

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NATIONAL HOSPITAL INSURANCE
FUND**

**FOR THE YEAR ENDED
30 JUNE 2016**

2016

ANNUAL REPORT & FINANCIAL STATEMENTS



BOARD OF MANAGEMENT
NATIONAL HOSPITAL
INSURANCE FUND
6/30/2016

Prepared in accordance with International Financial Reporting Standards (IFRS)

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KEY NHIF INFORMATION

Background information

National Hospital Insurance Fund, referred to the Fund, was established by an Act of Parliament, NHIF Act No. 9 of 1998. At cabinet level, the Fund is represented by the Cabinet Secretary for Health, who is responsible for the general policy and strategic direction of the Fund.

Our Core Values

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

- Responsiveness to Customer Needs

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

- Professionalism and Integrity

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

- Accountability and Transparency

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

- Efficiency and Effectiveness

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

- Creativity and Innovation

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

- Team Spirit and Staff Motivation

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

- **Passion and Enthusiasm**

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

Our Vision

To be a World Class Social Health Insurance Scheme

Our Mission

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

Principal Activities

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

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

Customer Service Charter

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

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

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

Board of Management

The Board of Management who served in the Fund during the year 2015/2016 period were as follows:

<u>NAME</u>	<u>TITLE/ REPRESENTING</u>	<u>DATE APPOINTED</u>
Hon. Mohamud Mohammed Ali	Chairman	10 th Jan. 2014
Mr. Geoffrey G. Mwangi	Chief Executive Officer	5 th February 2016
Dr. Elly Nyaim Opot	Kenya Medical Association	3 rd Sept. 2012
Mrs. Gilder Odera	Federation of Kenya Employers	3 rd Sept. 2012
Mr. Akelo T. Misori	Central Organisation of Trade Unions	3 rd Sept. 2012
Mr. Mudzo Nzili	Kenya National Union of Teachers	1 st March 2016
Mr. Latiff Shaban	Faith Based Healthcare Organisations	4 th Sept 2015
Dr. Pacifica Onyanha	P S/Min. of Health	Alternate Member
Dr. Peter Kimuu	Director of Medical Services	Alternate Member
Mr. Julius Mutua	P S /National Treasury	Alternate Member
Mr. Yusuf Ibrahim	P S /Min. of Dev. & Planning	Alternate member
Mr. Simeon Ole Kirgotty	Chief Executive Officer	Left
Mr. Elijah Adul Onyango	Kenya National Farmers Union	Left
Mr. Wilson Sossion	Kenya National Union of Teachers	Left
Rt. Rev. Michael J. Sande	Christian Health Association of Kenya	Left
Mrs. Catherine Muriithi	National Council of NGO`S	Left
Mr. Thomas Maara Gichuhi	Association of Insurers	Left
Mrs. Mary Maungu	Alt. Member, P S /Min. of Dev. & Planning	Left
Dr. Khadija Kassachoon	Permanent Secretary/Min. of Health	Left
Dr. Nicholas Muraguri	Director of Medical Services	Left

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Chief Executive Officer

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

Registered Office

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

Corporate Bankers

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

Kenya Commercial Bank

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

Independent Auditors

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

Corporate Headquarters

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

Corporate Contacts

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

Corporate Bankers

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

Equity Bank Limited

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

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LEGAL SERVICE PROVIDERS

The State Law Office
Harambee Avenue
P.O. Box 40112 - 00200 City Square
Nairobi

Koskey Monda & Co. Advocates
Laptrust House, 3rd Floor, Rm 305
Haile Sellasie Avenue
P.O. Box 41736-00100,
Nairobi

Munyao Muthama & Kashindi Advocates
Chaka Place, 3rd Floor ("TCA")
Argwings Kodhek Road
P.O. Box 24482-00100
Nairobi

Otieno Ragot & Co. Advocates
Post Bank House, 2nd Floor, Banda
Street
P.O. Box 48305-00100,
Nairobi

Mwaniki Gachoka & Co. Advocates
Design Centre, 3rd Floor
Tausi/Mogotio Rd, off Muthithi Rd.
P.O. Box 13439-00800
Nairobi

Kembi Gitura & Co. Advocates
Upper Hill Road,
P.O. Box 45834-00100,
Nairobi

Rachier & Amolo Advocates
Mayfair Centre, 5th Floor
Ralph Bunche Rd.
P.O. Box 55645-00200,
Nairobi

Ndegwa Muthama Katisya
Advocates
Sulfat Harimy Complex 2nd Floor,
P.O. Box 87171-80100,
Mombasa

Moronge & Co. Advocates
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P.O. Box 44289-00100,
Nairobi

Kiptui Kipkemei & Co. Advocates
Ukulima Cooperative House, 7th Fl
P.O. Box 61435-00200,
Nairobi

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P.O. Box 24627-00100,
Nairobi

Ogeto Otachi & Co. Advocates
Ambassador Court, 2nd Floor,
Milimani Road
P.O. 79438-00200,
Nairobi

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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 Chief Executive Officer serves as the secretary to the Board of Management. The following were the members of the Board of Management:



Hon. Mohamud Mohammed Ali
Chairman
Appointed 10th Jan. 2014



Pacifica Onyancha (Dr)
Alt. Member to PS/Ministry
of Health



Peter Kimuu (Dr)
Alt. Member to Director of Medical
Services



Elly Nyaim Opot (Dr)
Kenya Medical Association
Appointed 3rd Sept. 2012



Mr. Yussuf Ibrahim
Alt. Member to PS / Min. of
Devolution and Planning



Mr. Julius Mutua
Alt. Member to PS / Ministry of
Finance



Mr. Lattif Shaban
Faith - Based Healthcare
Organizations
Appointed 4th Sept. 2015

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Mr. Mudzo Nzili
Kenya National Union of
Teachers (KNUT)
Appointed 1st March 2016



Akelo M. T. Misori
Central Organisation of Trade
Unions (K) (COTU (K))
Appointed 3rd Sept. 2012



Gilda Odera
Federation of Kenya Employers
Appointed 3rd Sept. 2012



Geoffrey G. Mwangi
Chief Executive Officer/
Board Secretary
Appointed 5th Feb. 2016

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KEY MANAGEMENT TEAM

The Key Management team is comprised of the Chief Executive officer and Directors who are dedicated professionals working with staff and clients to provide strategic planning for the Fund's future goals. The directors were appointed on 1st of July 2015. The following are the key management of the Fund:

NAMES	KEY QUALIFICATIONS
 <p>Geoffrey G. Mwangi Chief Executive Officer</p>	<ul style="list-style-type: none"> • Master of Commerce (MCOM) • Specialized in Behavioural Finance • Bachelor of Science in Business Administration • Certified Public Accountant (CPA) • Social Security Financing - International Training Center Italy • ICPAK Membership • Member Joint Learning Network Costing Group • Corporate Governance and Risk Management • Project Management
 <p>Mrs. Dinah J. Kirwa Director, Corporate Services</p>	<ul style="list-style-type: none"> • Master of philosophy in Human Resources Management • Bachelor of Arts • Diploma in Human resource management • Leadership and management skills • Balance scorecard • Advanced trustee training • Effective conduct of meetings course • Corporate governance training for directors • Governance & enterprise risk management • Leadership, policy and management training • IHRM membership

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Mr. Ambrose Juma Lugho
Director, Operations & Quality Assurance

- Master of Business Administration
- Bachelor of Science
- Institute of Directors Membership
- Corporate Governance Training for Direct Balanced Scorecard
- Supreme Customer Service and Service Chart
- Leadership Skills for Successful Performance



Mr. Nicodemus O. Odongo
Director, Strategy, Planning & Marketing

- Master of Arts (Economics)
- Bachelor of Arts
- Best Employee-Customer Service
- Corporate Governance Training Course
- Financial Management in Public Sector Programme
- Research Skills Development Course
- Statistical Package for Social Science
- Process monitoring & Continual Improvement
- KIM Membership



