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By Hon A Oduke (KMD)  
Date 12/11/13 (PRO)*



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# KENYATTA NATIONAL HOSPITAL

## ANNUAL REPORTS AND FINANCIAL STATEMENTS

### 2013 / 2014

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



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*Patricia Laid*  
*By Hon. A. Sukahe (KMD)*  
*On Thurs. 12.11.15 (P.M)*



### Vision

A world class patient-centered specialized care hospital

### Mission

To optimize patient experience through innovative healthcare; facilitate training and research; and participate in national health policy.

### Strategic Results

Competitiveness in service delivery | Innovative health care | Service excellence

Operational Excellence

Excellence in clinical outcome

Customer centric

### Core Values

Customer focus

Teamwork

Employee empowerment

Professionalism & integrity

Equity and Equality

Environmental safety

### Motto

We Listen, We Care.

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## I. | KEY HOSPITAL INFORMATION AND MANAGEMENT

### a) Background information

The Hospital is domiciled in Kenya and was established under the State Corporations Act as per Legal Notice No. 109 of 6th April 1987.

### b) Principal activities

Receiving of patients on referral; facilitating medical education and research and participating as a national referral hospital in National health planning.

### c) Key Management

The Directors who served the Hospital during the year were as per the table of the Board of Directors on page (v).

### d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were as per the table of management team on page vii.

### e) Fiduciary Oversight Arrangements

Board Meeting

Committees of the Board

(i). Clinical Research and Ethics

(ii). Human Resource Committee

(iii). Finance Committee

(iv). Risk and Audit Committee

(v). Corporate Strategy committee

### f) Kenyatta National Hospital Headquarters

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

### g) Contacts

Tel: +254 20 2726300, +254 20 2726550

Fax: +254 20 2725272

Email address: knhadmin@knh.or.ke

Website : www.knh.or.ke

## **h) Bankersw**

1. National Bank of Kenya Limited  
Hospital Branch,  
P. O. Box 30763 – 00100,  
Nairobi, Kenya.
2. Kenya Commercial Bank Limited  
Moi Avenue Branch  
P. O. Box 30081 - 00100  
Nairobi, Kenya w
3. Equity Bank Limited  
Equity Centre Branch  
P.O. Box 75104 – 00200  
Nairobi, Kenya

## **i) Independent Auditors**

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

## **j) Principal Legal Adviser**

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

## II. | THE BOARD OF DIRECTORS



Mrs. Margaret Wanjohi  
Chairperson

Born in 1944, Mrs. Wanjohi served as a teacher for 30 years, 22 years of which as Senior Principal of Kenya High School. She was a Commissioner in the Public Service Commission of Kenya for 5 years, 3 years of which as Deputy Chairman. A Director of Starehe Girls' Centre and a Trustee of the Presbyterian University of East Africa and of New Life Home Trust.

Mrs. Wanjohi holds a degree in Biological Sciences and Diploma in Education.

She retired as a KNH board member on 19th July 2013.

Born in the year 1954, Prof. Kibwage is the Principal, College of Health Sciences University of Nairobi, Professor of Pharmaceutical Chemistry in 2000, he previously served as Lecturer in the Department of Pharmacy.

A fellow in Pharmaceutical Chemistry, Prof. Kibwage holds a Doctorate in Pharmaceutical Sciences (Pharmaceutical Chemistry); Masters in Pharmaceutical Sciences (Pharmaceutical Analysis); Bachelor of Pharmacy.



Prof. Isaac O. Kibwage  
Principal, CHS



Ms. Mary W. Mungai  
Non-Executive Director

Born in 1966, Ms. Mungai is the Managing Director of Northern Corridor Transit Services, Director, East Gate Apartments Limited and the Chief Executive Officer, Puma Holdings Limited and Best freight Conveyors Ltd.

Ms. Mungai holds a Diploma in Clearing and Forwarding and a Bachelors degree in Business Administration.

She resigned as a KNH board member on 6th May 2014.



Dr. Hellen G. Mbugua  
Representative, Ministry of Health

Born in 1980, Dr. Hellen served as a Pharmacist for 4 years in various District Hospitals.

She was the Deputy Head of E-health & CPD in the Ministry of Health in the year 2007, Assistant Director of Medical Services 2008 and currently the head of International Health Relations Unit in the Ministry of Health.

Dr. Mbugua holds a Bachelor of Pharmacy and a Masters in Business Administration.



Dr. Charles Olang'o Onudi  
Director, KMTC

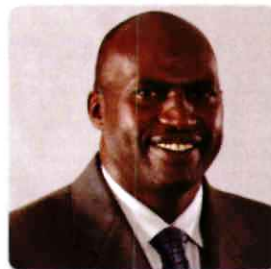
Dr. Onudi is the Director of Kenya Medical Training College, previously served as Provincial Medical Officer in various provinces within the country for 11 years. Formerly, Deputy Director of Medical Services, Ministry of Health.

Dr. Onudi holds a Bachelor of Medicine and Surgery degree from the University of Nairobi and a Masters degree in Public Health from Royal Tropical Institute.

Born in 1970, Mr. Mpario is currently the Executive Director of Oloisukut Conservation Limited and Managing Director of Wild Wind Balloon Safari.

He was a Resident Anthropologist for Pasanaura Tented Camp, Laikipia. Former Manager of Wandiki Cultural Centre and Museum, Divisional Coordinator, Transmara Development programme/ GTZ. Previously, Executive Director of Maasai Reto Conservation Programme.

He holds a Bachelor's degree in Arts (Anthropology).



Mr. Jackson K. Mpario  
Non-Executive Director



Mr. Lawrence O. Omire  
Non-Executive Director

Mr. Omire was born in 1959, currently, the Chairman of Creative Consolidated Systems Limited. He has over 18 years experience in supply chain management having worked in various senior positions in Sony Sugar Company Limited. Mr. Omire holds a Diploma in Purchasing and Supply.

Born in 1950, Mr. Abdille was a Deputy Administrative Officer in the County of Wajir. Served as the Clerk to the County Council of Marsabit.

He was an Integrity Assurance Officer in US-Head Division of Health Care Financing. Mr. Abdille holds a Diploma in Development Administration, a certificate in Land Surveying and a certificate in Mechanical Engineering.



Mr. Ibrahim M. Abdille  
Non-Executive Director



Ms. Lily Koros - Tare  
Chief Executive Officer

Born in 1973, Ms Koros previously served as the Director – Management services at the Commission for Implementation of the Constitution. Formerly, Hospital Administrator at AIC Litein Hospital and Moi Teaching and Referral Hospital.

Ms. Koros holds a Postgraduate Diploma (International Leadership in Hospital Management); Bachelor of Commerce degree in Administration and an Executive MBA (Finance)



Dr. Achola Okeyo Pala  
Non-Executive Director

Dr. Pala was born in 1946 and currently serves as a Global Adviser to the Huairou Commission. Previously, she was the Chief, Africa Section in the United Nations Development Fund for Women (UNIFEM).

Dr Achola is a Senior Research Fellow, Institute for Development Studies University of Nairobi. Formerly, Principal Scientist and Head of the Social Science Programme at the International Centre of Insect Physiology and Ecology (ICIPE).

Dr. Pala holds a B.A. (Hons) degree in Sociology and Literature; two Masters Degrees in Social Anthropology and Education and a PhD in Anthropology



### III. | MANAGEMENT TEAM



**Dr. Simeon Monda**  
Deputy Director, Clinical Services  
MMED Surgery  
MBChB  
Fellowship in Urology  
Diploma in urology



**Lily Koros Tare** Chief Executive Officer  
Executive MBA finance  
Option  
MBA Health Management  
BCOM Administration  
Post graduate diploma in international leadership in hospital management



**Mr. Carylus Odiango**  
Deputy Director, Finance & Administration  
MBA  
Executive MBA  
CPA(K) & CPS (k)  
BCOM (Accounting option)



**Dr. Bernard Githae**  
Senior Assistant Director, Surgical Services  
MMED (Surgery)  
MBChB  
Egyptian Society Of Plastic And Reconstructive Procurement In The 21st Century



**Mrs. Philomena Maina**  
Deputy Director, Nursing Services  
BSc In Nursing  
CPS ( K )  
Diploma In Advanced Nursing  
Kenya Registered Midwifery  
Kenya Registered Nurse  
Diploma In Public Health



**Mr. Michael Kihuga**  
Senior Assistant Director, Finance  
MBA (Executive)  
Bachelor Of Education  
CPA (K)  
CPS(K)



**Dr. Henry Kioko**  
Senior Assistant Director, Private Wing  
MMED (Internal Medicine)  
MBChB



**Mrs. Joyce K. Ongayo**  
Ag. Senior Assistant Director, Human Resource & Administration  
MBA  
Bachelor Of Arts  
CPS(K)  
Advanced Training In Personnel Mgt



**Dr. Elizabeth Odera**  
Senior Assistant Director, Diagnostic Services & Health Information  
MMED (Pathology)  
MBChB



Mrs. Ludmila Shitakha  
Senior Assistant Director,  
Corporate Support Services  
MA (Economics)  
BA. Philosophy (Econ)  
Masters In International  
Health  
Performance Contract  
Women Gender &  
Development



