurement Administrative Review Board on 15 January, 2018 against the award of the tender for the provision of Group Life Cover and Last Expense for Civil Servants, National Police Service and Kenya Prison Service to M/S Britam Life Assurance and M/S Pioneer Assurance on co-insurance basis at a contract sum of Kshs.836,946,330.

1.5.63 On 2 February, 2018, the Review Board nullified the award of the tender to M/s Britam Life Assurance Company and M/s Pioneer Assurance Company Limited. Furthermore, the Review Board directed NHIF to award the tender in question to the lowest evaluated bidder, M/s UAP Life Assurance Limited at its tender sum of Kshs.797,623,500 within a period of 7 days from the date of the review boards decision.

Court Decision

1.5.64 Following the decision of the Public Procurement Administrative Review Board, M/s Britam Life Assurance Company Ltd and Pioneer Assurance Company Ltd sought judicial review on 12 February, 2018.

1.5.65 The court ruled on 4 July 2018 that the orders of the Public Procurement Administrative Review Board and all the consequential orders arising there from be annulled and/or set aside. The orders further prohibited and/or restrained NHIF from awarding the tender and/or signing any contract with M/s UAP Life Assurance Limited as ordered by the Board.

Payment

- 1.5.66 According to clause 34.16 of the contract agreement, 50% of the contract sum was to be paid in advance on signing of the contract and the remaining 50% paid thereafter.
- 1.5.67 On 9 January 2018, M/s Britam Assurance sent a debit note no. BAI/DR/001 to NHIF amounting to Kshs.418,473,165 being first 50% installment. Consequently, NHIF paid the full amount of Kshs.418,473,165 on 11 January 2018 vide payment voucher 0489950. The final 50% instalment of Kshs.418,473,165 was paid vide payment voucher number 0508539 on 13 July 2018.

1.6 Managerial Responsibility

The special audit identified the following irregularities:

	Irregularity	Risk /Law violated	Amount involved (Kshs)	Responsibility
1	Failure to establish a Formal Project Steering Committee for the Integrated Revenue Management System to provide advice, ensure delivery of the project outputs	Inefficiency in project management	Kshs.49,513,440	Then Chief Executive Officer and General Manager, ICT
2	Failure to involve stakeholders including end users and technical staff (for expertise during acquisition, implementation and eventual maintenance and support of the system), and failure to include the project in the ICT Strategy	Article 201 (a) of the Constitution of Kenya 2010	Kshs.49,513,440	Then Chief Executive Officer and General Manager, ICT
3	Failure to conduct feasibility study to identify the economic viability of the project/ business case to establish value for money before initiating the project resulting in NHIF incurring public funds on commissions paid to M/s. Webtribe Ltd that would have been avoided with proper investment appraisals	Section 72(1)(b) of the Public Finance Management Act, 2012	Kshs.884,429,882	Then Chief Executive Officer and General Manager, ICT
4	Approving procurement for a Service yet the user request related to procurement of a System	Ambiguity in procurement process that resulted in imprudent investment decision by NHIF	Kshs.49,513,440	Then Chief Executive Officer

	Irregularity	Risk /Law violated	Amount involved (Kshs)	Responsibility
5	Failure to factor the procurement in the Annual Procurement Plan and Budget	Section 26(3a) of the Public Procurement and Asset Disposal Act (PPADA), 2005	Kshs.49,513,440	Then Chief Executive Officer
6	Failure to notify unsuccessful bidders	Section 67 (2) of the Public Procurement and Asset Disposal Act (PPADA), 2005	Kshs.49,513,440	Then Chief Executive Officer
7	Failure to deliver Web Server, Point of Sale (POS) and Networking equipment	Loss of public funds	Kshs.20,500,000	Directors of M/s. Webtribe Ltd Officers and NHIF Management
8	Irregular payment of commissions to M/s. Webtribe Ltd	Loss of public funds	Kshs.884,429,882	Then Chief Executive Officer
9	Irregular procurement of Integrated Revenue Management System	Violation of Public Procurement Laws	Kshs.495,205,588	NHIF Management
10	Failure to use National Identification card to register beneficiaries of the Linda Mama Programme	Risk of registration of ineligible beneficiaries	-	NHIF Management
11	Failure to sign contract agreements for Linda Mama Programme with some Service Providers	Litigation/ Legal risks	-	NHIF Management

	Irregularity	Risk /Law violated	Amount involved (Kshs)	Responsibility
12	Unbalanced budget where expenditure of Kshs.41,516,126,396 exceeded revenues of Kshs.41,377,817,449	Section 33(c) of the Public Finance Management Regulations (PFMR) 2015	Kshs.138,308,947	The Chief Executive Officer and Director, Finance and Investment
13	Under provision of Development expenditure below the stipulated minimum of 30%	Section 15(2)(a) of the Public Finance Management Act (PFMA) 2012	Kshs.37,488,385,390	NHIF Management
14	Payment of 758 healthcare facilities without contracts	Legal risks	Kshs.1,918,243,488	Chief Executive Officer and Head of Legal Services
15	Claims paid without adequate supporting documents whereby neither a copy of birth notifications nor an antenatal card was used	Section 104 (1) Public Finance Regulation 2015	Kshs.506,000	Chief Executive Officer, Director Finance and Investment and Benefits and Claims Officer
16	Linda Mama Claims paid over and above the prescribed rate resulting in an overpayment	Loss of public funds	Kshs.688,000	Chief Executive Officer, Director Finance and Investment and

	Irregularity	Risk /Law violated	Amount involved (Kshs)	Responsibility
17	Linda Mama Claims paid with the same "M" number within the same period	Loss of public funds	Kshs. 162,500	Benefits and Claims Officer
18	Variance between invoice amount and paid claim in the ERP system	Loss of public funds	Kshs. 27,581,275	Chief Executive Officer, Director Finance and Investment and Benefits and Claims Officer Chief Executive Officer, Director Finance and Investment and Benefits and Claims Officer

1.7 Conclusion and Recommendations

- 1.7.1 We established that the NHIF Management failed to comply with provisions of the Public Procurement and Asset Disposal Act of 2005 in the procurement of the Integrated Revenue Collection System. The NHIF Management also failed to conduct appropriate investment appraisal to establish business case of whether to procure system or a service. This led to NHIF incurring an amount of Kshs. 884,429,882 in forms of commissions for Integrated Revenue Management Services offered by Ms. Webtribe which could have been avoided had the NHIF Management made the right and timely investment decision to buy the Integrated Revenue Management System rather than procure the service from Ms. Webtribe Ltd. The failure by NHIF Management to make appropriate investment decision in financial year 2013/2014, rendered the subsequent decision to Single Source on the basis of continuation in services irregular. Since the matter is before courts, relevant stakeholders should await court's decision on the matter. Any decisions by the court will have precedence over recommendations made in this report.
- 1.7.2 The special audit also identified procedural infractions in the management of Linda Mama Programme that exposed it to risks of fraud. This included failure to ensure existence of signed contracts with service providers and failure by NHIF Management to ensure all claims were properly supported before payments were effected. The Linda Mama Implementation Manual 2016 does not specify conditions that qualify for rebate. Branch Managers and Hospital Administrators are not clear on how to deal with complications arising after delivery for both mothers and newborn. When such cases arise and require referrals, some receiving facilities claim rebate for inpatient while other facilities do not. The program does not cover essential services such as ultrasound, drugs for rhesus negative mothers and investigative tests during and after pregnancy which are important in case of complications. We also noted delays in payment of claims after facilities had rendered services yet there was adequate budget provision. Such delays affect operations and quality of services offered by these facilities.
- 1.7.3 It is recommended that:
- In addition to legal and regulatory compliance, NHIF should adopt proper standards and best practice in its Acquisition and Development of Information Systems. In particular,

Steering Committees Project Management Teams should be constituted to ensure delivery of project outputs and achievement of envisaged outcomes.

- Criminal Investigations should be conducted against all people involved in any fraudulent payments and/or irregularities and action taken against them according to the law.
- With continued use of JamboPay system as a service by NHIF.
 - The two parties should formally agree on the frequency of transfer of fund collected by Ms Webtribe ltd on behalf of NHIF
 - Ms Webtribe ltd should ensure transparency in its dealings with NHIF by:
 - Allowing physical and Logical access by NHIF staff access to the JamboPay system
 - Implementation of the API and database security features and NHIF staff access to transactions and other security related data (e.g. API engine and Database logs)
 - The server for API and database logs to be housed at NHIF controlled premises and be maintained by NHIF staff.
 - Train NHIF ICT officers on the operation of the API and the security in place
 - NHIF should consider recovering all the commission irregularly paid to and deducted by M/s. Webtribe Ltd.
- Future payment of revenue collection commission to M/s. Webtribe Ltd should be based on reconciliation of the JamboPay system data as received in FOURGEN and bank statement and not on 'cleared balance'. This will eliminate the risk of overpayment of commission.
- The Linda Mama Implementation Manual 2016 should be revised to address challenges and emerging issues that may arise while implementing the program.
- NHIF should comply with the provisions of the Memorandum of Understanding for implementation of Linda Mama Program by reimbursing claims within 30 days upon receipt of invoices.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

30 August, 2021

2 INTRODUCTION AND BACKGROUND

2.1 Introduction

2.1.1 The special audit was triggered by a request from the Public Investment Committee (PIC) Ref NA/DCS/PIC/2018/172 dated 14 December 2018 to the Auditor-General requesting for a special audit at National Hospital Insurance Fund (NHIF) in respect to the following. (Exhibit 001; Letter reference NA/DCS/PIC/2018/172 dated 14 December 2018)

- Use of the Fund's payment platform, Jambo Pay and any loss of funds that may have been occasioned while using the platform;
- Alleged misuse of funds meant for the 'Linda Mama' programme; and
- Procurement and award of insurance tender for Civil servants, police officers and prison wardens

2.1.2 Subsequent to the request by the Public Investment Committee, the Director of Public Prosecutions (DPP) vide a letter Ref: ODPP/CAM/018/5/1097 dated 28 February 2019 also requested the Auditor- General to undertake an audit on "the acquisition, the use of NHIF fund's payment platform, JamboPay and any loss of funds that may have been occasioned while using the platform". (Exhibit 002; Letter reference ODPP/CAM/018/5/1097 dated 28 February 2019)

2.2 Background

National Hospital Insurance Fund (NHIF)

2.2.1 NHIF was established in 1967 as a department in the Ministry of Health, by an Act of Parliament. This has been revised and it is now governed by the National Hospital Insurance Fund Act 1998 as a State Corporation. (Exhibit 003; National Hospital Insurance Act No. 9 of 1998)

2.2.2 The mandate of NHIF is to provide accessible, affordable, sustainable and quality health insurance to all Kenyan citizens who have attained the age of 18 years.

2.3 Objective

2.3.1 The main objective of the audit was to review the use of the Funds ICT platform and any loss of funds that may have been occasioned while using the platform, the Linda Mama programme and procurement and award of insurance tender for civil servants, police and prison officers.

2.4 Terms of reference

The special audit was guided by Terms of References as summarized below and detailed in APPENDIX I:

- a) Review the identification, procurement and implementation of the NHIF ICT platform to establish any loss of funds that may have been occasioned while using the platform;
- b) Review the Linda Mama programme identification, Governance, budgetary management and expenditure in line with Public Finance Management Act and Regulations; and
- c) Review procurement and award of insurance tender for civil servants, police and prison officers in line with Public Procurement Laws and Regulations.

2.5 Scope of work and limitations

Audit Scope

- 2.5.1 The special audit was limited to review of the acquisition, the use of fund's payment platform, JamboPay and any loss of funds that may have been occasioned while using the platform for the financial years 2013/2014 to 2017/2018; the Linda Mama program for the period 2016/2017 and 2017/2018 the period when it was implemented by NHIF and procurement and award of insurance tender for civil servants, police and prison officers.
- 2.5.2 We reviewed and examined records related to budget and budgetary control, governance, financial management and procurement and related issues at the NHIF Headquarters, NHIF branch offices and selected contracted service facilities in various counties.

Limitation

- 2.5.3 The special audit encountered the following limitations:
 - a) To comprehensively review JamboPay controls, security of data and information and IT processes, it was necessary for the special audit team to access the system both physically and logically, and conduct audit tests both on the system and data it maintained. For the review to be done, we requested NHIF to introduce

the team to the JamboPay service provider, Ms Webtribe Ltd, a request that NHIF declined citing court order.

- b) It was not possible to examine all the claims paid under the Linda Mama Programme because of the high number of claims. To address this limitation, transactions to be subjected to various audit tests were selected on sampling basis;

2.6 Approach and methodology

The following methods were used to gather information;

Planning

- 2.6.1 We held various planning meetings between 14 January 2019 and 28 January 2019. During these meetings the team discussed all the activities and tasks to be undertaken to address the Terms of Reference.
- 2.6.2 We also conducted a reconnaissance exercise at NHIF head office. This was to enable us gather information to have a good understanding of the processes and procedures at NHIF in order to complete the detailed plan.

Documentary Review

- 2.6.3 We reviewed the following documents; NHIF Act 1998, Public Procurement and Disposal Act 2005/2015, Public Procurement and Disposal Regulations 2006, Public Finance Management Act 2012, Public Finance Management Regulations 2015, annual procurement plans, approved budgets, finance policy, standard operating procedures, cash books, bank statements, ledgers, payment vouchers/claims and other relevant documents.

Analytical review

- 2.6.4 The bank statements, budgets, policies, procurement plans, payment vouchers/claims and ledgers for the period under review were analyzed and the results used to arrive at conclusions. We also extracted and analyzed data and reports from the Enterprise Resource Planning (ERP) system and NHIF FOURGEN system.

Sampling Strategy for the Linda Mama Programme

- 2.6.5 A preliminary review of information provided by NHIF established that during the period under review, Kshs.1,479,347,269 was paid out as claims under the Linda Mama Programme.
- 2.6.6 Due to large size of data and for the purpose of giving a reasonable assurance on lawfulness and effectiveness of this expenditure, we undertook a risk assessment in order to select a representative sample of claims paid so as to subject the same to this special audit.
- 2.6.7 The sampling was based on non-compliance measured by claims paid that exceeded the recommended threshold and fraud risk indicators identified through duplicate tests as follows:

Table 1: Risk Assessment & sampling criteria

	Criteria	Description	Notes
1	Compliance Risk indicators	Amounts above the prescribed charges were considered non-compliant	Prescribed charges: Normal delivery = Kshs17,000 Caesarian deliver = Kshs17,000 Antenatal services =Kshs 1,000 Postnatal services =Kshs 250
2	Fraud Risk Indicators	Duplicated “M” numbers were considered a red flag for fraud	Existence of duplicate “M” numbers

NOTE: M number is a unique system generated number assigned to registered beneficiaries of the Linda Mama programme.

- 2.6.8 Out of the total claims of Kshs. 1,479,347,269, and based on the aforementioned risk assessment criteria, we sampled an amount of Kshs.7,451,250 to form the subject of the special audit as follows:

Table 2: Sample Size

	Services Provided	Amount Paid (Kshs)	Amount Sampled (Kshs)	Details
1.	Normal Delivery (ND)	1,258,430,212	3,373,500	APPENDIX II AND APPENDIX III
2.	Caesarian Section (CS)	204,156,425	3,621,500	APPENDIX II AND APPENDIX III
3.	In patient (IP)	291,600	279,000	APPENDIX II AND APPENDIX III
4.	Antenatal care (AC)	14,960,085	157,850	APPENDIX II AND APPENDIX III
5.	Post-natal care (PC)	1,508,947	19,400	APPENDIX II AND APPENDIX III
	Total	1,479,347,269	7,451,250	

2.6.9 According to the data analyzed, the following seventeen (17) NHIF regions had the highest number of non-compliant and duplicate claims and were therefore selected for field inspection: Kisumu, Kakamega, Eldoret, Machakos, Nakuru, Nairobi (Industrial area and Eastleigh), Kabarnet, Kisii, Mombasa, Nyeri, Embu, Meru, Bomet, Kericho, Kilifi and Kitui.

Persons interviewed

2.6.10 We interviewed senior officers of NHIF at the Head office, the sampled regional branches and hospital administrators of the sampled healthcare facilities to clarify various issues to enable the audit team make an informed report.

2.6.11 The information was analyzed, authenticated and corroborated before using it as evidence in our report.

2.6.12 The designations, stations and officers interviewed is detailed in **APPENDIX IV**.

2.7 Report Structure

2.7.1 This special audit report is presented in the following format:

- i Executive summary
- ii Introduction and Background

iii Detailed Findings and Observations

iv Appendices

2.7.2 The report also includes:

i Table of Content

ii List of Tables

iii Abbreviations

2.7.3 The special audit report should be read in its' entirety in order to fully comprehend the approach to and the finding of the audit. The special audit has covered analysis and facts as understood with the aim of informing the National Assembly and NHIF Board of Directors and management for information and decision making of limitations discussed noted here in.

