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REPORT

THE NATIONAL ASSEMBLY PAPERS LAYD	
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THE AUDITOR-GENERAL

ON

NATIONAL HOSPITAL INSURANCE FUND

**FOR THE YEAR ENDED
30 JUNE, 2021**

ANNUAL REPORT AND FINANCIAL STATEMENTS

nhif

Afya Yetu Bima Yetu

OFFICE OF THE AUDITOR GENERAL
P.O. Box 30084 - 00100, NAIROBI
REGISTRY

24 JUN 2022

RECEIVED

THE NATIONAL ASSEMBLY
DEBTS PAID

30 NOV 2022

DAY.

FOR THE FINANCIAL
YEAR ENDED JUNE 30,
2021

PREPARED IN ACCORDANCE WITH THE ACCRUAL BASIS OF ACCOUNTING
METHOD UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS
(IFRS)

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KEY NHIF INFORMATION

Background information

The National Hospital Insurance Fund (NHIF) is a state corporation established under the National Insurance Fund Act, number 9 of 1998. At cabinet level, NHIF is represented by the Cabinet Secretary for Health who is responsible for the general policy and strategic direction of the Fund.

The National Hospital Insurance Fund headquarters is located in Nairobi and it has Five Directorates namely Financial Services, Beneficiary & Provider Management, Corporate Services, Information & Communication Technology and Internal Audit. The Organization has its operations decentralized in seventy one branch offices spread across the six regional offices namely; Nairobi, Central, Western, Coastal, North Eastern and Rift Valley.

Principal Activities

The Fund is mandated to facilitate access to quality healthcare through registration of members, collection of contributions and payment of claims arising from services rendered to members in all accredited healthcare facilities across the country.

The functions of NHIF are: -

- i) Receive all contributions and other payments required by this Act to be made to the Fund.
- ii) Make payments out of the Fund to declared hospitals in accordance with the provisions of this Act.
- iii) In consultation with the Minister, to set the criteria for the declaration of hospitals and to declare such hospitals in accordance thereto for the purposes of this Act.
- iv) Regulate the contributions payable to the Fund and the benefits and other payments to be made out of the Fund.
- v) Protect the interests of contributors to the Fund.
- vi) Advise the Minister on the national policy to be followed with regard to national health insurance and to implement all Government policies relating thereto.
- vii) Perform such other functions as are conferred on it by this Act or by any other written law.

Our core mandate is to provide healthcare financing to all its members and their declared dependants (spouse and children), who contribute either as employed or self-employed. Membership is open to all Kenyans who have attained the age of 18 years and have a monthly income of more than KES. 1,000.00.

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Our Vision

World Class Universal Social Health Insurer

Our Mission

To contribute towards universal health coverage in the provision of affordable, accessible, sustainable and quality health insurance through strategic resource pooling and healthcare purchasing in collaboration with stakeholders

Our Core Values

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

- Customer Responsiveness
- Ethics and Professionalism
- Innovation and Creativity
- Partnerships and Collaborations
- Team Spirit
- Corporate Social Sustainability

Customer Service Charter

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

- ❖ Treating with courtesy and respect
- ❖ Upholding professionalism in serving
- ❖ Providing quality service
- ❖ Being accessible
- ❖ Providing accurate, relevant, timely and clear information
- ❖ Being responsive to customer needs and expectations
- ❖ Monitoring and evaluating customer satisfaction levels
- ❖ Handling all customer information with utmost confidentiality
- ❖ Upholding ethics in a corruption free environment

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Other Key Information of the Fund

Registered Office/ Headquarters

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

Corporate Contacts

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

Chief Executive Officer

Dr. Peter Kamunyo
P.O. Box 30443, 00100
Nairobi.

Ag. Corporation Secretary

Ms Janet Boit
P.O. Box 30443-00100
Nairobi

Corporate Bankers

National Bank of Kenya

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

Co-operative Bank of Kenya

Parliament Road Branch
P.O Box 5772-00200
Nairobi, Kenya

Kenya Commercial Bank

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

Equity Bank Limited

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

Independent Auditors

Auditor General

Anniversary Towers,
University Way
P.O. Box 30084, GPO 00100
Nairobi, Kenya

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Principal Legal Advisers

The Attorney General

State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

Kithure Kindiki & Associates

Annex C, 6th Floor, Tetezi Towers
P.O. Box 38077-00100, Nairobi

KTK Advocates

4th Floor, Kemu Towers
P.O. Box 10176-00100, Nairobi

Munyao Muthama Kashidi Advocates

Chaka Place, 3rd Floor ("TCA")
P.O. Box 24482-00100, Nairobi

MMC Africa Law

MMC Arches, Spring Valley Crescent
P.O. Box 75362-00200, Nairobi

Robison Harris Advocates

Transnational Plaza, 6th Floor
P.O. Box 67845-00200, Nairobi

Ogetto Otachi & Company Advocates

Sifa Towers, 7th Floor
P.O. Box 79438-00200, Nairobi

Waweru Gatonye & Company Advocates

Timau Plaza, 4th Floor
P.O. Box 55207-00200, Nairobi

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THE BOARD OF MANAGEMENT

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

The Board members who served the entity during the period 2020/2021 were as follows:

NAME	TITLE/ REPRESENTING	DATE OF APPOINTMENT	EXPIRY OF APPOINTMENT
Hon. Lewis Nguyai	Chairman	22 nd April 2021	21 st April 2024
Dr. Peter Kamunyo Gathege	Chief Executive Officer	14 th April 2020	13 th April 2023
Ms. Susan Mochache, CBS	PS Ministry of Health	1 st Nov 2019	31 st Oct 2022
Dr. Isabella Maina	Alternate Member, PS Ministry of Health	22 nd Sept 2020	21 st Sept 2023
Mr Samuel M. Arachi, CBS, OGW, ndc(k)	Alternate Member, PS Ministry of Public Service Youth & Gender	4 th March 2019	3 rd March 2022
Mr. Joseph M. Kamau	Alternate Member, CS National Treasury	16 th May 2016	15 th May 2022
Dr. Jared Nyakiba	Alternate Member, DG Ministry of Health	18 th Sept 2020	17 th Sept 2023
Hon. Roba Duba	Central Organisation of Trade Unions	9 th May 2019	8 th May 2022
Mr. Wycliffe Omucheyi	Kenya National Union of Teachers	9 th May 2019	8 th May 2022
Mrs. Rachel M. Monyoncho	Federation of Kenya Employers	9 th May 2019	8 th May 2022
Dr. Jacqueline Kitulu	Kenya Medical Association	30 th Nov 2018	29 th Nov 2021
Mr. Latiff Shaban	Faith Based Healthcare Organisations	30 th Nov 2018	29 th Nov 2021

Other members who served the entity during the period 2020/2021 include the following:

NAME	TITLE/ REPRESENTING	DATE OF APPOINTMENT	EXPIRY OF APPOINTMENT
Ms. Hannah W. Muriithi, EBS	Chairlady	18 th April 2018	17 th April 2021
Dr. Mercy Mwangangi	Alternate Member, DG Ministry of Health	17 th March 2020	17 th Sept 2020
Dr. Andrew Toro	Alternate Member, PS Ministry of Health	17 th March 2020	22 nd Sept 2020

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Detailed information of members of the Board of Management are as follows:

Name	Academic Qualifications
 Hon. Lewis Nguyai Chairman	Date of Birth: 15th April 1964 <u>Qualifications</u> • Global Executive MBA - United States International University • Degree Name Bachelor of Arts (BA) - University of Nairobi <u>Work Experience</u> • Jan 2017 - Date: Chairman, Finance Plan Limited • Oct 2015 - Oct 2018: Director / Chairman of Finance, Investment and Strategy, LAPFUND
 Dr. Peter Kamunyo Gathege Chief Executive Officer	Date of Birth: 20th December 1971 <u>Qualifications</u> • Master of Science (MSC) degree in Public Health - University of London, England • Bachelor of Medicine & Bachelor of Surgery - University of Nairobi • Postgraduate Diploma in Sexually transmitted infections and HIV Management - University of Nairobi • Certificate of Proficiency in Insurance - Kenya College of Insurance <u>Work Experience</u> • April 2020 - Date: Chief Executive Officer, NHIF • Sept 2017 - March 2020: Chief Executive Officer - MedSource Group Limited • 2019 - 2020: Board Member - Kenya Coordinating Mechanism • 2016 - 2020: Board Member - East Africa Healthcare Federation • 2015 - 2020: Board Member - Kenya Healthcare Federation
 Mr Joseph M. Kamau Alternate Member / CS National Treasury	Date of Birth: 1970 <u>Qualifications</u> • Master's Degree in Economics (Financial Sector Policy) • Master of Business Administration - Finance • Bachelor's Degree in Economics and Mathematics • Certified Financial Analyst - FA 00273

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Ms Susan Mochache, CBS
PS Ministry of Health

Date of Birth: 1973

Qualifications

- Master of Science (MSC) in Communications Management, University of Strathclyde
- Bachelor of Science, International Business

Work Experience

- **2019 to Date:** Principal Secretary, Ministry of Health in the Government of Kenya
- **2015 to 2019:** Principal Secretary in the Ministry of Labour, Social Services and East Africa Affairs.
- **2005 to 2015:** Assistant Director Universal Service Obligation and Funding



Dr. Isabella Maina
Alternate Member / PS
Ministry of Health

Date of Birth: 27th December 1970

Qualifications

- Ph.D. in Public health (Ongoing)
- Master's Degree in public Health (UON)
- Diploma in Health systems management (Galilee)
- Post graduate Diploma-management of sexually transmitted infections (UON)
- Fellowship Health systems management (Mahidol)
- Bachelors Dental Surgery (UON)

Work Experience

- **2019 to date:** Head, Division of Healthcare Financing, Ministry of Health
- **2017 to 2019:** Deputy Head, Universal Health Coverage, Coordination Department, Ministry of Health
- **2013 to 2017:** Head, Health Sector monitoring and evaluation unit, Ministry of Health



Mr Lattif Shaban
Faith Based
Organisations

Date of Birth: 14th April 1952

Qualifications

- Diploma in Advanced Management and Leadership - Galilee International Management Institute
- General Certificate of Education - Cambridge University

Work Experience

- **2008 to date:** Board Member of the National taxpayers association
- **2002 to date:** Member of National Oversight Committee of the Kenya Coordinating Mechanism for the Global Funds program of Malaria, AIDs and TB
- **2000 to date:** Director General, Supreme Council of Kenya Muslims

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Mr. Samuel Arachi, CBS,
OGW, ndc (K)
Alternate Member/
Ministry of Public
Service, Youth and
Gender

Date of Birth: 9th April 1962

Qualifications

- Master's Degree in International Relations,
- Post graduate Diploma in International Relations
- Bachelor's Degree in Arts

Work Experience

- **2018 to date:** Secretary Administration - State department of Gender, Ministry of Public Service, Youth and Gender
- **2018 to Date:** Chairman Tana & Athi Rivers Development Authority Board
- **2016 to 2017:** Ag. Inspector General National Police Service



Dr. Jacqueline Kitulu
Kenya Medical
Association

Date of Birth: 26th December 1972

Qualifications

- Master of Business Administration - Health Care Management - Strathmore Business School
- Bachelor of Medicine & Surgery

Work Experience

- Currently the Kenya Medical Association (KMA) National Chairperson. Represents KMA at the Kenya Health Federation
- **2008 to 2012:** Chairperson, Kenya Medical Women Association (KMWA)



Mr Wycliff Omucheyi
Kenya National Union of
Teachers

Date of Birth: 1961

Qualifications

- Bachelor of Education
- Certificates in Education



Hon Roba Duba
Central Organisation of
Trade Unions(K)

Date of Birth: 19th March 1955

Qualifications

- Master of Arts in Governance & Ethics - Mt Kenya University
- Master's in Business Administration- Jomo Kenyatta University of Agriculture and Technology
- Bachelor of Arts, Sociology - University of Nairobi

Work Experience

- **2014 to date:** General Secretary Kenya Government Workers Union, Trade Union.
- **2015 to Date:** Executive Board member, COTU(K)
- **2013 to 2017:** Member of Parliament, Moyale Constituency

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Dr Rachel Monyocho
Federation of Kenya
Employers

Date of Birth: 28th March 1963

Qualifications

- Doctor of Philosophy (Ph.D.) Organisational Theory and Behaviour- 2011-2014-University of Nairobi
- Master of Business Administration - Strategic Management and International Business - University of Nairobi
- Bachelor of Science in Chemistry, Botany and Zoology - Punjabi University

Work Experience

- **2015 to date:** Independent management consultant and part-time University teaching.
- **2009 to 2011:** Human Resource Director, G4S Security Limited
- **2006 to 2008:** Human Resource Manager, Northland and Eastern Africa Coca-Cola Subgroup



Dr Jared Nyakiba
Alternate Member / DG
Ministry of Health

Date of Birth:

Qualifications

- Doctor of Philosophy (Ph.D.) in Health Services - Walden University
- Master of Public Health, Health Service Management. - Moi University
- Master of Pharmacy in Clinical Pharmacy - University of Nairobi
- Bachelor of Pharmacy - University of Nairobi

Work Experience

- **July 2019 to Date:** Assistant Chief Pharmacist (Clinical Pharmacist (Clinical Pharmacist/Public health specialist at MOH (Universal Health Coverage Secretariat)
- **Jan 2018 to June 2019:** Assistant Chief Pharmacist (Clinical Pharmacist/Public health Specialist) at MOH
- **Jan 2017- Dec 2017:** Assistant Chief Pharmacist at Pharmacy and Poisons Board (Clinical pharmacist/public Health Specialist at pharmacy and Poisons Board
- **Jan 2011 - Jan 2017:** Assistant Chief Pharmacist/Clinical Pharmacist at KMTCC, Nairobi
- **Oct to Dec 2010:** Assistant Chief Pharmacist at Provincial Medical Officer's Office, Nairobi



Ms Janet Boit
Ag. Corporation
Secretary / Head Legal
Services

Date of Birth: 16th November 1980

Qualifications

- Post Graduate Diploma in Human Resource Management -Cambridge International College
- Post Graduate Diploma in law (Dip, Kenya School of Law
- Bachelor of Laws (LLB), Moi University
- Certified Public Secretary - CPS(K)

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KEY MANAGEMENT TEAM

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

Name	Academic Qualifications
 Dr. Peter Kamunyo Gathege Chief Executive Officer	• Master of Science (MSC) degree in Public Health - University of London, England • Bachelor of Medicine & Bachelor of Surgery - University of Nairobi • Postgraduate Diploma in Sexually transmitted infections and HIV Management - University of Nairobi • Certificate of Proficiency in Insurance - Kenya College of Insurance
 Ms. Hazel J. Koitaba Director, Beneficiary and Provider Management	• Bachelor of Business Marketing • Postgraduate Dip. in Business Marketing
 Mr. Nicodemus Odongo Director, Strategy, Planning & Marketing	• Master of Arts (Economics) - University of Nairobi • Bachelor's in Economics - University of Nairobi • Member of MRS • Member of KIM

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Mr. Washington Okoth
Ag. Director ICT

- Master of science in Information Systems
- Master of Arts - Project Planning & Management
- Bachelor of Science (Information Systems)
- Diploma in Computer Systems



Ms. Fransisca Mwanza
Ag. Director Financial Services

- Master of Business Administration (Finance)
- Bachelor of Arts (Economics)
- Certified Public Accountant Kenya
- Member of ICPAK



Mr. Joseph Tonui
Head, Administration Services

- Bachelor of Education
- Higher Diploma in Human Resource
- Member of IHRM
- Member of KIM



CPA. Rodgers Miranyi
Ag. Head, Process & Systems Audit

- Master of Business Administration - Finance
- Certified Public Accountant Kenya
- Certified Internal Quality Assessor
- Member of ICPAK
- Member of IIA - Kenya Chapter

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Ali Abdullahi Issack
Head, Provider
Management

- Master of Business Administration
- Bachelor of Science in Applied Geology



Ms. Phyllis Nyakiba
Head, Marketing &
Communication

- Master of Arts (Rural Sociology)
- Bachelor of Arts
- Diploma in Marketing Management



Mr. Wambugu Kariuki
Head, Beneficiary
Management

- Master of Arts, Project Planning & Management (Ongoing) - University of Nairobi
- Bachelor of Education, Technology Education - Moi University
- Diploma in Marketing Management - Kenya Institute of Management
- Member of Kenya Institute of Management



Ms. Rose Mugambi
Head, Supply Chain
Management

- Master of Business Administration (Strategic Management) - Kenya Methodist University
- Bachelor of Science - Egerton University
- Graduate Diploma - Purchasing & Supplies - Chartered Institute of Purchasing and Supplies (CIPS-UK)
- Diploma - Purchasing & Supplies - Chartered Institute of Purchasing and Supplies (CIPS-UK)
- Certificate in Corporate Governance - Centre for Corporate Governance
- Certificate in Strategic Leadership Development (SLDP) - Kenya School of Government

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Dr. Samson Kuhora
Kairang'a
Head, Benefits Design &
Actuarial Assessment



Ms. Janet Boit
Ag. Corporation
Secretary/ Head Legal
Services

- Performance Measure Process (PuMP) Certification - Stacey Barr Institute, Australia
- Member of Chartered institute of Supplies Management (MCIPS)
- Member of Kenya Institute of Management (KISM)

- Master of Business Administration
- Master of Science (Epidemiology)
- Bachelor of Pharmacy

- Post Graduate Diploma in Human Resource Management - Cambridge International College
- Post Graduate Diploma in law (Dip, Kenya School of Law)
- Bachelor of Laws (LLB), Moi University
- Certified Public Secretary - CPS(K)

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CHAIRPERSON'S STATEMENT

It gives me great pleasure to present to you the financial report for the FY2020/21 which comes at a critical moment when the nation focus is directed towards achieving Universal Health Coverage (UHC). The FY 2020/21 was characterized by a decline in economic growth from 2.16% per cent in the financial year 2019/20 to negative (3. 51%) in the FY 2020/21 and an inflation rate that stood at an average of 5.29% per cent. This is attributable to the interruption of the nation economy due to the effects of the covid19 pandemic that necessitated the Government to instigate measures through the Ministry of Health to protect the right to the highest attainable healthcare to all its citizen as enshrined in Kenyan Constitution 2010 under the bill of rights.

However, the Fund has continued to champion for all Kenyans to register to NHIF to shelve them from financial hardship brought about by the escalating costs of accessing quality healthcare. To aid in actualization of the UHC scale up, a team comprising of officers from the Ministry of Health (MOH), NHIF, and Attorney General's Office (AG), Kenya Law Reforms Commission (KLRC) and other Development partners namely World Health Organization (WHO) and World Bank was appointed and proposed reforms to the NHIF Act No.9 of 1998. As at the end of the FY2020/21, the proposed amendment bill was at the second reading in parliament and the Board of Management commits to continue engaging all stakeholders in the succeeding financial year to ensure the passage and execution of the proposed amendments in the bill.

Going forward and in view of the increased customers' demands, the Board will remain constantly engaged and vigilant in furtherance of fruitful discussions that touch on the quality of care in hospitals, upgrading of health infrastructure in

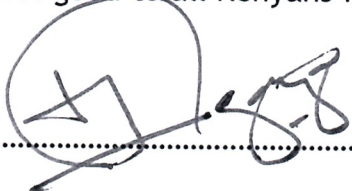
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hospitals, provision of medicine, expansion of hospitals, provision of key medical equipment as well as addressing HR concerns in the health sector, factors that affect a seamless delivery of the Funds services.

With the great tasks ahead, the onus is on us to ensure a continued prudent management of resources and prioritization of expenditure in areas that bring the highest good to all Kenyans in the journey of UHC.


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CHAIRPERSON - BOARD OF MANAGEMENT

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REPORT OF THE CHIEF EXECUTIVE OFFICER

The financial year 2020/21 was extremely a busy and challenging year in the history of the Funds operations. It was marked revamped efforts to put in place enablers to ensure attainment of UHC by 2022. Notably, the Fund reintroduced biometric registration to all its members, rolled out the E- claim management system, continued staff reorganization to ensure suitability for purpose and initiated the amendment of the NHIF act No. 9 of 1998 with an aim to accelerate achievement of UHC.

On other fronts, the operating environment as highlighted by a survey conducted by the Kenya National Bureau of Statistics (KNBS) in May 2020 indicated that the labor participation rate in the country had fallen significantly as a result of the pandemic. Data from World Bank shows that in 2019 Kenya had a labor-force participation rate of 75%; this rate fell to just 56.8% in April 2020. According to the KNBS survey, the percentage of the population in active employment, whether informal or formal, has fallen to 65.3% of men and 48.8% of women. The reduction has been caused by job losses in both the informal and formal sectors. The virus has disrupted the flow of revenues and limited the supply and demand for goods and services, pushing employers to use different coping mechanisms to stay afloat. Employers have been forced to downsize the workforce, give unpaid leave or make temporary layoffs.

While navigating amidst the challenges mentioned above, the Fund continued to play its rightful role to contribute towards universal health coverage in the provision of affordable, accessible, sustainable and quality health insurance through strategic resource pooling and healthcare purchasing in collaboration with stakeholders. To

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this end, the closure of the financial year 2020/21 saw the membership clock to **12.9 million** principal members mark with an active membership of **5.3 million**. **Kshs. 61.87B** was realized in revenue collection compared to **Kshs. 60.8B** realized in the previous financial year 2019/2020. There was also a slight increase in benefits paid out to members from **Kshs. 54.36B** to **Kshs. 54.10B**, which represents **88%** of the total revenue collected.

To rightly position the Fund for the UHC scale up and align it to the current operating environment, the Fund initiated the mid-term review of its strategic plan 2018-2022 which will be adopted and executed in the succeeding financial year.

In conclusion, I would like to assure all our stakeholders of our continued dedication in implementing the 2018-22 Strategic Plan which envisions a healthy and a wealthy nation enabled by a vibrant health insurance cover that we offer as a Fund. Here our motto "AFYA YETU BIMA YETU" says it all.



.....
Dr. Peter Kamunyo

CHIEF EXECUTIVE OFFICER

REVIEW OF NHIF PERFORMANCE FOR THE FINANCIAL YEAR 2020/21

Section 81 subsection 2(F) of the public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the National government entity performance against predetermined objectives.

NHIF has four strategic pillars and objectives within its Strategic Plan for the FY 2018/2019-2022/2023. These strategic pillars are as follows:

1. Increase Quality Health Insurance Coverage
2. Enhance Financial Base
3. Enhance Institutional Capacity
4. Stakeholder Alliances and Partnerships

NHIF develops its annual work plan based on the above 4 objectives. Assessment of the board's performance against its annual work plan is done on a quarterly basis. The Fund achieved its performance targets set for the financial year 2020/2021 period for its 4 strategic objectives, as indicated in the table below:

ISSUE	STRATEGIC OBJECTIVE	ACTIVITY	KEY PERFORMANCE INDICATOR	Achievement /Status
Increase Quality Health Insurance Coverage	Increase number of principal members from 7Million to 19Million by 2022	Partner with National & County Governments and private sector to enhance compliance	Number of recruited members.	The Fund has continued to engage with counties and National government

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ISSUE	STRATEGIC OBJECTIVE	ACTIVITY	KEY PERFORMANCE INDICATOR	Achievement /Status
		Integrate with other government agencies for data mining	No.	Integrate the KRA, NSSF and NHIF Systems to have a unified payroll return NHIF has prepared and forwarded an Application Program Interface (API) to e-citizen technical personnel to test the integration
		Develop a telemedicine policy	Approved policy	To be taken up in the next FY
		Partner with specialist/ HCPs utilizing telemedicine/m-health to expand access	No. of people accessing	To be taken up in the next FY
Increase Quality Health Insurance Coverage	Increase number of principal members from 7Million to 19 Million by 2022	Implementation of multi-tiered benefit package	Quarterly implementation reports	By the end of the FY, the Fund had administered benefits amounting to kshs. 55B. Review of a UHC benefit package referred to as essential benefit package is ongoing.
		Conduct appropriate market research(in-house, collaborative and outsourcing)	Research report	Research Department carried out a study on factors that contributed to the low levels of registration and retention in the informal sector and found out that low understanding of NHIFs offerings by the target group as one of the factors.