Mr. Calvin Nyachoti  
Senior Assistant Director,  
Corporation Secretary  
Masters In Law  
Bachelor Of Law  
Diploma In ICT



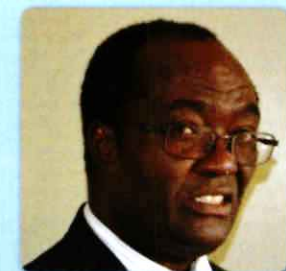
Eng. Richard Binga  
Senior Assistant Director, Technical  
Services  
BSC In Mechanical Engineering  
Diploma In Project Planning &  
Management  
Maintenance Mgt In The  
Tourism & Hospitality  
Team Building & Culture  
Change



Mr. Erick O. Otieno  
Senior Assistant Director, Risk  
and Audit  
MBA Corporate Mgt  
BCOM Accounting Option  
CPA(K)  
CPS (K)



Mrs. Rose K. Mugambi  
Senior Assistant Director,  
Supplies chain management  
MBA Strategic Management  
Bachelor Of Science  
Diploma In Purchasing &  
Supplies  
Gender Training And Audit  
Workshop



Dr. Thomas Mutie  
Senior Assistant Director, Medical  
Services  
MSc (Gastroenterology)  
MMED (Internal Medicine)  
MBChB  
Postgraduate Tropical  
Medicine  
EAACE



Dr. Evanson Kamuri  
Senior Assistant Director, Special  
Programmes  
MSc( Clinical Dermatology)  
MBChB  
Mgt Devpt Prog for managers  
in health



Dr. Godfrey Ombuya  
Senior Assistant Director,  
Pharmaceutical & Nutritional  
Services  
Bachelor Of Pharmacy

## IV. | CHAIRPERSON'S STATEMENT

It is with great pleasure that I present the Hospital Annual Financial Report for the year ended June 30, 2014. The report presents an overview of the General performance of the Hospital in relation to its mandate.

As one take a look at disease pattern globally and the accelerating effects of globalization, there is a huge gap in healthcare delivery. We are now impressed to reorganize our specialized healthcare services to conform not only to the global trend but also in line with the devolved administrative systems of the Government.

Kenyatta National Hospital represents the hope and aspirations, deep within the heart of every individual and of the over 40 million Kenyans who depend on this Hospital for specialized healthcare.

The importance of strategic planning cannot be overemphasized. The environment within which Kenyatta National Hospital (KNH) operates is always changing and continues to offer new opportunities and challenges. Therefore a focused strategic direction is critical to enable the Hospital succeed in achieving its targeted goals. This is the rationale that has guided the development of the new Strategic Plan 2013-2014. Successful performance can only be judged through demonstrated realization of our mandate, optimizing customers experience and achieving good business performance. The Strategic Plan therefore has been developed to enable KNH achieve service excellence and become globally competitive.

It is gratifying to note that KNH has been able to meet and surpass expectations by providing best-in-class treatment outcomes, combined with tender loving care to patients within the limited resources.

However, I still believe that the journey has just begun and the country needs to build a pipeline of professional talent comprising doctors, nurses, other paramedics and management professionals. I may not be very off the mark, if I state that the demand-Supply gap is more aggravated now than when KNH was established or than in the last five years.

In line with our mission, we continue to deliver clinical excellence on par with the world's best benchmarks by adopting cutting-edge treatment technologies. Our commitment to advanced patient care has helped us put in place the transplantation program which has indeed been boosted by collaboration with University of Barcelona of Spain. We have also undertaken initiatives such as the minimally invasive surgery, neurosurgery and in collaboration with our partners, we will further strengthened our focus on establishing centers of Excellence in cancer treatment and kidney transplantation.

We have also been at the forefront of shaping healthcare sector policy indirectly through numerous suggestions to various governments over the years. The suggestions have been appreciated by all governments, and some of them received legislative support.

KNH continues to be recognized by industry bodies, customers and media for its multi-dimensional healthcare excellence, receiving several awards and accolades during the year. The year ahead will witness further impetus to our key pillars of Patient Care Excellence, Clinical Excellence and Value Excellence, to bring the best of technical and clinical advances for the benefit of customers.

We have also initiated significant transformation initiatives that would further set us up to achieve balanced growth with a view to tap the upper and middle class patients by revamping our Prime Care Centre. This will be supported by well established network of Corporate Outpatients Services.

The hopes and expectations of millions of Kenyan will be our focus to nature and satisfy. Furthermore, our eyes are focused to ensure KNH offer medical treatment for visitors who travel from abroad through medical tourism. Therefore, we welcome more players to share the responsibility of addressing the humongous un-served demand for quality healthcare.

We have simultaneously accelerated our focus on Preventive Healthcare. The challenge to keep Kenya fit has become the personal quest of every healthcare provider, every administrator and indeed every citizen.

We will continue to strive for the welfare and satisfaction not only of patients but also our most important resource; the staff. On behalf of the KNH fraternity and the leadership team, I want to thank the Board of Directors, the Government, employees, partners, and each shareholder for their support and commitment. I look forward to your continued support.

**Board member**

Sign  \_\_\_\_\_

**Date 16/06/2015**



## VII. | REPORT OF THE CHIEF EXECUTIVE OFFICER

Kenyatta National Hospital we are dedicated to helping each patient experience a lifetime of good health. Guided by our new vision “A world class patient-centered specialized care hospital” defines the compassion of our highly skilled and devoted caregivers that truly defines our hospital. Their commitment to advancing the state of the art in medicine and approach to care has earned the trust of patients and their loved ones over the years.

We are passionate to make quality health care accessible to all Kenyans and beyond through our expansive network of physicians, specialized departments, day care surgery, Accident and Emergency, cancer treatment care and pediatric specialty as well as orthopedic, rehabilitation and mental health services.

These are initiative by the management to tap opportunities and mitigate challenges ahead in the light of increasing demand and competing priorities in healthcare. Recognizing the decreasing funding from donors and the Government, we will continue to engage our friend and partners through resource mobilization to support our efforts in the provision of quality healthcare.

### The Constraints

In keeping with our mission to provide high-quality healthcare services and embrace the requirement of the constitution, KNH is burdened by emergence of disasters that indeed overstretch the limited resources because many victims do not pay for medical services. Over the year, the hospital has handled more than ten disasters accounting for over 300 victims.

The National Insurance scheme though beneficial to the client has created financial challenge as a result of the scheme arrangement in relation to the benefits the hospital accrues from the scheme. Huge losses have been arising mostly from Contract General & Maternity, Civil Servants & disciplined service from Job group A-M. The current rebate is Kshs 6,000 & 18,000 for spontaneous vertex delivery and caesarean section. This contract also covers all the specialized care services such as critical care Cancer treatment and renal services. The hospital is paid a rebate of 2,400 per day per patient. The average cost for specialized service such as critical care unit is kshs.35, 000 per day.

Additionally, the Hospital provides a broad range of healthcare for mother under the free maternity. While the reimbursement is on flat rate of Kshs.17, 500, some of the deliveries complicate requiring specialized services escalating the expenses beyond the amount payable per clients. The reimbursement also delays by between two to three months. This is not to mention the high numbers of mothers who overstretch the available facilities as well as the limited workforce.

### Culture of Quality and Customer Service

It is our conviction that complexity can be translated. Central to this is the belief that it is our job to reclaim the health of our patients and improve their wellbeing. In collaboration with friends and partners we have extended our services to less fortunate through various medical projects and outreaches. Through these initiatives, we are able to empower the public and patients to make better decisions with better information and have confidence in the choices they make on their health. Never dictating and certainly never preaching, we uphold a simple commitment “We listen, we care.”

Healthcare, like all disciplines, require a multidisciplinary approach for success. Our preference is to work with patients and relatives in order to build trust and efficiency. This initiatives with

will be informed and guided by regular customer feedback received at various customer care desks and patients' centered guidelines which we are putting in place.

The application of quality management systems have demonstrate that it's better when employees are empowered to find better ways of doing things – and that empowerment begins with confidence; to be passionate about eliminating clutter and waste, where fewer layers amount to greater simplicity. We have trained senior staff on strategic management to create a team that would guarantee resource management and prepare sound succession plan. It is expectation that the team will manage our Hospital responsibly and maintain higher performance on behalf of our many stakeholders.

As we prepare for the opportunities and challenges ahead, we will continue to make decisions based on the needs of our patients and the community. Kenyatta National Hospital recently introduced a General Outpatients services for walking patients in order to decongest Accident and Emergency. This was a deliberate plans to form a new health care system that we believe has the potential to transform the way care is delivered, and allows us to continually improve the health status of Kenyans.

Our goal is nothing less than to be the best hospital in the country and beyond. We are pursuing our goal by following one basic belief: always put the needs of patients first.

We have also maintained a two way communication with our clients through maintaining customer feedback tool, provision of customer care desks and training staff various departments on customer care and communication.

Kenyatta National Hospital management recognizes staff as the most priceless resource to ensure sustainable healthcare services. We appreciate their efforts and it is for this reason that we developed and continue to implement a sound human resource manual that guides our relations, motivation and value their efforts. Such initiatives include but not limited to the retirement benefit scheme for the employees that is jointly funded by the hospital and the employees.