3 DETAILED FINDINGS

3.1 Use of the funds ICT platform

Preamble

- 3.1.1 This section reviews procurement of Revenue Management System by National Hospital Insurance Fund as follows:

Table 3: Contract's for Integrated Revenue Management System

	Bid reference	Contract validity dates	Contract price (Kshs)
1	NHIF/O18/2013-2014: Provision of Integrated Revenue Collection System	1 July 2014 - 30 June 2018	49,513,440
2	RFP/ SSS-NO/001/2017-2018 Provision of Integrated Revenue Management System	06 June 2019- 05 June 2020	495,205,588

- 3.1.2 The section also analyses possible loss of public funds as a result of imprudent investment decisions made by NHIF in regard to the “Integrated Revenue Management System”

A. NHIF/O18/2013-2014: PROVISION OF INTEGRATED REVENUE COLLECTION SYSTEM

- 3.1.3 The special audit established that in the financial year 2013/2014, the National Hospital Insurance Fund (NHIF) entered into contractual agreement with M/s Webtribe Ltd at a contract sum of Kshs.49,513,440 to provide Integrated Revenue Collection Service to NHIF yet the invitation to bid , tender document and tender processing related to Integrated Revenue Collection System thereby contravening the provisions of the Public Procurement & Disposal Act 2005 as detailed below. This section reviews the Project Governance/ Management framework, project identification & planning, procurement process & contract implementation and Revenue collection & management in regard to the contract for “*Integrated Revenue Collection System*” branded as “*JamboPay*” between NHIF and M/S Webtribe Ltd

ICT Project Governance and Management

- 3.1.4 According to the National Hospital Insurance Fund Act (1998), National Hospital Insurance Fund (NHIF) is governed by a Board of Management. Section 5 of the NHIF Act

(1998) stipulates the functions of the Board of management as follows: **(Exhibit 003; National Hospital Insurance Act No. 9 of 1998)**

- a) To receive all contributions and other payments required by this Act to be made to the Fund;
- b) To make payments out of the Fund to declared hospitals in accordance with the provisions of this Act;
- c) In consultation with the Minister, to set the criteria for the declaration of hospitals and to declare such hospitals in accordance thereto for the purposes of this Act;
- d) To regulate the contributions payable to the Fund and the benefits and other payments to be made out of the Fund;
- e) To protect the interests of contributors to the Fund;
- f) To advise the Minister on the national policy to be followed with regard to national health insurance and to implement all Government policies relating thereto; and
- g) To perform such other functions as are conferred on it by this Act or by any other written law.

3.1.5 Section 8 of the NHIF Act empowers the Board of Management, by resolution either generally or in any particular case, to delegate to any committee of the Board or to any member, officer, employee or agent of the Board the exercise of any of the powers or the performance of any of the functions or duties of the Board under the Act.

3.1.6 In this regard, the NHIF Board of Management has established the following standing committees :

- a) Audit and Integrity Assurance committee;
- b) Governance and Strategy and Human resource committee;
- c) Finance and investments committee; and
- d) Operations and Quality Assurance Committee

3.1.7 After perusing through the minutes of the Board, the special audit noted that matters to do with the Integrated Revenue Collection were in most case discussed by the Audit and Integrity Assurance committee and the Full Board.

3.1.8 It was also noted that, the senior management especially the CEO was active in the procurement and operation of the revenue collection system. The special audit however noted that NHIF did not constitute a formal project steering committee to provide

advice, ensure delivery of the project outputs as well as the achievement of project outcomes.

- 3.1.9 Failure to constitute a formal project steering committee means that the project did not have a clear escalation path and a way to effectively steer the project. This control deficiency can lead to poor project management and implementation as well as project timelines and objectives not being met fully.

Project Identification & Planning

- 3.1.10 Article 201 (a) of the Constitution of Kenya 2010 requires openness and accountability including public participation in financial matters. We however established no evidence that relevant stakeholders including end users and technical staff (for expertise during acquisition, implementation and eventual maintenance and support of the system) were involved in identification of this project contrary to Article 201 (a) of the Constitution of Kenya 2010 . It was the responsibility of Mr. Simon Ole Kirgotty as the accounting officer to ensure adequate public participation in identification of the project.
- 3.1.11 The need for MultiPayment platform was initiated via an internal Memo dated 06 January 2014 from Mr. Gilbert Kamau a Senior System Analyst Programmer (SSAP) addressed to General Manager ICT (**Exhibit 004; Internal Memo dated 6 January 2014**). By then, the General Manager ICT was Mr. Karingo Njoka. According to the internal memo, NHIF needed to create a single platform to take care of all available payments channels under one platform. In that regard, Mr. Gilbert Kamau requested the General Manager ICT to facilitate on the creation of a single Application Programming Interface (API) that was to cater for all mobile cash payment channels, all bank payment channels, and all card payment channels. The memo did not point out any weakness on the system that was in use then but cited advancement in technology as the triggering factor for the implementation of the platform. (**Exhibit 004; Internal Memo dated 6 January 2014**) .
- 3.1.12 The General Manager (ICT) through an internal memo dated 31 January 2014, sought approval from Mr. Simon Ole Kirgotty, the then Chief Executive Officer to procure '*An Integrated Revenue Collection System*'. The request was approved on the same day by Mr. Simon Ole Kirgotty. (**Exhibit 005; Internal memo dated 31 January 2014**)
- 3.1.13 In addition to lack of involvement of all relevant stakeholders, section 6 (a) of NHIF Act (1998) empowers the NHIF Board of Management to manage, control and administer the assets of the Fund in such manner and for such purpose as best promotes the objects

for which the Fund was established. To achieve this mandate, NHIF need to develop and adopt a Strategic Plan with a view to achieving their desired future. ICT strategy forms part of this strategic plan. We however established that the procurement of the MultiPayment platform was not factored in the NHIF ICT strategy. It was the responsibility of Mr. Simon Ole Kirgotty, then Chief Executive Officer and Mr. Eliud W Karingo, General Manager ICT to ensure the need for MultiPayment platform was factored in the NHIF ICT Strategy and be anchored in the NHIF Strategic plan .

3.1.14 Section 72(1)(b) of the Public Finance Management Act, 2012 also require an accounting officer for a national government entity to manage assets in a way which ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets. Contrary to this requirement, there was no evidence that NHIF management had conducted a feasibility study to identify the economic viability of the project/ business case to establish value for money before initiating the project contrary to section 72(1)(b) of the Public Finance Management Act, 2012. It was the responsibility of Mr. Simon Ole Kirgotty the then accounting Officer to ensure a feasibility study was conducted to establish project viability before commenting the project.

3.1.15 A business case/ feasibility study is a justification to undertake a proposed project. This would emanate from a gap in service delivery by an entity. A business case would answer the questions; what is the problem? What is the solution? Is the solution feasible? Timelines? Who will offer the solution? will it be viable to procure a service or a system, how much will it cost?

Review of Procurement Process

3.1.16 We reviewed procurement documents availed to us by NHIF management with a view to determine whether the procurement of JamboPay system adhered to the Public Procurement and Disposal Act, 2005 and the Public Procurement and Disposal Regulations, 2006 . Section 22 of the Pubic Procurement & Disposal, Regulations of 2006 requires procurement process to be initiated through a purchase requisition that includes all necessary information. The need for procurement of the MultiPayment platform was initiated via an internal Memo dated 06 January 2014 authored by Mr. Gilbert Kamau of the ICT Department and addressed to Mr. Karingo Njoka the General Manager ICT. The memo requested for procurement of a single interface to cater for mobile payment channels, bank payment channels and card payment channels. On 31 July 2014, the General Manager ICT wrote to the Chief Executive Officer requesting for

procurement of an Integrated Revenue Collection System. On the same date (31 January 2014), the Chief Executive Officer approved procurement of a service yet the request by the General Manager ICT related to procurement of a system. (Exhibit 004; Internal memo dated 6 January 2014 and Exhibit 005; Internal memo dated 31 January 2014)

3.1.17 Our findings are as detailed below:

Procurement Plan and budget

3.1.18 According to Section 26(3a) of the Public Procurement and Disposal Act (PPDA), 2005, all procurement should be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan. Further, Section 26(6) of the PPDA of 2005 requires that a procuring entity shall not commence any procurement procedure until it is satisfied that sufficient funds have been set aside in its budget to meet the obligations of the resulting contract.

3.1.19 A review of the procurement plan and budget for the year 2013/2014 revealed that, the procurement of the Integrated Revenue Collection system was not factored in the Annual Procurement Plan and a provision for the same was not made in the Annual Budget. The management of NHIF therefore procured the integrated Revenue Collection System without planning and budgeting contrary to section 26 (3a) (6) of the Public Procurement & Disposal Act 2005. It was the responsibility of the accounting officer Mr. Simon Ole Kirgotty to ensure adequate budgeting and planning before initiating the procurement process. (Exhibit 006; Annual procurement plan for FY 2013/2014) and (Exhibit 007; Annual budget for FY 2013/2014)

Tendering

3.1.20 Section 34 of the Public Procurement & Disposal Act 2005 requires procuring entities to prepare specific requirements relating to goods, works or services being procured that are clear and give a correct and complete description of what is to be procured and that allow for a fair and open competition among those who may wish to participate in the procurement proceedings. We reviewed the tender document for Tender No. NHIF/018/2013-2014 and established that apart from the title of the tender document NHIF/018/2013-2014 - '*Provision of Integrated Revenue Collection System*', the tender document was vague as it did not specify whether NHIF was interested in procuring a system or a service. The tender document could either have been interpreted as procurement for provision of a system owned by NHIF or a service where the system is

owned by the solution provider. (Exhibit 008; Tender document No. NHIF/018/2013-2014)

- 3.1.21 It was the responsibility of the accounting officer Mr. Simon Ole Kirgotty and head of procurement department Ms Pamela Nyaboke Marendi to ensure the tender document was specific on what NHIF was to procure.
- 3.1.22 An advertisement inviting interested bidders to bid for Tender No. NHIF/018/2013-2014 was titled “Provision of Integrated Revenue Collection System” (Exhibit 009; Advertisement for the tender).
- 3.1.23 According to an internal memo dated 20 February 2014, a tender opening committee was constituted and the opening of the technical bid done on 21 February 2014 in presence of representative from the bidder companies. According to the minutes of the tender opening meeting, the following seven (7) bidders submitted their bids (Exhibit 010; Minutes of tender opening meeting held on 21 February 2014).

Table 4: Bidders for Provision of Integrated Revenue Collection System

	Name
1	M/s Craft Silicon
2	M/s Gestalt Gild
3	M/s Webtribe/JamboPay
4	M/s Fintech Kenya Ltd
5	M/s Akkad System Ltd
6	M/s Eclectics International
7	M/s Essel Enterprise/Essel Technologies

- 3.1.24 We noted that the bids submitted by the seven (7) bidders were titled “Provision of Integrated Revenue Collection System” (Exhibit 011; Bids submitted by bidders).

Tender Evaluation and Award

- 3.1.25 A committee composed of five (5) members drawn from Finance and Control, ICT, Marketing, Operations and procurement was appointed via an internal memo HC/C/814 VOL.XXV/145 dated 24th February 2014 to evaluate the tenders (Exhibit 012; Internal memo reference HF/C/814 VOL.XXV/145 dated 24 February 2014)

Table 5: Tender Evaluation Committee Members

	Name	Department
1	Jacinta Mwangi	Finance and Control
2	Gilbert Kamau	ICT
3	Fred Onyancha	Marketing
4	Irene Rono	Operation
5	Kennedy Wakhu	Procurement

3.1.26 According to the Tender Document No. NHIF/018/2013-14 for Provision of Integrated Revenue Collection System, the technical and financial evaluation were to be done separately. The technical bids were to be evaluated first, it was upon results of the technical evaluation that the financial bids were to be opened. Only financial bids for successful technical bids were to be opened (**Exhibit 008; Tender document No. NHIF/018/2013-14**).

3.1.27 The technical evaluation criteria was as tabulated below:

Table 6: Tender Evaluation Criteria

No	Requirement	Marks
1	Response to technical requirements	50%
2	At least four (4) reference sites where similar services have been offered	15%
3	Qualification certificate relevant to the task (at least 3)	15%
		80

3.1.28 According to the minutes of the tender evaluation committee. Out of the 7 bidders, 3 bidders; M/s Eclectics International, M/s Essel Enterprise/Essel Technologies and M/s Craft Silicon disclosed their financial bids in the technical proposal hence disqualified for being non responsive and not following tender instructions. (**Exhibit 013; Tender evaluation report dated 14 May 2014**).

3.1.29 The remaining four (4) bidders were subjected to mandatory technical evaluation and only Ms Webtribe Ltd and M/s Fintech Ltd qualified. Ms Webtribe Ltd and M/s Fintech Ltd were further subjected to a demonstration/presentation and site visits to confirm specialized features in the tender document and only Ms webtribe Ltd qualified for technical evaluation. Ms Webtribe met all the requirement for technical evaluation and qualified for financial evaluation. After financial evaluation, the committee

recommended award of contract to M/s Webtribe ltd for provision of Integrated Revenue Collection System at Kshs. 49,513,440. (Exhibit 013; Tender evaluation report dated 14 May 2014).

3.1.30 On 29 May 2014 The tender committee approved the award of contract to M/s Webtribe ltd on 29 May 2014. (Exhibit 014; Tender award minutes dated 29 May 2014). No evidence was availed to confirm whether the procurement was discussed by the board of management.

3.1.31 Further, we reviewed the proposed solutions for the seven (7) bidders, and established that as a result of lack of clarity in the tender document on whether NHIF intended to procure a System fully owned by NHIF or a service managed by a vendor, four (4) bidders tendered for provision of a service while the other 3 bidders tendered for provision of a system as detailed below. (Exhibit 015; Bid documents for Vendors- Tender Document No. NHIF/018/2013-14)).

Table 7: Extracts from Bid Documents

No	Bidders Name	Tendered for	Extract from Tender Document
1.	M/s Craft Silicon	Service	<ul style="list-style-type: none"> • Pg 3858 - Solution proposed not detailed enough • Pg 3858 - Point-to-point connectivity between Craft Silicon campus and NHIF premises
2.	M/s Gestalt Gild	System	<ul style="list-style-type: none"> • Pg. 15 of the proposed solution on assumptions for hosting Infrastructure: <ul style="list-style-type: none"> ○ The system would be implemented at the client Head Office ○ Client will provide all required hardware including network cables, switches, routers etc. ○ Client will provide hosting space with telecom connectivity

No	Bidders Name	Tendered for	Extract from Tender Document
3.	M/s Webtribe/Jamb oPay	Service	<ul style="list-style-type: none"> The bid document not clear on the solution proposed. However the architecture diagram points to the quote being for a service
4.	M/s Akkad System Ltd	System	<ul style="list-style-type: none"> Response letter to NHIF: "We propose to train and eventually transfer the entire payment system to the county". Pg. 47 on the proposed solution: "The system will be under warranty for a period of contract period" Pg. 50 on the proposed solution: Deployment architecture Pg. 59 on the proposed solution: "Ready to secure source code and the compiler at an independent neutral third party and sign an Escrow agreement".
5	M/s Essel Enterprises Ltd and Essel Technologies Ltd	System	<ul style="list-style-type: none"> Folio 3343 - Executive Summary- Paragraph 3: "This document is the technical proposal for the provision of integrated revenue collection system". Folio 3362 - Implementation Scope and Scale - Bullet Point 2: "The implementation will be a centralized one at NHIF headquarters. A common solution will be configured that will be accessed by the users at different locations."

No	Bidders Name	Tendered for	Extract from Tender Document
			<ul style="list-style-type: none"> Folio 3363 - General Assumptions - Row 7: “Live Run - ...The responsibility of Essel for Go-Live is to install the solution, configure it and make it available for usage in a live situation.”
6	M/s Fintech Kenya Limited	Service	<ul style="list-style-type: none"> Folio 3638 - Context diagram finPay system offered as a service to NHIF. It does not seem to be hosted at NHIF premises from the diagram. Folio 3647 - BUSINESS PROCESS FLOW FOR PROPOSED CHANNELS b. Kenswitch Online Channel, through a shared hosted application at Kenswitch accessible to all Kenswitch Agents, which may include NHIF desks...
7	M/s Eclectics International Limited	Service	<ul style="list-style-type: none"> The bid document not clear on the solution proposed. However the architecture diagram on Folio 3243 may imply a service

3.1.32 As noted above, despite the bidders having tendered for different solutions as either system or a service, the evaluation committee proceeded to evaluate all the bids recommending the tender be awarded to M/s Webtribe ltd. It was the responsibility of the technical evaluation committee and the tender committee to ensure tender evaluation and award decisions complied with the invitation to tender and the bid document.