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ISSUE	STRATEGIC OBJECTIVE	ACTIVITY	KEY PERFORMANCE INDICATOR	Achievement /Status
Enhance Financial Base	To Ensure Revenue Inflow and Its Utilization	Increase contributions to 64.5B	Amount raised	60.5B (93.8%)
		NHS contributions	Amount raised	32.7B (85%)
		HISP program (OVC)	Amount raised	1.52B (139%)
		HISP Elderly and PWSD	Amount raised	342M (136%)
		Civil servants medical scheme	Amount raised	4B (100%)
		NPS/KPS Medical scheme	Amount raised	5.5B (115%)
		Free maternity cover	Amount raised	4.97B (100%)
		County medical schemes	Amount raised	1.9B (123%)
		State Departments & other schemes	Amount raised	1.32B (92%)
		Secondary School Medical Scheme	Amount raised	4.54B (112%)

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ISSUE	STRATEGIC OBJECTIVE	ACTIVITY	KEY PERFORMANCE INDICATOR	Achievement /Status
Enhance Financial Base	To Enhance Revenue Inflow and its Utilization	Conduct market study and epidemiologic data reviews of targeted groups	Market study report	To be taken up in the next FY
Enhance Institutional Capacity	To enhance compliance to good corporate governance	Implement the new BSC system,	No. of staff trained	To be taken up in the next FY
		Enhance capacity building and change management	Implementation matrix	Continued to train its staff with focus on professional training on areas such as customer service and accounting and financial management.
		Enhance creativity and innovation (innovation labs/summits)	Number of innovation labs and summits held	The Fund has continued to harvest new ideas from staff members on enhancing efficiency in service delivery. A total of 24 ideas were submitted on various topical issues.
Stakeholder Alliances and Partnerships	To enhance synergies in information and	Continuous engagement with key stakeholders to strengthen partnership and sustainability	No. of engagements	Engaged key stakeholders such as MOH, COTU, FKE and others in different.

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For the year ended June 30, 2021

ISSUE	STRATEGIC OBJECTIVE	ACTIVITY	KEY PERFORMANCE INDICATOR	Achievement /Status
	resource sharing with partners and stakeholders	Develop and implement partnership models in distribution of NHIF products (agencies)	Partnership agreements	180 Health care providers were declared and contracted in the FY2020/21.
		Develop and implement a corporate sustainability framework and partnership models for effective linkages	No. of partnerships	NHIF signed a Memorandum of Understanding with the Kenya Forest Service to and in the year it planted a total 6,600 trees in Shimba Hills Forest, Meru forest, Kibiri forest, Gatara forest, Ngong Hills Forest and Kapenguria Forest

CORPORATE GOVERNANCE STATEMENT

Principles of Corporate Governance

NHIF has established high standards of corporate governance which are key contributor to the long-term success of the Fund. The Fund is managed by an effective Board which is composed of competent, diverse and qualified members capable of exercising objective and independent judgment.

The Board of Management's appointment and composition is in line with the NHIF Act No. 9 of 1998. The Board has autonomy and authority to exercise its functions and accountable to shareholders and act responsibly towards stakeholders.

The Board of Management promotes the best practice of corporate governance and is bound by the highest standards of integrity and accountability in its operations. The Board adheres to the Code of Governance prescribed in the Mwongozo (The Code of Governance for State Corporations) NHIF Act and other Government of Kenya guidelines.

Management Board

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

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

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

Board Responsibilities

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

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

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

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

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

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

Composition of the Board

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

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

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

Responsibility for Financial Reporting

The Board of Management recognizes its responsibility to present a true and fair view of the state of the financial affairs of the Fund. The Fund's financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the PFM Act, the State Corporations Act and the NHIF Act.

Remuneration

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

Details of the Board of Directors' remuneration are set out on page 104.

Service Contracts and Compensation

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

Disclosure of Interests

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

Transparency

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

Role of the Chairperson vs. the Chief Executive Officer

The roles of the Chairperson and the Chief Executive Officer are clearly defined and are not vested in the same person. The day-to-day executive management of the Fund is delegated to the Chief Executive Officer whereas the running of the Board is the responsibility of the Chairperson. The Chief Executive Officer directs the implementation of the Board of

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Management's decisions and instructions on the general management of the Fund with the assistance of the Senior Management team. However, both the Chairperson and the Chief Executive Officer work together to achieve the goals of NHIF.

Board Committees

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

1. Governance & Human Resource Board Committee

The committee deals with governance, administrative and legal issues.

No	Name of Member	Organisation	Position
1.	Hon. Roba Duba	Central Organization of Trade Union	Chairman
2	Dr. Rachel Monyoncho	Federation of Kenya Employers	Member
3.	Dr. Isabella Maina	Alternate Member/ PS Ministry of Health Alternate Member/PS/Ministry of Public	Member
4.	Mr. Samuel Arachi	Service Youth & Gender	Member
5.	Mr. Wycliffe Omucheyi	Kenya National Union of Teachers	Member
6.	Dr. Peter Kamunyo	Chief Executive Officer	Secretary

2. Operations, Strategy and Technical Committee

The Committee deals with matters relating to compliance with the NHIF Act by Employers, Healthcare Providers, Stakeholders, Strategy and Planning.

No.	Name of Member	Organisation	Position
1.	Mr. Wycliff Omucheyi	Kenya National Union of Teachers	Chairlady
2.	Dr. Jarred Nyakiba	Alt. Member/DG/Ministry of Health	Member
3.	Dr. Jacqueline Kitulu	Kenya Medical Association	Member
4.	Mr. Latiff Shaban	Faith Based Organizations	Member
5.	Dr. Peter Kamunyo	Chief Executive Officer	Secretary

3. Finance and Investment Board Committee

The committee deals with all financial and investment matters considered risks and proposed compliance aspects of the same.

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The following are the members of the committee

No.	Name of Member	Organisation	Position
1.	Dr. Jacqueline Kitulu	Kenya Medical Association	Chairlady
2.	Mr. Joseph M. Kamau	Alt. Member/CS/The National Treasury	Member
3.	Dr. Isabella Maina	Alt. Member/PS/ Ministry of Health	Member
4.	Mr. Samuel Arachi, CBS	Alt. Member/PS/Ministry of Public Service Youth & Gender	Member
5.	Dr. Peter Kamunyo	Chief Executive Officer	Secretary

4. Audit and Risk Committee

The committee deals with matters concerning audit, internal system controls and risks.

No.	Name of Member	Organisation	Position
1.	Dr. Rachel Monyoncho	Federation of Kenya Employers	Chairlady
2.	Hon. Roba Duba	Central Organization of Trade Union	Member
3.	Mr. Joseph M. Kamau	Alt. Member/CS/The National Treasury	Member
4.	Dr. Jarred Nyakiba	Alt. Member/DG/Ministry of Health	Member
5.	Mr. Latiff Shaban	Faith Based Organizations	Member

Corporate Secretary

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

External Auditors

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

Internal Auditors

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

Going Concern

The Board of Management submits this annual report and financial statements for the year ended 30 June 2021. The annual report and financial statements present, in the opinion of

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the directors, a fair, balanced and understandable assessment of the state of the affairs of the Fund's position and prospects. The Board reports that the business is a going concern and they have no reason to believe that the Fund will not be a going concern into the foreseeable future.

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MANAGEMENT DISCUSSION AND ANALYSIS

During the financial year, the Fund continued to dispense its mandate of providing affordable, accessible and quality health insurance to all its members through the enrolment of members, collection of premiums and other revenue and the strategic purchasing of health services. This has been done by implementing innovative and efficient strategies to achieve Governments' Big 4 Agenda of achieving Universal Health Coverage by 2022.

Member Registration

Cumulative Membership

NHIF Cumulative Membership as of 30th June 2021 was **25.4 million Beneficiaries** consisting of **12.9 million cumulative Principal Members** and **12.5 million Dependents**.

The 12.9 million Principal Members comprised of members in the Formal and Informal Sectors and Sponsored Programs broken down as follows:

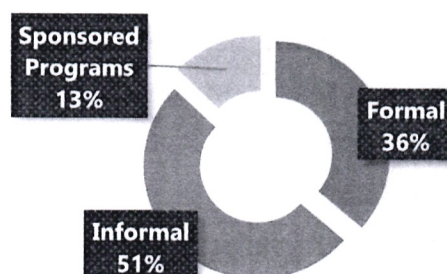
No.	Sector	Number
1.	Formal	4, 691, 277
2.	Informal	6, 553, 648
3.	Sponsored Programs	1, 676, 439
	TOTAL	12, 921, 363

Registered Members per Sector

Formal Sector which comprises Public and Private sector had **4,691,277** members as indicated above which is **36%** of the total membership while the Informal sector which includes Voluntary contributors and Sponsored programs had **8,230,087** members (**Voluntary 6,553,648 & Sponsored 1,676,439**) which is **64%** of the total membership. The chart below shows distribution of membership per sector.

Members per Sector

MEMBERSHIP
PER SECTOR



NHIF registered Members by sector

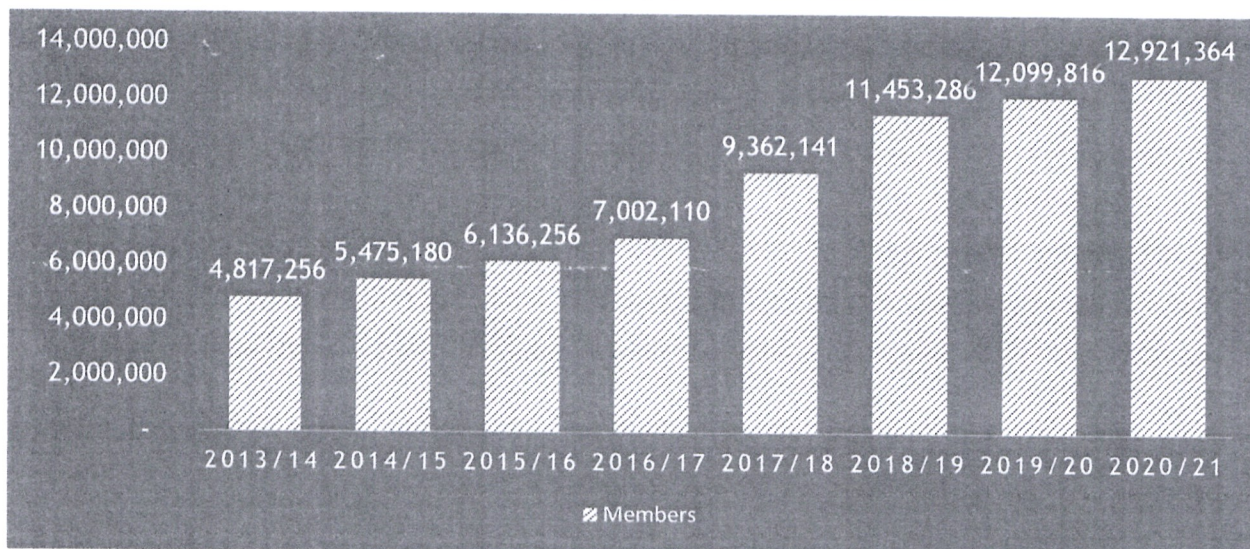
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NHIF Membership Growth

Membership in NHIF has grown progressively over the years from only 4,817,256 members in 2013/14 to 12,921,364 in the 2020/21 financial year as illustrated below:



Membership Growth

This is attributed to the expanded benefits that were rolled out at the end of the 2015/2016 financial year as well as the Government sponsorships through the Vision 2030 flagship projects, the UHC pilot in Nyeri, Kisumu, Machakos and Isiolo Counties and NHIF UHC program.

Cumulative Membership Registered in 2016/17 to 2020/21.

Year	2016/17	2017/18	2018/19	2019/20	2020/21
Members	7,002,110	9,362,141	11,453,286	12,099,816	12,921,364
Growth	865,854	2,360,031	2,091,145	646,530	821,548
%		34%	22%	6%	7%

The upsurge in new registrations in 2017/18 and 2018/19 was mainly in the informal sector and sponsored programs, because of the expanded benefits that were rolled out at the end of 2016. Additionally, the government through its Vision 2030 flagship projects and UHC pilot registered 1,139,424 Households in Nyeri, Kisumu, Machakos and Isiolo Counties. Also, 181,968 Households were registered under the HISP for Orphans & Vulnerable children, 238,598 beneficiaries registered under the Elderly & People Living With Severe Disabilities Program while 484,086 beneficiaries of the Inua Jamii Program registered in 2017/18 FY.

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New Member Registration

New Members registered in the 2020/21 financial year were **821,548** out of the target of **646,526**. Formal sector registrations were **12%** of the new registrations while the informal sector registrations made up **63%**, and sponsored programs **25%**.

There was an increase of **27%** in new member registration when comparing the 2019/20 FY to 20/21 FY as tabulated below by sector.

Members Registered in 2019/20 and 2020/21.

Sector	2019/20	2020/21	Increase/ Decrease
Formal	163,963	97,682	(40%)
Informal	446,420	514,460	15%
Sponsored Programs	36,143	209,406	479%
Total	646,526	821,548	27%

The decrease in new member registration especially for the Formal Sector was mainly due to the trickling effect of the diminishing economic status of the country that has led to many companies closing down, as the economy struggles to recover from the COVID 19 Pandemic effect. The informal sector saw increased registrations by 15%, as the sector grew due to the increase in population who lost their jobs due to the pandemic control mechanisms instituted by the government. Also, during the reporting period, the Fund has conducted several media campaigns to increase awareness, and this greatly enhanced enrollment for the sector.

Strategies to Increase Membership

Formal Sector

In the 2020/21 financial year, The Federation of Kenya Employer association was engaged to share data of all registered employers for comparison with the Organizations employer database to enable follow up on those that are not registered.

The Fund has continued to partner with employers' umbrella bodies with a view of sensitizing members in the formal sector.

Informal sector

The following strategies were implemented to enhance membership in the Informal Sector.

- i. Targeted member education of NHIF benefits
- ii. Engagement with University and College Management to consider making NHIF membership mandatory before enrolment of all University & College Students
- iii. Registration of UHC members as per MoH action plan for UHC roll out.
- iv. Engagement of informal sector umbrella bodies to develop effective strategies to increase membership.

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- v. Engagement of the Commissioner of Co-operatives on a partnership for registration of cooperatives with NHF.
- vi. Short. Messaging (SMS) and/or WhatsApp Messages to all Kenyans tailored to prompt them to register with NHIF.
- vii. Partnership with GOG, NG-CDF Board, and other institutions on coverage

Sponsored Programs

- i. Development of a Sponsored Programs Strategy on enrolment and retention.
- ii. Lobby COG to support provision of a budget for sponsorship of vulnerable persons.
- iii. Lobby NG-CDF Board to support provision of a budget for sponsorship of vulnerable persons.
- iv. Lobby other institutions to sponsor vulnerable persons.
- v. Develop innovative and cost-effective access point.

Member Retention

Retention rate is defined as the percentage of members who have paid at least one month's premium in 12 months. For the Formal sector, it is mandatory to pay monthly premiums while for the informal sector, contributions are voluntary. As at the end of the 2020/21 FY, the retention rate of 41% of the total registered membership of 12,921,364. This is 59% achievement of the 70% target. Retention in the formal sector was 72% of the registered sector members and 64% of the total active members. Informal sector active members were 24% of the sector membership and 36% of total active membership.

This is illustrated in the table below.

Active Members as at 30th June 2021

Sector	Active Members	% of Total	Total Sector Members	%
Formal	3,388,127	64%	4,691,277	72%
Informal	1,937,617	36%	8,230,087	24%
Retention	5,325,744	100%	12,921,364	41%

Active Members comparison of June 2020 and June 2021

The effects of COVID 19 Pandemic on the economy saw many households lose their income in the formal sector hence reduced retention rate in the sector. Compared to the same period in the 2019/20 financial year, the overall retention rate has dropped 3% while the formal Sector retention has dropped by 6%. This is illustrated below:

Sector	Active Members	% of Active	Active Members June	% of Active
Formal	3,593,481	78%	3,388,127	72%
Informal	1,766,020	24%	1,937,617	24%
	5,359,501	44%	5,325,744	41%

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The suspension and closure of businesses due to the measures laid down by the government to control the spread of the virus greatly affected the service industry.

The Informal Sector retention rate has remained the same as the previous financial year. Apart from the retention challenge brought about by the pandemic, the Informal Sector retention remains a challenge attributed to adverse selection inherent to the sector where members seek enrolment only when ill or in need of a medical service and stop making contributions after utilizing the benefits and their quality of life improves. This will be resolved to some measure by implementing the reviewed benefits access criteria.

Retention Strategies

Review of the Informal Sector Policy

To enhance member retention, the Fund has come up with various proposals aimed at enhancing member retention. Proposed strategies include the following;

- a. Access restrictions for new members and defaulters
- b. Activation of dormant membership cards
- c. Access of maternity benefit
- d. Requirements for change of spouse
- e. Access of benefits for declared dependents after initial registration.
- f. Limits for number of dependents
- g. Dependents age limit to access of benefit

The aim of the benefits access criteria is to encourage informal sector retention and ensure seamless benefit utilization by paid up and valid members. It is envisioned that implementation will discourage perennial defaulters who only pay when they need to access benefits without being excessively punitive. The Informal Sector Policy will subsequently be reviewed after engagement of stakeholders and subsequent agreement on the contentious issues.

Enhancement of the reviewed benefits access criteria.

The benefits access criteria were enhanced to encourage informal sector retention and ensure seamless benefit utilization by paid up and valid members. It is envisioned that implementation will discourage perennial defaulters who only pay when they need to access benefits without being excessively punitive.

Member Contributions

A total contribution of KES 62.15 Billion for both the National Health Scheme (NHS) and Managed schemes was collected for the period, FY 2020/2021. Compared to the same period

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the previous FY 2019/2020 which was KES 60.82 Billion, this performance represented an increase of 2.19%. National Scheme contributions were KES 31.62 Billion while Managed Schemes contributions were KES 30.53 Billion for the FY 2020/2021.

The decrease of the collections from the managed schemes is as result of organizations (Parastatals, County Governments and Discipline Services) not renewing their contracts with the Fund on time due to the changes that had transpired. Whereas the decrease on the collections from the NHS is attributed to the impact of Covid-19 where many businesses have reduced their operations hence reduced contributions due to increased lay off of their employees, as well as some reducing their employees' salaries during the Covid-19 pandemic period. Also NHIF Compliance activities to ensure timely submission of contributions have significantly reduced in an effort to keep safe and comply with Covid-19 Guidelines provided by Ministry of Health (MOH).

Benefits Utilization

The benefits paid out for the period 2020/2021 was KES 54.10 Billion compared to 54.4 Billion for the last financial year 2019/2020 which is a 0.5% decrease compared to 1.8% increase in the previous year. Out of KES 54.10 Billion benefits paid out, National Health Scheme benefits were KES 28.24 Billion while Managed Schemes was KES 20.23 Billion, which was 52% and 37% of total Benefits respectively.

Vision 2030 Flagship Projects

Linda Mama

The Government of Kenya introduced Free Maternity Services in 2013 to address the high maternal morbidity and mortality rates. Maternal mortality rate as per World Bank data stood at 342/100,000 live births in 2017. Further, 62% of births in Kenya are delivered under the supervision of a skilled birth attendant, which is still below the international target of 90%. Traditional birth attendants continue to assist with 28% of births, relatives, and friends with 21%, and in 7% of births, mothers receive no assistance at all.

Significant sustained increase of 89%, 97%, and 98% was observed in the antenatal care visits, health facility deliveries, and live births respectively, after the policy implementation. An immediate and significant increase of 27% was also noted for those women who received Emergency Obstetric Care (EmONC) services in either the level 5, 4 and 3 health facilities. No significant changes were observed in the stillbirth rate and caesarean section rate following policy implementation.

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For this reasons, Ministry of Health commissioned Free Maternity Services Program in 2013 in all Government/ Public Healthcare facilities countrywide. The overall objective of the program is to increase access to skilled delivery services and hence the reduction of the maternal and infant mortality.

To complement this policy, Ministry of Health in collaboration with development partners provide essential maternal and child health commodities, training and supportive supervision to health facilities and health workers, to better equip them to provide quality obstetric care.

However, the Ministry of Health transitioned the program to NHIF in 2016 which was rebranded to “Linda Mama Program”. The reason for this transition was to leverage on the NHIF infrastructure and systems that enable real-time member identification, registration, verification, and claims processing.

In addition, to working with all government/public healthcare facilities, NHIF has empanelled private and faith-based healthcare providers to increase the choice for the pregnant mothers across the country.

Registration of Expectant Mothers

All pregnant women who are Kenyan citizens are eligible to benefit from the programme.

Registration of expectant women is done through the following modes:

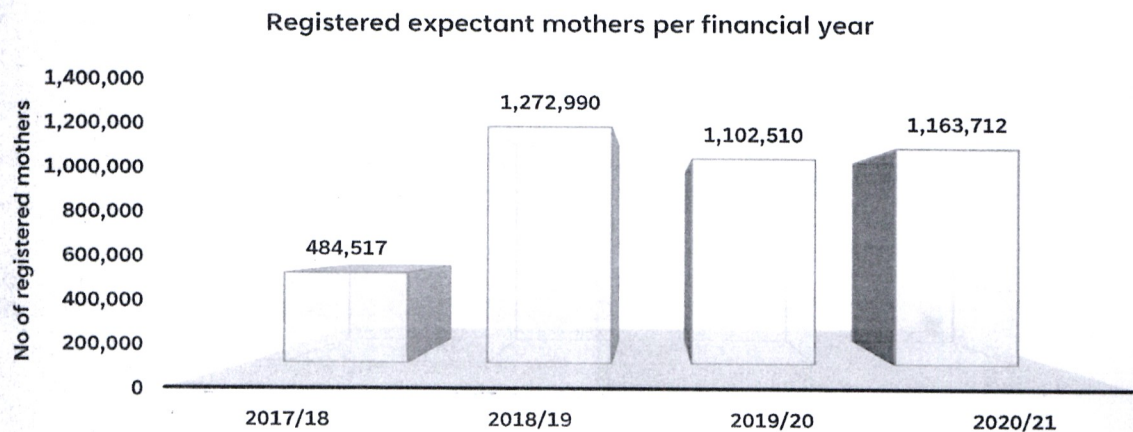
- *Mobile platform - USSD Code *155#*
- *Contracted health facility - through NHIF Health System*
- *NHIF country wide offices and Huduma Centers.*

During the period under review, there were a total of **1,163,712million** registered expectant mothers a slight increase compared to the same period last financial year 2019/20 which had **1,102,510million** registered expectant mothers. The graph below illustrates the trend in registrations since the roll-out by NHIF

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Linda Mama registrations per F

Total Deliveries

During the FY 2020/2021, the total deliveries reported were **784,220** which is **71%** of total deliveries in Kenya. This is a slight increase in deliveries compared to the same period in the financial year FY 2019/20 which had **724,463** reported which is **66%** of the total deliveries. The graph below demonstrates the trend in deliveries per county.