During the year, KNH won the Manager of the year Award during the Company of the year awards (COYA). Dr. John Ong'ech, Assistant Director Reproductive Health was a great inspiration to the hospital. The hospital also won Maktaba Award for establishing the first hospital based library to cater for pediatric patients.

## Hospital developments

The journey of transformation initiated along 2012 has shown some remarkable outcome in systems improvement, patients' care as well creating an enabling environment as a great place to work impacting positively on staff morale.

The Cardiac Rehabilitation which helps hundreds of patients each year was rehabilitated and equipped with ultramodern catheterization lab. This facility has reassured cardiovascular ail patients of efficient and reliable services as well as comprehensive approach to preventing heart disease and reducing future cardiac disease.

Kenyatta National Hospital proudly offers nationally recognized spine Fusion and Total Joint Replacement programs, both of which have been certified to many trauma patients who have been involved in road traffic accident. In providing care across a continuum, our services include assessment, treatment and rehabilitation, as well as preventative care.

From a quality perspective, the facility, maintained ISO 9001:2008 Certificate and enrolled for the Joint Commission Accreditation. I am also very excited to report that our specialists successfully sustained kidney transplant in both adults and children with over 100 patients

benefiting over the year. The rewards of all our efforts give hope beyond today's advances and living life to its fullest beyond tomorrow.

The hospital has witnessed tremendous developments in the last financial year, to begin with is the refurbishment of children oncology ward 1E by the Jewish Society in Kenya, pediatrics ward 3D was also renovated at a cost of KES 3 million courtesy of the outgoing Israeli Ambassador. A similar renovation of Blood Transfusion Unit (BTU) was supported by Dr. Frank Njenga's family at a cost of over 4 million.

We have made progress on the project to put up a Bunker for linear accelerator. It is hoped that the International Atomic Energy Agency (IAEA) and the Government will continue to support this project to completion.

While proving facilities for training as part of the key objective, KNH introduced an avenue to promote specialized healthcare both locally and within the region. Over the year, 198 nurses graduated with various post basic higher diploma certificates in specialized nursing offered by Kenya National Hospital (KNH). The graduands included critical care, peri-operative, nephrology, accident and emergency and neonatal nursing.

The administration block has also been painted and now portrays a better image of the hospital; the acquisition of more dialysis machines has also enabled the hospital to handle even more dialysis patients.

I would like to thank all the stakeholders, donors, Board of Management, Kenya National Hospital staff and clients and I encourage us to keep working together to achieve our vision.

**Lily Koros Tare**

**Chief Executive Officer**

**Sign**

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

**Date 16/06/2015**

## VI. | CORPORATE GOVERNANCE STATEMENT

Corporate governance refers to the principles, processes and practices by which an organization is operated, regulated and controlled so as to fulfill its goals and objectives in a manner that adds value and benefits all its stakeholders.

The Board of Management of Kenyatta National Hospital is responsible for the Hospital's governance. Both the Board and senior management of the Hospital are committed to the highest levels of corporate governance, which it considers critical in achieving the Hospital's mandate. Accordingly, the Hospital therefore fosters a culture that values and rewards the highest ethical standards and personal and corporate integrity.

### The Role of the Board

The Board's responsibilities are broadly set out in the State Corporations Act, Cap.446 Laws of Kenya as well as the Legal Notice No.109/1987 that constitutes the Hospital as a state corporation. Specifically, the Board defines the Hospital's strategies, objectives and values and ensures that its procedures and practices are in tandem to ensure effective control over strategic, financial, operational and compliance issues.

The Directors bring a wealth of experience and knowledge to the Board's deliberations. Except for direction and guidance on general policy, the Board delegates authority of its day-to-day activities to the Management through the Chief Executive Officer. The Board nonetheless is responsible for the overall stewardship of the Hospital and assumes responsibility for effective direction and control.

### Composition of the Board

The Board comprises eleven (11) Directors including the Chief Executive Officer. Six of the Directors are independent non-executive directors including the Chairman. All non-executive Directors retire after a term of three (3) years from the date of appointment and are eligible for re-appointment, excepting the Chief Executive Officer, the remaining four (4) Directors are institutional representatives bringing on Board closely-knit interests, experiences and balance from and by key Hospital stakeholders.

The Chief Executive Officer is the Secretary to the Board and its Committees. However, with the consent of the Board, these functions have been delegated the Corporation Secretary who as the custodian of corporate governance within the institution, works closely with the Board, its Committees and the Hospital Management. In this regard, the Corporation Secretary facilitates all directors to have full and timely access to all relevant information, ensures that the correct board procedures are followed convenes meetings and advises the Board on all corporate governance matters and prevailing statutory requirements.

### Board Meetings

The Board schedule of meetings is prepared annually in advance. The Board holds its regular meetings at least once every three (3) months and special meetings may be called when necessary. During the year under review, the Board held four (4) regular and ten (10) special meetings.



## Committees of the Board

The Board has the following principle Committees that meet under defined terms of reference set by the Board. This is intended to facilitate efficient decision-making of the Board in discharging its duties and responsibilities.

### Risk and Audit Committee

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

### Clinical Research and Ethics

The Committee's mandate is to ensure the Hospital's healthcare system in general is functional. Specifically, the Committee's responsibilities include identifying health care service problems in the hospital and ensuring that they are resolved; review any changes on policy issues on standards, quality assurance and research; liaise with the Medical Advisory Committee (MAC) on matters of quality health care delivery; and undertake comprehensive quarterly evaluation of standards, quality assurance programs in the Hospital based on health professional's handbook on quality management in health care in Kenya.

### Human Resource Committee

The Committee reviews and provides recommendations on issues relating to all human resource matters including career progression, performance management, training needs, staff recruitment, staff placement, promotions, demotions, discipline, and staff welfare. The Committee held four (4) regular meetings and thirteen (13) special meetings in the year under review.

### Finance Committee

The Committee assists the Board fulfilling its oversight responsibilities relating to the Hospital's finance, information and technology, procurement and related activities. The Committee held four (4) regular meetings in the year under review.

### Corporate Strategy and Enterprise

The Committee reviews Hospital policies in general and looks into avenues on how the Hospital can raise funds, makes investment decisions and forges partnerships/linkages; reviews, assesses and advises of the Hospital medium and long term business strategies; reviews the Hospital strategic plan and focuses on strategic objectives that are business oriented. The Committee held three (3) regular meetings in year under review.

## Board Accountability

### Performance Contract

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

### Risk Management

The Board is implementing an integrated approach to risk management, also referred to as Enterprise Risk Management (ERM), with the objective of managing identified business and operational risks in a structured manner.

### Training and Development

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

### Conflict of Interest

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

### Directors Emoluments

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

**Lily Koros Tare**

**Secretary to the Board**

Sign



**Date 16/06/2015**

## VII. | CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Kenyatta National Hospital is committed to providing healthcare services to the public and communities we serve. The Hospital has continued to initiate formal Corporate Social Responsibility (CSR) through conducting outreaches to deliver services to needy members of the community.

During the year, KNH reach attended to over 3000 patients through outreach and screened over 5000 members of the public for various diseases. These helped to identify community needs and opportunities for collaborative partnerships. In addition, almost twenty researches were conducted in health specialty and over ten papers were presented in international scientific forums.

Kenyatta National Hospital also provides care to all regardless of ability to pay. In 2013/14, the Hospital incurred over KES 7 million debts given as credit to financially challenged patients majority who will never afford to pay.

In keeping with our mission, KNH is proud to partner with both local community associations as well as nationally recognized organizations to offer a broad range of specialized healthcare and education outreach programming. The Diagnostic department in collaboration with cancer treatment centre and Eco Bank facilitated screening of over 3000 Kenyans on breast, cervical and prostate cancer and offered free medical treatment for radio and chemotherapy for more than 50 patients.

The Diabetes and Endocrine Center professionals in collaboration with partners provided interdisciplinary screening to the public in disadvantaged areas such as slums where majority are financially challenged to afford specialized medical services. This allows patients to conveniently access the entire team in one location, ensuring a holistic care and long-term relations with the public and promotion of corporate image.

Similarly Operation ear drop project helped needy patients to reclaim the hearing capacity of the children. The team operated more than thirty years for children who have congenital and acquired hearing defects.

The team also train about ten (10) Kenyan doctors and a Rwandese, with a view to impact knowledge and skills as well as evaluate the new technology to conduct complicated ear surgery.

In collaboration with specialist from United Kingdom, Medical and Educational Aid to Kenya (MEAK), KNH cardiologists continued to restore health of children with congenital heart defects. A three year old boy was among over 30 children who received successfully open heart surgeries from the project.

The level of dedication and participation from people from all over is simply proof that KNH will continue to touch so many lives. We are excited to see what kinds of unique healthcare activities the dedicated staff have given to needy Kenyans who were hopeless and at the point of despair.

**Lily Koros Tare**

**Chief Executive Officer**

Sign \_\_\_\_\_



**Date 16/06/2015**

## VIII. | REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the Hospital affairs.

### Principal activities

Receiving of patients on referral; facilitating medical education and research and participating as a national referral hospital in National health planning.