Notification for award and contract

3.1.33 Section 67 (2) of the Public Procurement & Disposal Act 2005 requires procuring entities to notify both successful and unsuccessful bidders at the same time. On the contrary, there was no evidence that NHIF management notified unsuccessful bidders contrary

to section 67 (2) of the Public Procurement & Disposal Act 2005. It was the responsibility of the accounting Officer Mr. Simon Ole Kirgotty to ensure both successful and unsuccessful bidders were notified.

- 3.1.34 On 15 August 2014, NHIF entered into a three year (3) contract agreement with M/s Webtribe Ltd for provision of Integrated Revenue Collection Service - Tender No. NHIF/018/2013- at a contract price of Kshs.49, 513,440 VAT inclusive and transaction fee ranging from 4 to 4.5 percent of transaction value (**Exhibit 016; Contract for provision of integrated revenue collection service**).
- 3.1.35 The special audit noted that the contract was titled '*Provision for Integrated Revenue Collection Service*' a deviation from the Tender document by NHIF and Bid document from Ms Webtribe Ltd both of which were titled '*Provision of Integrated Revenue Collection System*'. (**Exhibit 008; Tender document No. NHIF/018/2013-2014 and (Exhibit 011; Bids submitted by bidders)**)
- 3.1.36 On reviewing the contract, the special audit established that, the 2013-12014 contract awarded to Ms Webtribe Ltd was for provision of revenue collection service. Some key extracts under special condition of contract are as follows:
- a) Clause 28.1 "Ms Webtribe ltd was awarded Tender No. NHIF/018/2013-2014 for provision of Integrated Revenue Collection Services"
 - b) Clause 28.2 "The client has agreed to engage the service of Ms Webtribe ltd to provide Integrated Revenue Collection Services"
 - c) Clause 33 "Specifications for Integrated Revenue Collection Services"
- 3.1.37 It was the responsibility of Mr. Simon Ole Kirgotty as an accounting officer to ensure the contract agreement was in compliance with the invitation to bid and the tender document.

Contract Implementation

- 3.1.38 Under contract implementation, the special audit reviewed the implemented architecture, Revenue channels, Hardware and contract negotiations and extension as follows:
- a) **Implemented Architecture**
- 3.1.39 Ms Webtribe Ltd was contracted to provide an Integrated Revenue Collection Service with servers located at Ms Webtribe Ltd premises.
- 3.1.40 By adopting the architecture, NHIF to a large extent has very limited control over the system. It heavily relies on Ms Webtribe Ltd to collect member's contribution and by

extension achieve its core mandate of providing social medical insurance cover to all its members and their declared dependents.

3.1.41 The risk arising from the above implementation is explained below:

- a) The JamboPay (JP) processor is housed at the Ms Webtribe ltd offices. This implies that NHIF does not have control over Confidentiality, Integrity, and Availability (CIA) of data and information. Our attempt to verify the CIA of data was futile because NHIF cited a court order and did not introduce us to Ms Webtribe ltd (**Exhibit 017; Letter reference HF/ADM/62/9 VOL.VI/(112) dated 16 May 2019**)
- b) Despite JamboPay processor updating the FOURGEN system on a real time basis, the Reporting Dashboard reads from JP processor's Database that is at Ms Webtribe's premises. This implies that Ms Webtribe ltd had full control over what is to be displayed in the dashboard.
- c) There was no JamboPay (JP) processor and database user activity logs server at NHIF premises. This means error and fraud perpetrated on JamboPay processor and/or database can go undetected by NHIF
- d) The source code availability was limited to Ms Webtribe ltd. This implies that NHIF had not put in place appropriate mechanisms to ensure continuity of its revenue collection operations in the event the current vendor ceases to carry on with business or to provide the service
- e) Our interaction with NHIF staff revealed that they were not well informed on the operations on the JamboPay systems. NHIF also did not avail record of trainings that were conducted by Ms Webtribe ltd to its staff. This implies that NHIF does not have the human capacity to monitor Ms Webtribe's ltd activities.

b) Revenue collection channels

3.1.42 According to Clause 33.1 of the contract agreement between NHIF and M/s Webtribe ltd, Ms Webtribe ltd was to provide a revenue collection platform to NHIF through its JamboPay Payment Gateway, for revenue remitted through the following modes of payments:

- a) Revenue collection from banks: Kenya Commercial Bank, ABC Bank Ltd, National Bank of Kenya, Co-operative Bank of Kenya, Bank of Africa, Commercial Bank of Africa, Consolidated Bank, Chase Bank, Credit Bank, Ecobank Ltd, Jamii Bora

Bank, K-Rep Bank, Family Bank, KWFT, Guardian Bank, House Finance Bank, Imperial Bank and Equity Bank;

- b) Revenue Collections from Mobile Money Transfer Agents namely, M-PESA, Airtel Money, Yu-Cash and Orange Money;
- c) Revenue Collection from Credit and Debit cards under VISA and MasterCard; and
- d) Revenue Collection from Agency Network Collections Agents namely; Postal Corporation of Kenya, Uchumi Supermarket branches Countrywide, Housing Finance Corporation Branches Countrywide.

3.1.43 By implementing a platform with the different modes of payments, NHIF was to benefit from creating convenience to contributors, which would translate to more revenue collection.

3.1.44 However, NHIF team confirmed to us that 'Revenue Collection from Credit and Debit cards' was not implemented. We corroborated this through our analysis of data from FOURGEN system - A Enterprise Resource Planning (ERP) owned by NHIF and used for financial reporting.

3.1.45 It was also noted that not all banks and agents that Ms Webtribe ltd was contracted to connect to were connected. The only banks and agencies that were enrolled were Kenya Commercial Bank, National Bank of Kenya, Co-operative Bank of Kenya, Equity Bank, Family Bank, Stanbic Bank, Bank of Africa and NIC bank.

3.1.46 In addition to the above, NHIF did not avail any evidence to confirm whether an online portal to receive diaspora remittances from anywhere in the world was implemented as stipulated under special condition of contract, clause 30.1.6.

c) Hardware to be implemented

3.1.47 Under special condition of the contract, clause 31.2, Ms Webtribe ltd was to deliver an IBM e-server p5 570 Express mountable server designed for scalable growth from 2 to 8 POWER5 processors and later innovations in optional IBM Virtualization Engine with the following specifications: **(Exhibit 016; Contract for provision of integrated revenue collection service)**

- | | |
|-------------------------------|----------------|
| a) Processor | 64-bit |
| b) Clock Rates (Min/max) | 1.50GHZ |
| c) System Memory (std/Max) | 2GB/512GB |
| d) Internal Storage (Std/Max) | 36.4GB/22.9TB) |

3.1.48 In addition to the server, according to clause 35.6 on terms of payment, other hardware that were to be supplied by Ms Webtribe ltd included POS terminals and Network equipment. The total cost of the hardware to be delivered is as detailed below: **(Exhibit 016; Contract for provision of integrated revenue collection service)**

Table 8: Cost of Hardware

No.	Description	Units	Quantity	Unit Price	Total Amount (KSHS)
1	Networking Equipment	Each	20	50,000	1,000,000
2	Equipment, POS terminals	Lot	200	80,000	16,000,000
3	Web server	Lot	1	3,500,000	3,500,000
	Grand Total				20,500,000

3.1.49 Section 17 of the Public Procurement & Disposal Regulations, 2006 require the inspection and acceptance committee to inspect and test goods/ services delivered by a supplier and issue goods received note in accordance with the contract. With regard to the hardware detailed in table above, NHIF did not avail any evidence of goods received notes and interim or completion certificates from Inspection and acceptance committee contrary to section 17 of the Public Procurement regulation 2006 an indication that the hardware were never delivered and therefore NHIF did not attain Value for Money for this procurement. Further, there was no evidence of commissioning of the solution provided.

3.1.50 NHIF therefore lost Kenya shillings twenty millions five hundred and thousand (20,500,000.00) being 41% of the contract price, as a result of un delivered hardware equipment's. It was the responsibility of Mr. Simon Ole Kirgotty as an accounting officer to ensure the right quality and quantity of goods / services were delivered by M/s Webtribe ltd.

d) Contract Negotiation and addendums

3.1.51 According to the contract for provision of Integrated Revenue Collection Service - Tender No. NHIF/018/2013-2014, Ms Webtribe ltd earns a commission based on the member's contributions that are channeled through the JamboPay system. In this regard

the transaction fee payable is dependent on the revenue collection channel as detailed below:

Table 9: Transaction fees

No.	Item Description	Rate
1.	Bank deposits	4%
2.	Mobile Money	4%
3.	Electronic Cards	4.5%
4.	Agency Network	4%
	Total	

3.1.52 Through an internal memo Ref: HF/FIN/23/5/67 date 15 April 2015, Acting. General Manager Finance & Control requested Manager Procurement and Planning to engage Ms Webtribe ltd to review the terms of the contract. He cited changes in member's contribution rate as the basis for the proposed review. **(Exhibit 018; Internal memo reference HF/FIN/23/5/67 dated 15 April 2015).**

3.1.53 The negotiation took place on 10 July 2015 and consensus was reached to pay commission as detailed below **(Exhibit 019; Minutes of negotiation meeting held on 19 July 2015).**

Table 10: Agreed transaction fees

No.	Item Description	Agreed rate
1.	Bank deposits	2%
2.	Mobile Money	3.5%
3.	Electronic Cards	3.5%
4.	Huduma	3%
5.	Agency Network	2%

3.1.54 The negotiation team also agreed to extend the contract period by one year to 30 June 2018 to enable Ms Webtribe Ltd recoup lost time and investments in form of human resources, financing costs and bandwidth network underutilized that arose from delay in rolling out the system which according to the committee was not occasioned by Ms Webtribe's fault.

- 3.1.55 Except the commission on bank deposit that was varied and approved at the rate of 1.5% and not the proposed 2% the other negotiations were on 5 August 2015 approved by the tender committee as per the recommendations of the negotiation committee. (Exhibit 020; Management paper on negotiation).
- 3.1.56 The decision to review the contract rates was communicated to Ms Webtribe Ltd on 5 August 2015 via letter Ref: HF/C/814 VOL.XXVI/261 and a contract addendum made on 25 August 2015. According to the contract addendum, the new rates were effective from 1 July 2015. However, the contract sum did not change (Exhibit 021; Letter reference HF/C/814 VOL.XXVI/261 dated 5 August 2015) and (Exhibit 022; Contract between NHIF and Webtribe)
- 3.1.57 On 24 November 2015, the Director Finance and Investment via an internal memo HF/FIN/23/5/116 did a cost analysis of the integrated revenue collection services and bank charges and recommended that bank collections be charged at a fixed transaction charge proposed at Kshs.24,864,293. By adopting the proposal, NHIF was to benefit from reduced average monthly transaction fee of Kshs. 9,635,707 (Based on revenue collection of 2.3Billion and 1.5% of revenue through JamboPay as transaction fee) (Exhibit 023; Internal memo reference HF/FIN/23/5/116 dated 24 November 2015).
- 3.1.58 In this regard, a management paper was prepared and approved by the tender committee on 24 November 2015. (Exhibit 024; Management paper). Ms Webtribe Ltd however did not agree to the proposed fixed charge hence did not sign the contract (Exhibit 025; Draft contract not signed by Webtribe Ltd) and (Exhibit 026; Letter by Webtribe Ltd dated 20 June 2016).

e) Contract Extensions

- 3.1.59 On 24 July 2017, the then Manager, Supply Chain Management, M/s Pamela N. Marende via an internal memo Ref: HF/PROC/17/VOL.II/206 sought approval for 6-month extension of Contract for Provision of Integrated Revenue Collection Services from Mr. Geoffrey G. Mwangi, the then CEO. The contract was to be effective from 1 July 2017 (Past) to 31 December 2018. According to M/s Pamela, the request originated from user (Finance & Investment Directorate) who according to her were satisfied with the services so far rendered. The addendum to extend the contract was signed on 6 September 2017 (Exhibit 027; Internal memo reference HF/PROC/17/VOL.11/206 dated 24 July 2017) and (Exhibit 028; Addendum of extension of contract).
- 3.1.60 Citing the same user satisfaction and Ms Webtribe Ltd maintaining the same terms and condition of the elapsing contract, M/s Pamela via internal Memo Ref:

HF/PROC/VOL.II/388 dated 29 December 2017 sought approval for further 3-month extension of contract from 1 January 2018. The approval was made on the same document on 4 January 2018. However, upon review of the resulting addendum dated 13 February 2018, it was noted that the renewal of the contract was made for 6 months from 1 January 2018 (then past) to 30 June 2018 (**Exhibit 029; Internal Memo reference HF/PROC/VOL.II/388 dated 29 December 2017**) and (**Exhibit 030; Contract extension**).

- 3.1.61 With regard to the two extensions, the special audit team did not find any evidence that the request originated from Finance & Investment Directorate as alleged by the then Manager, Supply Chain Management, M/s Pamela N. Marendi. On the contrary, the Finance & Investment department wanted the contract rates to be re-negotiated in favor of NHIF as discussed on the contract negotiation above.
- 3.1.62 According to the Minutes of the Ninety-Fifth NHIF full Board meeting held on 25th January 2018, the contract for provision of revenue collection between NHIF and M/s Webtribe Ltd was further extended by six months from 1 April 2018 (**Exhibit 031; Minutes of NHIF full board held on 25 January 2018**). NHIF however did not avail a copy of contract extension with Ms Webtribe Ltd for audit review.

C. RFP/ SSS-NO/001/2017-2018: PROVISION OF INTEGRATED REVENUE MANAGEMENT SYSTEM FOR FINANCIAL YEAR 2017/2018

- 3.1.63 The special audit established that on 4th June 2018, NHIF entered into another contract with Ms Webtribe Ltd for Provision of Integrated Revenue Management System - RFP/SSSM NO./001/2017-2018 at a contract sum of Kenya Shillings Four Hundred and Ninety Five Million, Two Hundred and Five thousand, Five Hundred and Eighty Eight and Seventy Four Cents (Kshs.495,205,588.74) inclusive of VAT (**Exhibit 032; Contract for provision of Revenue Management System**).
- 3.1.64 A review of the minutes of the 6th NHIF Governance, Strategy and Human Resource Board Committee established that on 18 January 2018 a report on procurement of revenue management system solution was presented to the Board sub-committee by the then head of ICT Mr. Washington O. Okoth. The matter was discussed and a recommendation was made for the board to approve the purchase (**Exhibit 033; Minutes of the Human Resource Board Committee held on 18 January 2018**).

- 3.1.65 The full Board in its Ninety-Fifth sitting held on 25th January 2018 discussed the issue and a resolution was made to approve the procurement (**Exhibit 031; Minutes of NHIF full board held on 25 January 2018**).
- 3.1.66 However, the only request for procurement of the Revenue Management System solution that was availed was dated 05 February 2018. It was made by Acting Director Finance and Investment Mr. Joseph M. Mbuvi via an internal memo to the CEO Ref: HF/FIN/29 VOL X/187. He cited addressing prior revenue issues and cost saving as the justification for the purchase (**Exhibit 034; Internal memo reference HF/FIN/29 VOL X/187 dated 5 February 2017**)
- 3.1.67 Citing section 124(12) (a) and (b) of the Public Procurement and Asset Disposal Act 2015, the then Manager, Supply Chain Management, M/s Pamela N. Marende , via an internal memo Ref: HF/PROC/17/13 Vol. II/053 of 13 February 2018 proposed Single Sourcing of the Integrated Revenue Management System from Ms Webtribe Ltd (**Exhibit 035; Internal memo reference HF/PROC/17/13 Vol. II/053 dated 13 February 2018**)
- 3.1.68 According to section 124(12) of the Public Procurement and Asset Disposal Act 2015, Single Source Selection may be appropriate in the following cases, and only if it presents a clear advantage over competition:
- a) Where it can be evidenced that goods, works or services are available only from a particular supplier, or a particular supplier has exclusive rights in respect of the consultancy services, and no reasonable alternative or substitute exists; or
 - b) For tasks that represent a natural continuation of previous work carried out by the firm;
 - c) In exceptional cases, such as, but not limited to, in response to natural disasters and for a declared national emergency.
- 3.1.69 The method of procurement was approved by the then Chief Executive Officer Mr. Geoffrey Mwangi. On the same memo, the then Manager, Supply Chain Management, M/s Pamela N. Marende had also recommended that NHIF:
- a) Write to the supplier informing them of the Fund's intention for continuation of contract and provide them with user directorate needs for financial quotation;
 - b) Write to Public Procurement Regulatory Authority seeking for use of Single Source Selection Method; and
 - c) Advertise intention to use Single Selection Method
- 3.1.70 As per, the Manager Supply Chain recommendations, NHIF wrote to the supplier (**Exhibit 036; Letter reference HF/PROC/C/VOL.XXIX/074 dated 19 April 2018**), wrote to

Public Procurement Regulatory Authority-PPRA (**Exhibit 037; Letter reference HF/C/814/VOL.XXIX/033 dated 14 March 2018**), and an Advertisement for intention to use Single Selection Method was availed. (**Exhibit 038; Advertisement**).