Mr. Joseph Mbuvi
Ag. Director Finance & Investments

- Executive Master of Business Administration (Finance)
- Bachelor of Commerce (Accounting)
- Member of ACFE
- Member, Institute of Internal Auditors
- Member, Kenya Institute of Management
- Corporate Governance Skills
- Leadership & Management Skills
- Financial Management
- Psychological Health Services course
- Combating Economic Crime Course
- Advanced Government Accounting Course
- Advanced Auditing Course
- Governance and Risk

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Ms Lucy Rono

Head of Legal Services/Corporation Secretary

- Advanced trustee training
- Management Course
- Master of Business Administration (MBA)
- Certified Public Secretary(CPS (K))
- Member of ICPS (K)
- Post-Graduate Diploma in Law
- Bachelor of Law (LLB)
- Commissioner for Oaths
- Member Law Society of Kenya
- Integrity and Anti-corruption
- Corporate Governance for Directors
- Legal Audits, Compliance & Oversight of State Corporations
- Member of (ECASSA)
- Risk Management
- Microsoft Office



Mr. David Muli

Head of Internal Audit

- Bachelor of Commerce (Accounting)
- Certified Public Accountant (CPA)
- Member of ICPAK
- Member - Institute of Ethics of South Africa
- Certified Ethics officer
- Member of Institute of Internal Auditors
- ISO Lead Auditor
- Computer Applications

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CORPORATE GOVERNANCE REPORT

Principles of Corporate Governance

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

Management Board

The Board of Management is ultimately accountable to all stakeholders for ensuring that the Fund's business is conducted in accordance with high standards of corporate governance. Of particular importance to the Fund is the protection of stakeholders' interests and open corporate communication.

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

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

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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.

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

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

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

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

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

Composition of the Board

The Board draws its representatives from different stakeholders as set out in Section 4(1) of the NHIF Act. The following were the Board members during 2015/2016 Financial Period:

- i) Chairman
- ii) Principal Secretary or representatives - Ministry of Health
- iii) Principal Secretary or representative - National Treasury
- iv) Principal Secretary or representative - Ministry of Devolution and Planning
- v) Director of Medical Services or his/her representative
- vi) Federation of Kenya Employers

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- vii) Central Organization of Trade Unions (K) - COTU
- viii) Kenya National Union of Teachers (KNUT) / Kenya Union of Post Primary Education Teachers
- ix) Kenya Medical Association (KMA)
- x) Faith Based Healthcare Organisations
- xi) Chief Executive Officer (Secretary of the Board)

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 and are audited in accordance with International Auditing Standards.

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 directors' remuneration are set out on page 60.

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

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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 in the Fund's website.

Role of the Chairman vs. the Chief Executive Officer

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

Board Committees

To assist the Board better discharge its responsibilities, the Board has constituted four Board Committees comprising a balanced mix of the Board members.

Each Board Committee has a Charter which contains provisions relating to the powers delegated by the Board to each Committee, membership of the Committee and the Committee's detailed duties. Annual performance reviews of each Committee are carried out and presented to the Board.

The Board has set up the following committees:

1. Governance, Strategy & Human Resource Board Committee

It deals with the structure and establishment of the Fund, Staff and advisory matters.

The following were the members of the committee in 2015/2016:

1. Mr. Akelo M. T. Misori - Chairman

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2. Dr. Pacificah Onyancha
3. Dr. Charles Kandie - Left
4. Mr. Lattif Shaban
5. Mr. Julius Mutua
6. Mr. Yussuf Ibrahim
7. Mr. Wilson Sossion - Left
8. Mrs. Catherine Muriithi - Left
11. Mrs. Gilda Odera
12. Mr. Simeon Ole Kirgotty - Left
13. Mr. Geoffrey Mwangi - Secretary

2. Operations and Quality Assurance Board Committee

It deals with matters relating to compliance with the NHIF Act, Employers, Healthcare Providers and other stakeholders.

The following were the members of the committee in 2015/2016:

1. Dr. Elly Nyaim Opot - Chairman
2. Dr. Charles Kandie - Left
3. Dr. Peter Kimuu
4. Mr. Yussuf Ibrahim
5. Mr. Akelo T. Misori
6. Mr. Thomas Gichuhi - Left
7. Rt. Rev. Michael J. Sande - Left
8. Mrs. Gilda Odera
9. Dr. Pacificah Onyancha
10. Mr. S ole Kirgotty - Left
11. Mr. Geoffrey Mwangi - Secretary

3. Finance and Investment Board Committee

It deals with all financial and investment matters.

The following were the members of the committee in 2015/2016:

1. Dr. Pacificah Onyancha - Chairman

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2. Mr. Lattif Shaban
3. Mr. Akelo M.T. Misori
4. Mr. Julius Mutua
5. Mr. Sole Kirgotty - Left
6. Mr. Geoffrey Mwangi - Secretary

4. Audit and Integrity Assurance Board Committee

It deals with the internal control systems, fraud and integrity matters.

The following were the members of the committee in 2015/2016:

1. Mr. Julius Mutua - Chairman
2. Mr. Yussuf Ibrahim
3. Dr. Elly Nyaim Opot
4. Dr. Peter Kimuu
5. Mr. Mudzo Nzili
6. Mr. David Mulli - Secretary

Number of Board meetings

Board Committee	Number of Meetings
<i>Full Board</i>	10
<i>Governance, Strategy & Human Resource Board Committee</i>	12
<i>Operations and Quality Assurance Board Committee</i>	3
<i>Finance and Investment Board Committee</i>	3
<i>Audit and Integrity Assurance Board Committee</i>	2

Corporation Secretary

All members of the Board have direct access to the Corporation Secretary who is responsible for ensuring that board procedures, rules and regulations are followed. As the Corporation

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Secretary is also the Chief Legal Officer, she reports independently and directly to the board on litigious matters affecting the Fund.

External Auditors

Whereas the Board of Management is responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Fund, the external auditors examine and give their opinion on the reasonableness of the financial statements.

The auditor's report independently and directly to the Board through the Chief Executive Officer who is the Fund's accounting officer and the Secretary to the Board. Office of the Auditor General carried out the Fund's audit for 2016.

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 audited financial statements for the year ending 30 June 2016. The annual report and audited financial statements present, in the opinion of the directors, a fair, balanced and understandable assessment of the state of the affairs of the Fund's position and prospects. The Board reports that the business is a going concern and they have no reason to believe that the Fund will not be a going concern into the foreseeable future.

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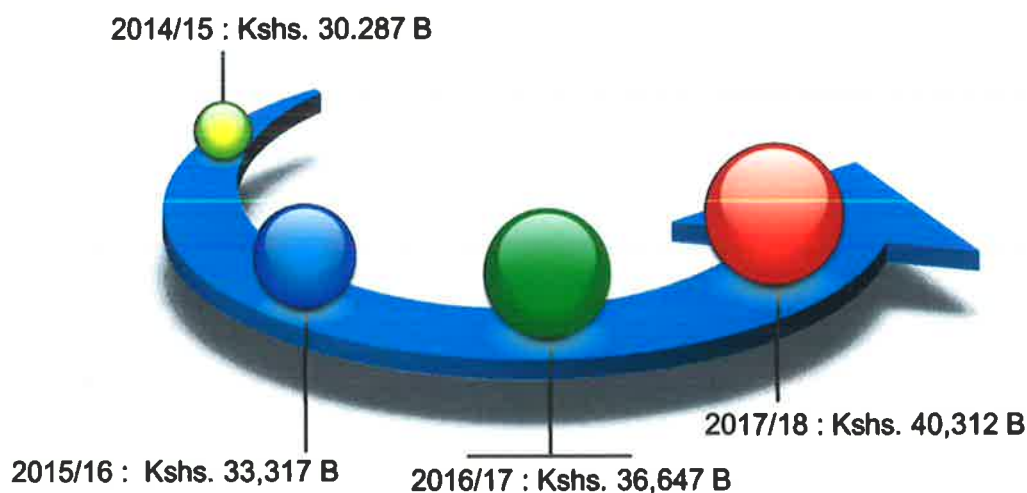
COMMENTARY ON SUSTAINABILITY