### Results

The results of the Hospital for the year ended June 30, 2014 are set out on page 1.

### Directors

The Board of Directors who served during the year is shown on page iv.

### Auditors

The Auditor General is responsible for the statutory audit of the Hospital in accordance with the Constitution Cap.229 Section 4(b).

### By Order of the Board

**Lily Koros Tare**

**Secretary to the Board**

Sign

A handwritten signature in black ink, appearing to read 'Lily Koros Tare', is written over a horizontal dashed line. The signature is stylized and cursive.

**Date 16/06/2015**

## IX. | STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Hospital's financial statements, which give a true and fair view of the state of affairs of the Hospital for and as at the end of the financial year ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Hospital; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Hospital; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board of Directors accept responsibility for the Hospital's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standard (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Hospital's financial statements give a true and fair view of the state of Hospital's transactions during the financial year ended June 30, 2014, and of the Hospital's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Hospital, which have been relied upon in the preparation of the Hospital's financial statements as well as the adequacy of the systems of internal financial control.

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

### Approval of the financial statements

The Hospital's financial statements were approved by the Board on 29th September 2014 and signed on its behalf by:

  
-----  
**Director**  
-----  
**Director**

-----  
**Director**

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-Mail: [oag@oagkenya.go.ke](mailto:oag@oagkenya.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR GENERAL ON KENYATTA NATIONAL HOSPITAL FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenyatta National Hospital as set out on pages 1 to 34 which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provision of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Articles 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessments of the risks of

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

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

## **Basis for Qualified Opinion**

### **1.0 Inventories**

As similarly reported in 2012/2013, the inventories balance of Kshs.324,851,000 as at 30 June 2014 excludes deficits and surpluses amounting to Kshs.1,370,795 and Kshs.3,335,700 respectively. Although a Board of enquiry to investigate the cause of this deficits, surpluses and obsolescence had been established and the report submitted in September 2014, the adjustments had not been effected in the inventories balance of Kshs.324,851,000 as at 30 June 2014.

Consequently, and as in the previous years, the validity and accuracy of the inventories balance of Kshs.324,851,000 as at 30 June 2014 could not be ascertained.

### **2.0 Receivables from Exchange Transactions**

2.1 As previously reported in the year 2012/2013, the receivables from exchange transactions balance of Kshs.1,018,659,000 as at 30 June 2014 includes receivables from institutional debtors, individual debtors, Ministry of Health (WB) and temporary imprest amounting to Kshs.170,284,869, Kshs.2,428,854,702, Kshs.2,467,265 and Kshs.2,720,311 respectively which have been outstanding for a considerably long period of time. Similarly, the balance of Kshs.1,018,659,000 include Kshs.375,311,730, Kshs.3,061,110, Kshs.132,324 and Kshs.26,210,154 all totalling Kshs.404,715,318 for NHIF, RD cheques, Rojeans Café and rent respectively which have been outstanding for more than one year. Although a provision for bad and doubtful debts of Kshs.3,613,457,000 has been made for individual debtors (main hospital) and Kshs.144,568,000 for other receivables from the Ministry of Health, the recovery in full of these debts is doubtful.

2.2 The balance of Kshs.1,018,659,000 also includes amounts of Kshs.450,152,154 due from National Hospital Insurance Fund (NHIF). However the financial statements of NHIF as at 30 June 2014 showed an

amount of Kshs.82,411,250 was owing to the Hospital. The resultant difference of Kshs 367,740,904 between the two figures has not been reconciled or explained as at 30 June 2014

- 2 3 The balance of Kshs.1,018,659,000 also includes prepayments totalling Kshs.31,733,575 relating to supply contracts for three firms in the amounts of Kshs.15,792,611, Kshs 2,213,309 and Kshs.13,727,655. As similarly observed in the previous year, the first prepayment is in dispute while the second one is under investigation. The third pre-payment relates to micro filming project at the hospital which had not been completed as at 30 June 2014.
- 2 4 The balance of Kshs.1,018,659,000 similarly includes an amount of Kshs.96,361,633 in respect of letters of credit issued by the Hospital to foreign based firms for supply of various goods and services. As in the previous year, the goods and services have not been recognized and accounted for in these financial statements.
- 2 5 Included in the receivables balance of Kshs.1,018,659,000 is Kshs.23,684,480 being an amount paid by Kenyatta National Hospital on behalf of Monarch Insurance Company in respect of claims under staff superannuation scheme for period December 2005 to September 2007. The payment was authorized at a Kenyatta National Hospital Board's special meeting of 30 January 2014 and the money was to be refunded to hospital thereafter. However, as at the time of the audit, the money had not been refunded and the management has not indicated when the same will be refunded.

In the circumstances, and in the absence of any other information to the contrary, it has not been possible to confirm the validity and accuracy of the receivables from exchange transactions balance of Kshs.1,018,659,000 as at 30 June 2014

### **3.0 Property, Plant and Equipment**

- 3.1 As reported in 2012/2013, the property, plant and equipment balance of Kshs 11,726,762,000 as at 30 June 2014 includes 4 parcels of land with a total of 0.6862 hectares valued at Kshs 50,600,000 which have been excised and allocated to other parties. Further, the property, plant and equipment balance of Kshs.11,726,762,000 also includes three (3) parcels of land with a total of 4 471 hectares valued at Kshs 329,000,000 whose ownership status is contested between Kenyatta National Hospital, Kenya Medical Training College and National Quality Control Laboratory.
- 3.2 Land registration number LR/No 209/13978 valued at Kshs.220 million and measuring 2 544 hectares has a title deed but the land is jointly owned by Kenyatta National Hospital, Kenya Medical Training College and



the University of Nairobi. It is not clear why the parcel should be shown as if it is wholly owned by the hospital.

In the circumstances, it has not been possible to ascertain the ownership status of the parcels of land in dispute, and that the balance of Kshs.11,726,762,000 as at 30 June 2014 is fairly stated.

#### **4.0 National Hospital Insurance Fund (NHIF) Loss**

4.1 Included in the general expenses of Kshs.2,074,480,000 for the year ended 30 June 2014 is National Hospital Insurance Fund (NHIF) loss of Kshs.347,941,000 (2013: - Kshs.323,843,000). The loss is net of rebate received from the NHIF and the amount the Hospital spent in the treatment of NHIF members. According to information available, the Hospital entered into a contract with NHIF in August 2008 to treat NHIF members at a rebate rate of Kshs.2,400 for inpatient care per day. However, the contract expired in August 2010 and had not been renewed as at 30 June 2014. Information available in the contract document indicate that the contract provided for a variation for the rate of rebate depending on quality management reports and increase of scope of services. However, this rebate rate has remained the same despite the continued losses.

In the circumstances, it has not been possible to confirm the propriety of this particular expenditure/ loss amounting to Kshs.347,941,000 for the year ended 30 June 2014.

#### **4.2 Free Maternity Loss**

The general expense of Kshs.2,074,480,000 also include a loss of Kshs.133,900,000 occasioned by the free maternity services offered by the hospital as per the letter ref. ACC/FCM HS/1/ 28A dated 1 April 2014 from the Cabinet Secretary, Ministry of Health which communicated the decision by the Government to reimburse an amount of Kshs.17,500 per delivery. However, Kenyatta National Hospital being a referral hospital receive complicated maternal referrals, and as a result the costs are higher and the reimbursable amount of Kshs.17,500 has remained the same despite the high costs. The hospital will therefore continue to incur losses if the reimbursable amounts are not reviewed.

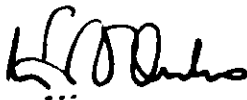
### **5. Borrowings**

As previously reported, the borrowings balance of Kshs.1,199,863,000 as at 30 June 2014 relates to a loan received in 2007/2008 from the Kingdom of Spain, in form of medical equipment. According to information available, the loan was payable by the Hospital at an interest rate of 3% per annum on a reducing balance for the first six (6) years and thereafter, the interest plus principal for the next nine (9) year with effect from 1 July 2008. However and according to records seen, no interest has been paid or accrued in the six financial years

since year 2008/2009. Although indications are that the management has sought assistance from the Ministry of Health towards settlement of the loan, response from the ministry was not availed for audit review. As a result, it has not been possible to confirm the accuracy of the loan and that the long term liability balance of Kshs 1,199,863,000 as at 30 June 2014 is fairly stated

### **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly in all material respect the financial position of the Hospital as at 30 June 2014 and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards and comply with the Kenyatta National Hospital Board Order 1987.