- 3.1.71 The Public Procurement Regulatory Authority (PPRA) in their response advised NHIF to ensure that the specific conditions for use of the Single Source Selection Method are met. In addition, NHIF was also advised to adhere to the Act and regulations issued under the repealed Public Procurement and Disposal Act, 2005 pursuant to section 24 of the Interpretation and General Provisions Act Cap 2 of the Laws of Kenya (**Exhibit 039; Letter reference PPRA/P&R/22 VOL.I. (42) dated 4 April 2018**)
- 3.1.72 The special audit concluded that, NHIF adhered to the Public Procurement and Asset Disposal Act 2015 and regulations issued under the repealed Public Procurement and Disposal Act, 2005 on the procurement and award of contract for the Provision of Integrated Revenue Management System - RFP/SSSM NO./001/2017-2018 to Ms Webtribe ltd.
- 3.1.73 As at the time of the audit, Kshs.179,298,575.74 had been paid to Ms Webtribe ltd in relation to Contract for Provision of Integrated Revenue Management System - RFP/SSSM NO./001/2017-2018. (**Exhibit 040; Payment Voucher for Webtribe Ltd**).
- 3.1.74 However, considering the two contracts (Contract for provision of Integrated Revenue Collection Service - Tender No. NHIF/018/2013-2014 and Contract for Provision of Integrated Revenue Management System - RFP/SSSM NO./001/2017-2018.) as one project for provision of a revenue collection solution to NHIF,
- 3.1.75 Because of the irregularities in the identification, tendering, evaluation and award of Procurement of Integrated Revenue Collection System - Tender No. NHIF/018/2013-2014 to Ms Webtribe ltd, it can be Inferred that the single sourcing of Ms Webtribe ltd and the subsequent award of contract for Provision of Integrated Revenue Management System - RFP/SSSM NO./001/2017-2018 was also irregular.
- 3.1.76 The procurement was not done on the most economical way. If appropriate / prudent investment appraisals was conducted through cost benefit analysis at the project identification and planning phase as spelt out above, all the commissions paid to Ms Webtribe Ltd amounting to Kshs. 884,429,882.72 as analyzed below could have been avoided. It was the responsibility of Mr. Simon Ole Kirgotty as the accounting officer to ensure prudent investment appraisals.

D. LOSS OF PUBLIC FUNDS AS A RESULT OF IMPRUDENT INVESTMENT DECISION BY NHIF MANAGEMENT

3.1.77 According to section 5(1)(a) of NHIF Act, NHIF board is mandated to receive all contributions and other payments required by the Act. Section 8 of the Act allows the Board to delegate the exercise of any of the powers or the performance of any of the functions or duties of the Board under the Act to any committee of the Board or to any member, officer, employee or agent of the Board. This is done by resolution either generally or in any particular case. In this regard, the chief executive officer is responsible for the day-to-day management of the Fund. He/she is also the Secretary to the Board.

3.1.78 We reviewed the movement of data and funds among NHIF, JamboPay Systems and revenue collection agencies/banks to establish whether there was any loss of funds.

3.1.79 According to the contract provision of Integrated Revenue Collection Service - Tender No. NHIF/018/2013 dated 25 August 2014, Ms Webtribe Ltd was contracted to collect revenue on behalf of NHIF and in return earn a commission based on the revenue that is channeled through JamboPay system. The rate of commission payable as per the contract and ensuing negotiations is tabulated below (Exhibit 016; Contract for provision of integrated revenue collection service) and (Exhibit 022; Contract between NHIF and Webtribe)

Table 11: Transaction charges

No.	Revenue Channel	1 Jul 14 to 30 Jun 15	1 Jul 15 to 30 Sept 18
1.	Bank deposits	4%	1.5%
2.	Mobile Money	4%	3.5%
3.	Electronic Cards	4.5%	3.5%
4.	Huduma	4%	3%
5.	Agency Network	4%	2%

Transfer from Settlement to Collection Account

3.1.80 All bank collections that passes through the JamboPay systems were first deposited in a NHIF settlement account. NHIF then issues a payment instruction authorizing the respective bank to transfer the fund (less Ms Webtribe ltd commission) to a collection account maintained by the same bank.

3.1.81 From the availed instructions, the following NHIF officers were on various occasions involved in authorizing transfer instructions:

- a) Simeon Ole Kirgotty
- b) Geoffrey G. Mwangi
- c) Wilberrt K. Kurgat
- d) Francisca Mwanza
- e) Joseph M. Mbuvi

3.1.82 A review of the instructions obtained revealed that NHIF used a standard template. The instructions authorized the bank to transfer the 'cleared balance' from NHIF settlement account to specific NHIF collection account. Vide the same letter, the bank was instructed to deduct a specified percent of the 'cleared balance' as commission to Ms Webtribe ltd which was payable to a Ms. Webtribe's ltd commission account specified in the same instruction. **(Exhibit 041; Instructions for funds transfer).**

3.1.83 Analysis of NHIF settlement and Collection bank accounts revealed that for period 1 July 2014 to 30 June 2018, Kshs.45,136,273,701.57 had been transferred from the settlement account to collection account and a commission totaling Kshs. 884,429,882.72 paid to M/S Webtribe ltd as detailed below.

Table 12: Bank Collection and Commission Paid

Bank	Gross Amount Transferred (Kshs)	Commission paid (Kshs)	Details
NBK	17,213,788,907	379,555,277	APPENDIX V
KCB	12,312,061,594	248,379,412	APPENDIX VI
EQUITY	8,879,359,258	144,435,881	APPENDIX VII
COOPERATIVE	6,731,063,941	112,059,311	APPENDIX VIII
TOTAL	45,136,273,701.	884,429,882.	

3.1.84 Further, a review of availed transfer instruction and analysis of NHIF bank settlement and collection accounts revealed the following irregularities:

Transfers instructions based on ‘cleared balance’

3.1.85 According to NHIF, payments of commission to Ms Webtribe Ltd were based on bank statement’s ‘cleared balance’. NHIF however was not reconciling the revenue collected via the JamboPay platform with revenue bank statements. This control weakness implies that NHIF could not reliably determine the accuracy of commission paid to Ms Webtribe Ltd. In addition, the instructions issued by NHIF to banks did not indicate the specific amount to be paid as commission to Ms Webtribe Ltd, instead only a percentage was indicated.

Missing Transfer Instructions

3.1.86 NHIF did not avail for audit verification transfer instruction for transfers totaling Kshs.1,381,313,337 detailed in APPENDIX IX and as summarized in the table below:

Table 13: Missing Transfer Instructions

Bank	Amount (Kshs)	Commission
Cooperative Bank	951,814,198	17,191,419.
Equity Bank	9,527,641	142,914.
KCB	419,971,497	14,520,608.
Total	1,381,313,336.	31,854,942.

3.1.87 We were therefore unable to establish how the transfer was effected and the basis of payment of the resulting commission amounting to Kshs.31,854,942 as shown in (APPENDIX IX).

Splitting of commission payable to Ms Webtribe Ltd

3.1.88 Revenue collecting banks were supposed to transfer funds from settlement account to collecting account as per transfer instruction issued by NHIF. Analysis of the both settlement and collection accounts for KCB and Cooperative Bank revealed instances where the banks were splitting the commission payable to Ms Webtribe Ltd into two contrary to the instructions issued by NHIF. (Exhibit 041; Instructions for funds transfer)

3.1.89 The total commission that was charged in Cooperative Bank Account and payable to Ms Webtribe ltd was Kshs.112,059,311. Out of this, we established that commission amounting to Kshs. 89,902,067 had been split as follows: Kshs.72,363,897.65 was traced to Ms Webtribe bank account while we did not establish where the difference of Kshs.17,538,169 was diverted to .

3.1.90 We did not get access to Ms Webtribe's ltd KCB commission account statements. In this regard, it was not possible to confirm crediting of the commission payable to Ms Webtribe ltd. However, analysis of the settlement account revealed that commission amounting to Kshs.116,601,184.80 was split into two (APPENDIX VI).

Overpayment of Bank Collection Commission

3.1.91 According to the contract addendum between NHIF and Ms Webtribe ltd dated 25 August 2015, NHIF was supposed to pay Ms Webtribe ltd a transaction fee of 1.5% of all revenue collected via JamboPay system. The new rates were effective from 1 July 2015. The banks were informed of the change of the transaction fee via letters dated 5 August 2015.

3.1.92 According to these letters, the new rates were effective from the same day 5 August 2015 (Exhibit 042; Letters reference HF/FIN/23/5/79, HF/FIN/23/5/80 and HF/FIN/23/5/81 dated 5 August 2015). Analysis of the commission paid however revealed that, NHIF and banks overpaid commission payable to M/s. Webtribe ltd by Kshs.153,053,703 contrary to the contract addendum and NHIF instructions as summarized in table below:

Table 14: Overpaid bank collection commission

Collecting Bank	Resulting Overpayment (Kshs)	Details
Cooperative Bank	2,456,891	APPENDIX X
KCB	51,313,430	APPENDIX XI
National Bank	99,320,100	APPENDIX XII
TOTAL	153,053,703.	

Commission on collection via EFT and RTGS

3.1.93 During a meeting held on 16 May 2019 between ourselves and the NHIF management, NHIF management informed us that that Real Time Gross Settlement (RTGS) and

Electronic Fund Transfer (EFT) transactions were not supposed to pass through JamboPay system. In addition, in a letter dated 20 June 2016 to NHIF, Ms Webtribe Ltd argued that, the two transactions pass through JamboPay as per prior negotiations an indication that the two were not authorized to be channeled through the same (**Exhibit 026; Letter by Webtribe Ltd dated 20 June 2016**). However, after scrutinizing the availed minutes of the negotiation committee, we did not establish any evidence to support the argument by Ms Webtribe Ltd. (**Exhibit 019; Minutes of negotiation meeting held on 19 July 2015**).

3.1.94 Analysis of the bank statements however revealed that there were RTGS transactions amounting to Kshs. 2,057,956,419 that were channeled through the settlement account. This implies that Ms Webtribe Ltd irregularly earned a commission amounting to Kshs.31,362,143 as a result of unauthorized RTGS transactions being channeled through JamboPay system as detailed below:

Table 15: Commission from RTGS and EFT

Bank	RTGS Amount (Kshs)	Resulting Commission (Kshs)	Details
Equity	74,967,371	1,617,307	APPENDIX XIII
Cooperative Bank	1,982,989,048	29,744,835	APPENDIX XIV
Total	2,057,956,419.	31,362,143.	

Irregular payment of Service fee

3.1.95 According to clause 6.10 of the contract between NHIF, National Bank of Kenya (NBK) and Ms Webtribe Ltd, NBK was required to collect revenue from contributors through JamboPay gateway. The bank was in turn entitled to charge a commission to Ms Webtribe Ltd for amounts collected as an agent of Ms Webtribe Ltd and the same deducted from the commissions paid to Ms Webtribe Ltd under the contract (**Exhibit 043; Contract between NHIF, National Bank of Kenya (NBK) and Ms Webtribe Ltd**).

3.1.96 Through analysis of NHIF collection and settlement accounts at NBK, we established that NBK was charging an annual service fee for revenue collection services contrary to provisions of clause 6.10 of the contract. For the years 2014/15 to 2017/18, the total

services fee paid was Kshs. 13,601,857.50 (APPENDIX XV) and summarized in table below:

Table 16: NBK service fee

Financial Year	Bank Account	Amount (Kshs)
2014/15	Settlement account	3,386,361
2014/15	Collection account	9,866,598
2015/16	Collection account	181,846
2016/17	Collection account	143,643
2017/18	Collection account	23,408
		13,601,857

Commission on Agency Collection

- 3.1.97 According to the contract agreement between NHIF and Ms Webtribe ltd, the Collecting Agencies are contracted by Ms Webtribe ltd. As at the time of the audit, Ms Webtribe ltd had engaged 4 agencies (Stanbic Bank, Family Bank, NIC, Bank of Africa) to collect NHIF revenue. In addition, Ms Webtribe ltd was also using Website and Mobile in revenue collection.
- 3.1.98 Analysis of data from FOURGEN system revealed that for the period 1 July 2014 to 30 June 2018, Kshs. 1,308,337,761.92 had been collected via agency channels. Applying the rate of agency commission as per the contract, the resulting commission totals to Kshs. 34,259,511.09 as detailed below.

Table 17: Agency Collection and Commission

Agency	Gross Amount Collected (Kshs)	Commision paid (Kshs)	Details
Stanbic Bank	312,442,068	6,248,841	APPENDIX XVI
Family Bank	24,647,230	492,944	APPENDIX XVII
NIC	215,895,287	4,317,905	APPENDIX XIX
Bank of Africa	215,840,067	4,316,801	APPENDIX XIX

Agency	Gross Amount Collected (Kshs)	Commision paid (Kshs)	Details
Web/Mobile	539,513,110	18,883,018	APPENDIX XX
Total	1,308,337,762	34,259,511.	

3.1.99 We expected NHIF to be in control of all the collections done via this agency collection and web/mobile collection channels. In this regard, NHIF should issue standard operating procedure to be used by agents and web/mobile in revenue collection. Some of the key guidelines expected to form part of the standard operating procedures include how commission/transaction fee to Ms Webtribe ltd was to be paid and frequency of transfer of revenue to NHIF bank account. NHIF however did not avail any formal guidelines for review.

3.1.100 The special audit noted that, as opposed to bank collections where NHIF issues an instruction to the bank to transfer funds from settlement account to collection account (and pay resulting commission to Ms Webtribe ltd), Commission on agency collection was deducted without involvement of NHIF and before transfer of funds to Equity Collection account.

3.1.101 Arising from the above, the special audit noted that:

- a) Ms Webtribe ltd was delaying in crediting revenue collected via Agency's collections and web/mobile channels to the NHIF bank account. A sample of collections from Stanbic bank for the period July 2017 to March 2019 revealed that the delay in remittance of collections was on average 15 days (APPENDIX XXI) with the longest delay being 4 months. This implies that for the period 1 July 2014 to 30 June 2018, NHIF incurred an opportunity cost of approximately Kshs. 613,234 being the cost of foregone investment opportunities (using the average return on investment of 8.58% as per availed documents on investments)
- b) The last extension of contract between NHIF and Ms Webtribe ltd ended on 30 September 2018. Ms Webtribe ltd however continued to irregularly deduct agency commission up to 2 November 2018. The total commission deducted for the period 1 October 2018 to 2 November 2018 amounted to Kshs. 3,718,755 as summarized in table below:

Table 18: Commission paid outside the contract period

Agency	Amount (Kshs)	Appendix
Stanbic Bank	761,782	APPENDIX XXII
Bank of Africa	450,176	APPENDIX XXIII
Family Bank	162,990	APPENDIX XXIV
NIC	796,680	APPENDIX XXV
Web/Mobile	1,547,126.	APPENDIX XXVI
Total	3,718,755.	

3.2 Linda Mama Programme

Programme Identification, Planning and Conceptualization

- 3.2.1 According to the NHIF Implementation manual for Linda mama (December 2016), on 1 June 2013, H.E the President of the Republic of Kenya announced the abolishment of fees payable by mothers seeking maternity services in public health facilities countrywide; thus effectively launching the free maternal care programme. **(Exhibit 044; Implementation manual of December 2016)**
- 3.2.2 According to the Linda Mama Implementation manual of December 2016, the abolishment of the maternity fees was informed by the need to eliminate financial barriers to access maternity services in public hospitals. This would encourage women to give birth in health facilities with assistance from skilled providers, and therefore contribute to improvement of pregnancy outcomes, including maternal and neonatal deaths. In addition, the initiative would secure household incomes for other economic activities with a potential positive impact on poor households. The free maternal care programme was implemented by the Ministry of Health. **(Exhibit 044; Implementation manual of December 2016)**
- 3.2.3 On 18 October 2016, The Government of Kenya through the Ministry of Health and in collaboration with National Hospital Insurance Fund (NHIF) launched an expanded free maternal care program dubbed “Linda Mama, Boresha Jamii”. This program was a bid to achieve universal access to quality maternal healthcare as well as reduce maternal morbidity and mortality rates in the country. The Linda Mama programme replaced free maternal care programme.