Overall strategy for sustainability

Whilst our key role is to provide accessible, affordable, sustainable, equitable and quality social health insurance to all Kenyans, by operating, maintaining and improving the Health Financing System, we recognize that we also need to develop and implement more sustainable ways of doing this. We champion the need to be more transparent about both our impacts and the work we are doing. We have published our Strategic Plan for the years 2014-2018 in the website with specific deliverable actions contributing to the embedment of sustainability as part of our corporate culture. Our Strategic Plan takes a longer view, aligning with the corporate planning cycle over the period 2014 to 2018, with the overarching aim of mainstreaming sustainable development in the organization. In Particular;

- Strengthening resource pooling and financial protection
- Supporting national economic growth through Social Health Insurance
- Meeting the diverse needs of all our customers
- Continuing to develop our sustainable approach

The Strategic Plan envisions revenue collection of over Kshs 40B by the end of 2017/18 financial year with less than 85% of the projected revenue going to settlement of benefits. The revenue projection for the next two years is demonstrated as below;

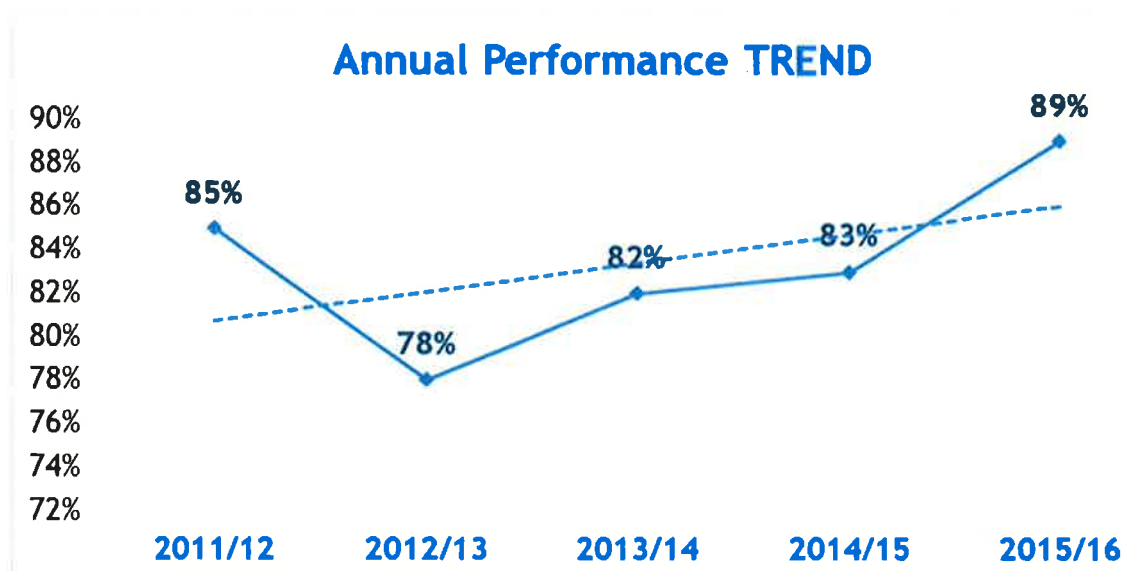


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Summary of Performance

In 2015-16 we have made strong progress in delivering our sustainability commitments. We have monitored progress against our Strategic Plan and increased member registration and revenue collection. We are also on track to increase member retention from 55% to 80% by end of 2017/18. As indicated below, the Strategic Plan implementation score was at its highest in 2015-16 standing at 89%.



Sustainability of the Informal Sector

Though attractive, the informal sector is complex and a risky target group. Based on population projections from the KNBS in this sector, the Fund projects the following scenario in the next three years;

Financial Year	Population	Contributions	Out Patient	In Patient	Admin
	Numbers	Kshs	Kshs	Kshs	Kshs
2014/2015	11,843,500	71,061,000,000	42,636,600,000	21,318,300,000	7,106,100,000
2015/2016	12,554,110	75,324,660,000	45,194,796,000	22,597,398,000	7,532,466,000
2016/2017	13,307,357	79,844,139,600	47,906,483,760	23,953,241,880	7,984,413,960
2017/2018	14,105,798	84,634,787,976	50,780,872,786	25,390,436,393	8,463,478,798

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From the above, by end of 2017/18, it is estimated that the informal sector will have a population of 14M contributing Kshs 84B. Out of the Ksh 84B, Ksh 50.7B will go to outpatient; Kshs 25B will be spend on inpatient cover where Ksh 8.5 will go to administration costs. These projections imply that this sector is sustainable.

Governance

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

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KEY STAKEHOLDER GROUPS AND ENGAGEMENTS

The following table summarises the Fund's, Stakeholder groups, nature of engagements undertaken in the year, expected outcomes and the relevant information to the stakeholders.

Stakeholder	Nature of Engagements	Outcome of Engagements	Relevant Information to the Stakeholder
National government	<ul style="list-style-type: none"> ▪ Policy formulation ▪ Financing health care ▪ Regulation 	<ul style="list-style-type: none"> ▪ Accreditation of health care facilities ▪ Quality control 	<ul style="list-style-type: none"> ▪ Periodical reports on member registration, revenue collection and accreditation HCP's
NHIF Members/Contributors	<ul style="list-style-type: none"> ▪ Registration ▪ Payment of premiums 	<ul style="list-style-type: none"> ▪ Provision of information and feedback ▪ Payment premium 	<ul style="list-style-type: none"> ▪ Benefit Package ▪ Contribution rates ▪ List of accredited facilities ▪ Financial statements
Health care Providers	<ul style="list-style-type: none"> ▪ Provision of quality health care services ▪ Sign contracts 	<ul style="list-style-type: none"> ▪ Provision of quality services and satisfied customers ▪ Feedback 	<ul style="list-style-type: none"> ▪ Nature of contracts ▪ Accreditation criteria ▪ Modes of payment
Trade Unions	<ul style="list-style-type: none"> ▪ Represent interest of their members 	<ul style="list-style-type: none"> ▪ Provision of information 	<ul style="list-style-type: none"> ▪ Contribution rates ▪ Benefits package ▪ Financial Statements ▪ Policy reviews
County Government	<ul style="list-style-type: none"> ▪ Regulation ▪ Legislation ▪ Strategies ▪ Implementation of national policy 	<ul style="list-style-type: none"> ▪ Accreditation of health care facilities ▪ Quality control 	<ul style="list-style-type: none"> ▪ Contribution rates ▪ Benefits package ▪ Financial Statements ▪ Policy reviews • Accreditation criteria
Employer organizations	<ul style="list-style-type: none"> ▪ Linkage to NHIF ▪ Influence policy 	<ul style="list-style-type: none"> ▪ Improved relations 	<ul style="list-style-type: none"> ▪ Responsibilities of an employer as a collecting agent ▪ Penalties
Employers	<ul style="list-style-type: none"> ▪ Compliance with NHIF Act 	<ul style="list-style-type: none"> ▪ Remittance of members contributions ▪ Feedback 	<ul style="list-style-type: none"> ▪ Contribution rates ▪ Benefits package ▪ Financial Statements ▪ Policy reviews ▪ Responsibilities of employers