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

**Nairobi**

**22 June 2015**

## XI. | STATEMENT OF FINANCIAL PERFORMANCE

	Note	2014 Kshs. `000	2013 Kshs. `000
<b>Revenue from non-Exchange transactions</b>			
Grants from National Government	2	7,590,338	5,809,361
Grants for donor funded projects	3	220,925	160,375
Public contributions & donations	4	5,539	16,783
		<b>7,816,802</b>	<b>5,986,519</b>
<b>Revenue from Exchange transactions</b>			
Rendering of services	5	3,857,703	3,322,717
Rental revenue from facilities	6	136,334	167,905
Finance income - external investments	7	141,156	73,549
Other income	8	82,180	72,234
		<b>4,217,373</b>	<b>3,636,405</b>
<b>Total Revenue</b>		<b>12,034,175</b>	<b>9,622,925</b>
<b>Expenses</b>			
Clinical cost	9	1,363,151	1,154,798
Employee Costs	10	7,929,473	6,001,637
Board Expenses	11	18,486	19,798
Depreciation and amortization expenses	12	460,142	437,819
Repairs and maintenance	13	175,341	155,253
General expenses	14	2,074,480	1,606,683
Donor funded Projects expenses	15	220,925	160,375
<b>Total expenses</b>		<b>12,241,998</b>	<b>9,536,362</b>
<b>Other gains/(losses)</b>			
Gain/(loss) on sale of asset	16	(5,421)	95
<b>Surplus/(Deficit) for the period</b>		<b>(213,243)</b>	<b>86,658</b>

## XII. | STATEMENT OF FINANCIAL POSITION

		2014	2013
	Note	Kshs. `000	Kshs. `000
<b>Assets</b>			
<b>Current Assets</b>			
Cash & cash Equivalents	17	1,607,239	1,571,458
Receivable from exchange transactions	18	1,018,659	1,139,805
Receivable from non- exchange transactions	19	525,844	484,113
Inventories	20	324,851	278,455
		<b>3,476,593</b>	<b>3,473,832</b>
<b>Non-Current Assets</b>			
Property, Plant & -Equipment	21	11,726,762	11,685,532
		11,726,762	11,685,532
		<b>15,203,355</b>	<b>15,159,364</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables from exchange transactions	22	859,123	985,367
Refundable deposits from customers	23	20,022	32,097
Provision for leave pay	24	109,544	110,000
Non-current employee benefit obligation	25	310,830	310,830
Differed income	26	67,508	65,000
		<b>1,367,027</b>	<b>1,503,294</b>
<b>Non-Current Liabilities</b>			
Borrowings	27	1,199,863	1,199,863
		<b>2,566,890</b>	<b>2,703,157</b>
<b>Net Assets</b>			
Capital Reserves		12,636,465	12,456,208
Accumulated Fund		4,111,045	3,717,545
Revaluation Reserve		(673,932)	(460,689)
		9,199,351	9,199,351
		<b>15,203,355</b>	<b>15,159,364</b>

The Financial Statements set out on pages 1 to 28 were signed on behalf of the Board of Directors by:



Chief Executive Officer

Date 16/06/2015



Chairperson of the Board

Date 16/06/2015

## XIII. | STATEMENT OF CHANGES IN NET ASSETS

	<b>Capital Reserves</b> <b>Kshs.'000</b>	<b>Accumulated Fund</b> <b>Kshs.'000</b>	<b>Revaluation Reserve</b> <b>Kshs.'000</b>	<b>Totals</b> <b>Kshs.'000</b>
<b>Balance as at 30th June 2012</b>	3,257,946	(547,346)	9,199,351	11,909,950
(Deficit)/Surplus for the year		86,658		86,658
Capital adjustment(Grant-development)	459,600			459,600
<b>Balance as at 30th June 2013</b>	<b>3,717,545</b>	<b>(460,689)</b>	<b>9,199,351</b>	<b>12,456,208</b>
(Deficit)/Surplus for the year		(213,243)		(213,243)
Capital adjustment(Grant-development)	393,500			393,500
<b>Balance as at 30th June 2014</b>	<b>4,111,045</b>	<b>(673,932)</b>	<b>9,199,351</b>	<b>12,636,465</b>

## XIV. | STATEMENT OF CASHFLOWS

		<b>2014</b>	<b>2013</b>
	Note	Ksh.'000	Ksh.'000
<b>Cash Flows from Operating Activities</b>			
Net Surplus/(Deficit) For The Year		(213,243)	86,658
Adjusted For: -			
Depreciation	12	460,142	437,819
Investment Income	7	(141,156)	(73,549)
Grant Projects	3	(220,925)	(160,375)
Profit/ Loss on disposal of fixed asset	16	5,421	(95)
Operating Deficit Before Working Capital Changes		<b>(109,761)</b>	<b>290,458</b>
(Increase) / Decrease In Stock		(46,396)	(70,716)
(Increase) / Decrease In Trade Receivables		79,416	(728,070)
Increase / (Decrease) In Trade Payables		(138,319)	680,157
Increase / (Decrease) In Deferred Income		2,508	(74,338)
Increase / (Decrease) In Provision for Leave pay		(456)	
Net Cash Outflow From Operating Activities		<b>(213,008)</b>	<b>97,490</b>
<b>Cash Flows From Investing Activities</b>			
Purchase Of Fixed Assets	21	(397,695)	(319,007)
(Increase) / Decrease In Work In Progress	21	(110,471)	56,722
Proceeds from sale of fixed assets		1,373	278
Investments Income		141,156	73,549
Increasing in Capital reserves		393,500	459,600
Net Cash Outflows From Investing Activities		<b>27,864</b>	<b>271,142</b>
<b>Cash Flows From Financing Activities</b>			
Projects Grants		220,925	160,375
Net Cash Inflows From Financing Activities		<b>220,925</b>	<b>160,375</b>
(Decrease)/Increase In Cash and Cash Equivalents		35,781	529,007
Cash and Cash Equivalents at the beginning		1,571,458	1,042,451
<b>Cash and Cash Equivalents at the end</b>		<b>1,607,239</b>	<b>1,571,458</b>

## XV. | STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference
	2014	2014	2014	2014	2014
	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000
<b>Recurrent Budget</b>					
<b>Revenue</b>					
Grants from National Government	7,587,460	2,879	7,590,338	7,590,338	
Grants for donor projects	200,000		200,000	220,925	20,925
Public contributions & donations				5,539	5,539
Rendering of services	4,124,104		4,124,104	3,857,703	(266,401)
Rental revenue from facilities	191,952		191,952	136,334	(55,618)
Finance income - external investments	20,000		20,000	141,156	121,156
Other income	108,944		108,944	82,180	(26,764)
Gain on sale of asset				(5,421)	(5,421)
<b>Total Income</b>	<b>12,232,459</b>	<b>2,879</b>	<b>12,235,338</b>	<b>12,028,755</b>	<b>(206,583)</b>
<b>Expenditure</b>					
Clinical Costs	2,145,035	22,379	2,167,413	1,363,151	(804,262)
Employee Costs	7,587,460	11,929	7,599,388	7,929,473	330,085
Board Expenses	23,440	(3,440)	20,000	18,486	(1,514)
Depreciation and amortization	509,568		509,568	460,142	(49,427)
Repairs and maintenance	272,061	(67,400)	204,661	175,341	(29,320)
General expenses	1,494,896	39,411	1,534,307	2,074,480	540,173
Donor Projects Expenses	200,000		200,000	220,925	20,925
<b>Total Recurrent Expenditure</b>	<b>12,232,459</b>	<b>2,879</b>	<b>12,235,338</b>	<b>12,241,998</b>	<b>6,659</b>
<b>Surplus/(Deficit)</b>				<b>(213,243)</b>	<b>(213,243)</b>
<b>Capital Budget</b>					
Funding					
GoK Development/ Capital Grant	630,000	(236,500)	393,500	393,500	-
Internal savings		200,568	200,568	200,568	-
<b>Total Funding</b>	<b>630,000</b>	<b>(35,932)</b>	<b>594,068</b>	<b>594,068</b>	<b>-</b>
Capital Expenditure	630,000	(35,932)	594,068	550,708	(43,360)
<b>Under/(Over) utilisation the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,360</b>	<b>43,360</b>

## I. | NOTES TO FINANCIAL STATEMENTS

### Statement of compliance and basis of preparation

The Hospital's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Hospital and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

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

### Summary of significant Accounting Policies

#### a) Revenue recognition

##### i. Revenue from non-exchange transactions

#### Fees

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

#### Transfers from other government entities

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

#### Government grants

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

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Hospital with no future related costs are recognized in the statement of financial performance in the period in which they become receivable.



## ii. Revenue from exchange transactions

### Rendering of services

The Hospital recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

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

### Sale of goods

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

### Interest income

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

### Rental income

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

## b) Budget information

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

## c) Property, plant and equipment

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

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

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

#### d) Intangible assets

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

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

#### e) Inventories

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

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

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

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

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

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

## f) Provisions

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

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

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

## Contingent liabilities

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

## Contingent assets

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

## g) Changes in accounting policies and estimates

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

## h) Employee benefits

### Retirement benefit plans

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

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

### **i) Foreign currency transactions**

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

### **j) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

### **k) Service concession arrangements**

The Hospital analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Hospital recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Hospital also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

### **l) Cash and cash equivalents**

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

### **m) Comparative figures**

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

### **n) Significant judgments and sources of estimation uncertainty**

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

## **i. Estimates and assumptions**

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

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

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

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

## **iii. Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 24.

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

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

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

The estimates are discounted at pre-tax discount rates that reflect current market assessments of the time value of money.

The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance.