Memorandum of Understanding

- 3.2.4 NHIF accepted to partner with The Ministry of Health in provision of services under the Linda Mama programme by managing funds provided by the Government of Kenya to cover all eligible women and their infants. A memorandum of understanding (MOU) was signed on 28 February 2017 between NHIF and MOH on the implementation of the LINDA MAMA programme by NHIF. The MOU was signed by the Principal Secretary and Cabinet Secretary of The Ministry of Health and the Board Chair and CEO of NHIF. **(Exhibit 045; MOU between The Ministry of Health and NHIF dated 28 February 2017)**

3.2.5 The objectives of the MOU are:

- a) To reduce financial barriers to access skilled maternal health services offered to all pregnant women, women in the post-partum period, and infants;
- b) To increase the access to pre and post maternity services through a broader provider network consisting of public, Faith based and private health care providers;
- c) To register all eligible women for the programme;
- d) To improve efficiency in the reimbursement to health care providers for services under the programme; and
- e) To jointly develop and implement a health care provide quality assurance system to address maternity care.

3.2.6 The responsibilities of the parties according to the MOU are as follows:

The Ministry of Health to:

- a) Effect a phased transfer of the programme to NHIF from the 1 of January 2017 to be completed by 30 June 2017.
- b) Source and avail funds for purpose of funding the programme;
- c) Endeavor to advance funds for the program to NHIF at least half yearly;
- d) Provide data of the believed best estimate of the population of women in Kenya at the time of signing the MOU and
- e) Provide NHIF with a list of all the healthcare facilities currently offering free maternity care at onset of the program for uptake and continuity.

NHIF undertakes to:

- a) Take over implementation of the program from the Ministry in phases from 1 of January 2017, with the transfer being completed by 30 of June 2017;
- b) Utilize its vast network field offices and accredit healthcare facilities to create awareness, to register beneficiaries and to provide services under the program;
- c) Reimburse the health care facilities for costs incurred by beneficiaries of service entitlements under the programme within 30 days upon receipt of invoices;
- d) Provide a comprehensive and updated list of approved and contracted health care facilities for the program on a half yearly basis;
- e) Ensure quality and efficient service delivery to beneficiaries through continuous monitoring of program implementation;

- f) Establish mechanisms to respond to beneficiaries' complaints and inquiries; and
- g) Provide the ministry with quarterly benefit utilization reports of the program.

The MOU further stipulates that:

- a) The Ministry of Health shall transfer funds to NHIF as allocated in the annual national budget;
- b) A minimal administrative fee will be negotiated between the parties from time to time and paid to NHIF by the Ministry of Health. The administrative fee shall not exceed Four Percent (4%) of the total amount transferred in a financial year.
- c) Proceeds from administrative fees will be applied towards funding administrative expenses for the programme as jointly prioritized by the parties; and
- d) All accounting procedures for the programme shall be carried out in accordance with section 37 of the NHIF Act No.9 of 1998.

Service entitlements

- 3.2.7 The service entitlements under the Linda Mama programme comprises of an expanded package of benefits to pregnant women and their newborns for periods of one year, commencing on the date of activation of the benefits by the mother at a NHIF contracted health care facility. **(Exhibit 044; Implementation manual of December 2016) and (Exhibit 045; MOU between The Ministry of Health and NHIF dated 28 February 2017)**
- 3.2.8 The package of benefits comprises of antenatal care (ANC), maternity deliveries and postnatal care (PNC) in accordance with the national guidelines. The package further includes both outpatient and in-patient management for conditions and complications during pregnancy, delivery and postnatal; as well as treatment for the newborn baby within the one-year period under the programme. The detailed package of benefits is represented in **APPENDIX XXVII**.

Implementation of the Programme

- 3.2.9 The implementation of the Linda Mama programme was to be realized in 3 Phases as detailed in the table below: **(Exhibit 045; MOU between The Ministry of Health and NHIF dated 28 February 2017)**

Table 19: Implementation Phases

Commencement date	Phases One	Phases Two	Phases Three
	28 February to 31 March 2017	1 April to 30 June 2017	From 1 July 2017
Description	Private-not-for-profit (Faith based) healthcare facilities and Private-for-profit healthcare facilities will be contracted to provide maternity services alongside public health facilities	NHIF accredited public hospitals and other lower level public facilities will be included in the programme to provide maternity services	Expansion of the benefits under the programme to include antenatal care, deliveries, postnatal care and care of the infant

3.2.10 At the time of the audit, all the three phases of the Linda Mama program had been implemented by NHIF namely reimbursement of claims for antenatal care, delivery, postnatal care and care of the infant at the contracted Healthcare facilities.

Eligibility and registration

3.2.11 The Linda Mama programme targets all pregnant women who are Kenyan citizens. The eligible persons are required to register using either their National ID cards or a guardian’s National ID card if under 18 years. Registration is done through various access points namely USSD code using a mobile phone, NHIF registration portal, NHIF service centers/branch offices, Huduma centers or Contracted health facilities.

3.2.12 Upon registration, the beneficiaries of the programme are assigned a unique identification number (M number) and a membership card is issued. Verification and activation is done when the beneficiary seeks services at a contracted health facility upon; presentation of the unique identification number assigned on registration, presentation of the client’s national ID/guardian’s national ID and confirmation of pregnancy. **(Exhibit 044; Implementation manual of December 2016)**

3.2.13 Upon verification, the audit team noted that in thirteen of the sample facilities namely; Diani Health Centre, Kaviani Hospital, Cottolengo Chaaria, Consolota Hospital Nkubu, St. Mary’s (Mumias) Hospital, Kisumu District Hospital, Kericho District Hospital, Longisa County Referral Hospital, Tenwek Hospital, Mercy Mission Hospital, Nakuru Level 5

Hospital, Jaramogi Oginga Odinga Teaching and Referral Hospital and Kakamega County Government Teaching and Referral Hospital used the ANC booklet number to register mothers instead of using the National ID card. This could lead to registration of non-Kenyans citizens or nonexistent citizens.

Reimbursement arrangements & rates

3.2.14 The Ministry of Health wrote a letter ref MOH/1B/15/1/15 dated 23 February 2017 to the CEO NHIF stating the reimbursement rates for phase one of the Linda Mama program. The CEO NHIF communicated the set reimbursement rates to all branch managers vide internal memo ref HF/CB/12/3/2 VOL.1/21 dated 27 March 2017. The rates are shown below: (Exhibit 046; Letter reference MOH/1B/15/1/15 dated 23 February 2017) and (Exhibit 047; Internal memo reference HF/CB/12/3/2 VOL.1/21 dated 27 March 2017)

Table 20: Phase One Reimbursement Rates

Facility level	Normal delivery rate	Cesarian section rate
Level II and III	Kshs. 3,500	None
Level IV and above	Kshs. 6,000	Kshs. 17,000

3.2.15 Phase two of the program involved contracting and reimbursement to public facilities. An internal memo ref HF/ADM/38 VOL.III/1/ (27) dated 1 August 2017 set the reimbursement rates as follows: (Exhibit 048; Internal memo reference HF/ADM/38 VOL.III/1(27) dated 1 August 2017)

Table 21: Phase Two Reimbursement Rates

Facility level	Normal delivery rate	Cesarian section rate
Health centers & Dispensaries	Kshs. 2,500	None
Hospitals	Kshs. 5,000	Kshs. 5,000
KNH & MTRH	Kshs. 17,000	Kshs. 17,000

3.2.16 Phase three of the program entailed roll out of antenatal and postnatal care services. An internal memo ref HF/CB/12/3/3/VOL.I/(84) dated 23 February 2018 set the

reimbursement rates as follows: (Exhibit 049; internal memo reference HF/CB/12/3/3/VOL.1(84) dated 23 February 2018)

Table 22: Phase Three Reimbursement Rates

Facility Level	Visit	GOK		Private and Faith based	
		ANC	PNC	ANC	PNC
II- II	1 st	600	250	1,000	250
	2 nd -4 th	300	250	500	250
IV-V	1 st	1,000	250	1,000	250
	2 nd -4 th	300	250	500	250
VI	1 st	1,000	250	1,000	250
	2 nd -4 ^h	500	250	500	250

3.2.17 According to the NHIF Act 1998 section 5(d), the Board is mandated to regulate the contributions payable to the Fund and the benefits and other payments to be made out of the Fund. However, Board minutes regularizing the reimbursement rates used by NHIF under the Linda Mama program to refund healthcare facilities were not availed.

Linda Mama Programme Governance

Role of the Board on the Linda Mama Programme

3.2.18 The NHIF Act 1998 established the NHIF Board of Management. The objects and function of the Board are: **(Exhibit 003; National Hospital Insurance Act No. 9 of 1998)**

- a) To receive all contributions and other payments required by the Act to be made to the fund;
- b) To make payments out of the Fund to declared hospitals in accordance with the provisions of the Act;
- c) In consultation with the Minister, to set the criteria for the declaration of hospitals and to declare such hospitals in accordance thereto for the purposes of this Act;
- d) To regulate the contributions payable to the Fund and the benefits and other payments to be made out of the Fund;
- e) To protect the interests of contributors to the Fund;
- f) To advise the Minister on the national policy to be followed with regard to national health insurance and to implement all Government policies relating thereto; and
- g) To perform such other functions as are conferred on it by the Act or by any other written law.

3.2.19 In the period under review, NHIF had 10 board of directors with 4 sub-committees namely: **(Exhibit 050; Board of Directors appointment letters)**

- a) Audit Committee
- b) Operations and Quality Assurance Committee
- c) Finance and Investment Committee
- d) Governance, Strategy and Human Resource Committee

3.2.20 On 8 November 2017 and 11 May 2018, under minute MIN B/326A/2017 and MIN B/416A/2018 of the full board meeting respectively, the board reconstituted the membership of the committees as detailed in **APPENDIX XXVIII. (Exhibit 051; Minutes of full board meeting held on 8 November 2017) and (Exhibit 052; Minutes of full board meeting held on 11 May 2018)**

3.2.21 The Operations and Quality Assurance committee is responsible for providing oversight of all the programs at NHIF including the Linda Mama program. During the period under review, the board member of the committee was:

Table 23: Operations and Quality Assurance Committee Members

S/No	NAME	Body Representing
1.	Mr. Geoffrey G. Mwangi	Chief Executive Officer
2.	Dr. Pacifica Onyancha	PS/Ministry of Health
3.	Dr. Peter Kimuu	Director of Medical Services
4.	Mr. Mudzo Nzili	Kenya National Union of Teachers
5.	Mrs. Gilda Odera	Federation of Kenya Employers
6.	Dr. Elly Nyaim Opot	Kenya Medical Association
7.	Mr. Latiff Shaban	Faith Based Healthcare Organization

3.2.22 We reviewed the NHIF board minutes and noted the board discussed matters concerning the claim process and made resolutions that were to be implemented by the Management to aide in the claim payment process. The board discussions and resolutions did not single out any specific program. A summary of the board resolutions and audit observations are as detailed below: **(Exhibit 053; Minutes of full board meeting held on 30 March 2017)** and **(Exhibit 054; Minutes of full board meeting held on 8 November 2017)**

Table 24: Full Board Resolutions

Meeting Date	Board Resolution	Audit observation
30 March 2017	Claims should only become payable once benefits and quality assurance officers had approved the same against surveillance reports in the system	This Board resolution is not followed for the Linda Mama program as the quality assurance officers have no rights in the manual system for processing of claims.
30 March 2017	Utilize contract management system and finalize all other pending contracts between NHIF	The contract management system is not being utilized cause of poor internet

Meeting Date	Board Resolution	Audit observation
	and health facilities within three months	connectivity and lack of e signature at the healthcare facilities. NHIF has not finalized signing of contracts with 758 healthcare facilities which are already offering Linda Mama services.
8 November 2017	Branch managers to ensure that surveillance programs are drawn and benefits officers undertake clinical audit and file a system report to authenticate payment of submitted claims	The branches have monthly surveillance programs stating the officer to conduct the surveillance and the healthcare facility to be visited. Surveillance for the Linda Mama program is done at least weekly for the high-volume facilities. Clinical audits for the Linda Mama program are mostly done for long stay claims and late notification claims before payment of submitted claims or a need basis.
8 November 2017	Branch manager to confirm that processed claims met the set threshold	The branch managers have no direct role in processing of claims, however, they provide oversight and coordinate to ensure that only valid claims are processed.

Meeting Date	Board Resolution	Audit observation
8 November 2017	Manager Healthcare Contracting to constantly monitor adherence to contract terms by Health care facilities.	The benefit and contracting department has developed a monitoring and evaluation framework to check adherence to contract terms that is been rolled out to the NHIF branches and contracted healthcare facilities.

3.2.23 NHIF management had not implemented some of the resolutions made by the board as expected as at the time of audit as highlighted in the table above. For example, the quality assurance officers have no rights in the manual system for processing of Linda Mama claims. Therefore, there is a risk of payment of fictitious claims due to lack of access to the system to ensure that findings in the surveillance report are implemented before payment. It was the responsibility of the Chief Executive Officer, Head of Legal Department and Head of Corporate Schemes & Sponsored Programs, to ensure the Board's resolutions were implemented.

3.2.24 Also, the contract management system is not being utilized and NHIF has not finalized signing of contracts for some healthcare facilities which are already offering Linda Mama services. There is a risk of lack of conflict resolutions mechanism in case of conflict between NHIF and healthcare facilities in the absence of contracts that may lead to litigation. It is the responsibility of the Head of Legal Department to ensure contract agreements are signed with respective service providers.

Risk management and internal control mitigation

3.2.25 According to the MOU between the Ministry of Health and NHIF dated 28 February 2017, NHIF was tasked to: **(Exhibit 045; MOU between The Ministry of Health and NHIF dated 28 February 2017)**

- a) Ensure quality and efficient service delivery to beneficiaries through continuous monitoring of program implementation;
- b) Establish mechanism to respond to beneficiaries' complaints and inquiries; and

c) Provide the Ministry with quarterly benefit utilization reports of the Programme.

3.2.26 In addition, under the agreement between NHIF and Healthcare facilities,

a) Healthcare provider was to provide quarterly reports on the maternal care services provided including utilization reports/returns

b) Review on a quarterly basis the performance of the healthcare provider in relation to their obligation under the agreement

3.2.27 The effectiveness of the risk management and internal control mitigation was measured based on the 5 parameters as set out in the MOU and agreement stated above. The results indicated an overall compliance level of 5 out of the 5 parameters as detailed below:

Table 25: Internal Control Mitigation

	Parameters	Audit observation (Actual practice)
1	Establish mechanism to respond to beneficiaries' complaints and inquiries.	NHIF has a centralized customer care center that receives complaints and inquiries from the public and direct the same to the relevant department
2	Ensure quality and efficient service delivery to beneficiaries through continuous monitoring of program implementation.	The corporate schemes and sponsored programs department receives monthly reports from the branches on the performance of the Linda Mama program
3	Provide the Ministry with quarterly benefit utilization reports of the Programme.	The corporate schemes and sponsored programs department compiles the monthly reports from the Branches and other departments and send quarterly utilization reports to the Ministry
4	Healthcare provider was to provide quarterly reports on the maternal care services provided including utilization reports/returns	NHIF receives online reports from the Healthcare facilities showing the number of normal deliveries, caesarian deliveries, ANC visits and PNC visits.

	Parameters	Audit observation (Actual practice)
5	Review on a quarterly basis the performance of the healthcare provider in relation to their obligation under the agreement	The benefit and contracting department has developed a monitoring and evaluation framework to check adherence to contract terms that is been rolled out to the NHIF branches and contracted healthcare facilities.

3.2.28 NHIF has a Quality Assurance department tasked with ensuring quality services are being offered to the beneficiaries by the healthcare facilities. The quality assurance department is decentralized with all the NHIF branches having quality assurance officers. The officers ensure quality services by:

- a) Training the healthcare facilities on the Kenya Quality Model of Health
- b) Undertaking clinical audits where the officers review medical diagnosis, treatment and drugs offered to beneficiaries
- c) Conducting surveillance of healthcare facilities to confirm existence of patients

3.2.29 We noted that the Quality Assurance Officers in the NHIF branches are few and overwhelmed with each of the sampled branches having only one quality assurance officers except for Nakuru office that has three quality assurance officers. This has led to lack of regular clinical audits and surveillance which are meant to ensure quality services are being offered by the healthcare facilities.