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2016

Development Partners	<ul style="list-style-type: none"> ▪ Provide support for policy implementation ▪ Influence policy ▪ Social protection 	<ul style="list-style-type: none"> ▪ Timely release of resources ▪ Provision of support 	<ul style="list-style-type: none"> ▪ Status reports on implementation of programmes
Suppliers	<ul style="list-style-type: none"> ▪ Provision of quality materials, products and services 	<ul style="list-style-type: none"> ▪ Delivery of quality services 	<ul style="list-style-type: none"> ▪ Timely payments ▪ Transparency in the procurement process ▪ Feedback
Banks	<ul style="list-style-type: none"> ▪ Facilitate transactions 	<ul style="list-style-type: none"> ▪ Efficient system ▪ Cooperation and integration 	<ul style="list-style-type: none"> ▪ Disclose any system risks
Mobile service providers	<ul style="list-style-type: none"> ▪ Facilitate transactions and communication 	<ul style="list-style-type: none"> ▪ Efficient system ▪ Cooperation and integration 	<ul style="list-style-type: none"> ▪ Any changes in contractual obligations
The Media	<ul style="list-style-type: none"> ▪ Marketing and publicity of our products 	<ul style="list-style-type: none"> ▪ Facilitate awareness ▪ Correct and timely information 	<ul style="list-style-type: none"> ▪ Increase awareness ▪ Increased uptake of quality services

NATIONAL HOSPITAL INSURANCE FUND

*Reports and Financial Statements
For the year ended June 30, 2016*

CORPORATE SOCIAL RESPONSIBILITY AND INVESTMENT

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

Over the years the fund has maintained a front row in issues relating to environment as it is common knowledge that a poor and bad environment is breeding grounds for epidemics among an array of other health hazards. Other forums that the Fund is keen on establishing partnerships for the good and betterment of our general community, is education. We believe that an educated person makes informed decisions and sequentially healthy choices.

In the year ended 30 June 2016, the fund engaged in the following corporate social responsibility activities:

Partnership with East Africa Matatu Owners Association

The Fund partnered with the Kenyan Matatu owners Association during the launch of the East Africa Matatu owners Association and sensitization of cross border laws and regulations, protection and safety and insurance uptake. The Fund sponsored the event to a tune of Kshs. 500,000 and registered various members of the Kenyan Association.

First Lady's Half Marathon 2016 3rd Edition

NHIF team in participated in 2016 third edition of the First Lady's Half Marathon dubbed the beyond zero campaign which was flagged off at Nyayo national Stadium. NHIF participated under the umbrella of 'Team Health' championed under the ministry of health. Team health comprised of organizations which have ministry of health as its parent ministry. The Fund sponsored the event to a tune of Kshs. 500,000 and separately bought 120 T-shirts at Ksh. 1500 each for staff to participate.

NATIONAL HOSPITAL INSURANCE FUND

**Reports and Financial Statements
For the year ended June 30, 2016**

The marathon is aimed at creating awareness and mobilizing resources to fund Beyond Zero activities especially the acquisition of mobile clinics that the initiative has been distributing to the devolved units.

Partnership for a free medical camp with Bomet County

The Fund in partnership with Compassionate Heart Kenya held a free-medical camp in Chemolul in Bomet County. The free-medical camp targeted the elderly and had attendance of more than 1500. The Fund educated its member on the benefits and the forum that ran for three days was able to register new members.

Spearheaded by the Bomet branch it proved a very good forum to sensitize the elderly on the current benefits the highest percentage of the elderly in the Bomet county are cover by NHIF through the county elderly program or through Health insurance Subsidy Program (HISP) a world bank's group's Health in Africa initiative's support to the Kenyan government priority agenda of achieving universal health coverage by expanding medical cover to the poorest and the venerable the program is administered through the Fund.

Internship Program

NHIF offers work integrated learning for graduate students for their qualification and for those who would like to experience the world of working during their school vacation. Due to the training nature of this program, the intern will be based at a directorate for a period of at least 3. As an intern you will be assigned to a Manager whose role will be to provide support as well as regular feedback on your performance and development.

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

NATIONAL HOSPITAL INSURANCE FUND

**Reports and Financial Statements
For the year ended June 30, 2016**

CHAIRMAN'S STATEMENT

The mandate of NHIF which is to register members, pay claims, accredit hospitals and regulate contributions has over time called upon NHIF to be more responsive to the needs and aspirations of its members and stakeholders. In the recent past the Fund has listened more to the feedback from its clients. This has led to decisions that resonate well with the health requirements of the members and their families' thereby increasing acceptance and uptake of NHIF products.

In particular the Fund has engaged COTU and FKE to unlock the stalemate on contributions which subsequently led to the withdrawal of court cases and subsequent roll out of enhanced benefits.

These consultations and participative decision making has further endeared more members to join NHIF and to enjoy the now much enhanced and even new benefits. This is particularly encouraging as all stakeholders now have adequate opportunities to interact with the Fund and inform and enhance the decision making processes.

The board of NHIF is committed to ensuring that the priority in its deliberations goes to the enhancement of benefits for the members. In the recent past the board has sanctioned benefits to members that will completely ensure no family of any members will be driven into abject poverty by a disease.

NHIF is also at the tail end of internal reforms that are culminating into an even more efficient organization. The reforms touch on Human Resources and Operating systems. This has ensured that the services of the Fund are accessible to as many locations as possible for Kenyan population.

I wish to thank Kenyans for their patience and confidence in sticking with NHIF and enjoying its benefits over the last 50 years. As we celebrate 50 years let's all go out and bring in more members to the Fund. This way we can further grow the NHIF pool.



.....
HON. MOHAMUD MOHAMMED ALI
CHAIRMAN - BOARD OF MANAGEMENT

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2016

REPORT OF THE CHIEF EXECUTIVE OFFICER

Introduction

It is an honour to present to you the Fund's financial report for the year ended 30th June 2016. NHIF continues to improve and promote health financing for all Kenyans by making health services more effective, accessible and affordable.

This year as I communicated to you earlier NHIF commemorates 50 years of service to its members. NHIF has for many years been offering ONLY inpatient cover. The Fund has perfected this over the years and sharpened its capacity to handle the revenue and payment of benefits with great efficiencies. This has made it possible for the Fund to pay hospital claims on average within 14 days.

However today under the Supa Cover every member and their dependant is entitled to out-patient services in their preferred health care facilities which they can change every six months. Supa cover also includes Inpatient, Specialised, Maternity, Rehabilitation and packages for chronic conditions including Cancer, Diabetes, and Hypertension and Renal dialysis. In addition the board recently approved the surgical cover that is currently awaiting gazettelement before its roll out in all accredited health facilities.

NHIF is in the process of accrediting and contracting more healthcare service providers across the country. Healthcare providers are expected to offer quality services to NHIF members. Indeed, the NHIF branch network should work closely with Health care facilities to ensure compliance with existing contracts and to continuously improve on the quality of services.

To further entrench the uptake of our services NHIF has reviewed its processes, enhanced its robust ICT network to include connectivity to hospitals and online member registration. NHIF is also rolling out massive marketing campaigns to rope in more members. The campaign has been in the following regions, Nyanza, Riftvalley, Eastern, Coast and Nairobi is underway.

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2016

We are encouraged that nearly all the private high cost hospitals have taken up provision of our different services such as out-patient services and other specialized services. We urge all staff to urge Kenyans to join NHIF as we celebrate 50 years of Service to Kenyans. This is more so as their families will enjoy the mental freedom and benefits of being covered by the Fund.