The cost of ongoing programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

## **o) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

## **p) Receivables**

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

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

## Notes to the Financial Statements

No.	2014 Kshs.'000	2013 Kshs.'000
2	7,590,338	5,809,361
<b>3</b>		
<b>Conditional grants(Donor funded projects)</b>		
Partners in Advanced Care & Treatment -Centre Of Excellence(PACT-COE)	42,875	68,021
Voluntary Counseling and Testing (VCT)	2,900	7,472
Partners in Prevention Study	77,963	28,248
Hiv Acquisition During and After Pregnancy (HADAP)	79,585	42,254
Couples Against Transmission (CAT) Study	148	-
Prevention of HIV Transmission	3,140	8,911
Assisted Partners notification services	13,968	5,466
Prevention of Mother to Child Transmission (PMCT)	346	3
	<b>220,925</b>	<b>160,375</b>
<b>4</b>		
<b>Public contribution and donations</b>		
Donation-plastic surgery	35	20
Donation Corporate Dinner	25	-
Donations	6	-
Donation to Nutrition Department	1,620	-
Donation Renal	-	12
Donation Orthopedics	-	579
Donation Mosaic Artwork	-	50
Donation Anesthesia	-	30
Donation Patients Food	677	5
Donations to Ward 1E	1	-
Donation to cancer Treatment	1,250	16,087
Donation in kind	1,926	-
	<b>5,539</b>	<b>16,783</b>
<b>5</b>		
<b>Rendering of services</b>		
Cost sharing fee	3,305,921	2,600,754
KPCC revenue	551,782	721,964
	<b>3,857,703</b>	<b>3,322,717</b>
<b>6</b>		
<b>Rental revenue from facilities</b>		
Boarding Fees	3,060	3,303
Rent Income Private Wing	9,000	15,000
Rent from leased properties	27,558	39,391
Government Rent	81,483	94,909
Doctors Suites	8,034	7,956
Income Billboards	1,800	1,945
Bus Park Fees	5,400	5,401
	<b>136,334</b>	<b>167,905</b>

	<b>2014</b>	<b>2013</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>7 Finance income - external investments</b>		
Bank Interest	115,303	64,502
Investment Interest	25,853	9,046
	<b>141,156</b>	<b>73,549</b>
<b>8 Other income</b>		
sale of items/ services	61,272	47,444
seminars and training	20,908	24,790
	<b>82,180</b>	<b>72,234</b>
<b>9 Clinical cost</b>		
X-ray material & Chemicals	40,098	25,520
Lab. Chemicals & Reagents	130,560	73,298
Purchase of Sutures	43,462	39,046
Purchase of Enteral & Nutrition Feed	22,897	22,816
Purchase of Renal Equipment	33,130	34,023
Surgery consumables	193,963	153,536
Purchase of ICU Materials	25,175	21,915
Purchase of Drugs	417,612	354,777
Theatre consumables	27,083	2,984
Purchase of Patients Uniform & Clothing	26,991	22,727
Patients Food	106,769	131,131
Medical Gases	144,384	151,758
Other clinical costs	151,026	121,265
	<b>1,363,151</b>	<b>1,154,798</b>
<b>10 Employee costs</b>		
Personnel Emoluments	7,178,636	5,168,228
Hosp. Cont. Staff Superannuation Scheme	516,981	275,702
Investment Administration Charges	21,557	13,900
Group Life Assurance Scheme	39,929	18,587
Group Personal Accidents	6,702	7,890
Employers contribution to NSSF	12,839	321,749
Staff medical expenses	145,563	184,634
Other Staff Costs	7,267	10,946
	<b>7,929,473</b>	<b>6,001,637</b>
<b>11 Board expenses</b>		
Sitting allowance	7,160	7,660
Monthly allowance - Chairperson	53	640
Taxi	32	28
Mileage	4,188	4,199
Accommodation allowance	2,860	3,063
Technical panelist - Sitting allowance	70	75
Insurance	1,368	1,465
Seminars	2,755	2,667
	<b>18,486</b>	<b>19,798</b>



	<b>2014</b>	<b>2013</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>12 Depreciation and amortization expenses</b>		
Property, plant and equipment	<b>460,142</b>	<b>437,819</b>
<b>13 Repairs and maintenance</b>		
Maintenance of Motor Vehicles	2,200	4,942
Fuel & Lubricants	68	659
Maintenance of Plant & Machinery	18,701	45,591
Maintenance of Radiology & Cardiology Equipment	18,562	19,490
Service Contract for Medical Equipment	61,817	27,656
Maintenance of Buildings	51,721	37,812
Maintenance of Stores ,Buildings and Stations	385	
Service Contract for P & M	16,054	15,052
Maintenance of Office Machines & Equipment	5,833	4,052
	<b>175,341</b>	<b>155,253</b>
<b>14 General expenses</b>		
Boiler fuel Expenses	162,094	155,911
Electricity Expenses	150,251	117,416
Water & Conservancy	74,832	72,021
Audit Fees	1,740	1,740
Telephone, Telex & Teleprint	8,432	8,358
Legal Expenses	5,052	5,954
Computer Consumables	9,669	12,974
Advertising and Publicity	10,689	8,124
Bank Charges	14,124	3,224
Purchase of Stationery	10,359	11,591
Staff Uniform	21,000	4,997
Provision for bad & doubtful debt	740,855	500,930
NHIF Loss	347,941	323,843
Free maternity Loss	133,900	
Stock Change	(42,049)	(78,271)
Insurance	10,013	16,649
Staff training, Research and Development	92,488	82,957
KPCC expenses	199,433	284,954
Other General Expenses	123,658	73,311
	<b>2,074,480</b>	<b>1,606,683</b>
<b>15 Donor funded Projects expenses</b>		
Voluntary Counseling and Testing (VCT)	365	
Partners in Prevention Study(PIPS)	51,425	69,473
Aids Care Treatment Services (ACTS)	5	345
HAART STUDY	258	
Couples Against Transmission (CAT) Study	172	375
Gender Based Violence Recovery Centre (GBVRC)	2,517	5,502
HADAP	8,922	24,502
Partners in Advanced Care & Treatment -Centre Of Excellence(PACT-COE)	103,226	49,176
Fistula Repair Surgery	1,258	222

	<b>2014</b>	<b>2013</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
TOWA	516	3,666
Prevention of HIV Transmission	6,122	564
Assisted partner notification	20,192	5,475
IRIM FUNDING	6,941	1,075
HOPE STUDY	7,656	
TB in HIV infected Women	1,146	
Innovation Maker Project	10,063	
HIV Cascade training prog	142	
	<b>220,925</b>	<b>160,375</b>
<b>16 Gain/ Loss on disposal of non-financial assets</b>		
Property plant and equipment	(5,421)	95
<b>17 Cash and Cash Equivalents</b>		
Bank balances	1,046,978	1,537,820
Cash in Hand	236	4,379
Short term deposits	560,025	29,258
Total cash & cash equivalents	<b>1,607,239</b>	<b>1,571,458</b>
<b>18 Receivable from exchange transactions</b>		
Debtors	4,492,600	3,810,292
Less: Provision	(3,613,457)	(2,872,602)
Prepayments	139,515	202,115
	<b>1,018,659</b>	<b>1,139,805</b>
<p>Included in Debtors is Kshs. 23,684,480 relating to amount paid to KNH staff superannuation scheme (defined benefit scheme) on behalf of Monarch Insurance Company as per board resolution in its special meeting held on 30th January 2014. This amount relates to GAP &amp; Group life claims for KNH staff death claims insured under Monarch Insurance Company for the period 1/12/2005 - 30/09/2007.</p>		
<b>19 Receivable from non- exchange transactions</b>		
Grant receivable	670,412	628,681
Less: Provision	(144,568)	(144,568)
	<b>525,844</b>	<b>484,113</b>
<b>20 Inventories</b>		
Inventories	329,726	278,455
Less: Obsolete stock	(4,875)	
	<b>324,851</b>	<b>278,455</b>