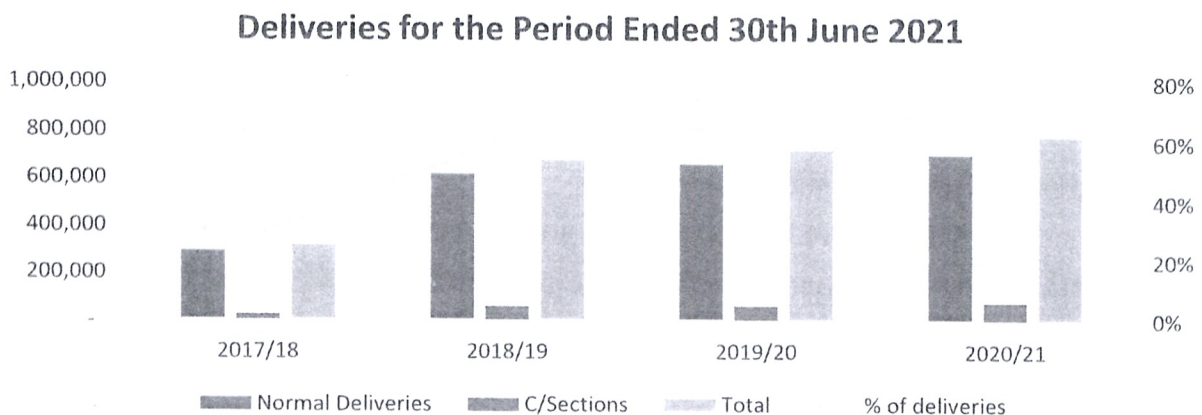


Fig: Total Deliveries per FY

Total Deliveries per County

During the year review, counties with low number of deliveries were recorded in Samburu, Lamu, Turkana, Machakos, Isiolo, under the Linda Mama Program. The counties the highest deliveries include Nairobi, Makueni, Homabay and Kericho among others. The table below reflects counties with lowest and highest deliveries during the FY 2019/20.

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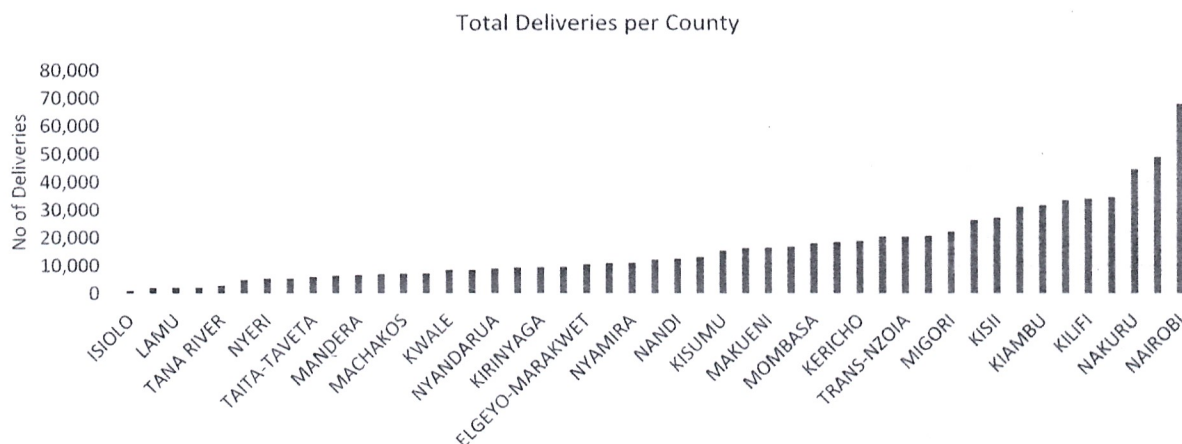


Fig: Deliveries as at 30th June 2021

Deliveries vs Registered Expected Mothers

There is a congruent trend between registrations and deliveries with counties that have more registered expectant mothers having more deliveries. The graph below illustrates this trend.

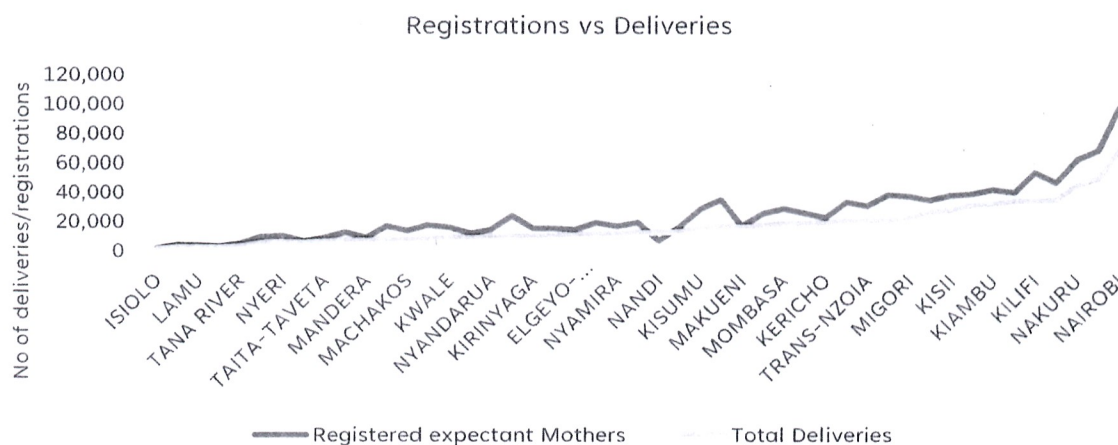


Fig6: Registrations vs Deliveries

Health Insurance Subsidy Program

The Health Insurance Subsidy Programme (HISP) is a government flag-ship Program launched in 2014 under the Vision 2030 which is being implemented by NHIF and financed by the Government of Kenya. It is a demand side financing mechanism where funds are channelled to NHIF on behalf of identified and targeted households classified as poor and vulnerable.

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The targeted group constitutes of beneficiaries of the Orphans & Vulnerable Children Cash Transfer Programme (OVC-CTP).

The cash transfer beneficiaries are targeted, identified, and registered to receive cash transfers by the Ministry of Labour and Social Protection. HISP provides membership not only to the Orphan but to all members of the household.

The programme used a Phased approach: Phase I (2014-2016) was a pilot targeting **21, 546** households spread within the 47 counties. Phase II (2016-2018); HISP scale up commenced on 1st July 2016 which targeted an additional **160,422** households. Thus, the total number of households under HISP is **181,968**.

Older Persons & Persons with Severe Disability (OPWD) Program

Discussions in the recent past five (5) periods have centred on increasing health coverage to the poor and vulnerable persons in society. Currently, approximately 36% of the population lives below the poverty line while 9% live in extreme poverty. A large proportion of the population is vulnerable to poverty because of a wide range of factors are unable to deal with livelihood shocks such as sickness, old age, unemployment, and disability.

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

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Operational Highlights

Targeting of Beneficiaries for OPWD

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

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



Registration Status for OPWD

The number of households under the Older Persons and Persons with Severe Disability is the same since April 2017; a total of 42, 000 households broken-down as follows: Older Persons 39,349 households and Persons with Disability 2,651 Households who are currently accessing health benefits under the National Scheme “Supa Cover”.

Inua Jamii 70+ Program (LJP)

Inua Jamii 70+Program is a government flagship program that rolled out in April 2018 and aims to extend coverage to older persons as part of its commitment to achieving Universal

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

Operational Highlights

Targeting of Beneficiaries for IJP 70+

The Inua Jamii 70+ program constitute individuals who are 70 years old and above. The Ministry of Labour & Social Protection conducted the targeting, identification and created a database of the population. This data was forwarded to NHIF on **19th April 2018** in a file which contained 484,086 beneficiaries. NHIF verified the data through the Integrated Population Registration System (IPRS) after which the list of beneficiaries was uploaded into the NHIF database.

Registration Status for IJP 70+

During the year under review, all the 484,086 beneficiaries have been registered to be issued with cards.

Access to Health Services

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

Although the beneficiaries will access benefits under the National Scheme, it's important to consider the unique health issues and challenges that the older persons' experience and develop benefit packages that address the needs of older persons.

Partnerships

NHIF engaged UNICEF in August 2020 to support the development of a Linda Mama Communication Strategy and Advocacy Plan.

- This culminated in the contracting of a consultant by UNICEF in May 2021 who commenced the desk review and formative assessment of gaps in Linda Mama Communication.
- Next steps will be to host a stakeholder workshop and thereafter drafting of the communication strategy

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NHIF successfully negotiated with ILO to support the feasibility study, design, and costing of a Maternity Income Protection (MIP) benefit. ILO has contracted a consultant in May 2020 who is in the process of drafting an inception report before commencement of the feasibility study.

- The NHIF CEO appointed a taskforce to coordinate the MIP project which is chaired by the Head of Benefit Design and members from all departments.
- The study period is May 2021 to October 2021

Benefits Utilization

Total benefits pay-out incurred for the year 2020/2021 amounted to **Kes.54.10 Billion** reflecting a Benefits pay-out ratio/ Loss Ratio of **89%** against contributions and premiums compared to **91 %** in the previous year 2019/2020.

The table below shows benefits utilization per scheme.

Scheme	Contributions & Premiums	Benefits	Utilization%
National Health Scheme	31,621,331,719	28,236,045,834	89%
Civil Servant Medical Scheme	6,022,658,067	6,734,203,627	112%
NPS & KPS Medical Scheme	7,028,116,989	8,255,928,224	117%
Secondary School Medical Scheme	4,050,000,000	1,850,335,509	46%
HISP OVC Program	1,341,820,000	250,641,181	19%
HISP (OPPSD) Program	276,000,000	81,847,746	30%
County Medical Scheme	2,739,988,156	1,234,656,419	45%
Parastatals Medical Schemes	1,047,798,983	1,063,751,144	102%
Private Institutions Schemes	551,782,076	762,420,144	138%
Free Maternity Program	4,948,139,361	4,948,139,361	100%
WIBA Cover (NPS & KPS)	1,147,797,220	643,769,429	56%
TOTAL	60,775,432,571	54,061,738,618	89%

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For the year ended June 30, 2021

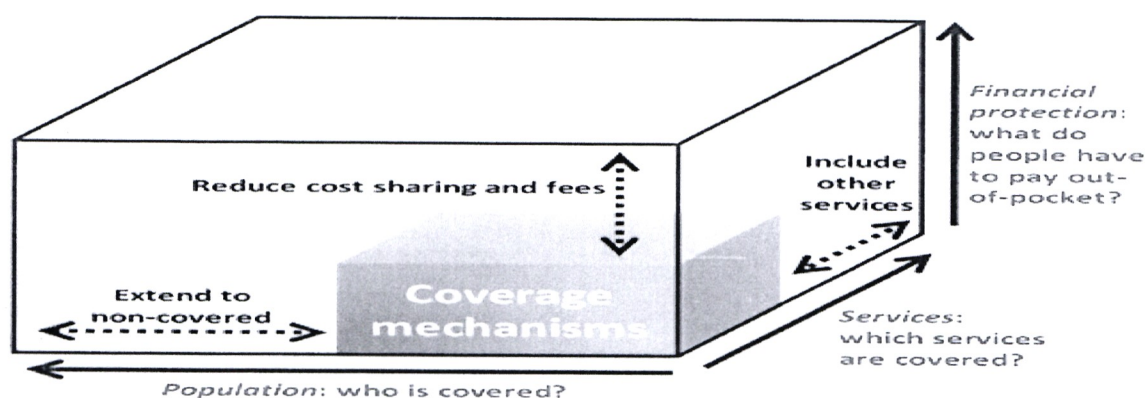
Key Milestones Achieved

Universal Health Coverage

Universal Health Coverage (UHC) has become a policy priority at both the national and global level. The goal of UHC is to ensure that every citizen has access to quality healthcare services that they need without getting into financial difficulties or, worse, pushed into poverty. To progress towards UHC countries must advance along at least three lines of action. They must

- ✚ Expand priority services (Include other Services)
- ✚ Include more people (Extend to the non-Covered)
- ✚ Financial Protection (Reduce out-of-pocket payments)

The Kenyan Government has made a commitment to achieve UHC by the year 2022. The Country's strong political commitment to UHC is embodied in the Government's big 4 agenda that includes healthcare for all as one of the key development priorities. The installation of UHC as a global and country health policy goal has highlighted the need to measure it, and to track progress over time.



NHIF played the role of **registration of households**, printing the UHC member identification cards and creating a platform for UHC beneficiaries' identification. To fulfil its mandate in registration of households within the stipulated timelines, NHIF contracted agents. They used mobile technology and engaged Community Health Volunteers (CHV's) and Community Health Workers (CHW's) to register beneficiaries at the community level. Data was uploaded on a real-time basis through the application that was used to register residents. The applications were connected to the NHIF system to facilitate registration, and the identity card numbers for both the member and spouse were verified through the IPRS system. The application was enabled to work both online and off-line to cater for areas with network challenges.

The exercise took four months, registering a total of 2,849,222 residents out of the projected population of 3,456,419 (82% target achievement). A total of 837,314 cards were

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printed and delivered to the County Governments to distribute to the respective households..

This phase was later expanded to the rest of the country through the signing of the Inter-governmental Participatory Agreements (IPA) between the National Government and the County Governments. During this time, the Government through the Ministry of Health laid a strong foundation for UHC through increasing human resources for health, purchasing of basic medical equipment, essential medicines & commodities and strengthening the community health programs.

Through a conscious paradigm shift, NHIF has strategically positioned itself to drive UHC by aggressively investing in infrastructural, human, and knowledge-based resources. By focusing on three key areas of expanding the number and scope of services available to key Kenyan populations; expanding coverage of existing services while focusing on hard-to-reach populations and the vulnerable populations; and reducing financial risk associated with use of essential services, NHIF prides itself in a well elaborated service delivery model, which supports the Government's Health Investment priorities. This includes: -

- Extending services to the Non-Covered
- Expansion of services to the non-Covered through Partnerships with Government Bodies

Electronic Claims Processing

To enhance the NHIF's capacity to deliver the promise of UHC to Kenyans, the Cabinet Secretary for Health, Mrs. Sicily Kariuki, established the Health Financing Reforms Expert Panel (HEFREP) for the Transformation and Repositioning of the National Hospital Insurance Fund as a Strategic Purchaser of Health services by 2022.

The report of the HEFREP recommended the implementation of an Electronic Claims Processing (E-claim) system to improve efficiency in claims processing as the manual system was taking over 24 hours to complete most of the NHIF transactions. The E-Claim development entails an Electronic Health Management Information system (EHMIS) which is a web-based health information Technology that allows health providers to submit claims electronically on behalf of the patients. An electronic health record (EHR) is a digital version of a patient's paper chart is generated. EHRs are real-time patient-centred records that make information available instantly and securely to authorized users.

The Fund (NHIF) launched nationally the electronic claims processing (E-claim) system in the Month of April 2021 in Kakamega County. The system will enhance the turnaround time for both out and in patient services. It will also reduce the cost of processing claims by eliminating the paperwork and help in curbing fraud. Currently, NHIF has connected all

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eligible private Healthcare providers and level 4,5,6 GOK facilities in the country. The remaining GOK facilities have infrastructural challenges including lack of connectivity to the KPLC national grid and lack of computers among others. The switch off from the manual claims to Electronic Claims took place on 11th July 2021.

Summary of E-Claim Connectivity (All Regions)

CATEGORY	CONNECTED	NOT CONNECED	TOTAL
GOK	429	61	490
FAITH BASED	178	87	265
PRIVATE	975	488	1,463
TOTAL HCPS	1,582	636	2,218

Biometric Registration

His Excellency the President launched the UHC biometric registration exercise in Mombasa County on October 31st, 2020. The biometric registration of members is done at **NHIF Service Points** and **hospitals** at the point the member or dependent is seeking services. The exercise which targets members of the National scheme (Supa Cover), Enhanced Schemes and Indigents aims at improving efficiency and reducing fraud. Details of members and their dependents including fingerprints are captured.

A total of 2,937,269 members have been registered biometrically out of whom 67,700 are vulnerable households. A Rapid response initiative to carry out biometric registration of vulnerable persons households registered by the County Governments is ongoing. Nine teams have been deployed across the County to hasten the process of registration to enable the identified beneficiaries to access benefits.

Selfcare platform

The self-care platform was enhanced to enable members access several services without visiting NHIF service points. The NHIF App was enhanced to increase efficiency and is downloadable on any smart phone and is called 'My NHIF app'. Additionally, an all rounded all-inclusive USSD was developed i.e. *155#. Members can access registration services, make payments, and query their payment status and select facilities among many others using these two platforms.

Supa Cover

NHIF has continued to expand its offerings overtime in terms of healthcare benefit packages to its members. The NHIF national scheme (dubbed 'Supa cover' is an affordable health insurance scheme that offers the following to the NHIF members: Outpatient services, Inpatient Services, Maternity Services, Imaging Services, Drug and Rehabilitation services, Renal Dialysis, Kidney transplant, Surgical Package, Oncology/Cancer Treatment,

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

Going Forward

In keeping with its mission to contribute towards universal health coverage in the provision of affordable, accessible, sustainable and quality health insurance through strategic resource pooling and healthcare purchasing in collaboration with stakeholders, the Fund will continue to execute key deliverables outlined in the Strategic Plan 2018-2022.

Going forward, National UHC Scale up will involve expansion of health-insurance coverage in the country through a two-pronged approach namely, expansion of health insurance coverage of indigent and vulnerable households across the country and mandating national health insurance registration and contributions for all Kenyans both in the formal and informal sectors through amendments of the NHIF Act No. 9 of 1998. To actualize this dream, the Fund will seek approval of the proposed amendments of the NHIF act No. 9 of 1998; completion of staff reorganization for suitability of purpose; conclusion of biometric registration of members as well adoption of E-claim management by all healthcare providers.

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ENVIRONMENTAL AND SUSTAINABILITY REPORTING

1. Sustainability Strategy and Profile

NHIF is a major contributor in building a progressive, responsive and sustainable health care system for accelerated attainment of the highest standard of health to all Kenyans. So far, NHIF has enjoyed a good political goodwill which is pertinent towards a successful execution of its mandate. In response to this social capital, NHIF has been keen to build its internal capacity through ensuring staff development and well-being. In addition, the Fund has also been pursuing structural changes in order to achieve optimal utilization of resources.

In pursuing its mandate, a major priority has been stakeholder engagement. NHIF has been extremely keen to work with both National and County Governments as well as other partners with acute awareness that only through strong and fruitful collaborations will the dream of UHC be realized

2. Environmental Performance

The National Hospital Insurance Fund (NHIF) as part of fulfilling its Environmental pillar in its Corporate Social Sustainability (CSS) program undertook to plant at least 6,600 trees in different regions across the country. This is in line with the National Government directive, “Panda Miti, Penda Kenya” where the country seeks to attain minimum forest cover of 10%. The NHIF initiative is therefore to join other partners and stakeholders in order to boost the minimum forest cover.

NHIF signed a Memorandum of Understanding with the Kenya Forest Service to undertake this exercise. This will see rehabilitation of forests done across 6 regions, namely: - Kibiri forest in Vihiga County, Gatara forest in Muranga County, Shimba Hills forest in Kwale County, Ngong Hills forest In Kajiado County, Kapenguria forest in West Pokot County and Meru forest station in Meru County.

With the assistance of the Kenya Forest Service one Hectare (Ha) was identified in the three regions and the tree planting exercise began in Meru forest station. This was later followed by Murang’a, Vihiga, Kwale, West Pokot and Nairobi respectively.



Figure: NHIF CEO ground-breaking in Meru Forest

A total of 1,100 indigenous trees were planted in each of the identified sites. As stipulated in the M.O.U the Kenya Forest Service as will ensure 100% success rate and will maintain the sites for three years.

3. Employee welfare

a. Recruitment and Selection

The Fund being an equal opportunity employer, shall seek to attract and retain an optimum number of qualified human resource based on their academic and professional qualifications coupled with the right mix of attitudes and competencies, for the attainment of the Fund's strategic objectives.

There shall therefore be no discrimination against any of its employees on the basis of gender, race, religion, ethnicity, political inclination or any other condition that may give rise to any form of alienation.

While making decisions on selection on first appointment, preference will be given to qualified and suitable Kenyan citizens for the positions. However, information concerning a candidate's general background and/or previous employment shall be verified.

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NHIF recognizes the need for training and development of all its employees as in the end they become better equipped for meeting emerging challenges in their duties, thus achieving the organization's objectives.

It is therefore, the policy of the Fund to offer sound training opportunities to its entire staff in order to improve their work performance and enhance their personal development, as well as assist the Fund in meeting its overall development programmes.

More particularly, the training and development of employees will be directed towards achieving the following objectives: -

- (a) To improve the organizational performance of the Fund by helping all employees to improve on their effectiveness in their present jobs.
- (b) To assist each employee to gain competence and skills in preparation for more responsibility within the Fund and to help each employee to prepare for change, as the Fund develops to meet changing needs.
- (c) To ensure that sufficiently trained manpower is available to meet the Fund's strategic requirements, by identifying those requirements and providing appropriate training and development opportunities for all its employees.
- (d) The Fund shall consult/liase with organizations involved with training, in the facilitation of required training programmes.

b. Occupational Health & Safety Policy

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

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

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

1. Ensure the health & safety status of our employees, work operations and the work environment.
2. Comply with all applicable statutory and regulatory OHS requirements to which NHIF subscribes to.
3. Educate employees on their OHS responsibilities and equip them with adequate authority and resources to carry out their duties successfully.

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4. Implement, sustain, expand upon and continuously improve our OHS Standard within our business and conform to appropriate benchmarking standards.
5. Involve all employees, customers and strategic partners in improving our OHS standard.
6. Recognize and reward good OHS performance.
7. Regularly review our effectiveness and audit our performance in achieving our OHS Objectives

4. Market place practices-

With respect to competition, NHIF is governed by an Act of Parliament No. 9 of 1998, that mandates the Organization to set up a Fund for purchase of healthcare services for its members who are both statutory i.e., employed, and voluntary contributors i.e., self-employed, or sponsored indigents. The premium rates are approved by the Board of Management and gazetted through the office of the Attorney General. The Act has enabled the fund to expand coverage to over 25 Million Kenyans and it has made the Organization the biggest Purchaser of healthcare services in the Country. This has been achieved by recognizing the private sector involvement in purchasing of healthcare services and their regulators through constant engagement with the Insurance regulatory Authority (IRA) and the Association of Kenya Insurance (AKI).

NHIF also offers enhanced medical schemes to the government and its agencies through the Presidential directive of promoting government agencies with the sole purpose of cushioning against high spending in purchasing of health insurance for public servants. Notably, it is not mandatory for the government agencies to procure health insurance for its employees through NHIF though NHIF was given the green light to market its product to such interested agencies.

NHIF is a corruption free zone as it's expressly stated in the NHIF Act Sec. 25, contracts with service providers including healthcare providers and suppliers and other partners and its policies on Fraud Waste and Abuse of benefits.

Being a public organization, NHIF adheres to the Public Ethics Act that mandates the Fund to be impartial in politics and not take part in any such engagements. Nonetheless, engagements with the political class is part of the routine stakeholder engagements carried out by the Fund. At the National level, NHIF engages with the parliament mainly through the Ministry of Health and at the County level, NHIF engages the Counties through the regional and branch offices. Through such engagements, the fund has benefited from political support especially in the smooth implementation of UHC, provision of quality healthcare to members and other areas such as expansion of coverage by supporting indigents through County and NG-CDF Funds.