3.2.30 In addition, NHIF also has an Internal Audit Department tasked with conducting systems audit on implementation of new packages. During the period under review, the Internal Audit Department produced three system audit reports regarding the Linda Mama program. These reports were addressed to the Deputy Director Registration and Compliance. The findings of the system audit related to payment of claims above the set limit and payment of claims above the bill amount. **(Exhibit 055; System audit reports dated April 2018, May 2018 and September 2018)**

3.2.31 We could not ascertain whether the system audit reports were tabled before the Audit Committee and/or full board for deliberation since NHIF board minutes were in the custody of the Directorate of Criminal Investigation as indicated by a letter from the acting CEO of NHIF to the Office of the Auditor-General reference HF/C/806/VOL.XI.12

dated 12 March 2019. (Exhibit 056; Letter reference HF/C/806/VOL.XI.12 dated 12 March 2019)

Budget, Budgetary Control and financing

Review and document the budgetary process of the Fund

- 3.2.32 According to NHIF ISO document no. NHIFP/CMA/01&02&03 on annual budget, supplementary budget and budget implementation, the budgeting process commences with the preparation of the budget guidelines and issuing them to the cost center managers by the Manager Cost Management Accounting. Thereafter, a budget committee is appointed at the head office directorates and divisions as well as in the branch and regional offices to formulate and submit their budget proposal. (Exhibit 057; NHIF ISO document no. NHIFP/CMA/01&02&03)
- 3.2.33 The cost management accountant then compiles the various budget from the cost centers into a Master Budget and requests the Director of Finance to appoint a main budget committee at the head office.
- 3.2.34 The appointed main budget committee then deliberate on the Master Budget and prepares a draft annual budget which is forwarded to the Director of Finance. The Director of Finance will review and forward the draft annual budget to the CEO.
- 3.2.35 The CEO will further review the draft budget and then forward it to the full board for approval and onward forwarding to the National Treasury through the parent ministry for approval.
- 3.2.36 Once the budget is approved, the Manager Cost Management Accounting receives a budget approval notification from Director of Finance and forwards it to the Principle Accountant Cost Management Accounting who uploads the budget to the ERP system. The Manager Cost Management Accounting, will issue first quarter allocations and send an authority to spend memo to the cost center managers.
- 3.2.37 Later in the year when there is need for revision of the approved budget, the Manager Cost Management Accounting will receive and compile request for additional funds from the cost center managers. The requests are compiled into a draft supplementary budget which is reviewed by the Director of Finance and CEO and approved by the Board. NHIF then forwards the approved supplementary budget to the National Treasury through the parent ministry for approval.
- 3.2.38 NHIF budget process as described by the Cost Management Accountant complies with the documented budget process.

NHIF Budgetary allocations

- 3.2.39 The Board approved the annual budget for FY 2016/2017, 2017/2018 and 2018/2019 on 28 January 2016, 31 October 2016 and 25 January 2018 respectively. **(Exhibit 058; Annual budget for FY 2016/2017, 2017/2018 and 2018/2019)**
- 3.2.40 In addition, the Board approved the supplementary budget for FY 2016/2017, 2017/2018 and 2018/2019 on 31 October 2016, 25 January 2018 and 24 January 2019 respectively. **(Exhibit 059; Supplementary budget for FY 2016/2017, 2017/2018 and 2018/2019)**
- 3.2.41 The National Treasury approved through the Ministry of Health the annual and supplementary budget for FY 2016/2017, 2017/2018 and 2018/2019 on 31 May 2016, 19 June 2017 and 9 July 2018 respectively. **(Exhibit 060; Letter reference MOH/FIN/1/42/VOL II(295) dated 31 May 2016, Letter reference MOH/FIN/1/A.VOL I (231) dated 19 June 2017, Letter reference MOH/FIN/1/A VOL II/81 dated 9 July 2018)**
- 3.2.42 During the period under review, NHIF annual and supplementary budget is as detailed in the table below:

Table 26: NHIF Annual and Supplementary Budget

Financial Year	Description	Original Budget (Kshs)	Adjustment (Kshs)	Revised Budget (Kshs)
2016/2017	Revenue	38,987,464,784	2,390,352,665	41,377,817,449
	Recurrent Expenditure	38,176,915,207	2,410,453,214	40,652,926,396.00
	Development Expenditure	656,250,000	206,950,000	863,200,000
	Reserve	154,299,577		
		38,987,464,784		41,516,126,396.00
2017/2018	Revenue	47,337,412,384	4,257,580,091	51,594,992,475
	Recurrent Expenditure	45,765,802,318	2,220,864,705	47,986,667,023
	Development Expenditure	1,209,600,000	760,669,869	1,970,269,869
	Reserve	362,010,066		1,638,055,585
		47,337,412,384		51,594,992,447

2018/2019	Revenue	62,275,103,485	4,383,291,864	66,658,395,349
	Recurrent Expenditure	54,157,480,764	4,337,845,160	58,495,325,924
	Development Expenditure	7,873,999,000	(265,000,000)	7,608,999,000
	Reserve	243,623,721		554,070,428
		62,275,103,485		66,658,395,352

3.2.43 It was noted that the supplementary budget for financial year 2016/2017, did not balance as required. (Exhibit 059; Supplementary budget for FY 2016/2017). The total revenue was Kshs. 41,377,817,449 while the total expenditure was Kshs. 41,516,126,396 resulting in a variance of Kshs. 138,308,947. This is contrary to section 33(c) of the Public Finance Management Regulations (PFMR) 2015 which requires that a budget shall be balanced. It was the responsibility of Director Finance and Investment to ensure budgets were prepared in compliance with PFMR 2015.

3.2.44 We also noted that during the period under review, the budgeted amount for development expenditure was below the minimum 30% of the total budget as stipulated in section 15(2)(a) of the Public Finance Management Act (PFMA) 2012.

Table 27: Development Expenditure

Financial Year	Total Budgeted expenditure (Kshs)	30% of the total budget (Kshs)	Budgeted Development expenditure (Kshs)	Variance (Kshs)	Allocated for development (%)
2016/2017	41,516,126,396	12,454,837,919	863,200,000	11,591,637,919	2
2017/2018	51,594,992,447	15,478,497,734	1,970,269,869	13,508,227,865	4
2018/2019	66,658,395,352	19,997,518,606	7,608,999,000	12,388,519,606	11
Total	159,769,514,195	47,930,854,259	10,442,468,869	37,488,385,390	7

3.2.45 Out of the total budget of Kshs. 159,769,514,195, the amount allocated to development was Kshs. 10,442,468,869 translating to 7%. Therefore, NHIF did not comply with section 15(2)(a) of PFMA 2012.

Linda Mama budgetary allocations

3.2.46 During the financial years 2016/2017 and 2017/2018, the budgeted revenue for Linda Mama programme was a total of Kshs.6,098,000,000 while the actual revenue received from Ministry of Health amounted to Kshs.3,361,525,853. Therefore, the total budget for Linda Mama programme was under funded by Kshs.2,736,474,147 as detailed below. (Exhibit 059; Supplementary budget for FY 2016/2017 and 2017/2018) and (Exhibit 061; Disbursement schedule)

Table 28: Linda Mama Budgeted and Actual Revenue

Description	2016/2017 (Kshs)	2017/2018 (Kshs)	Total (Kshs)
Budgeted Revenue for Linda Mama Programme	2,250,000,000	3,848,000,000	6,098,000,000
Actual Revenue for Linda Mama Programme	400,000,000	2,961,525,853	3,361,525,853
Variance	1,850,000,000	886,474,147	2,736,474,147

3.2.47 In addition, the budgeted expenditure was Kshs.6,098,000,000 while the actual expenditure was Kshs.1,516,623,677. (Exhibit 059; Supplementary budget for FY 2016/2017 and 2017/2018) and (Exhibit 062; Financial statements for 2017 and 2018)

Table 29: Linda Mama Budgeted and Actual Expenditure

Description	2016/2017 (Kshs)	2017/2018 (Kshs)	Total (Kshs)
Budgeted Expenditure for Linda Mama Programme	2,250,000,000	3,848,000,000	6,098,000,000
Actual Expenditure for Linda Mama Programme	28,172,808	1,488,450,869	1,516,623,677
Variance	2,221,827,192	2,359,549,131	4,581,376,323

Amount of funds disbursed so far in regard to Linda Mama programme

3.2.48 NHIF received a total of Kshs 3,361,525,853 in 2016/2017 and 2017/2018 from the National Government towards the Linda Mama Programme but only utilized Kshs.1,516,623,677 towards the programme. NHIF recognized the difference of Kshs.1,844,902,176 as deferred incomes in their 2017/2018 financial statements. (Exhibit 061; Disbursement schedule) and (Exhibit 062; Financial statements for 2017 and 2018)

Table 30: Linda Mama Utilization

Financial Year	Amount received (Kshs)	Amount Utilized (Kshs)	Variance (Kshs)
2016/2017	400,000,000	28,172,808	371,827,192
2017/2018	2,961,525,853	1,488,450,869	1,473,074,984
Total	3,361,525,853	1,516,623,677	1,844,902,176

Review of claims for the Linda Mama programme

Claim Payment Process

- 3.2.49 According to NHIF ISO document no. NHIFP/HQ-B&C/03 on claim processing, claims are initiated by the hospital through the NHIF web based portal in batches whereby each batch has a maximum of 30 individual claims. The physical batch claims are then sent to NHIF branch office by the hospitals for payment. (Exhibit 063; NHIF ISO document no. NHIFP/HQ-B&C/03)
- 3.2.50 A batch is received at the branch from the hospital by a receiving officer. The receiving officer confirms that all claims are in the batch and that claims are properly supported with a claim form, invoice, birth notification, discharge summary, Linda Mama card and ID of mother or guardian.
- 3.2.51 The receiving officer also confirms that the beneficiary is dully registered in the system using the member number (M-number). If there are no supporting documents, beneficiary is not registered or a claim is missing from the batch, the receiving officer rejects the specific claim in the batch. The hospital is then notified of the rejected claim and the reason for rejection through the system. The rejected physical claim is returned to the hospital.
- 3.2.52 The receiving officer releases the claims that are properly supported to the authorizing officer. The authorizing officer confirms that the amount being claimed by the hospitals are not above the rebate amount set for each individual hospitals. The authorizing officer then authorizes the claim together with the batch, prepares a payment voucher and releases the batch to the branch accountant.
- 3.2.53 The branch accountant posts/expenses the claims in the system then creates and issues an EFT file number for onward payment at the NHIF head office. The Treasury department at the head office receives the EFT files and the physical documents from all branches and verifies the amount posted in the system.
- 3.2.54 The Treasury department officer aggregates the EFT files together and creates a bank file. The bank file is approved by 2 of the 3 signatories. The signatories are; CEO, Director Finance and Investment and Manager Financial Accounting. The approved bank file is sent to the bank namely Equity bank A/C No. 0170273733939 for final payment via internet banking.
- 3.2.55 On release of the bank file to the bank, two reports are generated and printed out. The Payment Advise report and a report itemizing the different facilities to be paid. These

reports are signed by the authorizing officers and presented to the bank for confirmation and stamping before the money is released to the respective hospitals.

- 3.2.56 According to the ISO document on claim processing, a quality assurance officer should conduct a clinical audit on the claims and if satisfied should transfer the claims to the accountant for further processing. The quality assurance officer can either accept, reject or put a claim under investigations (**Exhibit 063; NHIF ISO document no. NHIFP/HQ-B&C/03**). A walk-through test conducted by the audit team revealed that the quality assurance officers are not involved in the Linda Mama claim processing. NHIF does not conduct an independent verification of the claims received from the Hospitals. The birth notification attached in a claim are not verified with any third party to authenticate the notification and confirm actual birth.
- 3.2.57 At the time of the audit, NHIF was in the process of migrating to a paperless claim processing system called E-claim. Under the E-claim, a facility was only required to generate and submit an invoice which shows the patient details and amount to be reimbursed. The audit team noted that important supporting documents such as discharge summary and birth notifications were not attached to the invoice submitted by facilities. Therefore, this could lead to payment of fictitious claims since NHIF cannot authenticate deliveries and mode of delivery before payment. It was the responsibility of Director Finance & Investment Benefits and the respective claims officer to ensure claims were properly supported.
- 3.2.58 In addition, interviewed hospital administrators and NHIF branch managers raised various challenges with the E-claim such as:
- a) Network connectivity issues and outages
 - b) Combining of claims from different facilities in one batch
 - c) Impossible to reject one erroneous claim in a batch of 30 claim instead the entire batch has to be rejected
 - d) Failure to discharge patients through E-claim leading to pending claims as invoice cannot be generated and submitted
 - e) Late notification and long stay claims are sent to the E-claim bin where a NHIF quality assurance officer has to physically visit a facility to approve such claims leading to delay in claim processing because of the few number of quality assurance officers in the branches.

Amount Paid and Outstanding Under the Linda Mama Programme

3.2.59 In 2016/2017 and 2017/2018, NHIF received a total of Kshs 3,361,525,853 from the National Government towards the Linda Mama Programme. However as at the time of audit an additional Kshs.2,000,000,000 was provided for 2018/2019 increasing the cumulative amount to Kshs.5,361,525,853 towards the programme. **(Exhibit 061; Disbursement schedule)**

3.2.60 NHIF has paid claims amounting to Kshs.4,285,727,440 under the Linda Mama Programme as at 31 March 2019 as detailed below;

Table 31: Amount Paid for Linda Mama

Description	2016/2017 (Kshs)	2017/2018 (Kshs)	July 2018 to March 2019 (Kshs)	Total (Kshs)
Normal Delivery	4,880,000	1,253,550,212	2,178,915,995	3,437,346,207
Caesarian	5,461,000	198,695,425	381,277,529	585,433,954
Inpatient	-	291,600	68,483,639	68,775,239
PNC	-	14,960,085	153,565,360	25,646,595
ANC	-	1,508,947	24,137,648	168,525,445
Total	10,341,000	1,469,006,269	2,806,380,171	4,285,727,440

3.2.61 The cumulative expenditure under the Linda Mama program was Kshs 4,285,727,440. Normal Delivery had the highest number of claims at Kshs 3,437,346,207 (80 %) followed by caesarian cases at Kshs. 585,433,954 (14%). ANC, Inpatient and PNC amounted to Kshs 168,525,445 (4%), Kshs.68,775,239 (1.4%) and Kshs.25,646,595 (0.6%) respectively.

3.2.62 In addition, NHIF had outstanding claims amounting to Kshs.639,692,330 as at 31 March 2019 as shown in the table below and detailed in APPENDIX XXIX:

Table 32: Amount Outstanding for Linda Mama

Description	Amount (Kshs)
Normal Delivery	456,809,010
Caesarian	
Inpatient	
PNC	182,883,320
ANC	
Total	639,692,330

3.2.63 Out of the total outstanding claims of Kshs 639,692,330, Kshs 456,809,010 (71%) was in relation to Normal Delivery, Caesarian and Inpatient while Kshs 182,883,320 (29%) was in relation to PNC and ANC.

Linda Mama Utilization Report to the Ministry of Health

3.2.64 We reviewed Linda Mama Program utilization reports that are submitted by NHIF to the Ministry of Health. According to the utilization report for 1 July 2018 to 31 December 2018, NHIF received Kshs. 3,361,525,853 and utilized Kshs.3,385,141,453 as at 31 December 2018 resulting in an overspending of Kshs.23,615,600 as shown in the table below: [\(Exhibit 064; Linda Mama utilization reports\)](#)

Table 33: Linda Mama Utilization

Description	As at 31 December 2018 (Kshs)
Funds transferred to NHIF	3,361,525,853
Benefits:	
Inpatient	291,600
Caesarean Section	206,098,625
Normal Delivery	3,025,989,729
Ante natal	96,269,124
Post natal	11,530,757
Sub total	3,340,179,835

Description	As at 31 December 2018 (Kshs)
Administrative costs	44,961,618
Total	3,385,141,453

3.2.65 An analysis of bank payments up to 31 December 2018 indicated that NHIF had paid claims to Healthcare providers amounting to Kshs.1,912,447,627 as detailed in APPENDIX VIII as opposed to Kshs.3,340,179,835 as indicated in the utilization report and shown in the table above. Therefore, NHIF overstated the claims paid and communicated to the Ministry of Health by Kshs.1,427,732,208 as shown in the table below (Exhibit 065; Linda mama bank account statement).

3.2.66 It was the responsibility of Director Finance & Investment and Head of Corporate Schemes and sponsored programs to ensure accurate and reliable financial reports were submitted to the Ministry of Health.

Table 34: Bank payments vs. Utilization reports

Description	Amount (Kshs)
Claims paid as per utilization report	3,340,179,835
Claims paid as per bank payments	1,912,447,627
Variance	1,427,732,208

3.2.67 However, a detailed analysis of the bank statement and bank payments revealed that NHIF can account for the Kshs.3,361,525,853 received from the Ministry.