21 Property, Plant & -Equipment

	Freehold Land	Freehold Building	Plant, Machinery & Medical Equipment	Motor vehicles	Furniture and fittings	Computers, copiers and faxes	Capital work in progress	Total
Cost	Kshs.' 000	Kshs.' 000	Kshs.' 000	Kshs.' 000	Kshs.' 000	Kshs.' 000	Kshs.' 000	Kshs.' 000
<b>At 1 July 2012</b>	<b>4,014,600</b>	<b>6,701,438</b>	<b>3,478,072</b>	<b>56,148</b>	<b>229,220</b>	<b>66,321</b>	<b>137,060</b>	<b>14,682,859</b>
Additions		4,440	150,539	10,359	3,804	12,806	80,338	262,285
Disposals				(1,370)				(1,370)
Transfers/adjustments		35,378	64,998		36,684		(137,060)	
<b>At 30 June 2013</b>	<b>4,014,600</b>	<b>6,741,256</b>	<b>3,693,608</b>	<b>65,137</b>	<b>269,708</b>	<b>79,127</b>	<b>80,338</b>	<b>14,943,773</b>
Additions		8,000	75,814		370	2,558	421,424	508,165
Disposals			(14,665)	(2,280)	(33)	(6)		(16,984)
Transfers from WIP			203,599	32,800	1,908	72,646	(310,953)	
<b>At 30 June 2014</b>	<b>4,014,600</b>	<b>6,749,256</b>	<b>3,958,357</b>	<b>95,657</b>	<b>271,953</b>	<b>154,325</b>	<b>190,808</b>	<b>15,434,955</b>
Depreciation								
At 1 July 2012		918,647	1,708,351	43,304	117,771	33,536		2,821,609
Depreciation		145,565	253,807	5,770	19,000	13,677		437,819
Disposal 2012/2013				(1,187)				(1,187)
<b>At 30 June 2013</b>		<b>1,064,213</b>	<b>1,962,158</b>	<b>47,886</b>	<b>136,771</b>	<b>47,213</b>		<b>3,258,241</b>
Depreciation		142,126	256,516	12,465	16,900	32,135		460,142
Disposals			(8,113)	(2,052)	(20)	(6)		(10,190)
At 30 June 2014		1,206,339	2,210,561	58,299	153,651	79,343		3,708,193
<b>NBV At 30 June 2014</b>	<b>4,014,600</b>	<b>5,542,917</b>	<b>1,747,796</b>	<b>37,357</b>	<b>118,302</b>	<b>74,982</b>	<b>190,808</b>	<b>11,726,762</b>
<b>NBV At 30 June 2013</b>	<b>4,014,600</b>	<b>5,677,043</b>	<b>1,731,450</b>	<b>17,250</b>	<b>132,937</b>	<b>31,914</b>	<b>80,338</b>	<b>11,685,532</b>

	<b>2014</b>	<b>2013</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>22 Trade and other payables from exchange transactions</b>		
Trade Creditors	812,683	707,792
Accrued Expenses	24,055	19,228
Unpaid Salaries	3,835	2,432
Payroll Remittances	18,550	255,915
	<b>859,123</b>	<b>985,367</b>
<b>23 Refundable deposits from customers</b>		
Rent Deposit	2,207	2,033
Patients Deposit	6,795	19,094
Institutional Deposits	11,020	10,970
	<b>20,022</b>	<b>32,097</b>
<b>24 Provision for leave pay</b>		
Balance at the beginning of the year	110,000	85,401
Leave due at end of the year	208,165	260,915
Leave paid out or utilized during the year	(208,621)	(236,315)
Balance as at 30 June 2014	<b>109,544</b>	<b>110,000</b>
<b>25 Non-current employee benefit obligation</b>		
NSSF arrears	310,830	310,830
<p>NSSF arrears of Kshs. 311 million relate NSSF demand from Kenyatta National Hospital for unpaid contributions for the year 2001 to 2009, the period in which the hospital had applied for exemption to the Minister of Labour after the movement of staff from the central Government. The hospital has not met the obligation of paying the arrears due to budgetary constraints and is in negotiation with the National Treasury with a view of the Government funding the arrears.</p>		
<b>26 Deferred income</b>		
Opening balance	65,000	139,338
Grant received during the year:		
GOK Development	-	-
Donor funded projects	213,750	210,237
Donations in Kind assets	9,683	-
Grant utilized during the year:		
GOK Development	-	(124,200)
Donor funded projects	(220,925)	(160,375)
Closing Balance	<b>67,508</b>	<b>65,000</b>

	<b>2014</b>	<b>2013</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>27 Borrowings</b>	<b>1,199,863</b>	<b>1,199,863</b>

The GoK on 29th July 2005, guaranteed a loan of Euros 14 million (Kshs. 1,199,862,823) received from the Kingdom of Spain in form of medical equipment. The loan was repayable to the Permanent Secretary, Ministry of Finance in fifteen (15) years with a six year grace period by eighteen (18) half year equal installments commencing on 30th June 2013. The credit was to attract a rate of interest of 3.0% per annum on reducing balance payable semi annually on the 30th day of June and on the 30th day of December each year commencing on 30th day June 2008. The hospital has not met the obligation of repaying the loan due to budgetary constraints and is in negotiation with the National Treasury with a view of converting the loan into a capital grant.

## **28 Commitments and Contingencies**

### **a) Commitments**

Commitments as at 30th June 2014 totaled to Kshs. 166 million (2012/2013: Kshs. 583 million) relating to orders planned for supply of capital items that had not been delivered by year end. The funds to pay off the commitments are available and are included in Capital reserves and cash and cash equivalents.

### **b) Kenyatta National Hospital Staff Superannuation Scheme Deficit**

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

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

### **c) Tax Liability**

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

## **29 Pension and other post employment benefit plan**

The hospital operates staff superannuation scheme for its employees. The investments and the scheme's assets are managed by the Investment Manager (Pine bridge & Genesis Kenya Investments) on behalf of the trustees.

## II. | PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Ref. No. on the external audit report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Time frame
1.	<p><b>Inventory</b></p> <p>As similarly reported in 2011/12, the inventories balance of Kshs. 278,456,000 as at 30 June, 2013 excludes deficits and surpluses amounting to Kshs. 13,045 and Kshs. 60,732 respectively. Although a Board of enquiry to investigate the cause of this deficits, surpluses and obsolescence had been established, the results of the investigation have not been made available for audit review and the adjustments had not been effected in the inventories balance of Kshs. 278,455,439 as at 30 June, 2013.</p> <p>Consequently, and as in the previous year, the validity and accuracy of the inventories balance of Kshs.278,456,000 as at 30 June, 2013 could not be ascertained.</p>	<ul style="list-style-type: none"> <li>• The Board of Enquiry (BOE) finalized its report on 1st March, 2014 and the report has now been availed to the Auditor General.</li> <li>• The rough the implementation of HMIS which has an inventory module.</li> <li>• Staff capacity in inventory in inventory management has been improved through training and mentorship.</li> <li>• Where negligence was established appropriate disciplinary action has been taken.</li> <li>• Random checks on various store are how being carried out to ensure prudent management as to accuracy of records and documentation.</li> </ul>	Mrs. R. Njoroge SAD Supply Chain Management	Ongoing	30th June, 2015

Ref. No. on the external audit report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Time frame
2.	<p><b>Trade and other receivables</b></p> <p>i. As reported in 2011/2012, the trade and other receivables balance of Kshs. 1,623,919,000 as at 30 June, 2013 includes receivables from institutional debtors, individual debtors, Ministry of Health (WB) and temporary imprest amounting to Kshs. 168,908,395, Kshs. 2,041,978,997, Kshs.2,467,265 and Kshs.1,140,686 respectively which have been outstanding for a considerably long period of time.</p>	<p>i) The Hospital vide letter reference KNH/ADM/CR151/74 dated 21st April 2011 brought to attention of the Ministry of Medical Services the heavy doubtful debt burden it was bearing and requested for reimbursement of Kshs.1,853,127,172.80 to enable the continual delivery of quality health care. Vide letter reference KNH/ADM/CR/151 dated 7th March 2014 the Hospital requested the Ministry of Health to avail update on its request for authority to write-off the long outstanding debts.</p> <p>Further, Hospital has requested the Government through Ministry of Health vide its letter reference KNH/FIN/88 dated 4th June 2014 for reimbursement of Kshs.2,872,602,011 being medical cost incurred by indigent patients who were not able to pay cost sharing charges at clinical discharge for which provision for bad and doubtful debts was made as at 30th June 2013.</p>	Mr. Kihuga SAD Finance	Ongoing	30th June, 2015

Ref. No. on the external audit report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Time frame
	<p>Similarly, the balance of Kshs.26,210,154.30 all totaling Kshs.516,639,174.70 for NHIF loss, RD cheques, Rejeans Café and rent respectively which have been outstanding for more than one year. Although a provision for bad and doubtful debts of Kshs.2,872,602,000 has been made for individual debtors (main hospital) and Kshs.144,568,000 for other receivables from the Ministry of Health, the recovery in full of these debts is doubtful</p>		<p>Mr. M. Kihuga SAD-Finance/ Mrs. R. Njoroge SAD Supply Chain Management</p>	Ongoing	30th June, 2015
	<p>ii. The balance of Kshs. 1,623,919,000 also includes amounts of Kshs.487,956,316 due from National Hospital Insurance fund (NHIF). However, the financial statements of NHIF as at 30 June 2013 showed that an amount of Kshs.120,552,483 was owing to the hospital. The resultant difference of Kshs.367,403,833 in the financial statements had not been reconciled or explained as at 30 June 2013</p>	<p>The reconciliation process is ongoing, the hospital has already availed details of each claim outstanding to the Fund to enable comparison with their data.</p>	<p>Mr. Kihuga SAD Finance</p>	Ongoing	30th June, 2015