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To ensure and continually improve on integrity, efficiency and reputation of the Fund, competitive practices have been factored in the strategic decision-making fabric of the Fund through development and implementation of various Policies, Manuals, and guidelines some of which are:

1. Anti-Corruption Policy
2. Conflict of interest Policy
3. Gifts Policy
4. Fraud and wastage Policy
5. Whistle Blowing Policy
6. The Code of Conduct and Ethics

Additionally, the Fund has undertaken the initiative to train and sensitize employees on matters of Article 10, 232 and Chapter 6 of the Constitution of Kenya (2010) and the integration of the same in the decision-making processes with the aim of containing politics among others that may emerge during execution of the day-to-day mandate of achieving the Fund's objective. Monitoring of practices is done through the oversight of Integrity Assurance Officers Committee and Corruption Prevention Committee which meet on quarterly basis to evaluate progress.

a) *Responsible Supply chain and supplier relations*

While the Fund is committed to acquire Goods, works and Services from the market in accordance to the PPADA 2015 and its regulations, the Fund commits to;

1. Ensure that there is fairness transparency and objectively in its processes and prompt feed back to our supplies.
2. That good works, and services provided by our supplies will be received promptly as per the set specifications and payments to the supplies will be processed in a timely manner.
3. We will maintain a cordial business relationship with our suppliers while maintaining the highest ethical standards and integrity.

b) *Responsible marketing and advertisement*

The team is guided by the Customer Service charter which ensures that we maintain the highest standard in service delivery to all stakeholders. NHIF adheres to this by ensuring that whenever marketing and communication campaigns are done through an honest, accountable, transparent and competent manner.

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NHIF is guided by the Government Advertising Agency in regard to placement of adverts in legacy media. The process ensures that we maintain a great value for money and level field for all suppliers in the media industry.

c) *Product stewardship*

The Fund holds all its customers in high regard and has continuously practice protection of their rights and interests. It has achieved this through;

- Sharing information on its' product mix and services to its members and to the public in a consistent manner. This has been achieved through continuously printing information packs that are shared with the public, sensitization of beneficiaries through the Public Education Division on various platforms, updating our website and social media pages. The information shared not only includes the product mix, but also the rights of all our customers with respect to access of the various products at our service points and at the contracted HCPs.
- Signing of contracts with Healthcare providers that expressly state that in providing of services to NHIF beneficiaries, the health facility shall comply and procure health professionals and all other administrative officers engaged by them to be compliant with applicable laws and the relevant policies issued by Regulatory Authorities in relation to the Services provided including the Consumer Protection Act, Act No. 46 of 2012, Laws of Kenya.
- The Contract also expressly outlines the benefits that each NHIF beneficiary is entitled to and has clauses that outline patient rights to access accurate and adequate information on their cover, treatment plan and bills that arise thereof, rights to access to "mandatory services", customer rights to non-discrimination and equitable treatment.
- Setting up an end-to-end customer service, support, and complaint and dispute resolution mechanism through making available channels to do so e.g. a State of the Art 24 hour call centre with a Toll free line, availing a complaints and enquiry email with the public and continuous engagement on our social media pages. These mechanisms have provided our customers with expeditious, fair, transparent, inexpensive, accessible, speedy, and effective enquiry/complaint/dispute resolution

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For the year ended June 30, 2021

REPORT OF THE BOARD OF MANAGEMENT

The Board of Management submit their report together with the financial statements for the year ended June 30, 2021 which show the state of the Fund's affairs.

Principal activities

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

Results

The results of the Fund for the year ended June 30, 2021 are set out on pages 57 - 118. Below (Page 57) is the summary of the surplus made during the year.

Board of Management

The members of the Board of Management who served during the year are shown on page 6.

Auditors

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

By Order of the Board,


.....

Ms. JANET BOIT

Ag. CORPORATION SECRETARY

DATE: 30th September 2021
.....

NATIONAL HOSPITAL INSURANCE FUND

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For the year ended June 30, 2021

STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES

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

The Board is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year (period) ended on June 30, 2021. These responsibilities include:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud
- (iv) Safeguarding the assets of the Fund
- (v) Selecting and applying appropriate accounting policies and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Board accept responsibility for the Fund's financial statements, which have been prepared based on information provided by Management, appropriate accounting policies supported by reasonable and prudent judgements and estimates and in conformity with International Financial Reporting Standards (IFRS). The accounts are prepared in the format required by the PFM Act 2012 and the State Corporations Act. The Directors are of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2021, and of the Fund's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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For the year ended June 30, 2021

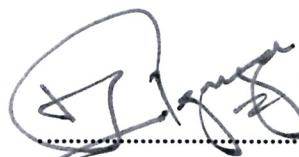
Nothing has come to the attention of the Board to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Fund's financial statements were approved by the Board on 30th September 2021 and signed on its behalf by:



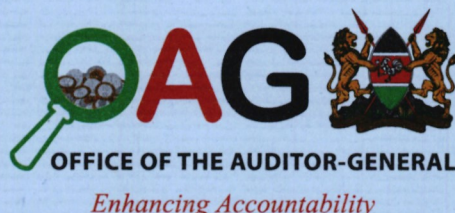
CHIEF EXECUTIVE OFFICER



CHAIRPERSON

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOSPITAL INSURANCE FUND FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the financial statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Hospital Insurance Fund set out on pages 57 to 116, which comprise the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of

budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respect, the financial position of the National Hospital Insurance Fund as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and the National Hospital Insurance Fund Act, 1998.

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1 Disputed ownership of Land

As previously reported, included in the property, plant and equipment balance of Kshs.13,044,666,460 in the statement of financial position is land valued at Kshs.298,589,665 which as disclosed in Note 22 to the financial statements includes an amount of Kshs.93,712,675 for land measuring 10 hectares situated in Karen. However, the ownership of this parcel of land is in dispute and the matter is in Court. Information available indicate that the Directorate of Criminal Investigations (DCI) has commenced investigation to establish whether there was fraud in the transfer of ownership of the land. Progress made on the investigation has not been disclosed in these financial statements.

In the circumstances, the ownership of land valued at Kshs.298,589,665 as at 30 June, 2021 could not be confirmed.

1.2 Doubtful Work-In-Progress at Karen Land

As previously reported, included in the property, plant and equipment balance of Kshs.13,044,660,460 is capital work in progress balance of Kshs.1,444,687,484 being payments for drawings and designs for the proposed Resource Centre. However, the construction of the Resource Centre has not commenced, seventeen (17) years since the acquisition of the land. Management has explained that construction of the Resource Centre was yet to commence due to lack of approval from the parent Ministry and the land ownership dispute in court.

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

In the circumstances, the validity and existence of capital work in progress balance of Kshs.1,444,687,484 as at 30 June, 2021 could not be confirmed.

2. Construction of Multi Storey Car Park

As previously reported, the Fund entered into an agreement with a local construction firm for construction and completion of a multi storey car park at a contract sum of Kshs.909,709,305 which was revised to Kshs.1,179,611,756. Review of records provided

for audit revealed that the project commenced in May, 2002 and completed at a cost of Kshs.3,342,120,239 in July, 2008, five (5) years after the scheduled completion date of August, 2003. Further, expenditure totalling to Kshs.626,635,998 and Kshs.4,706,521 was incurred in 2009/2010 and 2010/2011 respectively on the car park increasing its total cost to Kshs.3,973,462,758 resulting to a contract variation of Kshs.3,063,753,453 or 337% of the original contract. Management has not provided explanation for the unjustified increase of the total cost of the project.

Although the issue has been discussed by the Public Investment Committee, no action has been taken on the Committee recommendations that the Ethics and Anti-Corruption Commission should institute and fast track investigation on the project. As at the time of this audit in April, 2002, no progress report had been received from the Commission.

In the circumstances, validity and accuracy buildings balance of Kshs.2,064,844,467 as at 30 June, 2021 could not be confirmed.

3. Unquoted Investments

As previously reported, the statement of financial position reflects unquoted investment balance of Kshs.340,934,558 out of which Kshs.286,734,558 relates to a loan advanced by the Fund to Moi Teaching and Referral Hospital (MTRH) at an interest rate of 3% per annum. However, the loan was not supported with a signed loan agreement between the Fund and MTRH defining the terms of the loan, purpose and repayment methods. Further, MTRH has disputed the advocates/legal costs amounting to Kshs.40,883,040 charged to its loan account. Although the Management has acknowledged the omission, it was not explained how the anomaly will be resolved and the fallback plan in case of default by the Hospital.

In addition, the unquoted investment balance of Kshs.340,934,558 includes Consolidated Bank shares of Kshs.54,200,000. However, the shares are not traded in and no dividend has been earned in the past. The investment in Consolidated Bank shares is, therefore, impaired.

In the circumstances, the validity and existence of unquoted investments balance of Kshs.340,934,558 as at 30 June, 2021 could not be confirmed.

4. Short Term Deposits (Investments)

As previously reported, the statement of financial position reflects short term deposits (investments) balance of Kshs.15,078,178,771 which is net of provision for impaired investments of Kshs.1,304,410,609. The provision includes an amount of Kshs.49,500,000 which had been deposited by the Fund on 26 June, 2001 with the Consolidated Bank Limited. The entire deposit of Kshs.49,500,000 was offset by the Bank against a guarantee executed by the former Fund Chief Executive Officer on behalf of Euro Bank Limited. It is not clear and the Management has not explained the circumstances under which the Fund's deposit was used as a guarantee by the then Chief Executive Officer.

The Public Investment Committee recommended in the 21st report that;

- (i) The then Chief Executive Officer (CEO) of NHIF be held accountable for any losses incurred in the irregular investment of the surplus funds in Consolidated

Bank and therefore be surcharged for Kshs.40,065,205, being the value of the undeposited cheque No.022477 of 23 September, 2002 from Euro Bank;

- (ii) The then Consolidated Bank's CEO and Finance Manager should be held accountable for colluding with NHIF to mismanage the invested funds;
- (iii) In view of the fact that the Fund had no capacity to provide guarantee for a loan to a private bank, Consolidated Bank should pay the amount of Kshs.49.5 million owed to the Fund;
- (iv) The then Senior Management of Consolidated Bank including the then Managing Director, and Finance Manager should also be held accountable for colluding with NHIF to mismanage the invested funds.
- (v) The former Managing Director of Consolidated Bank should be surcharged for the funds that were advanced to Euro Bank in overnight lending. He should further be held accountable for the Kshs.49.5 million which the Bank could not recover from the Fund and consequently offset the same against the fixed deposits of NHIF.
- (vi) NHIF should relentlessly pursue Consolidated Bank for recovery of Kshs.49,500,000.
- (vii) NHIF CEO must ensure that all financial investments by the Fund are done in accordance with Treasury Circular No.10 of 1992 and Section 28(1) of the Public Finance Management Act, 2012.

However, no action appears to have been taken by Management to recover the loss of Kshs.49,500,000.

In the circumstances, the value and existence of the short-term deposits (investments) balance of Kshs.15,078,178,771 as at 30 June, 2021 could not be confirmed.

5. Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.11,833,069,086, and as disclosed in Note 30 to the financial statements. However, the following unsatisfactory matters were noted:

5.1 Long Outstanding Return to Drawer (R/D) Cheques

The statement of financial position reflects a balance of Kshs.11,833,069,086 in respect of trade and other receivables which includes R/D Cheques of Kshs.14,790,981 from various institutions and which have been long outstanding for more than six (6) months with some dating back to year 2013. However, Management has not made any efforts to have the cheques replaced.

In the circumstances, the validity, accuracy, and recoverability of R/D cheques balance of Kshs.14,790,981 as at 30 June, 2021 could not be confirmed.

5.2 Long Outstanding Insurance Claim

As previously reported, included in the balance of sundry debtors of Kshs.7,246,750 is an insurance claim for a motor vehicle amounting to Kshs.4,414,750 which was involved in an accident on 27 April, 2018. However, the claim has not been paid to-date and Management has not provided explanation for failure to recover the long outstanding insurance claim.

In the circumstances, the recoverability of sundry debtors balances of Kshs.4,414,750 as at 30 June, 2021 could not be confirmed.

6. Benefit Expenses

6.1 Double Payment for Specialized Benefit Packages

The statement of financial performance reflects national health scheme expenses of Kshs.28,236,045,834 which includes specialized benefit packages totalling Kshs.15,580,660,100 as disclosed in Note 18 to the financial statements. However, the expenditure included double payments of Kshs.2,370,000 for C-section deliveries and which Management has not provided any explanation for the double payment.

In the circumstances, the validity of specialized benefit packages totalling Kshs.15,580,660,100 for the year ended 30 June, 2021 could not be confirmed.

6.2 Linda Mama Benefit Expenses

6.2.1 Overpayment Above Specified Limits

The statement of financial performance reflects Linda Mama benefit expenses of Kshs.4,948,139,361 as disclosed in Note 15 to the financial statements. However, the benefits exceeded the recommended ceiling by Kshs.210,355,297 contrary to the Board Papers of 28 January, 2016, 15 December, 2015 and internal Memo referenced HF/LD/23 Vol.III (43) which specified the limits for C-Section, Normal Delivery, Minor Surgery Major Surgery MRI, Rehabilitation, CT-Scan, Chemotherapy, Radiology.

Consequently, Management was in breach of the Board's decisions.

6.2.2 Double Payments

Included in the Linda Mama benefit expenses amount of Kshs.4,948,139,361 and as reflected in Note 15 to the financial statements are caesarian and normal delivery expenses of Kshs.3,044,194,898 which included a double payment of Kshs.24,773,550.

In the circumstances, the accuracy and validity of Linda Mama program expenses of Kshs.31,321,750 for the year ended 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Hospital Insurance Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.80,708,438,000 and Kshs.57,918,838,000 respectively resulting to a revenue shortfall of Kshs.87,880,563 against actual receipts of Kshs.38,885,395 resulting to an under collection of Kshs.22,790,080,000 or 28% of the budget. Similarly, the actual expenditure for the year amounted to Kshs.61,749,443,000 against a budget of 75,198,094,000 resulting in an overall under absorption of Kshs.13,448,651.

There is need for the Fund to review its budget making process with a view to developing a vibrant budget implementation follow up mechanism and feedback process to ensure that all projects and activities are implemented as planned for the Fund to meet its mission and objectives for the benefits of the citizens.

2. Prior Year Issues

The audit report for the year ended 30 June, 2020 raised several issues in regard to balances reflected in the financial statements, lawfulness and effectiveness in use of resources and effectiveness of internal controls, risk management and governance. The report of Management on progress made in resolving the issues indicates that some of the issues have been resolved. However, the report does not provide disclosure on how issues raised in the audit report were resolved.

Management has explained that the issues are yet to be discussed by Parliament.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Long Outstanding Staff Receivables

Included in the staff receivables balance of Kshs.8,026,605 as reflected in Note 30 to financial statements is salary advance totalling Kshs.4,021,884. However, the advances were not recovered from staff within twelve (12) months. This is contrary to paragraph section C.6(5) of the Human Resource Policies and Procedure Manual, 2016 for the

Public Service which limits the recovery period for salary advance to a maximum of twelve (12) months.

In the circumstance, Management was in breach of the law.

2.0 Delayed Surrender of Temporary Imprest

The statement of financial position reflects trade and other receivables balance of Kshs.11,833,069,086 which include temporary imprest of Kshs.7,156,061 as disclosed in Note 30 to the financial statements. However, temporary imprest totalling Kshs.359,400 has been outstanding for over four (4) months. This is contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.

In the circumstances, Management was in breach of the law.

3.0 Irregular Payment of Acting Allowance

The statement of financial performance reflects staff costs of Kshs.5,210,851,097 which include acting allowance of Kshs.12,479,934 as disclosed in Note 19 to the financial statements. The acting allowance include an expenditure of Kshs.5,506,395 paid to employees who have been acting for more than six (6) months. This is contrary to paragraph Section C.14(1) of NHIF Human Resource Policies and Procedure Manual, 2020 which states that acting allowance will not be payable to an officer for more than six (6) months.

In the circumstances, Management was in breach of law.

4.0 Failure to Settle Legal Expenses

The statement of financial performance reflects other operating expenses of Kshs.1,648,584,680 which include legal expenses of Kshs.40,609,210 as disclosed in Note 21 to the financial statements out of which Kshs.19,709,232 was paid to a firm representing the Fund in High Court Civil Suit No. 345 of 2013. The Fund had been sued for terminating two (2) contracts of Kshs.77,678,000 without issuing three (3) months' notice as required. However, the Fund lost the case and was ordered to pay Kshs.130,587,018 plus interest at court rates and costs of the suit.

The Fund risks further loss due to delayed settlement of the court verdict.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Unsupported Expenditure

The statement of financial performance reflects Linda Mama Benefit expenses of Kshs.4,948,139,361 as disclosed in Note 15 to the financial statements. However, the signed Memorandum of Understanding between the Ministry of Health and National Hospital Insurance Fund was not provided for audit verification.

In the circumstances, the terms and conditions of engagement could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 August, 2022

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

	Note	JUNE 2021	JUNE 2020
REVENUES		KES	KES
National Health Scheme Contributions	6	31,621,331,719	31,254,581,423
Civil Servant Scheme Contributions & Premium	7	6,022,658,067	6,138,826,763
NPS & KPS Scheme Contributions & Premium	8	7,028,116,989	6,983,517,537
Edu Afya Medical Scheme Premium	9	4,050,000,000	4,050,000,000
HISP OVC Program Premium	10	1,341,820,000	1,091,808,000
HISP (OPPSD) Program Premium	11	276,000,000	252,000,000
County Scheme Contributions & Premium	12	2,739,988,156	3,263,039,986
Parastatal Schemes Contributions & Premium	13	1,047,798,983	2,094,180,160
Retirees Schemes Premium	14	551,782,076	330,108,999
Linda Mama Program Premium	15	4,948,139,361	4,041,850,985
WIBA - NPS/KPS Premiums	16	1,147,797,220	-
TOTAL REVENUES		60,775,432,570	59,499,913,854
BENEFITS EXPENSES			
National Health Scheme Expenses	18	28,236,045,834	29,971,058,098
Civil Servant Scheme Expenses	7	6,734,203,627	6,650,824,817
NPS & KPS Scheme Expenses	8	8,255,928,224	7,141,726,047
Edu Afya Medical Scheme Expenses	9	1,850,335,509	2,334,613,644
HISP OVC Program Expenses	10	250,641,181	53,804,656
HISP (OPPSD) Program Expenses	11	81,847,746	18,788,821
County Scheme Expenses	12	1,234,656,419	1,554,539,849
Parastatal Schemes Expenses	13	1,063,751,144	1,743,714,242
Retirees Schemes Expenses	14	762,420,144	851,377,813
Linda Mama Benefit Expenses	15	4,948,139,361	4,041,850,985
WIBA - NPS/KPS Expenses	16	643,769,429	-
TOTAL BENEFIT EXPENSES		54,061,738,618	54,362,298,973
GROSS PROFIT		6,713,693,952	5,137,614,881
Other Income	17	1,373,686,725	1,324,106,263
TOTAL REVENUES		8,087,380,677	6,461,721,145
OPERATING EXPENSES			
Staff Costs	19	5,210,851,097	4,910,700,177
Board Expenses	20	27,681,665	22,734,267
Other Operating Expenses	21	1,648,584,680	1,795,869,728
Depreciation of PPE	22	282,817,145	307,092,700
Amortization of Intangible Assets	23	246,064,689	337,657,928
Finance Expenses	24	37,412,914	64,895,434
Total Operating Expenses		7,453,412,190	7,438,950,235
PROFIT/ (LOSS) BEFORE TAXATION		633,968,486	(977,229,090)
Tax Expense	25	184,063,384	174,231,566
TOTAL COMPREHENSIVE INCOME		449,905,103	(1,151,460,656)

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2021

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	JUNE 2021 KES	JUNE 2020 KES
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	22	13,044,666,460	13,225,241,616
Intangible Assets	23	858,847,400	452,710,393
Receivable - South B Estate Mortgage	26	3,053,097	5,963,515
Fixed Interest Investments (Bonds)	27	-	20,520,000
Long Term Deposits	28	1,321,681,075	1,019,751,491
Unquoted Investments	29	340,934,558	368,392,699
Total Non-Current Assets		15,569,182,590	15,092,579,714
Current Assets			
Trade and Other Receivables	30	11,833,069,086	7,771,483,702
Short Term Deposits	32	15,078,178,771	12,381,650,000
Cash and Bank Balances	33	1,005,174,339	3,328,937,655
Total Current Assets		27,916,422,197	23,482,071,357
TOTAL ASSETS		43,485,604,787	38,574,651,071
EQUITY AND LIABILITIES			
Capital and Reserves			
Accumulated Fund	34	12,209,923,340	12,209,923,340
Retained Earnings	35	18,697,004,746	18,247,099,644
Total Capital and Reserves		30,906,928,086	30,457,022,984
Current Liabilities			
Claims Payables	36	8,432,017,053	2,587,937,093
Other Trade Payables	37	2,968,022,864	4,163,792,248
Tax Payable	38	12,666,743	13,475,331
Provision for Liabilities	39	1,165,970,042	1,352,423,415
Total Current Liabilities		12,578,676,701	8,117,628,087
TOTAL EQUITY AND LIABILITIES		43,485,604,787	38,574,651,071

The financial statements on pages 57 to 120 were approved by the Board of Management on 30/09/2021 and signed on its behalf by:

Chief Executive Officer

Dr. Peter Kamunyo

Ag. Director Financial Services

Ms Francisca W. Mwanza

ICPAK Membership No. 4834

Chairperson

Hon. Lewis Nguyai

NATIONAL HOSPITAL INSURANCE FUND

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

	Accumulated Fund	Retained Earnings	Total
	KES	KES	KES
NOTE	34	35	
At July 1, 2019	12,209,923,340	19,398,560,300	31,608,483,640
Changes in the year / Total comprehensive income	-	(1,151,460,656)	(1,151,460,656)
At June 30, 2020	12,209,923,340	18,247,099,644	30,457,022,984
At July 1, 2020	12,209,923,340	18,247,099,644	30,457,022,984
Changes in the year / Total comprehensive income	-	449,905,103	449,905,103
At 30th June, 2021	12,209,923,340	18,697,004,746	30,906,928,086

As per The National Treasury requirement, Retained Earnings as at 1st July 2019 has been restated from Kshs. 19,395,102,251 to Kshs. 19,398,560,300 as a result of prior period adjustments relating to Recoveries from Provisions of Kshs. 29,060 (Note.31), Interest Receivables of Kshs. 562,281 (Note.30), Withholding Tax Payables of Kshs. 19,610,286 (Note.38) and Sundry Prepayments of Kshs. 15,619,017 (Note.30).

Additionally, Surplus for the year ended 30th June 2020 has been restated from Kshs. 1,156,934,012 to Kshs. 1,151,460,656 owing to prior period adjustments for the year 2019/2020 for Withholding Tax expense of Kshs. 957,945, Interest on investment of Kshs. 6,386,301 (See note 17) and Kshs. 45,000 being recoveries from provisions. (See note 17).

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2021

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 KES	2020 KES
CASHFLOWS FROM OPERATING ACTIVITIES			
Cash generated from/ used in operations	40(a)	506,585,183	(1,185,947,014)
Tax Paid	25	(184,063,384)	(174,231,566)
Net cash generated from operating activities		322,521,800	(1,360,178,580)
CASHFLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	22	(102,241,989)	(243,368,473)
Purchase of Intangible Assets	23	(652,201,696)	-
Proceeds from disposal of property, plant and equipment	17	180,494	14,653,816
Interest from investment	17	1,055,547,873	997,224,111
Proceeds from sale of South B estate	26	2,910,418	2,717,790
(Purchase) Redemption of Fixed Interest Investment	27	20,520,000	-
Purchase of Long-term Deposit	28	(301,929,584)	(19,270,802)
(Purchase)/Redemption of unquoted investment	29	27,458,140	26,261,878
Net cash generated from/ (used in) investing activities		50,243,656	778,218,321
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		372,765,456	(581,960,259)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		15,710,587,655	16,292,547,914
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	40(b)	16,083,353,111	15,710,587,655

The notes set out on pages 64 to 120 are an integral part of these financial statements.