Healthcare Facilities without Contracts

3.2.68 According to the MOU between NHIF and the Ministry of Health, NHIF was tasked to contract Faith Based, Private and Public healthcare facilities to provide services under the programme. It was mandatory for all public healthcare facilities to provide Linda Mama program. Faith Based and Private healthcare facilities interested in the program were to apply in writing. (Exhibit 045; MOU between The Ministry of Health and NHIF dated 28 February 2017)

3.2.69 NHIF maintains a list of all healthcare facilities that are accredited and gazetted. NHIF regional offices will send offer letters to the healthcare facilities that provide maternity services as per their accreditation and schedule of service stating the rates, terms and

condition of the Linda Mama program. Upon acceptance of the letter of offer, the legal department is notified to draft a contract between NHIF and the facility.

3.2.70 The special audit team analyzed bank payments and determined that 1693 Healthcare facilities had been paid between August 2017 and March 2019. 935 out of 1693 contracts between NHIF and Healthcare facilities were provided for review. It was noted that contracts for 758 healthcare facilities were not availed to the team for review yet the facilities had been paid a total of Kshs.1,918,243,488 as detailed in **APPENDIX XXXI**. It is not clear the basis NHIF used to reimburse the healthcare facilities for the services provided without contracts. Article 4 of the MOU stipulates that NHIF was to contract Healthcare facilities to participate under the Linda Mama program. It was the responsibility of Head of Legal department to ensure contracts were in place between NHIF and service providers before effecting payments.

Unsupported Claims

3.2.71 According to the Public Finance Regulation 2015, section 104 (1) All receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

3.2.72 In addition, an internal memo dated 5 March 2018 to all regional and branch managers stated that when submitting ANC and PNC claims a copy of the antenatal card must be attached for each of the pregnant mothers. **(Exhibit 066; Internal memo reference HF/CB/12/3/3/(95) dated 5 March 2018)**

3.2.73 It was noted that various claims were not supported by either a copy of birth notifications or an antenatal card amounting to Kshs. 506,000 as detailed in **APPENDIX XXXII**. **(Exhibit 067; Sample claims not properly supported)**

Claims paid above the approved reimbursement rates

3.2.74 The reimbursement rates for caesarian section delivery was Kshs.5,000 for level 4 and 5 hospitals and Kshs.17,000 for Referral Hospitals. Furthermore, the reimbursement rate for normal delivery was Kshs.2,500, Kshs.3,500, Kshs.5,000, Kshs.6,000 and Kshs.17,000 depending on the level of the hospital.

3.2.75 We noted that several hospitals were paid over and above the prescribed rate resulting in an overpayment of Kshs.688,000 as detailed in **APPENDIX XXXIII**. It was the responsibility of Director Finance and Investment Benefits and claims officer to ensure

payments were made in accordance with approved rates. (Exhibit 068; Sample claims paid above the prescribed rate)

Duplicate Membership number / Duplicate Claims

- 3.2.76 The Linda Mama program was intended to benefit all pregnant women who are Kenyan citizens. However, for one to access the benefits they have to registered using any of the modes discussed above in the report.
- 3.2.77 On completion of the registration, the pregnant woman would be assigned a unique identification known as an M number. The M number is used to determine if a mother is registered when processing a claim. If a claim has no M number or an invalid M number, it is rejected.
- 3.2.78 One M number corresponds to one pregnant mother and is only valid for one year. The audit team noted that the same M numbers were used to raise more than one claim amounting to Kshs.162,500 indicating that the same mother had delivered more than once within one year as shown in the table below and detailed in APPENDIX XXXIV. (Exhibit 069; Sample claims with duplicate M number)

Table 35: Duplicate M Number per Branch

NHIF Branch	Number of Claims	Amount (Kshs)
Bomet Area Office	1	5,000
Eldoret	2	34,000
Homa Bay Branch Office	7	35,000
Kakamega Area Office	3	15,000
Kericho Area Office	1	5,000
Meru Area Office	1	2,500
Mumias Area Office	1	6,000
Nyeri Area Office	12	60,000
Total	28	162,500

- 3.2.79 It was the responsibility of Director Finance and Investment Benefits and the respective claims officer to ensure payments there was no duplication of reimbursement using the same M number.

Overpayment of Claims

3.2.80 According to the MOU between MOH and NHIF, NHIF was to reimburse the healthcare facilities for costs incurred by the beneficiaries of service entitlement under the Program. The audit team reviewed data from the ERP system and noted that NHIF had paid more than the invoice amount resulting in an overpayment of Kshs.27,581,275 as shown in APPENDIX XXXV. The Director Finance & Investment Benefits and the respective claims officer are responsible for this overpayment.

Administrative Fees

3.2.81 The MOU set the administrative fee to not exceed Four Percent (4%) of the total amount transferred in a financial year. The administrative fees is to be applied towards funding administrative expenses for the Program. (Exhibit 062; Financial statements for 2017 and 2018)

Table 36: Administrative Fees

Financial Year	Amount received	Administrative Fees @ 4%	Amount incurred as per Financial statement	Variance
	A	B = 4% A	C	D= B-C
2016/2017	400,000,000	16,000,000.00	17,831,808	(1,831,808.00)
2017/2018	2,961,525,853	118,461,034.12	19,736,200	98,724,834.12
Total	3,361,525,853	134,461,034.12	37,568,008	96,893,026.12

Weak Internal Controls

3.2.82 The audit team noted that NHIF has weak internal controls while processing of claims, which can lead to payment of fictitious or duplicate claims. The sampled claims examined by the audit team revealed weak internal controls as summarized below and detailed in APPENDIX XXXVI: (Exhibit 070; Sample claims showing weak internal controls)

- a) The same birth notification was used to support two different claims totaling to Kshs.11,000
- b) Service entitlement is not defined in the system as demonstrated with the same beneficiary receiving antenatal and postnatal services in the same week
- c) NHIF doesn't not independently verify all births before making payment
- d) The approved reimbursement rates for a healthcare providers are not defined in the system to avoid payment of claims above the reimbursement rates
- e) The same M number was used to raise 2 different claims for normal deliveries

Physical verification of selected accredited hospitals for Linda Mama Programme

3.2.83 The audit team sampled and visited 17 NHIF branches and 48 facilities spread across the country. The sampled facilities included public, private and faith based facilities as detailed in APPENDIX XXXVII. The main purpose for visiting the branches and the facilities was in order for the audit team to understand how they were implementing the Linda Mama program, how much had been paid and was outstanding under the program and the challenges they were facing while implementing the program.

3.2.84 The following issues were identified from documents reviewed from the sampled NHIF branches and health care facilities.

Amount Paid and Outstanding

3.2.85 A review of the Linda utilization reports provided by the sampled NHIF branches and generated from their system showed that for the period under review, NHIF had processed 156,609 Linda Mama claims for the 48 sampled facilities amounting to Kshs.1,191,272,689 out of this, a total of Kshs.803,671,431 was paid while Kshs.387,601,258 was outstanding as detailed in APPENDIX XXXVIII. (Exhibit 071; Linda Mama utilization reports from sampled branches)

3.2.86 The audit team further requested the 48 sampled facilities to provide the amount outstanding for the Linda Mama program from inception of the program to the time of the audit. The total amount outstanding was Kshs.625,384,650. The audit team noted that the facilities had outstanding payments for 2017, 2018 and 2019 as summarized in the table below and detailed in Appendix XXXIX. (Exhibit 072; Reports on amount outstanding from sampled facilities)

Table 37: Amount Outstanding as per the Healthcare Facilities

Period	Number of Hospitals	Amount Outstanding (Kshs)
2017	3	180,280,500
2018	3	4,183,250
2019	23	440,910,900
Not availed	25	-
Total		625,374,650

- 3.2.87 According to the NHIF branch managers and hospital administrators in the sampled offices and facilities, the explanation given for the long outstanding claims was that NHIF had not received disbursement from the Ministry of Health for the Linda Mama program. However, the audit team noted that NHIF had invested Kshs.1,500,000,000 in a fixed deposit on 10 July 2018 with a maturity date of 10 January 2019. Upon maturing, NHIF invested the Kshs.1,500,000,000 again in a fixed deposit to mature on demand. In addition, on 15 February 2019, NHIF further invested Kshs.800,000,000 in a fixed deposit to mature on demand. A review of the bank statement as at 31 March 2019, revealed that the total amount of Kshs. 2,300,000,000 was still in a fixed deposit. **(Exhibit 073; Fixed deposit receipt dated 10 July 2018 and 15 February 2019)** According to the NHIF Act 2012 Section 34(1)(a), “All moneys in the Fund which are not immediately required to be applied for the purposes of this Act shall be invested—(a)in such investment in a reputable bank, being an investment in which trust funds, or part thereof, are authorized by law to be invested”
- 3.2.88 It is not clear why NHIF has invested Kshs.2,300,000,000 of monies meant for the Linda Mama program yet there are outstanding claims due to the facilities for services rendered. It was the responsibility of the NHIF Board, Chief Executive Officer and Director Finance and Investment to ensure that outstanding claims for Linda Mama program were settled before investing in fixed deposit.

Service Entitlement

- 3.2.89 The Ministry of Health wrote a letter ref MOH/ADM/1/1/49 dated 29 January 2018 to NHIF stating that inpatient reimbursements will be at the existing NHIF rebates for the Linda Mama program **(Exhibit 074; Letter reference MOH/ADM/1/1/49 dated 29 January 2018)**. An internal memo dated 11 April 2018 from the CEO NHIF to all regional and branch managers stated that inpatient reimbursement was at the existing NHIF rebate for individual healthcare providers with effect from 1 March 2018 and all facilities offering Linda mama were to be informed of the same. **(Exhibit 075; Internal memo reference HF/CB/12/3/3/(97) dated 11 April 2018)**
- 3.2.90 The audit team noted that 10 of the 48 facilities were not aware of inpatient reimbursement using NHIF rebates. This led to facilities forfeiting inpatient claims incurred.

Reimbursement Rates not approved by Ministry of Health

3.2.91 An internal memo ref HF/ADM/38 VOL.III/1/(27) dated 1 August 2017 set the reimbursement rates as follows: **(Exhibit 048; Internal memo reference HF/ADM/38 VOL.III/1(27) dated 1 August 2017)**

Table 38: Linda Mama Reimbursement Rates

Facility level	Normal delivery rate	Caesarian section rate
Health centers & Dispensaries	Kshs. 2,500	None
Hospitals	Kshs. 5,000	Kshs. 5,000
KNH & MTRH	Kshs. 17,000	Kshs. 17,000

3.2.92 However, we noted that faith based and private facilities detailed in APPENDIX XXXIII were being reimbursed at Kshs.6,000 for normal delivery and Kshs. 17,000 for caesarian section instead of the flat rate of Kshs.5,000 for deliveries as set in the internal memo. This led to overpayment of claims by NHIF. For example, from the sampled claims, NHIF overpaid facilities by Kshs.688,000 as summarized in the table below and detailed in APPENDIX XXXIII. **(Exhibit 068; Sample claims paid above the prescribed rate)**

Table 39: Claims above the Reimbursement Rates

NHIF Branch	Number of Claims	Amount (Kshs)
Eldama Ravine	1	13,000
Eldoret	2	24,000
Eldoret Area Office	1	13,000
Eldoret Area Office	8	96,000
Eldoret Branch	2	62,000
Isiolo	7	84,000
Kabarnet Area Office	9	115,000
Meru Area Office	1	5,000
Moyale	3	36,000
Mumias Area Office	4	48,000
Narok Area Office	13	156,000
Voi	3	36,000
Total	54	688,000

3.2.93 It was the responsibility of Director Finance and Investment Benefits and the respective claims officer to ensure payments were made in accordance with approved rates.

Oversight in signing of contracts

3.2.94 The drafting of contracts between NHIF and the Facilities was outsourced to Muriu, Mungai and Co. advocates. The audit team noted that the signed contracts had various oversights as shown in the table below: **(Exhibit 076; Oversight in signed contracts)**

Table 40: Oversight in Signed Contracts

Oversight	Facility
Omission of the Linda Mama program in the signed contract yet a facility offers the program	Cottolengo Mission Hospital, St. Teresa Riiji Health Center, Coast General Hospital, Tudor Sub-district hospital, Afraha Maternity and Nursing Home, Coptic Nursing Home, Disciples of Mercy Health Centre, Familia Bora Medical Center, Kalyet Clinic Kipkelion, Nakuru Nursing and Maternity Home, Neema Medical Home Limited, Rachar Sugar Belt Nursing Home and Rapha Medical Center Nakuru
Stating the wrong reimbursement rate for the Linda Mama program	A.I.C Litein Cottage Hospital and The Port Florence Community Hospital

3.2.95 It was the responsibility of the Head of Legal Department to ensure that the contracts between NHIF and the health facilities were drafted in accordance to the provisions of the Linda Mama programme.

Challenges experienced by NHIF Branches and Facilities

3.2.96 The NHIF branch managers and Hospital administrators communicated their challenges while implementing the Linda Mama program and the common challenges are listed as follows:

Table 41: Challenges for Linda Mama Program

No.	NHIF Branch	Facilities
1	Lack of equipment and staff in public facilities leading to delay in submitting of Linda mama claims	Lack of equipment and staff in public facilities leading to delay in submitting of Linda mama claims

No.	NHIF Branch	Facilities
2	Delay in payment of claims by the Head office	Delay in payment of claims by NHIF
3	Poor sensitization of citizens on the services offered under the Linda mama program	Poor sensitization of citizens on the services offered under the Linda mama program
4	The manual claim payment process is tedious requiring various documents to be attached	The manual claim payment process is tedious requiring various documents to be attached
5	Facilities are demoralized since monies from reimbursement of Linda Mama claims goes to the County Government hence facilities fail to submit claims	Monies from reimbursement of Linda Mama claims goes to the County Government affecting the going concern/ sustainability of the program
6	Lack of incentive from private and faith based facilities to offer Linda Mama because of the low reimbursement rates	The low reimbursement rate for ANC, PNC and deliveries
7	Network lapses leading to numerous late notification for inpatient cases	Lack of proper guidelines for implementation of the Linda Mama program
8	The Quality Assurance officers are too overwhelmed to conduct surveillance or clinical audit in all the facilities offering Linda Mama	Lack of clear communication structures to address complaints and clarifications for the Linda mama program
9	High staff turnover in facilities requiring regular training of new staff	Need to upgrade the Linda mama program from a basic package to a comprehensive package to include ultrasound, drugs for rhesus negative mothers and investigative tests

3.3 Procurement of Group Life Cover for Civil Servants, National Police Service and Kenya Prison Service.

Preamble

- 3.3.1 On 1 July 2017, the Government of Kenya through the Ministry of Public Service, Youth and Gender Affairs contracted The National Hospital Insurance Fund to provide a comprehensive medical Group life cover and Last expense cover to Civil Servants. The insurance sought was intended for 129,069 Principal members on a family shared basis covering the principal member, spouse and five (5) dependent children aged up to 21 years and a maximum of 25 years if still in school. The contract was for the period 1 July 2017 to 30 June 2018 (Both days inclusive), and thereafter on annual basis for a minimum period of ten years, renewable subject to satisfactory performance. The premium payable was Kshs.3,623,700,000 and the Ministry of Public Service was to make payment of the premiums within 60 days upon receipt of the invoice.
- 3.3.2 The benefits covered under the contract were; in patient cover, emergency air rescue services, outpatient cover, specialized services, maternity cover, optical cover, dental cover, group life cover and last expense cover. **(Exhibit 077; Contract between The Ministry of Public Service, Youth and Gender Affairs and NHIF)**
- 3.3.3 Further, on 1 October 2017 The Ministry of Interior and Coordination of National Government on behalf of National Police Service & The Kenya Prisons Service contracted NHIF to provide comprehensive medical cover for both uniformed and non-uniformed employees of National Police Service and Kenya Prisons Service. The insurance sought was intended for 122,708 Principal members on a family shared basis covering the principal member, spouse and five (5) dependent children aged up to 21 years and a maximum of 25 years if still in school. The contract was for the period 1 October 2017 to 30 September 2019 (Both days inclusive) and to be renewed at the end of the first 12 months, subject to satisfactory performance. The premium payable was Kshs. 4,785,805,560. The National Police Service was to make payment of the premiums within 60 days upon receipt of the invoice.
- 3.3.4 The benefits covered under the contract were; in patient cover, emergency air rescue services, outpatient cover, specialized services, maternity cover, optical cover, dental cover, group life cover and last expense cover. **(Exhibit 078; Contract between The Ministry of Interior and Coordination of National Government and NHIF)**

Procurement Plan and Budget

- 3.3.5 The procurement of a Group Life Cover for Civil Servants, National Police Service and Kenya Prison Service was provided for in the procurement plan for the financial year 2017/2018 at an amount of Kshs. 3,623,700,000 for civil servants' medical scheme and Kshs.3,589,354,170 for National Police Service and Kenya Prisons Service medical schemes. **(Exhibit 079; Annual Procurement plan for FY 2017/2018)**
- 3.3.6 The premium payable was budgeted for and amounts received from both the Ministry of Public Service, Youth and Gender Affairs and the National Police Service is as detailed below: **(Exhibit 080; Annual Budgets for FY 2017/2018)**

Table 42: Budgeted Amount vs. Actual Amount

Description	Budgeted Amount (Kshs)	Amount Received (Kshs)	Variance (Kshs)
Civil Servants Medical Scheme under the Ministry of Public Service, Youth and Gender Affairs	3,623,700,000	3,623,700,000	-
National Police Service and Kenya Prisons Service Medical Scheme	3,589,354,170	4,035,805,560	446,451,390
Total	7,213,054,170	7,659,505,560	

- 3.3.7 According to the contract between NHIF National Police Service (NPS) & Kenya Prison Service (KPS), premium payable was Kshs.4,785,805,560 annually with effect from 1 October 2017 **(Exhibit 078; Contract between The Ministry of Interior and Coordination of National Government and NHIF)**. However, since the contract between NHIF and National Police Service & Kenya Prisons Service was signed 3 months after the financial year 2017/2018 had commenced, the amount payable was for a period of 9 months equivalent to Kshs.3,589,354,170. The difference of Kshs.1,196,451,390 was to be budgeted for in the financial year 2018/2019.