Financial perspective

2015/16 Performance Review

I am pleased to report the total revenue in the year as **Kshs. 30.175 Billion** which include **Kshs. 1.61 Billion** income from investments, **Kshs. 5.51 Million** surplus from the Civil Servants & Disciplined services medical scheme, **Kshs. 2.69 Million** surplus from Health Insurance Subsidy Programme (HISP) and **Kshs. 79.75 Million** surplus from County Public Service Commission (PSC) Schemes. This represented an increase of **56%** of the total revenue compared to the 2014/2015 financial year where the total revenue was **Kshs. 13.29 Billion**. Revenue received from the National Scheme was **Kshs. 28.48 Billion**, while that received from the Civil Servants & Disciplined Services, HISP, and County PSC Schemes were **Kshs. 4.67 Billion**, **123.62 Million** and **104.21 Million** respectively.

The overall growth in revenue was attributed to:

- Full implementation of new contribution rates
- Membership growth from the informal sector
- Continued support by National and County Governments on the special schemes

The Fund's main objective is to finance health care through the member benefits. The total benefits paid out amounted to **Kshs. 15.06 Billion** which translates to an overall benefit pay-out ratio of **45%** of total contributions received. Total benefits paid out from the National Scheme was **Kshs. 10.25 Billion (36% Pay-out ratio)**, while the Civil Servants & Disciplined Services, Health Insurance Subsidy Programme (HISP), and County Public Service Commission (PSC) Scheme were **Kshs. 4.66 Billion (100% Pay-out ratio)**, **Kshs. 120.93 Million (98% Pay-out ratio)** and **Kshs. 24.5 Million (23% Pay-out ratio)** respectively.

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2016

Looking Ahead

With Universal Health Coverage as the main focus of the 2014-2018 Strategic Plan, NHIF must act quickly to create more awareness on the benefits offered by the outpatient cover and enhanced inpatient cover. The Fund plans to come up with relevant innovations and be more responsive to the customer needs. The Fund seeks to capitalize on the gains made so far by undertaking further innovations that will see its operational efficiency improve even further. These include the smart/biometric card project, EDMS (paperless processes), contract management solution and strategic purchasing of healthcare for members through the case-mix payment mechanism. This is geared towards offering our members an improved benefit cover.

In conclusion, as I invite all our stakeholders to internalise the financial report, I would like to express my appreciation to the Board of management and the staff of NHIF for their hard work during the year. We have made significant progress in reforming the operations of the Fund for greater efficiency. These gains ought to be nurtured and jealously safeguarded to propel the fund into greater heights in line with the expanded mandate of rolling out Universal Health Cover.

Closing remarks

The Fund's results continue to be a clear reflection of the success of its strategic thrust. We remain focused on meeting the needs of our clients, and are confident in our ability to continue to provide value for all of our stakeholders whilst prudently managing our resources. We have already had a positive start to 2016 and expect to continue to realize healthy, sustainable growth through the current year and beyond.



.....
GEOFFREY G. MWANGI

CHIEF EXECUTIVE OFFICER

NATIONAL HOSPITAL INSURANCE FUND

*Reports and Financial Statements
For the year ended June 30, 2016*

REPORT OF THE BOARD OF MANAGEMENT

The Board of Management submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of the Fund's affairs.

Principal activities

The principal activity of the Fund is to provide healthcare financing to all employed persons, self-employed persons and voluntary contributors.

Results

The results of the Fund for the year ended June 30, 2016 are set out on pages 34 - 65.

Board of Management

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

Financial Risk Management Objectives and Policies

The activities of the Fund expose it to a variety of financial risks, including underwriting risk, credit risk and the effects of changes in debt and equity market prices, and interest rates. Therefore the risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance. These include the use of underwriting guidelines and capacity limits, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries. Investment policies are in place to enable optimal liquidity management and to maximise returns within an acceptable level of risk.

Financial Statements

At the date of this report, the board of management were not aware of any circumstances which would have rendered the values attributed to the assets and liabilities in the financial statements of the company misleading.

NATIONAL HOSPITAL INSURANCE FUND

**Reports and Financial Statements
For the year ended June 30, 2016**

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Section 8 (2) of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board,



.....
GEOFFREY G. MWANGI
CHIEF EXECUTIVE OFFICER

DATE: 4/12/2017

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements For the year ended June 30, 2016

STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES

Section 40(b) of the Public Finance Management Act, 2012 and section 15 of the State Corporations Act, require the Directors 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 Directors are responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year (period) ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 Directors accept responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act 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, 2016, 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.

NATIONAL HOSPITAL INSURANCE FUND

**Reports and Financial Statements
For the year ended June 30, 2016**

Nothing has come to the attention of the Directors 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 4/5/2017 and signed on its behalf by:


.....

4/5/2017

CHIEF EXECUTIVE OFFICER


.....

4/5/2017

CHAIRMAN

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOSPITAL INSURANCE FUND FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Hospital Insurance Fund set out on pages 34 to 65, which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

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

Basis for Qualified Opinion

1. Construction of Multi Storey Car Park

As reported in the year 2014/2015 and prior years, the National Hospital Insurance Fund entered into an agreement with local construction firm for construction and completion of a multi storey car park at a contract sum of Kshs.909,709,305. According to information available, the project commenced in May 2002 and was scheduled for completion in August 2003. Records available however indicate that the contract sum was later revised upwards to Kshs.1,179,611,756 representing approximately 30% above the original contract sum of Kshs.909,709,305.

Although records available indicate that the car park was completed in July 2008 at a total cost of Kshs.3,342,120,239, a further amount of Kshs.626,635,998 and Kshs.4,706,521 was incurred in 2009/2010 and 2010/2011 respectively on the 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 2013/2014, 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 appear to have been taken on the PIC recommendations as per the 19th report which recommended that the director of Ethics and Anti-Corruption Commission should institute investigation on the project with a view to preferring charges against all those who would be found culpable.

2. Property, Plant and Equipment

2.1 Land Situated at Karen – 10 Hectares

Included in the property, plant and equipment balance of Kshs.12,841,519,701 in the statement of financial position as at 30 June 2016 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, and as previously reported, the ownership of this particular parcel of land is in dispute and the matter is in court. Although the issue

has been discussed by the Public Investments Committee, no action appear to have been taken on the PIC recommendations in the 19th report that the National Land Commission conducts further investigations on the issue of the land within six months after adoption of the Report.

2.2 Proposed Resource Centre at Karen Land

A further review indicates that included in the property, plant and equipment balance of Kshs.12,841,519,701 as at 30 June 2016 is Work in Progress of Kshs.1,634,578,339 out of which Kshs.1,444,687,484 was in respect of payments for drawings and designs for the proposed Resource Centre and whose construction has not yet commenced since the land was acquired fourteen years ago. As noted in the previous year, the management has however explained that construction of the resource centre has not yet commenced because of lack of approval from the parent ministry.

In the circumstance, it has not been possible to ascertain the ownership status of the parcel of land in dispute and whether the property, plant and equipment balance of Kshs.12,841,519,701 as at 30 June 2016 is fairly stated.

3. Short Term Investments

As previously reported, included in the cash and cash equivalent balance of Kshs.16,230,036,846 in the statement of financial position as at 30 June 2016 is short term investments balance of Kshs.15,275,768,478 which is net of provision for impaired investments of Kshs.1,304,410,609 under note 22 to the financial statements. The provision includes an amount of Kshs.49.5 million which had been deposited by the Fund on 26 June 2001 at the Consolidated Bank Ltd in Nairobi. However, information available indicates that the entire deposit of Kshs.49.5 million 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 that the Chief Executive Officer should ensure that any future investments of the Fund are made in accordance with the Treasury circulars and are based on prudent commercial practices, no explanation has been provided for failing to recover the Kshs.49.5 million lost from the then Chief Executive Officer.

In the circumstance, it has not been possible to confirm whether the short term investment balance of Kshs.15,275,768,478 is fairly stated.