NATIONAL HOSPITAL INSURANCE FUND
Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2021

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	%
REVENUES						
National Health Scheme Contributions	43,437,897,000	-	43,437,897,000	31,621,331,719	(11,816,565,281)	-27%
Civil Servant Scheme Contributions & Premium	4,000,000,000	-	4,000,000,000	6,022,658,067	2,022,658,067	51%
NPS & KPS Scheme Contributions & Premium	4,785,805,560	-	4,785,805,560	7,028,116,989	2,242,311,429	47%
Edu Afya Medical Scheme Premium	4,050,000,000	-	4,050,000,000	4,050,000,000	-	0%
HISP OVC Program Premium	1,091,808,000	-	1,091,808,000	1,341,820,000	250,012,000	23%
HISP (OPPSD) Program Premium	252,000,000	-	252,000,000	276,000,000	24,000,000	10%
County Scheme Contributions & Premium	1,543,344,652	-	1,543,344,652	2,739,988,156	1,196,643,504	78%
Parastatal Schemes Contributions & Premium	1,434,114,740	-	1,434,114,740	1,047,798,983	(386,315,757)	-27%
Retirees Schemes Premium	-	143,013,295	143,013,295	551,782,076	408,768,781	286%
Linda Mama Program Premium	3,898,000,000	200,000,000	4,098,000,000	4,948,139,361	850,139,361	21%
WIBA - NPS/KPS Premiums	-	2,295,594,440	2,295,594,440	1,147,797,220	(1,147,797,220)	-50%
TOTAL REVENUES	64,492,969,952	2,638,607,735	67,131,577,687	60,775,432,570	(6,356,145,116)	-9%
BENEFITS EXPENSES						
National Health Scheme Expenses	35,619,075,540	-	35,619,075,540	28,236,045,834	7,383,029,706	26%
Civil Servant Scheme Expenses	3,400,000,000	-	3,400,000,000	6,734,203,627	(3,334,203,627)	-50%
NPS & KPS Scheme Expenses	4,067,934,726	-	4,067,934,726	8,255,928,224	(4,187,993,498)	-51%
Edu Afya Medical Scheme Expenses	3,321,000,000	-	3,321,000,000	1,850,335,509	1,470,664,491	79%
HISP OVC Program Expenses	895,282,560	-	895,282,560	250,641,181	644,641,379	257%
HISP (OPPSD) Program Expenses	206,640,000	-	206,640,000	81,847,746	124,792,254	152%
County Scheme Expenses	1,311,842,954	-	1,311,842,954	1,234,656,419	77,186,535	6%
Parastatal Schemes Expenses	1,218,997,750	-	1,218,997,750	1,063,751,144	155,246,606	15%
Retirees Schemes Expenses	-	120,131,169	120,131,169	762,420,144	(642,288,975)	-84%
Linda Mama Benefit Expenses	3,898,000,000	200,000,000	4,098,000,000	4,948,139,361	(850,139,361)	-17%
WIBA - NPS/KPS Expenses	-	2,295,594,440	2,295,594,440	643,769,429	1,651,825,011	257%
TOTAL BENEFIT EXPENSES	53,938,773,530	2,615,725,609	56,554,499,139	54,061,738,618	2,492,760,521	5%
GROSS PROFIT	10,554,196,422	22,882,126	10,577,078,548	6,713,693,952	(3,863,384,595)	37%
Other Income	1,245,823,724	-	1,245,823,724	1,373,686,725	127,863,001	10%
TOTAL REVENUES	11,800,020,146	22,882,126	11,822,902,272	8,087,380,677	(3,735,521,594)	-32%
OPERATING EXPENSES						
Staff Costs	4,971,136,655	262,388,113	5,233,524,768	5,210,851,097	22,673,671	0%
Board Expenses	30,000,000	-	30,000,000	27,681,665	2,318,335	8%
Other Operating Expenses	1,509,839,460	297,268,977	1,807,108,437	1,648,584,680	158,523,757	10%
Depreciation of PPE	313,800,000	-	313,800,000	282,817,145	30,982,855	11%
Amortization of Intangible Assets	260,176,000	-	260,176,000	246,064,689	14,111,311	6%
Finance Expenses	43,366,029	-	43,366,029	37,412,914	5,953,115	16%
TOTAL OPERATING EXPENSES	7,128,318,144	559,657,090	7,687,975,234	7,453,412,190	234,563,044	3%
PROFIT/ (LOSS) BEFORE TAXATION	4,671,702,002	(536,774,964)	4,134,927,038	633,968,486	(3,500,958,550)	-85%
Tax Expense	133,704,750	-	133,704,750	184,063,384	-50,358,634	-27%
TOTAL COMPREHENSIVE INCOME	4,537,997,252	(536,774,964)	4,001,222,288	449,905,103	(3,551,317,184)	-89%

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EXPLANATIONS FOR VARIANCES

REVENUE

National Health scheme. Included in revenues reported under the enhanced schemes is statutory contributions totaling to Kes. 5,798,382,146 budgeted under the NHS Scheme. Additionally, the following factors affected revenue collection in the year under review:

- (i) A depressed economy leading to reduced purchasing power for households who prioritized basic needs,
- (ii) Effect of Covid-19 prevention measures and restrictions which led to mass layoffs and reduced income and
- (iii) Negative impact of UHC pilot program in four of the identified Counties (New registration and retention rates declined significantly in the Pilot Counties due to Government UHC pilot that accorded free healthcare to households)

Civil Servant Scheme. NHIF received premiums amounting to Kes 4,000,000,000 for Civil servants comprehensive medical cover. An amount of Kes 2,022,658,067 was also received being statutory contributions from the members of the scheme. These are contributions deducted from their salaries and remitted by respective Ministries and departments. This amount of Kes 2,022,658,067 is included in the target of Kes 43,437,897,000 under the National Scheme and it is not in the CS Scheme target. However, to match premiums & contributions with benefits in the scheme, the statutory figure was included in the civil servant scheme report.

NPS/ KPS Scheme. The Variance of Kes 2,242,311,429 is the statutory contributions remitted for members of National Police and Prisons Services. This figure is not included in the budget for NPS/KPS but was part of the National scheme target. For premiums & benefits comparison, the actual statutory contributions have been paired with premiums to calculate the combined loss ratio for this scheme.

Health Insurance Subsidy Program (OVC). The HISP programs premiums were up scaled by 40% beginning cover period December 2020. The premiums received is as per the new covered population.

Free Maternity Program. The Linda Mama program is a managed funds program where funds are transferred to NHIF by the MOH to cater for maternity care for beneficiaries and are replenished based on utilization. Utilization surpassed the set budget of Kes 4,098,000,000 for the year however, being a managed fund, the previous balances of funds were rolled over to the period under review. The Ministry replenishes funds whenever they are exhausted.

County Medical Scheme. The amount received includes statutory contributions of Kes 1,196,643,504 whose budget is captured under NHS contributions

Parastatal Medical Schemes. The premiums received for the scheme was below target due to regulatory review. Following the amendment No. 11 of 2019, which included social insurance under the scope of the Insurance Act, the Insurance Regulatory Authority raised concerns to NHIF on the provision of insurance services to the State Corporations and other institutions. With this in mind, NHIF suspended any new contracting or renewal of the corporations. Subsequently, the National Treasury in a Gazette notice dated 26th March 2021 exempted NHIF from the provisions of Insurance Act which gives the Fund the go ahead to renew the medical insurance cover with State Corporations. This period where NHIF could not onboard new parastatals led to the variance.

WIBA - NPS/KPS. The variance of Kes 1,147,797,220 for the WIBA scheme is attributed to a difference between the cover period and the financial period. The amount received of Kes 2,295,594,440 is the full

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premium for the cover period 1st January 2021 to 31st December 2021. The actuals, however, apportion the premiums to the period earned.

EXPENDITURE

Civil Servant Scheme. The CS benefits target of Kes 3,400,000,000 does not include benefits that member of the enhanced scheme access due to their statutory contributions (supa cover). The budget has been included in the National scheme benefits. Further to this, the scheme recorded a high utilization especially for inpatient & outpatient due to the preference by members of the scheme to seek services at private facilities rather than public facilities which are low cost.

NPS/ KPS Scheme. The benefits target of Kes 4,067,934,726 does not include benefits that member of the enhanced scheme access due to their statutory contributions (supa cover). This budget has been included in the National scheme benefits. Further to this, the scheme recorded a high utilization especially for inpatient and outpatient. This is partly due to the high claim proportion from private facilities compared to Faith based and public facilities.

Secondary School Medical Scheme. The low absorption is as a result of the covid-19 restrictions to avert the pandemic; schools were closed for more than 9 months.

Retirees Schemes. The number of members covered under the scheme increased as more pensioners joined through FOPA and KARO contracts leading to increased utilization. These contracts are open contracts where members could join from any month provided they pay the set premiums. Further to this, the scheme is a high-risk portfolio. However, measures were put in place in the subsequent cover period. These are increased premiums per member, introduction of co-payment among others.

Health Insurance Subsidy Program (HISP - OVC & OPPSD). The HISP programs access to benefits by members had been suspended due to non-remittance of premiums by MOH. Utilization however remained low even after resumption of services. Awareness activities have been planned in the subsequent periods.

Tax Expenses. The increased withholding tax expense is attributed to increase in interest on income earned of Kes 1,055,263,764 within the period compared to the target of Kes 891,365,000.

Other Income. NHIF targeted to earn Kes 1.981 billion from rental income and interest from investments. The amount earned was however below target due to a reduction in the investment portfolio (from 14.71 bn in 2019 to 13.47 bn in 2020). Interest earned in 2020 for call deposits and Government securities was lower than anticipated due to economic factors

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NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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

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

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

- i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2021.*

IAS 39-Financial Instruments:

Recognition and Measurement IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial

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instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments. The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

IFRS 4- Insurance Contracts (Superseded)

IFRS 4 "Insurance Contracts" applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts. The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

IFRS 7- Financial Instrument Disclosures

IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters. The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

IFRS 16- Leases

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

- ii. ***New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.***

IAS 1 – Presentation of Financial Statements

IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their

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content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.

The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

IAS 12 – Income Taxes

IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test. Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

IAS 16 – Property, Plant and Equipment

IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable). The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

IAS 41 – Agriculture

IAS 41 "Agriculture" sets out the accounting for agricultural activity - the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

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IFRS 1 – First-time Adoption of International Financial Reporting Standards

IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

IFRS 3 – Business Combinations

IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

IFRS 17 – Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.]

iii. Early adoption of standards

The entity did not early - adopt any new or amended standards in year 2020/2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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a) Revenue Recognition

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

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

b) Benefit Expenses (Claims)

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

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

c) Property, Plant and Equipment

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

d) Depreciation and Impairment of Property, Plant And Equipment

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

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

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ASSET/ ASSET CLASS	ASSET LIFE/ LEASE PERIOD	PERCENTAGE DEPRECIATION
Land	999 years	0%
Buildings and Civil Works	40 years	2.5%
Plant and Machinery	8 years	12.5%
Motor Vehicles & Motor Cycles	5 years	20%
Computers and Related Equipment	3 years	33.3%
Office Equipment	8 years	12.5%
Furniture and Fittings	5 years	20%

e) Intangible Assets

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

f) Amortisation and impairment of intangible assets

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

g) Finance and Operating Leases

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

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

h) Fixed Interest Investments (Bonds)

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

i) Unquoted Investments

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

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j) Trade and Other Receivables

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

k) Cash and Cash Equivalents

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

l) Trade & Other Payables

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

m) Retirement Benefit Obligations

The Fund operates a defined contribution scheme (NHIF Staff Retirement Benefit Scheme) for all full-time employees. The scheme started in July 2001 and the scheme structure was converted from defined benefits to defined contribution with effect from 1st January 2008. The scheme is administered by an in-house team and is funded by contributions from both the employer (Sponsor) and its employees. The employer therefore has no liability safe for the monthly employer contributions which have been fully remitted to the scheme. The sponsor remits 12.5% of basic salary on a monthly basis while eligible employees contribute 7.5% of their basic salaries.

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kes. 200 per employee per month.

n) Budget information

The original budget for FY 2020/2021 was approved by the Board of management on 30th January 2020 and forwarded to the National Treasury through Ministry of Health on 31st January 2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Fund upon receiving the respective approvals in order to conclude the final budget. The National Treasury approved the Fund's budget on 30th June 2020. This was then communicated to the Fund by Ministry of health through their letter dated 28th of July 2020.

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

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts.

o) Comparative Figures

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

p) Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2021.

r) Taxation

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

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

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

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

Useful lives and residual values

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

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

Provisions

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

	2021 KES	2020 KES
6. NATIONAL HEALTH SCHEME (NHS) CONTRIBUTIONS		
Standard Contribution	23,461,322,406	23,713,957,113
Self Employed Contributions	5,582,048,145	5,162,799,938
Late Contributions	2,206,726,270	2,092,420,803
Penalties	371,234,898	285,403,569
Total	31,621,331,719	31,254,581,423
Contributions are recognised in accordance with the NHIF Act, through employee contributions and voluntary contributions. This forms the primary health insurance cover for all members and declared dependants as provided in the NHIF Act of 1998.		
7. SURPLUS (DEFICIT) FROM CIVIL SERVANTS (CS) SCHEME		
Premiums	3,800,054,000	4,000,012,000
Statutory Contributions	2,044,261,800	2,138,814,763
Ex-gratia fund	178,342,267	-
Premiums & Contributions	6,022,658,067	6,138,826,763
Expenses:		
Group Life Expenses	178,473,600	315,146,980
Administrative Expenses	96,655,820	4,100,700
Outpatient Expenses	2,118,540,551	1,983,714,110
Inpatient Expenses	2,141,044,783	2,529,546,442
Specialized Benefits Package	1,901,345,638	1,701,975,973
Evacuation Services Expenses	119,800,967	116,340,612
Ex-gratia Expenses	178,342,267	-
Total Expenses	6,734,203,627	6,650,824,817
Deficit/Surplus for the Year	(711,545,560)	(511,998,054)

The Fund entered into a contract with the government to provide private medical insurance cover to civil servants. The civil Servants scheme is now in its 7th year since inception on 1st January 2012. Under this medical insurance, principal members together with six dependents are entitled to outpatient & inpatient care, group life and last expense cover. The Outpatient cover caters for all outpatient procedures including dental & optical services while inpatient cover is received in NHIF accredited facilities and includes all inpatient procedures. The reason for the scheme deficit was because of increased awareness by the members.

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	2021 KES	2020 KES
8. SURPLUS (DEFICIT) FROM NPS & KPS MEDICAL SCHEME		
Premiums	4,585,805,560	4,785,805,560
Statutory Contributions	2,222,977,246	2,197,711,977
Ex-gratia fund	219,334,183	-
Premiums & Contributions	7,028,116,989	6,983,517,537
Expenses:		
Group Life Expenses	159,690,000	135,296,924
Administrative Expenses	90,083,325	12,212,660
Outpatient Expenses	2,730,351,580	2,164,660,296
Inpatient Expenses	2,917,056,878	3,110,568,401
Specialized Benefits Package	2,008,756,651	1,593,082,026
Evacuation Services Expenses	130,655,608	125,905,740
Ex-gratia Expenses	219,334,183	-
Total Expenses	8,255,928,224	7,141,726,047
Deficit/Surplus for the Year	(1,227,811,235)	(158,208,510)

The National Police Service & The Kenya Prisons Service contracted The Fund to provide comprehensive medical insurance cover to its employees. The scheme is in its third year of implementation and current policy cover runs from 1st July 2020 to 30th June 2021. There has been steady decline in surplus due to gradual increase in benefit utilization by members as a result of sensitization and awareness

9. SURPLUS FROM EDUAFYA MEDICAL SCHEME

Premiums	4,050,000,000	4,050,000,000
Expenses:		
Group Life Expenses	129,850,000	166,331,372
Administrative Expenses	-	9,886,730
Outpatient Expenses	842,182,253	991,966,195
Inpatient Expenses	374,506,095	675,236,133
Specialized Benefit Packages	247,826,261	223,193,215
Evacuation Services Expenses	255,970,899	268,000,000
Total Expenses	1,850,335,509	2,334,613,644
Deficit/Surplus for the Year	2,199,664,491	1,715,386,356

The Ministry of Education contracted NHIF to provide medical insurance to all public secondary school students for the duration of their study. This is in line with the Government Agenda of achieving Universal healthcare coverage. The Fund is expected to cover at least 3 million students enrolled in public secondary schools.

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	2021 KES	2020 KES
10. SURPLUS FROM HISP (OVC) PROGRAM		
Premiums	1,341,820,000	1,091,808,000
Expenses:		
Outpatient Expenses	1,942,561	4,823,673
Inpatient Expenses	133,548,574	30,007,676
Specialized Benefit Packages	115,150,046	18,973,307
Total Expenses	250,641,181	53,804,656
Surplus for the Year	1,091,178,819	1,038,003,344

The scheme is administered by the Fund in partnership with the Ministry of Health. Health Insurance Subsidy programme - OVC is aimed at providing comprehensive medical cover to a selected group of the most vulnerable citizens (very poor) in the country.

11. SURPLUS FROM HISP-OPPSD PROGRAM		
Premiums	276,000,000	252,000,000
Expenses:		
Outpatient Expenses	112,494	833,400
Inpatient Expenses	41,298,300	10,556,058
Specialized Benefit Packages	40,436,952	7,399,363
Total Expenses	81,847,746	18,788,821
Surplus for the Year	194,152,254	233,211,179

The Government through the Ministry of Health entered into an MOU to administer a Health Insurance subsidy programme for Older Persons and Person's with severe disabilities in line with the Constitutional requirement for the State to ensure widest possible enjoyment of the right to health while protecting the right to the highest attainable standard of health for all Kenyans. The Older Persons and Persons with Severe Disability program commenced in 2015. Total population covered under the scheme is 58,000.

12. SURPLUS (DEFICIT) FROM COUNTY MEDICAL SCHEME		
Premiums	1,630,319,206	1,941,540,041
Statutory Contributions	1,109,668,950	1,321,499,945
Premiums & Contributions	2,739,988,156	3,263,039,986
Expenses:		
Group Life Expenses	49,750,000	28,770,000
Administrative	-	363,300
Outpatient Expenses	361,111,593	466,336,039
Inpatient Expenses	416,721,625	656,161,429
Specialized Benefit Packages	374,457,969	402,909,082

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	2021 KES	2020 KES
Evacuation Services	32,615,232	-
Total Expenses	1,234,656,419	1,554,539,849
Surplus for the Year	1,505,331,737	1,708,500,137

The Fund entered into a contract with County Governments to provide private medical insurance cover to the staff of the counties. The county government scheme started in 2014 and so far 23 counties and 3 county assemblies have signed up.

13. SURPLUS (DEFICIT) FROM PARASTATALS MEDICAL SCHEMES

Premiums	650,035,633	1,352,528,322
Statutory Contributions	397,763,350	741,651,838
Premiums & Contributions	1,047,798,983	2,094,180,160
Expenses:		
Group Life Expenses	12,370,000	21,601,945
Outpatient Expenses	503,773,373	627,488,189
Inpatient Expenses	299,234,997	731,369,906
Specialized Benefit Packages	242,432,295	363,254,202
Evacuation Services	5,940,480	-
Total Expenses	1,063,751,144	1,743,714,242
Surplus for the Year	(15,952,162)	350,465,918

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

14. SURPLUS (DEFICIT) FROM RETIREES' SCHEMES

Premiums	528,071,276	260,237,819
Statutory Contributions	23,710,800	69,871,180
Premiums & Contributions	551,782,076	330,108,999
Expenses:		
Group Life Expenses	8,900,000	500,000
Outpatient Expenses	176,073,176	226,972,701
Inpatient Expenses	345,623,394	413,484,256
Specialized Benefit Packages	230,892,565	210,420,856
Evacuation Services	931,008	-
Total Expenses	762,420,144	851,377,813
Surplus for the Year	(210,638,068)	(521,268,814)

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For the year ended June 30, 2021

	2021 KES	2020 KES
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The Fund entered into contracts with private companies and associations to offer private medical insurance cover to their employees at a premium. Included in the scheme is KARO, CBK Pension Scheme and Retired Parliamentarians among others. The scheme started in the current financial year. High utilization was noted. However, the Management has negotiated for enhanced premiums.

15. LINDA MAMA PROGRAM

Premiums	4,948,139,361	4,041,850,985
Expenses:		
Inpatient expenses	1,064,054,980	916,033,053
Caesarian Delivery Expenses	956,606,353	482,602,251
Normal Delivery Expenses	2,332,660,545	2,196,770,409
Antenatal Expenses	531,834,881	381,686,463
Postnatal Expenses	62,982,602	41,397,009
Administrative Expenses	-	23,361,800
Total Expenses	4,948,139,361	4,041,850,985

This is a sponsored program by the government of Kenya through the Ministry of Health targeting pregnant mothers from all backgrounds launched on 1st June 2013. The program was initially run by the Ministry of Health but was later transferred to NHIF. A memorandum of understanding was signed between the Government and NHIF to actualize the implementation of the programme on 27th February 2017. The program targets all expectant mothers without insurance where mothers are entitled to access antenatal care, maternity services, postnatal care and care for new-born from NHIF contracted public and private health facilities. The MOU between NHIF and the Ministry provides that the Fund should reimburse Healthcare facilities for services rendered to the mothers. High Utilization is due to increased awareness by the citizens.

16. SURPLUS (DEFICIT) WORK INJURY BENEFIT ACT (WIBA) NPS/KPS

Premiums	1,147,797,220	-
Expenses:		
WIBA Group life Expenses	162,461,432	-
WIBA Admin costs Expenses	1,015,700	-
WIBA Benefits Expenses	440,142,298	-
WIBA Last Expense	40,150,000	-
Total Expenses	643,769,429	-
Surplus for the Year	504,027,791	-

This scheme commenced on 1st January 2021 and runs for a period of 12 months till 31st December 2021.

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	2021 KES	2020 KES
17. OTHER INCOMES		
Interest on Investments	1,055,263,764	996,772,375
Interest from Disposal South B Estate	284,109	451,736
Rent from Properties	307,607,074	305,626,102
Agency Commissions	2,484,388	2,387,533
Recoveries out of Provisions	4,548,505	45,000
Miscellaneous Receipts	3,318,392	6,107,748
Gain on Disposal	180,494	12,715,770
Total	1,373,686,725	1,324,106,263

Other incomes are those that accrue to the Fund from Short-term and Long-term Investments as well as services rendered to third parties. This consists of proceeds from sundry receipts (tender fees, card replacement charges), agency commissions and disposal of obsolete assets. The decrease is as a result of reduction in the Investment portfolio due to demand for funds to cater for increased benefits.

Other income for the year ended 30th June 2020 was restated from Kshs. 1,317,674,962 to Kshs. 1,324,106,263 as a result of interest receivable on investment of Kshs. 6,386,301 (See note 30) and Kshs. 45,000 being recoveries from provisions. (See note 31).

18. NATIONAL HEALTH SCHEME BENEFIT (NHS) EXPENSES

Outpatient Expenses	3,869,336,396	6,419,684,309
Inpatient Expenses	8,458,778,587	9,413,937,554
Specialized Benefit Packages	15,580,660,100	13,713,026,235
Evacuation Services	327,270,751	424,410,000
Total	28,236,045,834	29,971,058,098

- ✓ These are medical benefits paid out to health care facilities for medical services rendered to members of the national scheme. The Fund has seen a significant growth trend in recent years due to high level of awareness of what NHIF's 'Supa Cover' pays for as benefits. Aggressive public education campaigns to increase knowledge and understanding of NHIF have also helped in the uptake.
- ✓ However, this year's benefits expenses have declined compared to the same period in the last financial year due to introduction of controls that were aimed at cutting down on wastage. These measures include data clean up for capitation payments, introduction of centralized preauthorization for services and mitigation steps to deal with adverse selection.