3.3.8 According to the contract agreement between NHIF and The Ministry of Public Service, Youth and Gender and The National Police Service & The Kenya Prisons Service, NHIF was to receive premium amounting to Kshs.8,409,505,560 from the two Government departments, however only Kshs.7,659,505,560 was received as follows: **(Exhibit 081; Disbursement schedule)**

Table 43: Premium Payable vs. Premium Received

Description	Premium Payable	Amount Received (Kshs)	Variance (Kshs)
Civil Servants Medical Scheme	3,623,700,000	3,623,700,000	-
NPS and KPS Medical Scheme	4,785,805,560	4,035,805,560	750,000,000
Total	8,409,505,560	7,659,505,560	

3.3.9 At the time of the audit, there was no evidence that the balance of Kshs.750,000,000 had not been received from The National Police Service & The Kenya Prisons Service yet the contract validity for the first 12 months ended in September 2018.

3.3.10 The Acting Manager Cost and Management Accounting wrote an internal memo dated 6 October 2017 to the Manager Supply Chain Management to commence procurement of a group life and last expense cover for civil servants, National Police and Kenya Prison Service since the then insurance for civil servants provided was expiring on 31 December 2017 **(Exhibit 082; Letter reference HF/ADM/53/VOL II/138 dated 6 October 2017)**. Consequently, a purchase requisition no. 010666 was raised on 6 October 2017 for Group Life Insurance and Last Expense for Civil servants. **(Exhibit 083; Purchase requisition dated 6 October 2017)**

Advertising

3.3.11 Through an internal memo dated 28 September 2017, the NHIF Supply Chain Manager requested the NHIF Chief Executive Officer to approve advertisement of the tender **(Exhibit 084; Internal memo reference HF/PROC/17/3 VOL.I/039 dated 28 September 2017)**. Consequently, Tender number NHIF/017/2017-2018 for Provision of group life cover and last expense for Civil Servants, National Police Service and Kenya Prisons Service for the year 2017/2018 was advertised on the print media (MyGOV) on

Tuesday 10 October 2017 with a closing date of 24 October 2017. (Exhibit 085; Tender advertisement)

Tender Processing

3.3.12 A tender opening committee was appointed vide an internal memo ref HF/PROC/17/3 Vol.II/038 dated 23 October 2017. Members of the tender opening committee are listed in the table below: (Exhibit 086; Internal memo reference HF/PROC/17/3 Vol.II/038 dated 23 October 2017)

Table 44: Tender Opening Committee

	Name	Position	Department
1	George Morara	Chairman	Operations
2	Mary Mutua	Member	Cost and Management Accounting
3	Jacob Mutinda	Member	Strategy
4	Patricia Kariuki	Member	Marketing
5	Ann Kibor	Member	Operations
6	Carol Gesare	Member	ICT
7	David Nyabuti	Secretary	Supply Chain Management

3.3.13 Tenders were opened on as follows; (Exhibit 087; Minutes of tender opening meeting held on 24 October 2017)

Table 45: List of Bidders

S/N	Name of Firm	Amount Quoted (Kshs)
1	M/s UAP Insurance	797,623,500
2	M/s Liberty Life Assurance	836,946,330
3	M/s Britam Life Assurance	836,946,330
4	M/s Gemina Insurance	491,190,400
5	M/s CIC Group	974,992,830
6	M/s Sanlam Life Insurance	783,926,380

S/N	Name of Firm	Amount Quoted (Kshs)
7	M/s Madison Insurance	1,169,482,926
8	M/s APA Insurance	766,946,500
9	M/s Jubilee Insurance	1,259,062,180
10	M/s ICEA Lion Insurance	1,249,872,890
11	M/s Pioneer Insurance	852,284,830

3.3.14 The tender processing committee members were appointed vide an internal memo ref HF/PROC/17/4/Vol. I/100 dated 27 October 2017 as detailed below: **(Exhibit 088; Internal memo reference HF/PROC/17/4/Vol. I/100 dated 27 October 2017)**

Table 46: Tender Processing Committee

Sno.	Name	Position	Department
1	Washington Okoth	Chairman	ICT
2	Daniel Mulinge	Member	Strategy
3	Naito Kitobu	Member	Marketing
4	Stellar Nduku	Member	Operations
5	Christostim Wafula	Member	Finance
6	Maurice Ouma	Secretary	Supply Chain Management
7	Kennedy Wakhu	Secretariat	Supply Chain Management

3.3.15 According to minutes of tender evaluation, during the preliminary evaluation, four bidders were disqualified as follows: M/s Sanlam Life Insurance and M/s Jubilee Insurance were disqualified as a result of not properly filling the tender form; M/s APA insurance was disqualified for providing a wrong tender security while M/s ICEA Lion provided a tender security whose validity period was less than the required amount of 150 days and was also disqualified. The remaining seven bidders proceeded to mandatory evaluation stage. **(Exhibit 089; Tender evaluation report)**

3.3.16 At the mandatory evaluation phase, two bidders' bidders' M/s Geminia Insurance and M/s Madison Insurance were disqualified. M/s Geminia Insurance did not provide a certified CR12 and NSSF compliance certificate while M/s Madison Insurance did not provide certified copies of PIN/VAT certificate, tax compliance and certificate of incorporation. The remaining five bidders proceeded for technical evaluation.

3.3.17 M/s Liberty Life Assurance, M/s CIC Life Assurance, M/s UAP Insurance, M/s Britam Assurance and M/s UAP Insurance proceeded to technical evaluation phase and scored the following marks;

Table 47: Technical Evaluation Scores for Bidders

S/No	Name of Bidder	Marks scored (%)	Remarks
1	M/s UAP Life Assurance Limited	84	Pass
2	M/s Liberty Life Assurance Kenya Limited	72.5	Fail
3	M/s Britam Assurance Company (Kenya) Limited	96	Pass
4	M/s CIC Life Assurance Limited	72.5	Fail
5	Pioneer Assurance Company Limited	93	Pass

3.3.18 M/s Liberty Life Assurance and M/s CIC Life Assurance who both scored 72.5% failed to attain the minimum required technical score of 80% as per the requirements of the tender and were therefore disqualified. The remaining three bidders' M/s UAP Life Assurance Limited, M/s Britam Assurance and M/s Pioneer Assurance Company Limited Insurance met the minimum technical score of 80% and proceeded for financial evaluation ([Exhibit 089; Tender evaluation report](#))

3.3.19 At the financial evaluation stage, financial bids were opened for the three responsive bidders as follows:

Table 48: Financial Evaluation

S/No	Name of bidder	Amount (Kshs)
1	M/s UAP Life Assurance Ltd	797,623,500
2	M/s Britam Life Assurance Company Kenya Ltd	836,946,330

S/No	Name of bidder	Amount (Kshs)
3	M/s Pioneer Assurance Company Ltd	852,284,830

3.3.20 M/s UAP Insurance was disqualified because they used the wrong sum assured of Kshs. 105,979,000,000 for calculation of the premium instead of the correct sum assured of Kshs.121,495,000,000. The use of the wrong sum assured by M/s UAP Insurance was as a result of failure to incorporate the last expense cover for Civil Servants Scheme thereby understating premiums payable. Consequently, two bidders' M/s Britam Assurance and M/s Pioneer Assurance emerged the top two successful bidders.

3.3.21 The preliminary, mandatory, technical and financial evaluation results have been summarized in the table below:

Table 49: Summary of Preliminary, Mandatory, Technical and Financial Evaluation

S/N	NAME OF FIRM	Evaluation Phase	Reason for Rejection
1	M/s Sanlam Life Insurance	Preliminary	Did not properly fill the tender form
2	M/s APA Insurance	Preliminary	Provided wrong tender security
3	M/s Jubilee Insurance	Preliminary	Did not properly fill the tender form
4	M/s ICEA Lion Insurance	Preliminary	Provided a tender security whose validity period was less than the required amount of 150 days
5	M/s Madison Insurance	Mandatory	Did not provide certified copies of PIN/VAT certificate, tax compliance and certificate of incorporation.
6	M/s Gemina Insurance	Mandatory	Did not provide a certified CR12 and NSSF compliance certificate
7	M/s Liberty Life Assurance	Technical	Scored 72.5% which was below required 80%
8	M/s CIC Group	Technical	Scored 72.5% which was below required 80%
9	M/s UAP Insurance	Financial	Used the wrong sum assured to calculate the premium
10	M/s Britam Life Assurance		Awarded the tender
11	M/s Pioneer Insurance		Awarded the tender

3.3.22 The committee further concluded that;

- a) Section 4.4.2 of the tender document provided that *“The insurer MUST have the capacity to underwrite Minimum lead of 40% of the policy awarded, as NHIF SHALL award more than one Underwriter but not more than Three Underwriters considering the Risk involved”*
- b) Based on this requirement, the committee recommended all the remaining two bidders (M/s Britam Life Assurance Company Kenya Ltd and M/s Pioneer Assurance Company Ltd) to be considered on co-insurance
- c) M/s Britam Life Assurance had best technical score compared to Pioneer Life Assurance and therefore Pioneer Life Assurance should confirm agreement with the lead underwriter (Britam Life Assurance)
- d) The policy should be harmonized to include all the benefits from both underwriters by the proposed lead and confirmation of Co-insurance be brought to NHIF.
- e) The premium should be paid to lead underwriter who shall pay premiums out based on percentage of Co-insurance and shall be expected to pay claims as seek reimbursements from the co-insurer

3.3.23 The committee recommended both bidders’ M/s Britam Life Assurance Ltd and M/s Pioneer Life Assurance Ltd be awarded the tender at a contract sum of Kshs.836,946,330 on co-insurance basis at a co-insurance proportion of 52% and 48% respectively. The evaluation committee report did not provide justification on how the proportions were arrived at. The committee further recommended that M/s Britam Assurance having the lower premium of Kshs.836,946,330 be the Lead Underwriter. **(Exhibit 089; Tender evaluation report)**

3.3.24 The tender documents for the bidders were said to be in custody of the Directorate of Criminal Investigations and were therefore not available for review. We could not therefore confirm the assertion by the tender processing committee that section 4.4.2 of the tender document provided that *“The insurer MUST have the capacity to underwrite Minimum lead of 40% of the policy awarded, as NHIF SHALL award more than one Underwriter but not more than Three Underwriters considering the Risk involved”*. The decision to co-insure was based on this provision of the tender document.

Tender Award

- 3.3.25 In a letter ref HF/PROC/VOL.II/341 dated 17 November 2017, the Manager Supply Chain Management issued a professional opinion to the Chief Executive Officer recommending award of the tender to M/s Pioneer Insurance and M/s Britam Assurance on coinsurance at a premium of Kshs.836,946,330 (Exhibit 090; Internal memo reference HF/PROC/VOL.II/341 dated 17 November 2017). On 21 November 2017, the Chief Executive Officer approved award of the tender to M/s Britam Life Assurance Company (Kenya) at 52% being the lead underwriter and Pioneer Assurance Company Limited at 48% as co-insurer at a total premium of Kshs.836,946,330. (Exhibit 090; Internal memo reference HF/PROC/VOL.II/341 dated 17 November 2017).
- 3.3.26 On 5 December 2017, NHIF sent notification of award to M/s Britam Life Assurance and M/s Pioneer Assurance Company vide letter ref HF/C/814 VOL.XXVIII/261. Furthermore, notification letters were sent to the unsuccessful bidders on 5 December 2017. (Exhibit 091; Letter reference HF/C/814 VOL.XXVIII/261 dated 5 December 2017)

Contract

- 3.3.27 A contract between NHIF, M/S Britam Life Assurance and M/S Pioneer Assurance was signed on 8 January 2018 commencing date being 1 January to 31 December 2018 at a contract sum of Kshs.836,946,330 inclusive of VAT. According to the contract, the Lead insurer M/s Britam Life Assurance, was to be paid the premium and apportion the respective premium to the co-insurer, M/s Pioneer Assurance Company. (Exhibit 091; Contract between NHIF and Britam Life Assurance and Pioneer Assurance)
- 3.3.28 The contract stipulated that 50% of the sum shall be paid in advance upon signing of the contract and remaining 50% shall be paid thereafter.

Public Procurement Administrative Review Board

- 3.3.29 A request for review was lodged by M/s CIC Life Assurance Limited to Public Procurement Administrative Review Board on 15 January 2018 against the award of the tender for the provision of Group Life Cover and Last Expense for Civil Servants, National Police Service and Kenya Prison Service to M/S Britam Life Assurance and M/S Pioneer Assurance on co-insurance basis at a contract sum of Kshs.836,946,330. (Exhibit 092; Public Procurement Administrative Review Board decision)

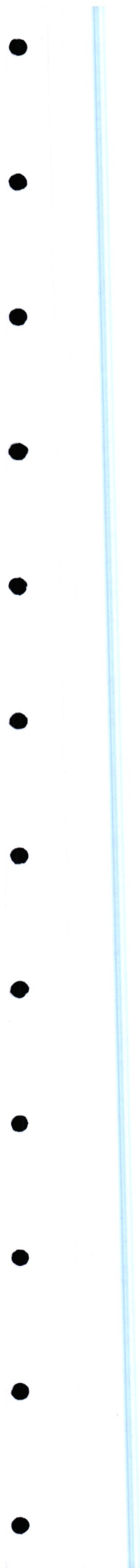
- 3.3.30 According to Section 67 (1) of the PPADA, 2015; a tenderer who claims to have suffered a risk or damage due to the breach of a duty by a procuring entity may seek administrative review within 14 days of notification of award. NHIF sent notification letters on 5 December 2017 yet CIC Life Assurance sought administrative review on 15 January 2018. The appeal was made 24 working days after notification of the awards.
- 3.3.31 On 2 February 2018, the Review board nullified the award of the tender to M/s Britam Life Assurance Company and M/s Pioneer Assurance Company Limited. Furthermore, the Review board directed NHIF to award the tender in question to the lowest evaluated bidder , M/s UAP Life Assurance Limited at its tender sum of Kshs.797,623,500 within a period of 7 days from the date of the review boards decision. **(Exhibit 092; Public Procurement Administrative Review Board decision)**

Court Decision

- 3.3.32 Following the decision of the Public Procurement Administrative Review Board, M/s Britam Life Assurance Company Ltd and Pioneer Assurance Company Ltd sought judicial review on 12 February 2018.
- 3.3.33 The court ruled on 4 July 2018 that the orders of the Public Procurement Administrative Review Board and all the consequential orders arising there from be annulled and/or set aside. The orders further prohibited and/or restrained NHIF from awarding the tender and/or signing any contract with M/s UAP Life Assurance Limited as ordered by the Board. **(Exhibit 093; Court ruling)**

Payment

- 3.3.34 According to clause 34.16 of the contract agreement, 50% of the contract sum was to be paid in advance on signing of the contract and the remaining 50% paid thereafter.
- 3.3.35 On 9 January 2018, M/s Britam Assurance sent a debit note no. BAI/DR/001 to NHIF amounting to Kshs.418,473,165 being first 50% installment. Consequently, NHIF paid the full amount of Kshs.418,473,165 on 11 January 2018 vide payment voucher 0489950. The final 50% instalment of Kshs.418,473,165 was paid vide payment voucher number 0508539 on 13 July 2018. **(Exhibit 094; Payment vouchers for Britam Life Assurance Company Ltd)**



CONTACTS

Office of the Auditor-General


Address: P.O. Box 30084-00100, NAIROBI.

Telephone: +254 796 52 85 60

E-mail: info@oagkenya.go.ke

Website: www.oagkenya.go.ke

 @OAG_Kenya

 Office of the Auditor-General Kenya