Ref. No. on the external audit report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Time frame
I	<p>iii. The balance of Kshs.1,623,919,000 also includes prepayments totalling Kshs.31,733,575 relating to supply contracts for three firms in the amounts of Kshs.15,792,611, Kshs.2,213,309 and Kshs.13,727,655. As similarly observed in the previous year, the first prepayment is in dispute while to the second one is under investigation. The third prepayment relates to micro filming project at the hospital which had not been completed as at 30 June 2013.</p> <p>iv. The balance of Kshs. 1,623,919,000 similarly includes an amount of Kshs.96,519,385 in respect of letters of credit issued by the Hospital to foreign based firms for supply of various goods and services. As in the previous year, the goods and services have not been recognized and accounted for in these financial statements.</p>	<p><b>a. High Voltage Communications Ltd. - Kshs.15,792,611</b></p> <p>KNH wrote to the firm to refund the advance money paid but High Voltage Ltd declared this as a dispute and in line with clause 12 on special conditions, and clause 22 on general conditions, of the contract the matter was referred for arbitration. The arbitration was finalized on 26/11/2012. The arbitral award was delivered in favor of KNH. However, owing to the fact the other party had not settled their part of the arbitration fee, there was a delay in delivery of the actual ruling. The Hospital is in the process of pursuing recovery as ruled.</p> <p><b>b. Microtec Office Supplies Kshs.2,213,309</b></p> <p>The above firm was awarded the tender to deliver and install microfilming equipment and to microfilm inactive medical records tender KNH/ USAID/T/16/1999 – 2000 dated 6th May, 1999 for a contract sum of Kshs.3,688,848.72. Microtec delivered and installed the requisite microfilming equipment and embarked on the exercise in medical record department from December 1999 as per LSOs issued to them.</p>	Mr. C. Nyachoti SAD-Cooperation Secretary	Ongoing	30th June, 2015

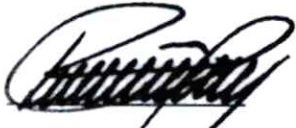
Ref. No. on the external audit report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Time frame
	<p>n the circumstances, and in the absence of any other information to the contrary, it has not been possible to confirm the validity and accuracy of the trade and other receivables balance of Kshs.1,623,919,000 as at 30 June 2013.</p>	<p>The supplier was prepaid 60% but performed 34% of the work. At the time the exercise stalled, 953,152 records had been filmed and 1,954,188 records had not been filmed. The matter is currently under investigation by CID.</p> <p><b>c. Glotex Medical Kenya Ltd. Kshs.13,727,655</b></p> <p>The advance payment was made for supply of nuclear medicine materials. The supplier failed to perform and the Hospital demanded refund of the amount advanced. It has been established through our lawyer that the firm is not registered. The matter is currently under investigation by CID.</p>			
		<p>i) The outstanding letter of credit relates to goods that were received in the Hospital. The verification and identification process has been carried out, relevant documentation will be completed and necessary adjustments will be made in the accounts of 2014/2015.</p>	<p>Mr. M. Kihunga SAD-Fiance/ Mrs. R. Njoroge SAD Supply Chain Management</p>	<p>Ongoing</p>	<p>30th June, 2015</p>
<p>3.</p>	<p><b>Property, Plant And Equipment</b></p> <p>The property, plant and equipment balance of Kshs.11,685,532,000 as at 30 June 2013 includes 4 parcels of land valued at Kshs.50,600,000 which have been excised and allocated to other parties.</p>	<p>Three of the seven parcels of land all fall within the KNH complex and are jointly owned between KNH and Kenya Medical Training College (L.R. No. 209/14269 and L.R. No. 209/114272) and; KNH and National Quality Control Labs (L.R.No.209/11976). Consultations are being held between the parties and the Commissioner of Lands to resolve the issues of ownership.</p>	<p>Mr.C. Nyachoti SAD- Corporation Secretary</p>	<p>Ongoing</p>	<p>30th June 2015</p>

Ref. No. on the external audit report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Time frame
	<p>Further, the property, plant and equipment balance of Kshs.11,685,532,000 also includes 3 parcels of land valued at kshs.329,000,000 whose ownership is contested between Kenyatta National Hospital, Kenya Medical Training College and National quality Control Laboratory.</p> <p>Consequently, it has not been possible to ascertain the ownership status of the parcels of land in dispute, and that the balance of Kshs.11685,532,000 as at 30 June 2013 is fairly stated.</p>	<p>Four parcels belonging to KNH have been encroached by private developers as reported to the Ndung'u Commission. These are as follows:-</p> <ol style="list-style-type: none"> <li>1. LR 209/12767 - 0.2260 Ha - Chal Developers Ltd (Title Issued on 30/09/96).</li> <li>2. LR 209/12822 - 0.1221 Ha - Grace Njoki Gakiria (Title Issued on 06/06/97).</li> <li>3. LR 209/11460 - 0.3164 Ha - Isaac G Wanjohi</li> <li>4. LR 209/13319 - 0.0217 Ha - Margaret Nyakerario Onyango &amp; Petronilla Muli</li> </ol> <p>The hospital Management has been following this issue with the Ministry of Lands and in a letter received by the Hospital ref: ADM1/33 dated 8th February 2012 the Minister confirmed that LR 209/12767 and LR 209/12822 have caveats while files for the remaining two (2) are missing at the registry of lands. The Hospital vide letter ref. KNH/CS/15 vol.1/ (100) dated 12th April 2012 requested the Minister to revoke the two titles with caveats so that they may revert to Kenyatta National Hospital. The Minister was further requested to expedite the tracing of the two remaining files with a view to placing caveat on them. No developments have taken place on these parcels of land.</p>			


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4.	<p><b>National Hospital Insurance Fund (NHIF) Loss Kshs.323,843,000</b></p> <p>Included in the operating and maintenance costs of Kshs.3,543,468,000 for the year ended 30 June 2013 is National Hospital Insurance Fund (NHIF) loss of Kshs.323,843,000. This loss is the net of rebate received from the NHIF and the amount the Hospital spent in the treatment of NHIF members. According to information available, the Hospital entered into a contract with NHIF in August 2008 to treat NHIF members at a rebate rate of Kshs.2,400 for inpatient care per day. However, the contract expired in August 2010 and had not been renewed as at 30 June 2013. Information available in the contract document indicate that the contract provided for a variation for the rate of rebate depending on quality management reports and increase of scope of services. However, this rebate rate has remained the same despite the continued losses.</p>	<p>The NHIF loss arose as a result of contracts signed in 2008 that were skewed in favour of NHIF. The losses that arose have been correctly posted as a charge in the statement of comprehensive income.</p> <p>The Hospital vide letter dated 15/1/2014 notified NHIF that it would cease offering NHIF Clients services unless all outstanding issues between the parties are resolved conclusively and all NHIF medical service contracts are renegotiated. A meeting between the parties took place on Tuesday 28/1/14 where negotiation for the new contract was initiated and is ongoing.</p>	Mr. C. Odiango Deputy Director (F/A)	Ongoing	30th June 2015

Ref. No. on the external audit report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Time frame
	In the circumstances, it has not been possible to confirm the propriety of this particular expenditure/loss amounting to Kshs.323,843,000 for the year ended 30 June 2013.				
5.	<p><b>Borrowings</b></p> <p>As previously reported, the borrowings balance of Kshs. 1,199,863,000 as at 30 June 2013 relates to a loan received in 2007/2008 from the Kingdom of Spain, in form of medical equipment. According to information available, the loan was payable by the Hospital at an interest rate of 3% per annum on a reducing balance for the first six (6) years and thereafter, the interest plus principal for the next nine (9) years with effect from 1 July 2008.</p>	<p>The Government of the republic of Kenya and the Government of the Kingdom of Spain signed a loan agreement on 31st January 2006 for the credit of kshs.1.2 billion that was to be used to finance the supply of medical equipment for KNH. Upon acceptance and commission of the equipment, all the items were capitalized in the KNH books with a corresponding entry being long term debt.</p> <p>There have been several correspondences on this subject matter with the National Treasury with a view of having the loan taken over by the Government. The investment secretary vide letter ref: DGIPE/LOANS/10 dated 3rd May 2012, requested for more details on the loan to facilitate review of the credit terms. The same has been provided vide letter ref: KNH/FIN/278 dated 25th May 2012 and further communication is awaited.</p>	Dr. Kamuri SAD- Special Programmes	Ongoing	30th June 2015
	However and according to records seen, no interest has been paid or accrued in the five financial years 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13. Although indications are that the Management has sought assistance from the Ministry of Health towards settlement of the loan, response from the ministry was not availed for audit review.	The National Treasury vide letter reference DGIPE/P/7/50 dated 4th June 2014 has asked the hospital to make repayment of the due loan arrears Kshs.1,571,355,318.25 composed of Kshs.915,473,184.30 principle amount and Kshs.655,882,133.95 interest therein to be paid by 30th June 2014.			

Ref. No. on the external audit report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Time frame
	As a result, it has not been possible to confirm the accuracy of the loan and that the long term liability balance of Kshs.1,199,863,000 as at 30 June 2013 is fairly stated.	The Hospital in response to the above requested the National Treasury vide letter reference KNH/ FIN/278 dated 13th June 2014 to take over the entire loan citing reasons why the Hospital is not able to repay this obligation. Follow and consultative meetings are in progress with a view to resolving the issue completely.			



**Chief Executive Officer**  
Date 16/06/2015



**Chairman of the Board**  
Date 16/06/2015



Her Excellency the First Lady Margaret Kenyatta visits the new born unit in support of improved quality maternal and neonatal healthcare













KENYATTA NATIONAL HOSPITAL

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



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