19. STAFF COSTS

Basic Salary	3,367,082,286	3,123,194,037
Basic Salary(Internship)	-	154,839
Gratuity / Pension Contributions	421,525,590	382,112,174

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	2021 KES	2020 KES
House Allowance	675,775,203	686,719,094
Staff Overtime Allowance	425,705	484,199
Commuter Allowance	260,380,591	266,961,736
Responsibility Allowance	24,909,438	25,669,015
N.S.S.F - Employer Contributions	4,488,000	4,569,200
Transfer Allowance	12,028,769	13,849,588
Acting Allowance	12,479,934	11,969,607
Hardship Allowance	17,937,381	18,326,122
Utilities	7,344,114	7,008,615
Leave Allowance	25,922,688	25,571,200
Staff Medical Expenses	327,412,350	282,893,570
Group Life Cover	26,708,748	38,256,147
Uniforms & Clothing	2,395,235	4,000
Staff Welfare	24,035,068	22,957,034
Total	5,210,851,097	4,910,700,177

These are sum of all wages paid to employees as compensation, cost of employee benefits and payroll taxes paid by the fund. The Management is committed towards Human resource strategic planning and the provision of equitable compensation and benefits to staff. It focuses on strategically aligning the Fund's human capital to the corporate strategic objectives.

NO OF STAFF

	2021	2020
Permanent - Management cadre	629	643
Permanent - Unionisable	1,232	1,244
On Contract	2	2
On Secondment	5	5
TOTAL	1,868	1,894

20. BOARD EXPENSES

Sitting Allowance	11,440,000	10,494,000
Seminars And Conferences	4,219,790	4,220,875
Accommodation	81,000	25,000
Honoraria	960,000	960,000
Airtime	67,900	44,100
Mileage And Per Diem	6,606,388	3,904,650
Lunch All. & Refreshments	933,154	1,864,785
Travel - Local	3,167,872	1,012,862
Board Medical Expenses	205,561	207,995
Total	27,681,665	22,734,267

This expenditure caters for Board members sitting allowances, travelling expenses, meetings expenses, training on corporate governance and workshops. The expenditure is

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influenced by the number of full board and committee meetings, number of seminars, and travel activities.

	2021 KES	2020 KES
21. OTHER OPERATING EXPENSES		
Subscriptions	37,145,051	31,414,388
Legal Expenses	40,609,210	30,665,611
Security Expenses	63,041,856	66,292,429
Provision for External Audit Fee	4,500,000	5,000,000
Provision for Doubtful Receivables	7,253,563	153,133,116
Transport Operating Exp.	104,098,530	177,761,262
Travel & Accommodation	93,829,849	242,127,305
Postage	13,955,391	13,989,269
Telephone Expenses	88,233,020	61,550,855
Hospitality/ Entertainment	36,110,675	37,623,090
Electricity, Water & Conservancy	12,818,639	17,315,235
Newspapers/ Periodicals/ Books	457,778	2,989,143
Printing & Stationery-General	28,000,110	55,649,499
Advertising & Publicity	85,914,164	103,253,690
Security Printing	44,893,000	31,417,104
Show Expenses	-	11,155,900
Cleaning Materials & Services	34,513,746	45,416,398
Computer Stationary & Material	15,097,634	20,794,285
Rent & Rates	239,478,876	228,569,300
Insurance Premiums	21,407,878	17,238,766
UHC National Scale-up	286,102,200	-
Training Expenses	51,879,397	52,977,871
Maintenance of Office Equipment	23,537,238	28,953,464
Maintenance of Computers	301,486,375	314,503,349
Management Consultancy Fees	14,220,500	46,078,400
Total	1,648,584,680	1,795,869,728

These are recurrent operating expenses that ensure the Fund operates and carries out its activities smoothly. They include expenses associated with the general administration of the organization. The current year saw a decrease in operating expenditure equivalent to 8.4% compared to the previous year. This was due to budget rationalization by The National Treasury during the financial year.

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22. a) PROPERTY, PLANT AND EQUIPMENT

2020/2021	Land		Buildings		Motor vehicles, including, motor cycles		Computers & related equipment		Office equipment, furniture & fittings		Capital work in progress		Total	
	KES		KES		KES		KES		KES		KES		KES	
COST														
At July 1, 2020	298,589,665		9,762,005,668		376,977,384		3,078,186,924		2,612,364,492		1,444,687,484		17,572,811,616	
Additions	-		-		10,720,116		86,961,085		4,560,788		-		102,241,939	
Transfers	-		-		-		-		-		-		-	
Disposals	-		-		-		-		-		-		-	
At 30 June 2021	298,589,665		9,762,005,668		387,697,500		3,165,148,009		2,616,925,279		1,444,687,484		17,675,053,605	
DEPRECIATION														
At July 1, 2020	-		1,928,712,649		327,227,378		1,084,144,484		1,007,485,488		-		4,347,569,999	
Charge for the year	-		136,131,817		21,690,101		68,617,994		56,377,232		-		282,817,145	
Eliminated on disposal/transfer	-		-		-		-		-		-		-	
Impairment loss	-		-		-		-		-		-		-	
At 30 June 2021	-		2,064,844,467		348,917,480		1,152,762,478		1,063,862,720		-		4,630,387,144	
NBV At 30 June 2021	298,589,665		7,697,161,201		38,780,020		2,012,385,531		1,553,062,560		1,444,687,484		13,044,666,460	

IAS 16 establishes principles for recognizing property, plant and equipment as assets, measuring their carrying amounts, and measuring the depreciation charges and impairment losses to be recognized in relation to them. The Fund's assets include, land, buildings, motor vehicles & motorcycles, office equipment furniture & fittings and computer equipment. Depreciation is on a straight-line Basis as per Note 4d, page 77.

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22 b) PROPERTY, PLANT AND EQUIPMENT (Cont'd) (Kes)

COST	2019/2020						Total
	Land	Buildings	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	
	KES	KES	KES	KES	KES	KES	KES
At July 1, 2019	298,589,665	9,752,032,988	391,722,457	2,934,233,563	2,541,834,060	1,444,687,484	17,363,100,216
Additions	-	9,972,680	18,912,000	143,953,361	70,530,432	-	243,368,473
Transfers	-	-	-	-	-	-	-
Disposals	-	-	(33,657,073)	-	-	-	(33,657,073)
At 30 June 2020	298,589,665	9,762,005,668	376,977,384	3,078,186,924	2,612,364,492	1,444,687,484	17,572,811,616
DEPRECIATION							
At July 1, 2019	-	1,792,580,832	330,888,622	996,275,500	952,451,372	-	4,072,196,326
Charge for the year	-	136,131,817	28,057,783	87,868,984	55,034,116	-	307,092,700
Eliminated on disposal/transfer	-	-	(31,719,027)	-	-	-	(31,719,027)
Impairment loss	-	-	-	-	-	-	-
At 30 June 2020	-	1,928,712,649	327,227,378	1,084,144,484	1,007,485,487	-	4,347,569,999
NBV At 30 June 2020	298,589,665	7,833,293,018	49,750,005	1,994,042,440	1,604,879,004	1,444,687,484	13,225,241,616

Cost of Computers & Related Equipment as at 30th June 2020 has been restated from Kshs. 3,081,018,924 to Kshs. 3,078,186,924 owing to movement of lost computers of Kshs. 2,832,000 from the Property, Plant & Equipment to Sundry Debtors (Note 30).

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	2021 KES	2020 KES
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23. INTANGIBLE ASSETS

COST	2020	2019
As at 1st July	1,937,790,016	1,937,790,016
Additions	652,201,696	-
Disposals	-	-
Transfer	-	-
As at June 30	2,589,991,712	1,937,790,016
AMORTIZATION		
As at 1st July	1,485,079,623	1,147,421,695
Charge for the year	246,064,689	337,657,928
Transfer	-	-
Impairment	-	-
As at June 30	1,731,144,312	1,485,079,623
NBV as at June 30	858,847,400	452,710,393

This comprises software and licenses purchased by the Fund. They are amortized over a three-year period.

24. FINANCE EXPENSES

Bank Charges	6,285,085	5,225,479
Commissions	31,127,829	59,669,955
TOTAL	37,412,914	64,895,434

This caters for bank charges and commissions paid to revenue collection banks and Safaricom M-pesa services. Finance expenses reduced in the current financial year due to Management decision to collect revenue directly through banks as opposed to agency approach used in previous years.

25. TAX EXPENSES

With Holding Tax Expense	139,689,612	143,350,848
Vat Expense - Property A/C	44,373,772	30,880,717
Total	184,063,384	174,231,566

Withholding tax expense is paid in respect to interest earned from investments while VAT on property is corporate tax on rental income.

Withholding Tax Expense for the year ended 30th June 2020 was restated from Kshs. 142,392,903 to Kshs. 143,350,848 owing to prior period adjustments of Kshs. 957,945 made in the current financial year.

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	2021 KES	2020 KES
26. RECEIVABLE - SOUTH B ESTATE MORTGAGE		
Opening Balance as at 1st July/ Quarter	5,963,515	8,681,305
Less Payments Received in the Year	(2,910,418)	(2,717,790)
Balance Receivable as at June 30	3,053,097	5,963,515

The Fund sold houses in South B estate to staff members through mortgage at a rate of 5%. The recovery for the year and balance as at 30 June 2021 is as shown above.

27. FIXED INTEREST INVESTMENTS (BONDS)

In Central Bank of Kenya 12.5% 12-Year Infrastructure Bond	-	20,520,000
Total	-	20,520,000

This is an investment bond held at the CBK as at 30 June 2020. Fixed interest investments offer a regular income for a specified term with the expectation that the principal will be repaid at the end of the term (maturity date). The bond matured on 8th February 2021.

28. LONG TERM DEPOSITS

NBK (Car Loan)	57,092,390	57,088,825
Savings & Loan	1,264,588,685	962,662,665
Total	1,321,681,075	1,019,751,491

The Fund has held deposits in NBK and KCB as guarantee for staff Car Loan and Mortgages respectively issued at negotiated interest rate to the Fund's employees. The schemes are negotiated at 5% per annum between the fund and the appointed banks who are the scheme managers. The interest earned is shared between the fund and the administrators at 2% and 3% respectively as approved by the board.

29. UNQUOTED INVESTMENTS

Consolidated Bank Shares	54,200,000	54,200,000
MTRH Loan	286,734,558	314,192,699
Total	340,934,558	368,392,699

Shares held at Consolidated Bank Ltd comprised 590,000 ordinary shares valued at KES. 11,800,000 and 2,120,000 preference shares valued at KES. 42,400,000 totalling to KES. 54,200,000.

MTRH Loan refers to a loan advanced by the Fund to the Moi Teaching and Referral Hospital (MTRH) earning an interest of three percent (3%) per annum. The interest is recognised among interest on investments under other incomes.

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		2021 KES	2020 KES
	Details	Amount	Amount
1	Equipment procurement Loan	312,669,869	312,669,869
2	Procurement & Acquisition & legal costs	68,800,240	68,800,240
	Total Loan amount	381,470,109	381,470,109
3	ADD: Capitalization of Interest Earned	35,520,880	25,028,739
4	LESS: Loan recovered from Claims	130,256,431	92,306,150
	Balance of the Loan	286,734,558	314,192,698

30. TRADE AND OTHER RECEIVABLES

Civil Servants Scheme Receivable	574,488,444	596,146,178
County Scheme Receivable	-	139,639,981
Secondary Schools Receivable	-	422,872,023
HISP (OPPSD) Receivable	-	63,000,000
NPS/KPS Scheme Receivable	1,389,254,215	359,120,472
Free Maternity Receivable	2,236,491,257	-
Electricity Deposit	1,335,385	1,342,384
Fuel Deposit	150,000	150,000
HISP (OVC) Receivable	253,617,833	432,197,833
Hospital & Creditors Surcharges	26,757,033	29,804,984
Interest Receivable	57,946,994	63,795,808
Letter Of Credit	-	1,000,000
Outstanding Contributions	6,581,418,039	5,575,659,646
R/D Cheques	14,790,981	18,061,171
Rent Deposit	46,613,426	42,950,429
Rent Receivable	180,567,130	157,773,259
Staff Medical Scheme Deposit A	3,900,000	3,900,000
Staff Receivables	8,026,605	3,732,940
Sundry Prepayments	602,640,269	36,540
Sundry Debtors	7,246,750	7,850,843
Telephone Deposits	263,804	263,804
Temporary Imprest	7,156,061	8,899,538
Total Receivables	11,992,664,225	7,928,197,832
Less: Provision for Doubtful Debt (Note 31)	(159,595,139)	(156,714,130)
Total	11,833,069,086	7,771,483,702

Trade and Other Receivables for the year ended 30th June 2020 has been restated from Kshs. 7,935,160,829 to Kshs. 7,928,197,832 owing to prior period adjustments to Interest receivable of Kshs. 6,386,301 (See Note 17) and Kshs. 562,280, Sundry Prepayments of Kshs. 15,619,017 and Kshs. 2,832,000 being lost computers moved from the Property, Plant & Equipment (Note 22b) under Computers and Related Equipment to Sundry Debtors.

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2021
KES

2020
KES

The fund recognises revenue on accrual basis therefore, amounts relating to the period under review are recognized as receivables. These are amounts owed to the Fund as at the end of the period by entities and individuals. They include Staff, institutions, employers, healthcare facilities and government ministries.

As at 30th June 2021, the ageing analysis of the gross trade receivables was as follows:

	JUNE 2021	JUNE 2020
Less than 30 days	2,319,602,519	2,395,071,538
Between 30 and 60 days	2,565,007,281	3,796,779,399
Between 61 and 90 days	2,165,007,281	994,311,956
Between 91 and 120 days	1,965,007,281	407,333,000
Over 120 days	2,840,102,458	341,664,936
TOTAL	11,854,726,819	7,935,160,829

31. PROVISION FOR DOUBTFUL DEBTS

Provision for Doubtful Receivables	159,595,139	156,714,130
TOTAL	159,595,139	156,714,130

- Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis as per IAS 36. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. As per the Fund's policy on provision for doubtful debt clause 4.3.4.2, for debts aged over 24 months 100% of amount overdue shall be included in the provision, unless payment plans are in place and are being adhered to.
- Provision for Doubtful Receivables for the year ended 30th June 2020 has been restated from Kshs. 153,956,190 to Kshs. 156,714,130 owing to Recovery from provisions of Kshs. 45,000 in the year 2019/2020 (Note 17) and 29,060 (Note. 35) in the year 2018/2019 and Provision for lost computers of Kshs. 2,832,000 moved from Provision of Liabilities (Note. 38 of 2019/2020).

32. SHORT TERM INVESTMENTS

NBK Call Deposit	1,000,000,000	-
KCB Call Deposit	1,035,561,855	100,000,000
Co-op Call Deposit	-	1,400,000,000
CBK Treasury Bills	11,832,200,000	9,132,650,000
Equity Bank Call Deposit	1,210,416,916	1,749,000,000
Total	15,078,178,771	12,381,650,000

These are short-term investments in call deposits and Treasury Bills held for periods less than one year.

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	2021 KES	2020 KES
33. CASH AND BANK BALANCES		
Cash in Hand	124,135	316,705
Cash at Bank	944,484,560	3,283,164,160
Cash in Transit	60,565,645	45,456,790
Total	1,005,174,339	3,328,937,655

Cash at bank balances are funds held at Cooperative Bank of Kenya, Equity Bank and Kenya Commercial Bank, the Fund's main bankers. The KES 1.0 Billion is cash held in collection accounts and cash mopped up to pay claims processed at the end of the year as shown in **Appendix I**. KES 60 Million in transit are revenue collections held by agents at close of business on 30th June 2021.

34. ACCUMULATED FUND

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

As at the Beginning of Year	12,209,923,340	12,209,923,340
Changes in the year	-	-
Balance at the End of Year	12,209,923,340	12,209,923,340

35. RETAINED EARNINGS

The Fund made a Surplus after tax of **KES. 449,905,103** in the financial year 2020/2021 compared to a deficit of **KES. 1,151,460,656** in previous financial year 2019/2020. The decrease in this year's deficit is attributed to decline in benefits expenses compared to the same period in the last financial year due to introduction of controls that were aimed at cutting down on wastage. These measures include data clean-up for capitation payments, introduction of centralized preauthorization for services and mitigation steps to deal with adverse selection.

As at the Beginning of Year	18,247,099,644	19,398,560,300
Changes in the year	449,905,103	(1,151,460,656)
Balance at the End of Year	18,697,004,746	18,247,099,644

36. TRADE PAYABLES (Claims)

Claims Payable	8,432,017,053	2,587,937,093
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These are claims owed to healthcare providers who offer services to the funds registered members arising from hospitalization. The amounts were outstanding as at close of business on 30th June 2021.

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	2021 KES	2020 KES
37. OTHER TRADE PAYABLES		
Accruals	21,088	-
Agency General Payment (Staff Payables)	99,949	99,949
Agency: Group Personal Life/ Ac	4,350,567	18,435,303
Legal Fees NHIF Tenants	157,000	157,000
Pension Payable	518,534	354,210
Rent Deposits	25,361,175	24,911,724
Retention Money	8,767,765	19,253,311
Rockefeller Foundation Grant	12,415	12,415
Salary Clearance Accounts	6,116,700	5,149,840
Tender Refundable Deposits	1,906,000	1,906,000
Trade Creditors	856,219,511	293,286,030
Unapplied Funds Control Account	262,207,977	260,652,326
Korea Foundation for International	662,262	2,976,902
Value Added Tax (Agency A/C)	69,680,100	53,009,600
Value Added Tax on Property	559,942	550,542
W.H.T Payable - Creditors	45,044,728	12,737,695
Secondary Schools Deferred Income	64,142,260	-
HISP (OPPSD) Deferred Income	3,300,442	-
County Scheme Deferred Income	128,798,890	-
Parastatal schemes Deferred Income	869,613,584	709,024,582
Retirees' Scheme Deferred Income	46,682,280	49,626,716
Free Maternity Program Deferred Income	-	2,711,648,104
WIBA Deferred Income	573,799,696	-
Total	2,968,022,864	4,163,792,248

These are a mix of Fund's commitments and liabilities owed to other entities as at the end of the period. Commitments and Liabilities arise when economic value has accrued to the Fund and payment, or services have not been rendered by the Fund. They include deferred incomes from schemes, trade creditors and others.

38. WITHHOLDING TAX PAYABLE

W. H. Tax Payable - Investments	8,692,049	9,569,371
W. H. Tax on Rent	3,974,694	3,905,960
Total	12,666,743	13,475,331

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These are amounts withheld at source based on the nature of the tax item. 15% is imposed on interests earned from all Fund's investments and 10% on rent payable to Funds landlords. These amounts are payable to KRA.

Withholding Tax Payable for the year ended 30th June 2020 has been restated from Kshs. 28,221,712 owing to prior period adjustments of Kshs. 957,945 (Note.25) and 19,610,286.

	2021 KES	2020 KES
39. PROVISION FOR LIABILITIES		
Provision for Civil Servants Scheme	280,643,692	280,643,692
Provision for External Audit Fees	10,000,000	10,000,000
Provision for Board of Survey	1,918,000	749,840
Provision for Open Heart Surgery	296,078	296,078
Provision for IRM System	297,123,353	297,123,353
Provision for EHIM System	181,276,500	181,276,500
Provision for Salary Arrears	169,794,013	582,333,951
Provision for UHC National Scale Up	224,918,405	-
Total	1,165,970,042	1,352,423,415

- Provision of KES. 280,643,692 for Civil Servants Scheme was created as per IAS 37 to cater for pending fee for service claims, capitation payments relating to the scheme for various hospitals including Clinix and Meridian hospitals.
- Provision of KES. 296,078 is the remaining provision balance from sponsorship for Open heart surgery program. The Fund still has a few invoices pending as unpaid. However, due diligence is being undertaken before payments are made as the matter has been picked up for investigation by an external agency.
- Management resolved to pay Unionisable staff, CBA arrears in two tranches as approved by the Board. The first tranche was paid in June 2020 amounting to KES. 401 million and balance of KES. 370 million to be paid in July 2020. As at close of the year 2019/2020, additional provision of KES. 370 million was made to cater for Unionisable staff CBA arrears second tranche of KES. 413 million, bringing the balance to KES. 168 million.
- The Fund also made Provisions of KES. 297 million & KES 181 million to provide for Integrated Revenue Management System (IRMS) and Electronic Health Information Management System (EHIMS) respectively pending conclusion of the cases lodged.
- The Fund made a provision during the year of Kshs. 225 million to cater for UHC National Scale-up exercise.

Provision for Liabilities for the year ended 30th June 2020 has been restated from Kshs. 1,355,255,415 to Kshs. 1,352,423,415 owing to movement of Provision for Lost computers of Kshs. 2,832,000 to Provision for doubtful receivables (Note. 31).

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40. NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of Operating Surplus to Cash Generated from Operations

	2021 KES	2020 KES
Operating Surplus	633,968,486	(977,229,090)
Depreciation	282,817,145	307,092,700
Amortization	246,064,689	337,657,928
Gain on Disposal of PPE	(180,494)	(12,715,770)
Interest From Investments	(1,055,547,873)	(997,224,111)
Operating Surplus before Working Capital Changes	107,121,953	(1,342,418,343)
Working Capital Changes		
(Increase)/decrease in Trade and Other Receivables	(4,061,585,384)	(1,083,658,114)
Increase / (Decrease) in Claims Payables	5,844,079,960	794,852,023
Increase/ (Decrease) in Other Trade Payables	(1,195,769,384)	(142,048)
Increase/ (Decrease) in Tax Payable	(808,589)	(2,515,591)
Increase/ (Decrease) in Provisions	(186,453,373)	447,935,059
Increase (Decrease)	399,463,230	156,471,329
Cash Generated from Operations	506,585,183	(1,185,947,014)
b) Analysis of changes in loans (MTRH Loan)		
Balance at beginning of the year	314,192,699	340,454,576
Loan addition during the year	-	-
Receipts (Interest) during the year	10,492,141	14,632,923
Repayments during the year	(37,950,281)	40,894,800
Repayments of previous year's accrued interest	-	-
Foreign exchange (gains)/losses	-	-
Accrued interest	-	-
Balance at end of the Year	286,734,558	314,192,699
c) Analysis of cash and cash equivalents		
Short term deposits	15,078,178,771	12,381,650,000
Cash at bank	944,484,560	3,283,164,160
Cash in hand	124,135	316,705
Cash in Transit	60,565,645	45,456,790
Balance at end of the Year	16,083,353,110	15,710,587,655

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41. CAPITAL COMMITMENTS

There were no capital commitments in the year under review.

42. CONTINGENT ASSETS & LIABILITIES

Contingent Liabilities	2021
Total claims on all court cases filed against the Fund	17,126,317,203
Total legal fees on all court cases filed against the Fund	754,992,502
TOTAL	17,881,309,705

43. FINANCIAL RISK MANAGEMENT

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

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

a) Credit risk

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

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

The credit risk on bank balances and short-term deposits is limited because the counterparties are banks with high credit ratings assigned by the banking regulatory authority.

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

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The clients under the fully performing category are paying their debts as they continue benefiting. The default rate is low. Part of the debt that is past due is not impaired and continues to be paid. The finance department is actively following up this debt. The debt that is impaired has been fully provided for. However, the finance department is pursuing various measures to recover the impaired debt.

b) Liquidity risk

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

At End of Year	Unaudited	Audited
	2021	2020
	KES	KES
Trade payables	8,432,017,053	2,587,937,093
Tax Payable	32,310,592	32,127,673
Other Trade Payables	1,877,099,501	693,712,846
Provisions	1,165,970,042	1,352,423,415
Deferred Income	1,136,537,456	3,470,299,402
Total	12,643,934,644	8,136,500,428

c) Market Risk

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

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

Finance and Investment Directorate is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

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

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i) Interest rate risk

Interest rate risk is the risk that the organisation's financial condition may be adversely affected as a result of changes in interest rate levels. The organisation's interest rate risk arises from bank deposits. This exposes the organization to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the organization's deposits.