4. Trade and Other Receivables

As reported in the year 2014/2015, the trade and other receivables balance of Kshs.3,926,313,543 in the statement of financial position as at 30 June 2016 includes

Hospital surcharges of Kshs.5,722,635, outstanding contributions of Kshs.1,247,669,690, RD cheques of 1,150,561, staff receivables of Kshs.2,104,123, supplier advances of Kshs.4,660,314, and revenue holding account of Kshs.11,934,574 all totaling Kshs.1,273,241,897. These balances have been outstanding for a considerably long period of time and only provisions for bad and doubtful debts of Kshs.180,587,538 have been made in the accounts. Although the management has indicated that efforts are underway to pursue the debts, the seriousness of the management on this issue is doubtful as the matter has been long outstanding as indicated in the previous reports. Further, the Public Investment Committee recommendation in the 19th report that the Chief Executive Officer puts in place financial control and debts collection immediately they fall due did not address the issue raised on the long outstanding debts.

In the circumstance, it has not been possible to confirm the accuracy and recoverability of the trade and other receivables balance of Kshs.3,926,313,543 included in the statement of financial position as at 30 June, 2016.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the National Hospital Insurance Fund as at 30 June 2016, 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 National Hospital Insurance Fund Act, 1998.

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

Nairobi

17 May 2017

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE

2016

	Note	2016	2015
		Kshs	Kshs
REVENUES			
Contributions	3	28,477,921,015	12,371,469,706
Surplus from CS & DS Scheme	4	5,508,905	259,017,558
Surplus from HISP	5	2,687,844	32,755,959
Surplus from County PSC Scheme	6	79,753,793	3,292,802
Other Incomes	7	1,609,565,963	622,623,555
TOTAL REVENUES		30,175,437,518	13,289,159,579
OPERATING EXPENSES			
Benefit Expenses	8	10,248,787,085	5,883,676,552
Other Operating Expenses	9	5,574,700,656	4,232,494,968
Depreciation of PPE	12	567,327,657	262,690,755
Amortization of Intangible Assets	13	3,480,000	3,480,000
TOTAL OPERATING EXPENSES		(16,394,295,398)	(10,382,342,275)
OPERATING SURPLUS		13,781,142,120	2,906,817,303
Less Finance Expenses	14	(237,877,825)	(154,821,058)
SURPLUS BEFORE TAXATION		13,543,264,295	2,751,996,245
Less Tax Expense	15	(232,831,759)	(87,547,526)
SURPLUS AFTER TAXATION		13,310,432,536	2,664,448,719

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements

For the year ended June 30, 2016


STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Note	2016	2015
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	12	12,841,519,701	12,239,581,983
Intangible Assets	13	-	3,480,000
Receivable - South B Estate Mortgage	16	29,564,106	37,930,332
Fixed Interest Investments (Bonds)	17	34,200,000	34,200,000
Long Term Deposits	18	730,363,857	570,046,211
Unquoted Investments	19	86,037,440	102,249,679
Total Non-Current Assets		13,721,685,103	12,987,488,205
Current Assets			
Trade and Other Receivables	20	3,926,313,543	2,253,326,076
Cash and Cash Equivalents ...	21	16,230,036,846	4,981,222,634
Total Current Assets		20,156,350,389	7,234,548,710
TOTAL ASSETS		33,878,035,492	20,222,036,915
EQUITY AND LIABILITIES			
Capital and Reserves			
Accumulated Fund	24	12,209,923,340	12,209,923,340
Retained Earnings	25	20,047,377,027	6,736,944,491
Total Capital and Reserves		32,257,300,367	18,946,867,831
Current Liabilities			
Claims Payables	26	315,317,222	517,233,875
Other Trade Payables	27	376,315,326	421,202,233

NATIONAL HOSPITAL INSURANCE FUND
Reports and Financial Statements
For the year ended June 30, 2016

Tax Payable	28	99,754,534	10,190,933
Provision for Liabilities	29	829,348,044	326,542,044
Total Current Liabilities		1,620,735,125	1,275,169,085
TOTAL EQUITY AND LIABILITIES		33,878,035,492	20,222,036,915

The financial statements on pages 34 to 65 were approved by the Board of Management on 4/15/17 and signed on its behalf by:



 4/15/2017
CHIEF EXECUTIVE OFFICER






 4/15/2017
CHAIRMAN

NATIONAL HOSPITAL INSURANCE FUND

Reports and Financial Statements
For the year ended June 30, 2016

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Accumulated Fund	Retained Earnings	Total
	(Kshs)	(Kshs)	(Kshs)
Note	24	25	
At July 1, 2014	12,209,923,340	4,072,495,771	16,282,419,111
Changes in the year/Total Surplus	-	2,664,448,720	2,664,448,720
At June 30, 2015	12,209,923,340	6,736,944,491	18,946,867,831
			
At July 1, 2015	12,209,923,340	6,736,944,491	18,946,867,831
Changes in the year/Total Surplus	-	13,310,432,536	13,310,432,536
At June 30, 2016	12,209,923,340	20,047,377,027	32,257,300,367

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 Kshs.	2015 Kshs.
OPERATING ACTIVITIES			
Cash generated/used from/in operations			
	31	11,518,285,301	1,487,254,459
Tax Paid			
	15	(232,831,759)	(87,547,526)
Net cash generated from operating activities		11,285,453,542	1,399,706,933
INVESTING ACTIVITIES			
Purchase of property, plant and equipment			
	12	(1,169,265,375)	(391,360,670)
Proceeds from disposal of property, plant and equipment			
	7	4,941,640	442,500
Interest from investment			
	7	1,263,423,585	306,059,048
Purchase of intangible assets		-	-
Proceeds from sale of South B estate			
	16	8,366,227	10,235,318
Redemption of Fixed interest investment			
	17	-	25,800,000
Purchase of Long term Deposit			
	18	(160,317,645)	(10,703,716)
Redemption of unquoted investment			
	19	16,212,239	15,790,113
Net cash used in investing activities		(36,639,331)	(43,737,407)
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		11,248,814,211	1,355,969,526
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	21	4,981,222,634	3,625,253,108
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD			
	21	16,230,036,845	4,981,222,634

The notes set out on pages 34 to 65 are an integral part of these financial statements

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NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS), the PFM Act, the State Corporations Act and NHIF Act. The measurement basis used is the historical cost basis, as modified by carrying of certain items of property, plant and equipment, financial instruments, impaired assets at their estimated recoverable amounts.

The financial statements are presented in Kenya Shillings (KShs), which is also the functional currency.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

a) Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) *Standards and interpretations affecting amounts reported in the current period (and/or prior periods)*

Several new and revised standards and interpretations became effective during the year. The Directors have evaluated the impact of these new standards and interpretations and none of them had a significant impact on the organization's financial statements.

(ii) *Standards and interpretations issued but not yet effective*

At the date of authorization of these financial statements, several other new and revised standards and interpretations were in issue but not yet effective. The adoption of these standards and interpretations, when effective, is not expected to have a material impact on the financial statements of the organization.

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(iii) Early adoption

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

b) 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) Rental income is recognised in the income statement as it accrues using the effective lease agreements.
- iii) Other income is recognised as it accrues.

c) 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.

d) Property, Plant And Equipment

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the

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carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

e) Depreciation and Impairment of Property, Plant And Equipment

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

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

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

f) 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.

g) Investment Property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the Fund, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

h) 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.

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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.

i) 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.

j) Unquoted Investments

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

k) 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.

l) Cash and Cash Equivalents

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

m) 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.

n) Retirement Benefit Obligations

The Fund operates a defined contribution scheme for all full-time employees from July 1, 2001. The Fund and all its employees also contribute to the National Social Security Fund which is also a defined contribution scheme. A defined contribution plan is a pension plan under which the Fund pays fixed contributions into a separate entity. The Fund has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Fund's contributions to the

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defined contribution schemes are charged to the statement of profit or loss in the year to which they relate

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, 2015.

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.

s) Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the process of applying the organization accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities within the next financial year. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date that has a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

i) *Equipment*

Critical estimates are made by the Directors in determining depreciation rates of equipment.

ii) *Impairment*

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At each statement of financial position date, the organization reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the organization estimates the recoverable amount of the cash generating unit to which the asset belongs.

iii) Provisions and contingent liabilities

The organization reviews its obligations at each balance sheet date to determine whether provisions need to be made and if there are any contingent liabilities.

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	2016	2015
	Kshs	Kshs
3 CONTRIBUTIONS		
Standard Contribution	23,312,273,163	9,010,905,578
Self Employed Contributions	2,389,379,243	2,082,383,222
Late Contributions	2,618,765,703	1,148,050,431
Penalties	157,502,905	130,130,474
Total	28,477,921,015	12,371,469,706

This is recognised in accordance with the NHIF Act, through Standard Contributions and Self-Employed contributions. Included in the self-employed contributions are contributions by the Ministry of Health for older persons and persons with severe disabilities (OP&PwSD).

4 SURPLUS FROM CIVIL SERVANTS (CS & DS) SCHEME

Premiums	4,670,724,498	4,608,043,833
Less Expenses:		
Group life Expenses	1,146,247,218	717,132,684
Administrative Expenses	345,089,327	757,908,164
Outpatients Expenses	1,476,051,841	1,547,615,260
Inpatient Expenses	1,400,183,047	1,129,041,167
Ambulatory Expenses	297,644,160	197,329,000
Total Expenses	4,665,215,593	4,349,026,275
Surplus for the Year	5,508,905	259,017,558

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

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	2016	2015
	Kshs	Kshs
5 SURPLUS FROM HISP		
Premiums	123,620,896	66,004,609
Less Expenses:		
Administrative Expenses	172,830	7,763,638
Outpatient Expenses	97,444,389	22,219,961
Inpatient Expenses	23,315,834	3,265,052
Total Expenses	120,933,053	33,248,651
Surplus for the Year	2,687,844	32,755,959

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

6 SURPLUS FROM COUNTY PSC SCHEME

Premiums	104,209,767	6,741,739
Less Expenses:		
Group Life Expenses	-	-
Outpatient Expenses	2,919,126	1,787,565
Inpatient Expenses	21,536,849	1,661,372
Total Expenses	24,455,975	3,448,937
Surplus for the Year	79,753,793	3,292,802

The Fund entered into a contract with County Governments to provide private medical insurance cover to the staff of the counties. The counties were Kakamega, Nyandarua, Kisumu, Lamu, Murang'a and Kajiado.

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	2016	2015
	Kshs	Kshs
7 OTHER INCOMES		
Interest on Investments	1,261,395,606	303,113,056
Hospital Accreditation Fee	3,326,800	4,700,000
Interest - Disposal South B Estate	2,027,979	2,945,992
Rent from Properties	334,872.850	302,345,500
Recoveries Out of Provisions	-	4,826,250
Agency Commissions	1,843,057	1,795,267
Miscellaneous Receipts	1,158,032	2,454,990
Proceeds on Disposal	4,941,640	442,500
Total	1,609,565,963	622,623,555

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

8 BENEFIT EXPENSES

Outpatient Expenses	1,529,850,818	-
Inpatient Expenses	8,718,936,268	5,883,676,552
Total	10,248,787,085	5,883,676,552

These are medical benefits paid out to health care facilities for providing outpatient and inpatient services to members of the national scheme. The inpatient expenses include payment for chronic illnesses cover by the Fund.

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	2016	2015
	Kshs	Kshs
9 OTHER OPERATING EXPENSES		
Staff Costs (Note 10)	3,786,395,327	2,994,670,848
Board Expenses (Note 11)	13,476,653	34,862,937
Group Personal Accident/Group	36,978,710	26,180,919
Medical Expenses /Ex-Gratia (Inpatient)	124,578,842	118,760,343
Subscriptions & Contributions	27,998,785	23,958,479
Audit Expenses	3,886,000	2,229,600
Legal Expenses	14,058,714	45,246,142
Security Expenses	57,928,716	53,254,879
Provision For Revenue Lost	-	198,254
Prov. For Outstanding Contributions	-	7,077,368
Transport Operating Exp.	146,094,810	111,009,723
Transport Allowance	484,542	1,179,162
Travel & Accommodation	192,230,318	114,084,489
Postage	12,606,864	11,933,367
Telephone Expenses	74,694,838	88,720,165
Official Entertainment	31,946,278	26,250,926
Electricity, Water & Conservancy	14,614,239	12,505,730
Uniforms & Clothing	4,047,020	99,136
Newspapers/ Periodicals/ Books	8,607,530	3,523,258
Printing & Stationery-General	46,723,424	36,958,611
Advertising & Publicity	377,118,453	112,386,381
Security Printing	34,009,825	30,470,399
Show Expenses	9,215,011	7,982,360
Cleaning Materials & Services	27,766,294	20,737,749
Computer Stationary & Material	21,742,166	16,911,744
Rent & Rates	130,269,852	116,418,527
Insurances and Licenses	35,131,523	37,192,387

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Staff Welfare	29,825,281	23,937,995
Training Expenses	114,552,035	34,890,880
Maintenance of Office Equipment	102,599,740	48,451,270
Maintenance of Computer	95,118,866	70,410,942
Total	5,574,700,656	4,232,494,968

10 STAFF COSTS

Basic Salary	2,534,820,874	1,873,021,752
Gratuity / Pension Contributions	326,649,803	226,282,539
N.S.S.F - Employer Contributions	4,107,400	4,052,400
Other Allowances	920,817,251	891,314,158
Total	3,786,395,327	2,994,670,848

The number of employees at the end of the year was:

	No.	No.
Permanent - Management	457	461
Permanent - Unionisable	1,247	1,255
Total	1,704	1,716

11 BOARD EXPENSES

Sitting Allowance	3,620,000	11,849,507
Seminars And Conferences	1,142,672	2,180,086
Accommodation	799,002	2,990,421
Honoraria	880,000	1,256,774
Mileage And Per Diem	4,553,081	11,436,912
Lunch All. & Refreshments	887,438	2,503,977
Travel - Local	1,594,460	2,645,260
Total	13,476,653	34,862,937

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12 PROPERTY, PLANT AND EQUIPMENT (Kshs)

2015/2016 FY	Land	Buildings	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST							
At July 1, 2015	298,589,665	9,583,454,453	244,238,717	1,231,612,294	2,096,090,566	1,580,020,206	15,034,005,901
Additions	-	-	99,507,540	907,532,102	107,667,601	54,558,133	1,169,265,375
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
As at June 30, 2016	298,589,665	9,583,454,453	343,746,257	2,139,144,395	2,203,758,167	1,634,578,339	16,203,271,276
DEPRECIATION							
At July 1, 2015	-	1,248,053,563	235,828,979	561,627,020	748,914,355	-	2,794,423,918
Charge for the year	-	136,131,817	15,747,826	367,148,960	48,299,054	-	567,327,657
Impairment loss	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-
As at June 30, 2016	-	1,384,185,381	251,576,805	928,775,980	797,213,409	-	3,361,751,576
NBV as at 30/06/2016							
	298,589,665	8,199,269,072	92,169,451	1,210,368,415	1,406,544,758	1,634,578,339	12,841,519,701

NATIONAL HOSPITAL INSURANCE FUND

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For the year ended June 30, 2016