Management of interest rate risk

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

Sensitivity analysis

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

ii) Foreign exchange risk

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

iii) Price risk

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

44. CAPITAL RISK MANAGEMENT

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

The capital structure of the Fund comprises the following funds:

At End of Year		
	2021	2020
	KES	KES
Revaluation reserve	-	-
Retained earnings	17,818,977,625	18,237,948,239
Capital reserve	12,209,923,340	12,209,923,340
Total Funds	30,028,900,965	30,447,871,579
Total borrowings	-	-
Less: cash and bank balances	1,005,174,339	3,328,937,655
Net debt/(excess cash and cash equivalents)	(1,005,174,339)	(3,328,937,655)

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45. RELATED PARTY DISCLOSURES

a) Nature of related party relationships

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

The Fund is related to:

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

b) Related party transactions

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

GoK finances the Civil Servants Medical Scheme, National Police & Kenya Prisons Service Medical Scheme, Secondary School Students Medical Scheme, HISP OVC & OPPSD Schemes and Free Maternity (Linda Mama). The transactions have been shown under notes 6, 7, 8, 9, 10, 11 & 15 respectively and Appendix III on page 99.

c) Key management compensation

	2021	2020
Board of Management	25,528,547	22,734,267
Compensation to the CEO	11,371,688	2,429,691
Key Management	64,702,616	49,094,619
TOTAL	101,602,851	74,258,577

46. INCORPORATION

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

47. EVENTS AFTER THE REPORTING PERIOD

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

48. CURRENCY

The financial statements are presented in Kenya Shillings (KES)

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APPENDIX 1: DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS

	Balance as at June 30, 2021	Balance as at June 30, 2020	Account Number
Financial institution	Kes	Kes	
a) Current account			
Kenya Commercial Bank	119,467	138,356,310	1107111226
Kenya Commercial Bank	33,750	-	1167080416
Equity Bank	63,913,835	852,928,472	0170263180280
Equity Bank	685,640	3,637,026	0170273733939
Equity Bank	1,040,950	-	0170263318584
National Bank of Kenya	- 905,700	-	01023033223900
National Bank of Kenya	113,821,955	27,828,632	01003000904002
National Bank of Kenya	446,724,533	456,206,961	01023000904000
National Bank of Kenya	55,777,638	120,018,523	01003000904001
Cooperative Bank of Kenya	221,326,020	1,638,221,492	01141162180500
Cooperative Bank of Kenya	20,749,307	29,705,433	01136011317300
NCBA APL Collection account	2,597,375	-	4783380012
Safaricom	18,599,790	16,261,310	M-pesa
Sub-Total	944,484,560	3,283,164,159	
b) On - call deposits			
National Bank of Kenya	1,000,000,000	100,000,000	
Kenya Commercial Bank	1,035,561,855	-	MM1712463876
Kenya Commercial Bank	-	-	MM1608200071
Kenya Commercial Bank			MM1608200073
Equity Bank	1,210,416,916	1,749,000,000	227371
Cooperative Bank of Kenya	-	1,400,000,000	01150011317305
Central Bank of Kenya	11,832,200,000	9,132,650,000	
Sub- total	15,078,178,771	12,381,650,000	
c) Fixed deposits account			
Central Bank of Kenya	-	20,520,000	03-10-00030-7
Sub- total	-	20,520,000	
d) Staff Car loan/ Mortgage			
Savings & Loan - Mortgage	1,264,588,685	962,662,665	1100162666
NBK - Car Loan - Deposit a/c	53,022,129	57,022,129	01288032515200
NBK - Car Loan - Interest a/c	4,070,260	66,695	01021032515200
Sub- total	1,321,681,075	1,019,751,489	
Grand Total	17,344,344,406	16,705,085,648	

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APPENDIX 2: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor in the draft report on the financial report for the year ended 30th June 2020, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0	Financial Performance <i>During the year under review, the fund reported a deficit of Kshs.1,156,934,012 (2018/2019-deficit Kshs.3,671,996,374) resulting in reduction in retained earnings from Kshs.19,395,102,251 as at 30 June 2019 to Kshs.18,238,168,239 as at 30 June 2020.</i> <i>The Fund's performance is on a downward trend and if strategies are not put in place to reverse the trend, the Fund is likely to experience financial difficulties in future.</i>	Management comments The Fund plays a central role in financing health care in Kenya with key objective of making health services more effective, accessible and affordable and to deliver the ideals of Vision 2030. 98% of the Fund revenue comes from member contributions (formal and informal) and premiums which is dependent on the number of actively paying members. In the financial year 2019/2020, the Fund set to focus on membership growth and improved retention rate to increase revenue collection and at the same time to put a check on escalation of claims in order to improve the financial base. These strategies led to 5% (2.73 bn) increase in revenue compared to 2018/19 whilst the benefits increased by a modest 2% (938 mn). Operating costs were also reduced by 8% (626 mn) successfully reducing the admin ratio from 14% in 2018/19 to 12% reported in 2019/20. The strategies steered by the Board, which includes; aggressive employer compliance, member communication, reduction of benefit expenditures by reducing instances of fraud and sealing of gaps in the system; led to an improved performance compared to FY2018/19. However, due to Covid-19 which was first confirmed in Kenya on 12th March 2020, NHIF operations and collection of revenue were greatly affected in the fourth quarter of the financial year. Going forward, the Fund has deliberately put in place strategies aimed at enhanced service delivery, enriched customer experience, managing benefit expenditures within the prescribed loss ratio and improved financial performance. These strategies are on course on improving the financial base and sustainability of NHIF and on mitigating the adverse effect of Covid-19 pandemic on its performance. They include:	Chief Executive Officer	Resolved	2020/2021 FY

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		Management comments a. Upgraded Customer Experience Centre; The Management has strengthened the call centre by modernizing and deploying additional staff members from registration and compliance bringing the total to 90. This has increased the received calls from 200 per day in June 2018 to over 1,800 calls per day. It has also enabled compliance activities affected by movement restrictions to be pursued and enforced electronically. b. Member & Employers Self-Care Platforms; In a bid to enhance the customer experience, NHIF has developed Self-Care platforms namely; My NHIF App, USSD Code: *155#, Website: www.nhif.or.ke in order to digitize registration with NHIF and selection of outpatient healthcare providers. Through these self-care platforms, members are carrying out self-registration including selection of the preferred outpatient healthcare providers conveniently. c. Outpatient Capitation Data Clean-up; Due to identified risks in the outpatient hospital selection process, NHIF embarked on a capitation data clean-up exercise which empowers members through a Self-care platform to choose outpatient facilities afresh. Out of this, capitation payments reduced from Kes 1.98 billion in quarter one of 2019/20 to Kes 753 million in the period under review. The members and dependants covered reduced from 6.62 million in quarter one of 2019/20 to 2.30 million in the same period of 2020/21. d. Benefits Pre-authorization; the management has increased efficiency and enhanced controls of the pre-authorization platform that was established in 2017. To augment the controls and efficiency, the function was centralized using a Care-Center Model based at the NHIF Headquarters. Currently, the waiting period has been drastically reduced and has greatly assisted the management and control of claims by reducing exposure of fraud and e. Enhancement of Electronic Claims Processing; NHIF had implemented an e-claim platform for management of medical claims in 2017.			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		Management comments The e-claim platform was however put on hold to address some noted gaps. The e-claims system has now been greatly enhanced making it more efficient, has improved internal controls to reduce on fraud and user friendly. f. Mobilizing resources to expand coverage and to cushion from rising health-care costs. NHIF has been steadfast in engaging and lobbying County governments, National Government Constituencies Development Fund (NG-CDF) and other stakeholders in support for indigents. These sponsored programs are on course and have contributed to member growth and increased awareness of NHIF product offerings. g. The Management also continues to improve communication in order to achieve better business productivity and outcomes. With these initiatives, NHIF has been well geared towards quality, improved services and improved retention rate. Specifically, NHIF has increased the number of bulk SMS's to members mainly to remind informal sector members to make contributions that are due and to notify members when their cards have been used to access care. This is to reduce instances of impersonations and other fraudulent activities. h. Biometric identification and registration. NHIF has scaled-up the roll-out of registration and identification of beneficiaries using biometrics to all members and the roll-out of electronic claims management system to complete the digital transformation set-up. This will go a long way in simplifying identification, improving authentication and accuracy. Linking the identification to e-claim will reduce the administrative burden and expense generally associated with manual claims processing and submission and ensure quick processing of claims. These strategies are on course to reverse the performance trend in the previous two financial periods. The financial performance of the subsequent financial period is expected to improve compared to FY 2019/20 despite the			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2.1	Land Situated at Karen - 10 Hectares As previously reported, included in the property, plant and equipment balance of Kshs.13,225,241,616 in the statement of financial position as at 30 June 2020 is land valued at Kshs.298,589,665 which includes an amount of Kshs.93,712,675 for land Ref. No.LR 24968/2 measuring 10 hectares situated at Karen. However, the ownership of this particular parcel of land is in dispute and the matter is in court. Further, information available indicate that the Directorate of Criminal Investigations (DCI) has commenced investigation to establish whether there was fraud in the transfer of ownership of the land and prosecute any person who may have been identified as having breached the law as per the Public Investment Committee (PIC) recommendations on the 21 and 22 report. Progress made on the investigation has not been disclosed in these financial statements	Management comments continued spread in Covid-19 pandemic and its associated negative impact on the economy. The Karen Land which is reported as work in progress of KES 1,444,687,484, comprises cost of land, arbitration award to the consultants and further payments to other professionals that had been engaged. They include quantity surveys, business plans and financial analysis consultancy, legal fees, architectural design services and feasibility study. The said land was purchased from Kaskazi Traders Ltd, Title L.R NO. 24968/2 KAREN following Board of Management Approval. The transfer was registered to NHIF. It came to the attention of the FUND in September 2004 that a contractor had been commissioned by a third party (Crown Line Freighters Ltd) to develop the said property claiming ownership. The party instructed M/S Rachier and Amollo Advocates to protect the interests of the fund by pursuing appropriate action to restrain the third party from interfering with the property. The advocates moved to court under HCCC NO. 1071 OF 2004 and sought the following - A declaration that the Fund has the sole proprietary rights and interest over the said parcel of land; - An injunction against the third party from continuing with construction on the said parcel of land; The court granted the orders. The Fund is pursuing the matter and has already taken the necessary steps to ensure the matter is concluded. The Fund is relying on the evidence from the Commissioner of Lands confirming that the land is registered under the fund's Board of Management. The commissioner of lands in his letter referenced 186267/T.C/17 dated 22nd august 2007 addressed to the Attorney General stated categorically that	Directorate of Criminal Investigation	Not Resolved	2020/2021 FY

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		The Permanent Secretary, Ministry of Medical Services on 6th March 2009 wrote to the Attorney General asking the AG to amend their defense to be in line with the Commissioner of Lands instructions. The Attorney General's office in their letter referenced AG/MLS/292/04 dated 9th November 2009 confirmed receipt of the instructions from the Commissioner of Lands to amend the defense on record as the land is legally owned by the NHIF Board of Management. The court has since moved the matter to the Environment and Lands Division and has assigned the case a new number, i.e. HCCC.ECL NO.691 of 2011. This is in bid to ensure the matter is expedited. The matter was mentioned on 5th April 2016 and is yet to be set down for hearing. Meanwhile, NHIF filed an application seeking an inhibition (Caveat) on the title of the land so as to bar any subsequent registration of a right / interest over the said parcel of land until the matter is fully heard and determined. The court allowed the application of 27th July 2016 and issued orders that NHIF can put up a fence around the entire property and an order inhibiting registration of any dealing with the parcel of land. In the 21st Public Investment Committee Report on the Audited Financial statements of State Corporations the above issue was discussed, and as per recommendations given by Public Investment Committee, the Directorate of Criminal Investigations commenced the inquiry/ investigations on the land and its acquisition in the year 2018. The DCI convened a meeting between the Chief Land Registrar from Ministry of Lands, the Land Surveyor from Survey of Kenya, Chief Valuer from Nairobi City County Government and all parties who hold titles to the land. Upon deliberations parties were informed that the DCI would be calling for the surrender of all original titles for purposes of investigation. This was done.			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2.2	Included in the property, plant and equipment balance of Kshs.13,228,073,616 as at 30 June 2020 is work in progress balance of Kshs.1,444,687,484 being payments for drawings and designs for the proposed Resource Centre and whose construction has not yet commenced since the land was acquired sixteen years (16) ago. As reported in the previous year, the management has explained that construction of the Resource Centre has not yet commenced due to lack of approval from parent Ministry and the land ownership dispute in court. Although the issue had been discussed by the Public Investment Committee (PIC), no action appears to have been taken on the PIC recommendations in its 22nd report that the Fund should expeditiously pursue the prosecution and conclusion of the case to its logical conclusion.	The Fund has been in contact with Detectives from DCI, who are undertaking the investigation and through letter REF: DCI/IB/LFIU/SEC/2/3/1/VOL.XI/115 dated 29th June 2020 they invited all parties to visit the location and identify beacons (Annex A). The Fund is currently awaiting receipt of a report from the Directorate of Criminal Investigation.	Directorate of Criminal Investigation	Not Resolved	2020/2021 FY
2.3	Construction of Multi Storey Car Park As previously reported, National Hospital Insurance Fund entered into an agreement with local construction firm for construction and completion of a multi storey car park at a contract sum of Kshs.909,709,305. According to information available, the project commenced in May 2002 and was scheduled for completion in August 2003. Records available, however, indicate that the	NHIF awarded MIXIT contractors Ltd Via contract no. NHIF/029/2017-2018 for conversion of Hotel to office space on NHIF building 3rd floor for Kshs. 3,749,008.00. Due to the technical nature of construction works, Fund relied on the inspection done by officers from the State Department of Public Works and processing of payment were based their certificate of The car park is a seven -storey building with basement floors designed to accommodate 780 cars. It was awarded to NK Brothers Ltd with Tectura international as the project manager. The project commenced in May 2002 and was scheduled	Ethics & Anti-Corruption Commission	Not Resolved	

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	contract sum was later revised upwards to Kshs. 1,179,611,756 representing approximately 30% above the original contract sum of Kshs.909,709,305. Although records available indicate that the car park was completed in July 2008 at a total cost of Kshs.3,342,120,239, a further amount of Kshs.626,635,998 and Kshs.4,706,521 was incurred in 2009/2010 and 2010/2011 respectively on the car park increasing its total expenditure to Kshs.3,973,462,758 as at 30 June 2011 or resulting to an increase of approximately 337% over and above the original contract sum of Kshs.909,709,305. Further and as similarly observed in the prior years' reports, the escalation of costs of the car park by 337% over and above the original cost has not been justified. Although the issue has been discussed by the Public Investment Committee, no action has been taken on the Committee recommendations as per the 19th and 21st reports which recommended that the Director of Ethics and Anti-Corruption Commission should institute and fast track investigation on the project with a view to preferring charges against all those who would be found culpable. As at the time of this audit no progress report has been received from the Commission. In the circumstances, it has not been possible to ascertain whether the property, plant and equipment balance of Kshs. 13,228,073,616 as at 30 June 2020 is fairly stated.	Management comments for completion in August 2003. The project's original cost was KES 909,709,305.40 over a contract period of 65 weeks. The completion period was revised from August 2003 due to suspensions of all projects by the Government, vide Treasury Circular no. 10 dated 22nd May 2003, as well as the Fund giving preference to core strategic activities resulting to reduced cash flow. The management introduced vehicular lifts that were not part of the tendered designs and bill of quantities. The cost could not be retained at the original cost of KES 909,709,305.40 since the contractor had already increased the service area of the project. This led to design changes to the structure and foundation works. An additional basement floor was created to cater for the displaced area arising because of vehicular lifts, ramps and design overhaul. This led to an increase in service area and an additional cost of KES 673,465,787.10 making the total cost to be KES 1,583,175,092.50. The vehicular lifts were later found not to be viable leading to downward variation to KES 1, 179,611,756.00 as observed by audits. The variation from KES 1,179,611,756.00 TO KES 3,342,120,239.00 was due to price escalations as per contract provisions. These were contractual claims which were as per contract provisions and mostly occasioned by delays in completion period and upward increase in cost of materials. As noted in the Audit report the multi storey car park was completed in July 2008. Payments totaling to KES 626,635,998.00 incurred in 2009/10 and KES 4,706,521 incurred in 2010/11 are related to pending claims which were payable to the Contractor after completion of the car park. The building, however, is complete and is in full use for rental as well as public parking. Some of the organizations that are currently occupying the building are government institutions such as the Ministry of Environment, Housing Directorate, Estate Department, Kenya Roads Board and other small private firms as well as NHIF's Nairobi Branch office.			

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3.0	<i>Unquoted Investments</i> As previously reported and as disclosed at note 28 to the financial statements, unquoted investment balance of Kshs.368,392,699 as at 30 June 2020 includes a balance of Kshs.314,192,699 in respect of a loan advanced by the Fund to Moi Teaching and Referral Hospital (MTRH) at an interest rate of 3% per annum. However, the loan was not supported with a signed loan agreement between the Fund and MTRH defining the terms of the loan, purpose and the repayment method. Further, MTRH has disputed the advocates/legal costs amounting to Kshs. 40,883,040 charged to its loan account. Although the management has acknowledged the omission, explanations on how the anomaly will be resolved and the fall-back plan in case of default by the Hospital was not provided. The unquoted investment balance of Kshs. 368,392,699 also includes shares of Kshs. 54,200,000 in consolidated bank of Kenya which no dividend has been paid in the past. Under the circumstances, the investment in consolidated bank shares is impaired.	<i>Management comments</i> The matter was presented to the 21st PLC committee, where it recommended that Ethics & Anti-Corruption Commission should fast track investigations into the procurement process of the Multi-Storey Car Park, with a view of preferring charges against all those found culpable of defrauding the Fund. No report has been received from the commission to date. However NHIF shall pursue the Commission with a view to obtain any progress report on the same. The Management has already written to the law firm seeking to recover the excess legal fees paid (Annex B) and is in the final steps of contract signing noting that all other issues have been ironed out between the NHIF and MTRH. At the moment the Fund continues to recover the loan from MTRH's claim payment at the rate of Kshs.3, 178,918 per month towards the repayment of the loan and MTRH have acknowledged this recovery as the final areas are addressed on execution of the contract. The current loan balance as at 30th June 2020 is Kshs.314, 192,699 (Annex B)	NHIF & MTRH Management	Not Resolved	2020/2021

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4.0	Short Term Investments As previously reported, included in the statement of financial position as at 30 June 2020 is short term investments balance of Kshs. 12,381,650,000 which is net of provision for impaired investments of Kshs. 1,304,410,609. The provision includes an amount of Kshs. 49,500,000 which had been deposited by the Fund on 26 June 2001 at the consolidated Bank Ltd in Nairobi. The entire deposit of Kshs. 49,500,000 was off-set by the Bank against a guarantee executed by the former Fund Chief Executive Officer on behalf of Euro Bank Ltd. It is not clear and the management has not explained the circumstances under which the Fund's deposit was used as a guarantee by the then Chief Executive Officer. Although the Public Investment Committee recommended in the 21st report that; (i) The then CEO of NHIF be held accountable for any losses incurred in the irregular investment of the surplus funds in Consolidated Bank and therefore be surcharged for Kshs. 40,065,205, being the value of the un-deposited cheque No.022477 of 23 September 2002 from Euro Bank; (ii) The then Consolidated Bank's CEO and Finance Manager should be held accountable for colluding with NHIF to mismanage the invested funds;	On 20th February 2003, the Central Bank of Kenya appointed the Deposit Protection Fund Board to liquidate and wind up the operations of Euro bank Limited. Therefore, in its capacity as the Statutory Liquidator the Deposit Protection Fund Board had taken over all the affairs of Euro bank Limited including all records. The Fund had deposited funds with Euro bank Ltd and at the time of the liquidation, therefore a lawyer Ahmednasir Abdikadir and Co Advocates was appointed to pursue the matter of Euro bank with a view to pursuing the Directors of the Bank on 16th June 2003. Following the advice of the Advocate a suit was filed against the following:- 1. The deposit Protection Fund Board 2. Euro bank Limited 3. Solomon Bundi Mathamia 4. John Paul Wachira Munge 5. Firdosh EbrahiJamal 6. Harry Mutuma Kathurima The 6th Defendant filed a Chamber Summons seeking orders that the Plaintiff's suit be struck out against him. Justice L. Njagi delivered the ruling on 29th October 2003 where he directed that since the Suit against the 6th Defendant had been withdrawn, the plaintiff should pay the 6th Defendant costs of the Suit, which was to be taxed. The 6th Defendant filed a Bill of Cost on 4th November 2003 where he claimed Kshs 11,072,767. The billed was taxed and a ruling delivered on 31st	Consolidated Bank	Not Resolved	2020/2021

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	(iii) In view of the fact that the Fund had no capacity to provide guarantee for a loan to a private bank, Consolidated Bank should pay the amount of Kshs.49.5 million owed to the Fund; (iv) The then Senior Management of Consolidated Bank including the then Managing Director, and Finance Manager should also be held accountable for colluding with NHIF to mismanage the invested funds. (v) The former Managing Director of Consolidated Bank should be surcharged for the funds that were advanced to Euro Bank in overnight lending. He should further be held accountable for the Kshs.49.5 million which the Bank could not recover from Euro Bank and consequently offset the same against the fixed deposits of NHIF. (vi) NHIF should relentlessly pursue Consolidated Bank for recovery of Kshs.49.5 million; (vii) NHIF CEO must ensure that all financial investments by the Fund are done in accordance with Treasury Circular No.10 of 1992 and section 28(1) of the Public Finance Management Act. However, no action appears to have been taken to recover the Kshs. 49,500,000 the Fund lost. In the circumstance, it has not been possible to confirm whether the short-term investment balance of Kshs. 12,381,650,000 is fairly stated.	March 2004 taxed at Kshs 8,282,772. The fund filed an objection to the Registrar's Ruling on 8th August 2004 and further filed a chamber summons seeking to set aside the taxing master's ruling in its entirety. Justice Kamau, who dismissed our application with costs to the 6th Defendant, delivered a ruling on this application on 28th July 2014. Vide a letter dated 18th December 2014, the advocates of the 6th Defendant requested for the payment of their taxed costs and accrued interest, as well as the costs of the dismissed application, making a total of Kshs 19,231,031. The advocates of the Fund engaged the 6th Defendant to have them reduce the amount they were demanding. The 6th Defendant accepted a sum of Kshs 10,000,000 as the final settlement. The first and second defendant also filed an application to strike out the suit against them. The parties made their submissions about the suit and on 28th June 2013, the Judge allowed the application seeking to have the matter struck out. The court allowed the application with costs to the 1st and 2nd Defendant. On 14th May 2014, the 1st and 2nd Defendant filed their Bill of Cost at Kshs 23,480,914. The Fund's advocates objected to the same through written submissions. The ruling was delivered on 16th November 2017; the bill was taxed at Kshs 10,000,000. Because the advocates had filed to set down the matter for hearing, the Fund withdrew the instructions on 20th April 2018 from the firm of Ahmed Nasir, Abdikadir and Co Advocates and on 6th September 2018, the firm of Migos Ogama and Co was instructed to take up the matter. The Investment are listed as non-performing and has been provided for with other non-performing investments in the Funds financial statements. As per the recommendation of the Inspector General of state corporations, NHIF has written to consolidated Bank Ltd seeking refund of the Kshs. 49.5M.			

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5.1	Long outstanding Return to Drawer (R.D) Cheques The trade and other receivables balance of Kshs. 7,781,204,639 also include R.D. Cheques of Kshs.18,061,171 which have been outstanding for more than six (6) months and are therefore stale. There was no evidence that the Fund is making any effort to recover the amount of R.D. cheques. Consequently, the recoverability of return to drawer cheques balance of Kshs. 18,061,171 as at 30 June 2020 could not be confirmed.	Management comments On RD cheques of Kshs 18,061,170, these relates to companies that were closed and the debts are over six years, therefore beyond the limitations of the Action Act on debts collection. This has led to creation of provision for doubtful debt in the Financial. As per debt management clause 4.3.4.1 debt arising from outstanding contributions aged between 12 months and 24 months, 50 % of the amount overdue shall be included in the provision, unless where payment plans are in place and are being adhered to. Clause 4.3.4.2 states that debt aged over 24 months 100% of amount overdue shall be included in the provision, unless payment plans are in place and are being adhered while clause 4.3.5 on Bad provides that Debts that are over five-years-old shall be considered bad debts and may be written off by the board of management. The Fund intends to seek Board approval for the write-off as the debt is uncollectable. Further the management has put a system module in place where the employer who pays via a cheque and the same bounces is auto reversed in the Fund system and the employer is immediately pursued as not having paid for that particular month. Therefore the issue of Refer to Drawer cheques is no longer in place. NHIF collection banks, KCB and Co-operative banks only accepts their own drawn cheques hence reducing the Refer to drawer cheques as they verify the account status before accepting the cheque over the counter.	NHIF Management	Resolved	2020/2021
5.2	Sundry Debtors The trade and other receivables balance of Kshs. 7,781,204,639 as at 30 June 2020 include sundry debtors' figure of Kshs. 5,018,843. However, it was noted that sundry debtors include Kshs. 4,414,750 which is insurance claim from insurance company for motor vehicle registration No KCK 509U which was involved in an accident 27 April 2018. As at the time	The Fund has written several reminders to the Insurance AMACO through our broker Channel Insurance brokers limited to remit the compensation of the amount assured. AMACO responded on 10th June 2019 by providing the discharger voucher for Kshs. 4,143,750 but the same has not been remitted to the Fund despite several reminders see attached communication (Annex E).	NHIF Management	Not Resolved	2020/2021

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6.1	of this audit in April 2021, the claim had not been paid. Consequently, the recoverability of sundry debtors' balance of Kshs. 5,018,843 as at 30 June 2020 could not be confirmed. NHS Benefit Expenses (overpayment above specified limits) The statement of comprehensive income reflect an expenditure of Kshs. 29,971,058,098 under the National Health Scheme (NHS) benefits expenses. However, the expenditure includes cumulative overpayments amounting to Kshs. 828,729,148 paid contrary to the limits specified by the Board for C-Section, Normal delivery, Minor surgery, Major Surgery, MRI, Rehabilitation, CT-Scan, Chemotherapy, Radiology, Kidney transplant and special surgery and overseas treatment at the rates as documented. No explanation has been provided for authorizing and approving payment above the limits specified in the board papers and benefits package	From analysis of the excel sheets provided on suspected cases of overpayment, the following applies; - The benefit design for NHIF allows beneficiaries to access multiple benefits at the same time as necessitated by the treatment plan. When a member is admitted at a facility and accesses multiple benefits in addition to inpatient care e.g. dialysis sessions, CT scans, Ultrasound, MRI, Chemotherapy, radiotherapy, the rebate amount will also be payable in addition to the additional benefits approved. This claim may be launched as one single claim for that specific admission. The onus is on NHIF to investigate the invoice and discharge summary to justify the claim amount. Some beneficiaries require more than one surgery during an admission stay, either on same site or different sites depending on the condition of the patient. Such are approved according to policy based on medical necessity and may also be claimed as one claim. - The Notification system was not tied to the pre-authorization system, which allowed the hospital to use one single case code for claiming multiple approved benefits. The claims onus has been on the claims officers to check manually if all multiple benefits had been approved. This has been improved in the e-claim system where all claims are tied to the pre-auth. - Some services e.g. Dialysis, radiotherapy and deliveries can be given several times in a short period, e.g. one week/ one month. Facilities can launch one claim for all the sessions done as approved within the week/month. - Some benefits e.g. deliveries, surgeries, chemotherapy, radiotherapy and dialysis may end up with medical complications outside the	NHIF Management	Resolved	2020/2021

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		scope of the approved package. Such complications necessitate medical management beyond the package thus rebate or fee for service (depending on scheme) will apply. - It is possible for some patients to receive some benefits during admission, such benefits include dialysis, chemotherapy, radiotherapy, Ct Scan or MRI. A claim may be launched as one claim for the whole treatment period. - Also, you can have a major and a minor surgery at the same time. In addition to this, in most RTA injuries, a member may require multiple major surgeries that will be done during one theatre session. These will be approved as a specialized surgery. - All radiotherapy treatment requires CT scan or MRI simulation hence approvals will be done for both radiotherapy and the imaging required. - For the current HCP contract, all surgical procedures were costed as per level of care and capacity of the Hospital hence all surgeries are approved as per the contract price list specific to individual HCPs. Depending on the complexity and inputs that go towards a surgery, some rates for major surgeries were lowered to as low as Kshs. 50,000 with a few surgeries (that require implants) going up to Kshs. 250,000. For Minor surgeries, the rates are as low as Kshs. 10,000 with some eye surgeries going up to Kshs. 50,000. See Annex 18 - For chemotherapy services, the Board approved upper limits to what is payable, tying these limits to the line of treatment. Some 1st line treatment drugs can be as cheap as Kshs. 900 per cycle and some 3rd line treatment drugs can be as low as Kshs. 17,000 per cycle. Hence the discrepancies in the payments There were many instances of using the wrong case code to launch a claim, but this does not affect the payment decision, as onus is on NHIF to thoroughly peruse through the claim's documents, invoices and discharge summaries and pay within the approved Board limits. Management			

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6.2	Civil Servants Medical Scheme Expenses The statement of comprehensive income reflects an expenditure of Kshs. 6,650,824,817 in respect of Civil Servants Medical Scheme Expenses. During the year under review, the Fund entered into a contract with Government of Kenya to insure 122,052 civil servants for comprehensive medical cover at a premium of Kshs. 4,000,012,000. However, the Fund reported a deficit of Kshs. 511,998,054 under the civil servants scheme. Further, an analysis of civil servants' data for all availed for audit review indicated that there were claims amounting to Kshs. 388,443,273 from members who are not civil servants. In the circumstances, the accuracy and validity civil servants medical scheme expenditure of Kshs. 6,650,824,817 for the year ended 30th June 2020 could not be confirmed.	Management comments recognized this as a major hindrance to accurate reporting and wrote a letter to the branch offices so that they can re-sensitize the HCPs under their jurisdiction on the proper use of case codes. In conclusion, NHIF continues to negotiate for cost effective benefits for services including surgeries and treatment for National and Managed schemes thus reducing the fee for service to affordable packages. Attached is the excel sheet with explanations in the last column. Member contributions and remittance is the bedrock and premise upon which contributors access benefit. These contributions can either be paid individually by members or through an employer or sponsor. In the case of the subject matter here, remittances are made by the Government as an Employer to afford cover to her employees, the Civil Servants. While pooling of resources is the ultimate goal that allows equity in financing for social health, it does not preclude provision of access to differentiated products subject to contributions such as is the case of the negotiated scheme the government has purchased here. Enhanced Schemes serves to increase the limits and scope of benefits for the beneficiaries. It is noteworthy that the Fund has put in place prudent mechanism to establish that valid civil servants access the benefit accorded them through contribution made for them by the Government as their employer. While pooling resources for a social health scheme is accepted practice, social health insurance does not preclude availing special clauses that allow premium access as long as all members receive proper medical care. It is this arrangement that the Government of Kenya has utilized for her employees. The Fund has put in place mechanism to ensure that the contribution made by GOK in this negotiated scheme are prudently utilized. This mechanism involves the provision of service to members via data that is strictly submitted to the Fund by the State Department for Public Service for every contract cycle which runs within a government financial year.	NHIF Management	Resolved	2020/2021

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		Management comments Most of the sampled claims emanated from the previous contract period where the said members or their beneficiaries have been part of the scheme in 2018/19, but in 2019/20 they had exited the service. The members accessed benefits up to the end of their contract period which was 30th June 2020. Claims emanating from this contract period can spill over to the next financial year since members can utilize services till the last day of the contract period and hospitals have a 90-day allowance to submit claims from the date of discharge. Such claims are processed when received though the bill will be charged to the premium of the contract period that the service was rendered. Such amounts are catered for through the Incurred But Not Reported (IBNR) provision in the performance report for Civil Servants scheme that is prepared at the end of the contract period. Below is a sampled screenshot from the above list that shows this scenario. Owing to the realities that within the year there are new entrants and exits within the service, the Fund receives additional members mid-way. These receipts or removal of members are considered as change and are effected by the same process mentioned. It involves submission, receipt, approval then subsequent upload of data to the NHIF platform. This notwithstanding, the concerns raised in this audit are valid and draw attention to matters beneficial and important to the Fund and below is a positive response with the intent to explain what was raised: • Member 1020967: Kangutu, Jacob Nzumula and resultant seven (7) claims at Neema H; • His last remittance through 6/30/2019 the Civil / Disciplined scheme and thus demonstrating that the member was a civil servant. • The audit findings while pursuant of valid concern to establish whether benefits are paid to valid members have illuminated the next contract period, a time by when the subject has retired but the reimbursement is to be done. The resultant finding is that the member has by then become self-employed in the 2019/20.			

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		Management comments - The claim is paid retrospectively whereby the Fund is still within the 90 day window period to reimburse albeit may take longer should there arise further delays such as quality concerns or litigation - Member number 0043325; Enock Kibichii Matetai was previously a civil servant working with The DPM as backed up by remittances. He further moved to the Kenya school of Government which too has Enhanced cover with the Fund. Further findings shall be sought from the State Department as regards retention on data - Member 1313138; Joseph Kinoti Ndiira - As per the data submitted to NHIF by the client he has been in the Civil Servants Scheme since 2015/2016 to 2018/2019. The claim in question i.e. Claim Doc. No. 10962019 was incurred in 25th June 2019 when he was still under the Civil Servants scheme. 4.Member 0147153 and claims in respect of Adhan Naima at Star Hospital worked for the Ministry of Agriculture and was devolved to the County Government of Isiolo where his last contribution through the Isiolo county was paid in June 2018. His circumstance is such as that of member 1020967;Kangutu Jacob Nzamula above answered - Member no. 6704054; Lenora Hadar relate to a HISP beneficiary who may have benefited from the Civil Servants Scheme. The Fund has already initiated controls setups through the ICT department to ensure this does not recur. - Member no. 792051 Dickson D.M Wangai treated at Karen Hospital was a civil servant up till December 2018. This means that just like Member 1020967 and 6704054, he too was a civil servant. - This member moved into the Kenya Association for Retired Officers seamlessly and made remittance starting January 2016			

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		Management comments - Member no. 1449806 Philip Kello Harsama remittances are up to date through the Ministry of Agriculture. Payments in respect to him were last made in March 2021 - Member no.1317353; Joseph Maina Kabui is deemed current with remittances through the DPM(Department of Personnel Management) being current as at March 2021 - Members 1104847, 4125259, 0888885, 3683308, 3681733, 1887201, 3675451, 3665370, 4193051, and 3690953 are similar to member explained above. This means that: - They are either current Civil Servants whose remittances are still coming and are up to date - Are Civil Servants seconded to County up to date as per their remittances - It is noteworthy that County governments have within their service Civil Servants seconded thereof.			
7.0	Budgetary Performance During the year under review, the Fund's actual receipts amounted to Kshs. 60,817,588,815 against budgeted receipts of Kshs. 73,198,751,341 resulting in a revenue shortfall of Kshs. 12,381,162,526. Further, actual expenditure for the year amounted to Kshs. 61,974,522,827 against budgeted expenditure of Kshs. 68,084,784,544 resulting in an overall under absorption of Kshs. 6,110,261,717. There is need for the Fund to review its budget making process with a view to developing a vibrant budget implementation follow-up mechanism and feedback process to ensure that all projects are implemented as planned for the Fund to meet its mission and objectives of the citizens of Kenya.	Revenue shortfall It is true NHIF experienced a revenue shortfall of more than 12 billion in the financial year 2019/2020. 98% of the Fund revenue comes from member contributions and premiums which is dependent on the number of actively paying members. To ensure accurate and reliable revenue projections, the Fund uses two approaches in formulating the targets. The first criteria involve projecting the number of new members targeted to be enrolled from both the informal and formal sector. The population is then subjected to the applicable contributions rate i.e. Kes 6,000 p.a. for informal sector and an average rate of Kes 9,600 p.a. for formal sector. The second criteria used is to estimate the population expected to be up to date with their contribution i.e. the retention rate. The budgeting and forecasting for the financial year 2019/2020 revenues, NHIF targeted to enroll 1,436,894 new members. It also estimated to	NHIF Management	Resolved	2020/2021

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		Management comments increase the retention ratio to 85% in the formal sector and 59% in the informal sector. This is from the actuals of 72% and 28% respectively in the FY2017/18. These targets were to be fostered by strategizing on retention of existing membership, intensive employer compliance and UHC by scaling-up population coverage by the Government through NHIF to achieve UHC by the year 2022. Reasons for revenue shortfall The Fund suffered the revenue shortfall due to low new enrollment and retention rate. It managed to register only 542,065 new members and achieved a retention rate of 57% in the formal sector and 19% in the informal sector. The targets, which, the management believe were realistic and achievable by the time of their formulation were however not achieved because the actual performance of FY2019/20 was affected by several factors that were beyond the control of NHIF. These factors that affected revenue collection are: - a. A depressed economy in the period under review leading to reduced purchasing power for households who then prioritized on basic needs. This affected mostly the informal sector although the formal sector was also adversely impacted. This reduced the number of members willing and capable of paying contributions (retention) new members joining. b. The Covid-19 containment measures in the fourth quarter which led to mass layoffs and reduced income adversely affected both the formal and informal sector. Loss of income opportunities made households prioritize on basic needs such as food and rent compared to purchase of medical cover. This affected both sectors. c. The UHC pilot project: This was launched by the Government on 13th December 2018 and piloted in four Counties namely; Machakos, Kisumu, Isiolo and Nyeri. The pilot program accorded free healthcare to households in the four Counties and therefore impacted negatively on NHIF enrollment and retention of members.			

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		The above listed factors led to reduced enrollment vis-à-vis the target and also adversely impacted on member retention. These were beyond the control of the Management despite doing all it could to achieve the targets. Changes in budget formulation techniques The Fund has been using historically cumulative figures of membership to formulate its revenue targets however, out of the 8.7 million members in the database by 31st December 2019, only 4.2 million (3.14 formal and 1.12 informal) were active by paying contributions. For reliable and a fair degree of accuracy, the Management departed from the previous approach when formulating the subsequent financial year 2020/21 revenue estimates. For 2020/2021 estimates, the Fund used only the active members as at 30th June 2019 of 4,601,763 plus estimated new registrations for 2020/21 of 313,676 to project revenues from members. This is a departure from the previous approach of using the historical member data and applying a desired compliance/retention rate. This change led to a more reliable and accurate projection for FY2020/21. Expenditure (Under-absorption) Out of the budgeted expenditure of Kes 68,084,784,544 for the period under review, Kes 59,815,403,888 (i.e. 88%) was for benefits. With an actual expenditure of Kes 54.36 billion, there was an under-utilization of more than 5.45 billion in benefits. This is because the benefits had been budgeted based on a percentage of premiums/ contributions that are further depended on number of active membership/ population covered. With less active membership achieved as explained above, this would also affect the morbidity rate because of a smaller population covered. This therefore means that the under-absorption does not directly relate to services that was budgeted for but not delivered.			

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		The other operating/ administrative expenses which was budgeted at Kes 8,269,380,656 reported a slight under-absorption of more than Kes 600 million. This under-absorption of on recurrent administrative expenses was due to the following reasons: - Impact of Covid-19 Pandemic: Activities involving transport, travelling, accommodation, training, staff welfare, venue and conferencing were adversely affected in the fourth quarter of the financial year due to Covid-19. The restrictions of movement and other interventions imposed by the National Government for the containment of the corona virus reduced expenditures on travel, field and conferencing related activities. NHIF however leveraged on its diverse ICT infrastructure to achieve some the planned services/ activities. - Rationalization on procurement of goods & services; through procurement plan by the Board further limited expenditures to the approved procurement value. This rationalization affected advertising, publicity, training, staff welfare, printing and stationery. - Change in pricing regulations on insurance covers led to reduced premiums for insurance & licenses covers. Premiums costed 17.2 million compared to 54.3 million that was budgeted saving the Fund more than 37 million. - The National Government issued a moratorium on 23rd July 2019 which required all State Corporations to place in abeyance all capital expenditures and to limit recurrent expenditures to only priority expenses which should be within one quarter of the previous year approved budget. This exercise delayed the implementation of various activities. With the approval of the rationalized budget being received in October 2019 (2nd quarter of the financial year), some of the projects and planned activities which had been held in abeyance were delayed in execution.			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
8.1	Procurement of Integrated Revenue Management System As previously reported, the Fund entered a contract with an IT Solutions firm, on 4 June 2018, for provision of Integrated Revenue Management System at a contract price of Kshs.495,205,588. Further information indicate that the procurement of the system was single sourced as no evidence of competitive bidding was available for audit verification. This is contrary to Section 96 of the Public Procurement and Assets Disposal Act, 2015 which require the accounting officer to take such steps as are reasonable to bring the invitation to tender to the attention of all those who may wish to submit tenders. Further, although direct procurement method was used, no evidence was available to the effect that the underlying circumstances met the conditions set for direct procurement as laid down in Section 91 of the Act. Under the circumstances, the Fund was in breach of the law and may not have obtained value for money on the procurement of the system.	Management comments The under-absorption as explained above was not caused by lack of funding or poor budgeting and planning processes. In addition, this did not necessary result to undelivered critical services to the Citizens of Kenya since some intervention measures such as virtual meetings/ trainings, digitalization of call centre and pre-auth centre was carried out. Nevertheless, NHIF is constantly reviewing its budgeting processes to continuously improve and ensure its objectives is met within available resources. It's true that NHIF initiated procurement of the Integrated Revenue Management System through a single source selection method. It's also true that Open tender as a procurement method wasn't used as per section 96 of Public Procurement and Assets Disposal Act 2015. NHIF relied on section 124 (12 a & b) of Public Procurement and Assets Disposal Act 2015 for use of single source as a selection method as this was the most appropriate method due to the following cases: i) The service provider had exclusive rights for the system used for Revenue Collection and Management. The Integrated Revenue Management System is a highly customized and proprietary to the Fund with source code availability limited to the software provider. ii) The task was a continuation of the previous tasks carried out by the same service provider. The continuation was technologically appropriate since Infrastructure was already setup in all NHIF branch/Satellite offices, 180 Health Care Providers and Contracted Banking Institutions thus eliminating disruption to service provision and compatibility related problems. The Fund further followed the conditions laid down in Section 91 (2) of Public Procurement and Assets Disposal Act 2015 which states "The Procuring entity may use an alternative procurement procedure only if that procedure is allowed and satisfies the conditions under this Act for use of that method" (Single Source Selection Method Section 124 (12 a & b) of Public Procurement and Assets Disposal Act 2015.)	NHIF Management	Not Resolved	2020/2021

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		Section 124 (14 - 15) of Public Procurement and Assets Disposal Act 2015 states that "Single Source Selection Shall require a placement of advertisement of the intention to single source and invite anyone who wishes to bid and in the event that there's a response to the advert then all interested suppliers shall be invited to submit proposals. Where alternative methods are selected a report shall be prepared and submitted to the Authority for approval". In view of the above NHIF complied with these two requirements by: i) placing the intention to single source in the company's website as per the attached evidence dated 25th April 2018 ii) submitted justification report to the Public Procurement and Regulatory Authority for approval as per the attached evidence Evidences: (ANNEX G) - Authority to advertise Tender for Purchase of Revenue Collection Management System on NHIF Website - Communication from Procurement to ICT to place the advert on the website - Evidence of Advert placed on the website - Tender Notice - Request to PPRA - Approval from PPRA			
8.2	<i>Temporary Imprest</i> The trade and other receivables balance of Kshs.7,781,204,639 as at 30 June 2020 include temporary imprest of Kshs.8,899,538 out of which an amount of Kshs. 6,110,261,717 has been outstanding for over four months and whose recoverability is doubtful. This is contrary to	On outstanding imprests of Kshs 8,899,538.00 an amount of Ksh.4, 221,900.00 has since been surrendered and the other balance is being pursued with relevant imprest holders. The delay in surrender was as a result of Covid- 19 Pandemic which resulted to cessation of movement affecting those already undertaking field activities. Meanwhile the fund is pursuing individual imprest holders as per memo Ref HF/FIN/43/VOL.11/200 dated 18th June 2020 to Manager Administration to make good surrenders.	NHIF Management	Resolved	2020/2021

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	Section 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Section 93 (6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate. Consequently, the full recoverability of the imprest amount of Kshs. 6,962,003 is doubtful.				

.....
CHIEF EXECUTIVE OFFICER
Date.....20/09/2021

.....
CHAIRPERSON
Date.....20/09/2021

NATIONAL HOSPITAL INSURANCE FUND

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APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds				Where Recorded/recognized						Total Transfers during the Year
Date received as per bank statement	Nature: Recurrent / Development / Others	Total Amount	Statement of Financial Performance	Capital Fund	Balance B/F from previous FY	2020/2021 FY	Receivables	Deferred Income	Receivables	
11/09/2020	Direct Payment	4,000,000,000	4,000,000,000	-	-	-	596,146,178	-	596,146,178	4,000,000,000
29/04/2021	Direct Payment	88,200,000	276,000,000	-	-	3,300,442	63,000,000	-	-	342,300,442
10/05/2021	"	175,361,855								
25/06/2021	"	78,738,587								
29/04/2021	Direct Payment	380,100,000	1,341,820,000	-	-	-	432,197,833	-	253,617,833	1,520,400,000
10/05/2021	"	760,200,000								
25/06/2021	"	380,100,000								
13/10/2020	Direct Payment	2,022,248,025	4,050,000,000	-	-	64,142,260	422,872,023	-	-	4,537,014,282
07/01/2021	"	1,079,841,861.60								
24/03/2021	"	744,173,490.25								
28/04/2021	"	356,663,084								
02/06/2021	"	334,087,821.75								
06/07/2020	Direct Payment	375,000,000	4,785,805,560	-	-	-	359,120,472	-	1,369,920,032	3,775,006,000
25/09/2020	"	375,000,000								
08/10/2020	"	1,900,000,000								
14/10/2020	"	375,000,000								

NATIONAL HOSPITAL INSURANCE FUND

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Name of the MDA/Donor	Date received as per bank statement	Nature: Recurrent / Development / Others	Total Amount	Statement of Financial Performance	Capital Fund	Where Recorded/recognized		Total Transfers during the Year
						Balance B/F from previous FY	2020/2021 FY	
"	22/06/2021	"	375,000,000					
Ministry of Interior office	28/06/2021	"	375,000,000					
Ministry of the president - PS&KPS								
Counties (List provided)	Various	Direct Payment	1,898,758,077	1,630,319,206	-	139,639,981	128,798,890	1,898,758,077
Parastatals (List provided)	Various	Direct Payment	824,915,553.80	1,047,798,983	-	709,024,582	869,613,584	824,915,553.80
IBA - NPS/KPS	24/03/2021	Direct Payment	1,000,000,000	1,147,797,220	-	-	573,799,696	1,721,596,916
"	19/04/2021	"	721,596,916					
Total			18,619,985,271	18,279,540,969	-	709,024,582	1,065,855,176	18,619,985,271