12 PROPERTY, PLANT AND EQUIPMENT (Kshs) (Continued)

2014/2015 FY	Land	Buildings	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST							
At July 1, 2014	298,589,665	9,583,454,453	244,238,717	1,017,463,475	2,054,211,437	1,444,687,484	14,642,645,231
Additions	-	-	-	214,148,819	41,879,129	135,332,722	391,360,670
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
As at June 30, 2015	298,589,665	9,583,454,453	244,238,717	1,231,612,294	2,096,090,566	1,580,020,206	15,034,005,901
DEPRECIATION							
At July 1, 2014	-	1,111,921,746	217,553,467	499,274,072	702,983,878	-	2,531,733,163
Charge for the year	-	136,131,817	18,275,512	62,352,949	45,930,477	-	262,690,755
Impairment loss	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-
As at June 30, 2015	-	1,248,053,563	235,828,979	561,627,020	748,914,355	-	2,794,423,918
NBV as at 30/06/2015	298,589,665	8,335,400,890	8,409,738	669,985,273	1,347,176,211	1,580,020,206	12,239,581,983

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	2016	2015
	Kshs	Kshs
13 INTANGIBLE ASSETS		
Cost		
As at 1st July 2015	119,503,222	119,503,222
Additions	-	-
Disposals	-	-
As At June 30, 2016	119,503,222	119,503,222
Amortization		
As at 1st July 2015	116,023,222	112,543,222
Charge for The Year	3,480,000	3,480,000
Disposals	-	-
Impairment Loss	-	-
As at June 30, 2016	119,503,222	116,023,222
NBV as at June 30, 2016	-	3,480,000
14 FINANCE EXPENSES		
Bank Charges	8,931,774	13,690,495
Commissions	228,946,051	141,130,563
Total	237,877,825	154,821,058
15 TAX EXPENSES		
With Holding Tax Expense	186,700,312	42,682,325
Vat Expense - Property A/C	46,131,448	44,865,201
Total	232,831,759	87,547,526

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	2016	2015
	Kshs	Kshs
16 RECEIVABLE - SOUTH B ESTATE MORTGAGE		
Opening Balance as at 1st July 2015	37,930,332	48,165,650
Less Payments Received in the Year	8,366,227	10,235,318
Balance Receivable as at June 30 2016	29,564,106	37,930,332

The fund sold houses in South B estate to staff members through mortgage at a rate of 6%. The recovery for the year and balance as at 30 June 2016 is shown above.

17 FIXED INTEREST INVESTMENTS (BONDS)

In Central Bank of Kenya 12.5% 12-Year Infrastructure Bond	34,200,000	34,200,000
	34,200,000	34,200,000

18 LONG TERM DEPOSITS

NBK (Car Loan)	54,831,982	53,981,177
Savings & Loan	675,531,875	516,065,034
Total	730,363,857	570,046,211

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.

19 UNQUOTED INVESTMENTS

Consolidated Bank Shares	54,200,000	54,200,000
MTRH Loan	31,837,440	48,049,679
Total	86,037,440	102,249,679

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

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	2016	2015
	Kshs	Kshs
20 TRADE AND OTHER RECEIVABLES		
Civil Servants Receivables	1,255,790,408	853,720,885
Electricity Deposit	1,322,384	1,319,384
Fuel Deposit	150,000	150,000
Hospital Surcharges	5,722,635	5,759,394
Interest Receivable	280,887,382	40,441,983
Letter Of Credit	5,004,000	36,406,115
Mpesa Revenue Receivable	-	23,205,399
Outstanding Contributions	2,252,090,039	1,247,669,690
R/D Cheques	18,825,644	18,183,903
Rent Deposit	21,205,644	15,552,834
Rent Receivable	165,767,227	124,851,018
Revenue Holding A/C	12,187,821	12,187,821
Staff Medical Scheme Deposit A	3,900,000	3,900,000
Staff Receivables	9,333,533	5,504,040
Sundry Prepayments	35,542,500	36,282,380
Sundry Receivables	-	37,100
Supplier Advances	4,660,314	4,660,314
Telephone Deposits	253,804	253,804
Temporary Imprest	34,257,747	3,827,550
Less: Provision for Doubtful Receivables (Note 20(b))	(180,587,538)	(180,587,538)
Total	3,926,313,543	2,253,326,076

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	2016	2015
	Kshs	Kshs
20 (a) PROVISIONS FOR DOUBTFUL DEBTS		
Provision for other Doubtful Receivables	7,537,029	7,537,029
Provision for un-surrendered Imprest	1,055,254	1,055,254
Provision for Revenue Lost	12,187,821	12,187,821
Provision for Outstanding Contributions	159,807,434	159,807,434
TOTAL	180,587,538	180,587,538

21 CASH AND CASH EQUIVALENTS

Short Term Investments (Note 22)	15,275,768,478	3,283,038,878
Cash and Bank Balances (Note 23)	954,268,368	1,698,183,756
Cash and Cash Equivalents	16,230,036,846	4,981,222,634

22 SHORT TERM INVESTMENTS

NBK Call Deposits	700,000,000	600,000,000
KCB Call Deposit	5,212,768,478	1,070,038,878
Co-op Call Deposit	3,873,000,000	1,513,000,000
CBK Treasury Bills	2,590,000,000	100,000,000
Equity Bank Fixed Deposit A/C	2,900,000,000	-
Sub Total	15,275,768,478	3,283,038,878
Investments In Non-Performing Institutions	1,304,410,609	1,304,410,609
	16,580,179,088	4,587,449,487
Less: Provision For Impaired Investments (Note 22(a))	(1,304,410,609)	(1,304,410,609)
Total	15,275,768,478	3,283,038,878

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

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	2016	2015
	Kshs	Kshs
22(a) PROVISION FOR IMPAIRED INVESTMENTS		
Pioneer Building Society	6,188,548	6,188,548
Rural Urban Credit Finance	4,973,750	9,800,000
Continental Credit Finance Ltd	15,000,000	15,000,000
Inter Africa Credit Finance Ltd	833,271	833,271
Kenya Finance Bank Ltd	31,853,481	31,853,481
United Trustees Finance Ltd	4,000,000	4,000,000
Middle African Finance Ltd	12,100,000	12,100,000
Nairobi Finance Corp.	19,459,856	19,459,856
Trade Bank Ltd	61,900,000	61,900,000
Ari Credit Finance Corp. Ltd	34,146,892	34,146,892
Thabiti Finance Co. Ltd	145,200,000	145,200,000
Indo Africa Finance Ltd	61,500,000	61,500,000
Home Loan Building Society Ltd	1,000,000	1,000,000
Country Building Society Ltd	2,000,000	2,000,000
Trade Finance Ltd	35,100,000	35,100,000
Heritage Bank Ltd	274,400,000	274,400,000
Euro Bank Ltd	545,254,811	545,254,811
Euro Bank Ltd/ Consolidated Bank	49,500,000	49,500,000
Total	1,304,410,609	1,309,236,859
23 BANK AND CASH BALANCES		
Cash in Hand	847,882	422,142
Cash at Bank	952,203,506	1,696,335,738
Cash in Transit	1,216,979	1,425,876
Total	954,268,368	1,698,183,756

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24 ACCUMULATED FUND

These are capital funds held by the Fund and represented by the Fund's various accumulated fixed assets. The accumulated fund was Kshs. **12,209,923,340** as at 30 June 2016.

25 RETAINED EARNINGS

The Fund made a surplus after tax of Kshs **13,310,432,536** in the current financial year compared to Kshs. **2,664,448,720** in 2014/15. This amount goes to the surplus fund which is fully utilised for the benefit of the members. Surplus Fund at the end of the financial year 2015/16 stood at Kshs. **20,047,377,027**.

26 TRADE PAYABLES (Claims)	2016	2015
	Kshs	Kshs
Claims Payable	315,317,222	517,233,875

27 OTHER TRADE PAYABLES

Accruals	402,885	402,885
Agency General Payment (Staff Payables)	60,522	36,572
Agency: Group Personal Life/ Ac	12,631,499	11,417,277
Civil Servants Group Life Scheme	30,498,503	52,571,760
Legal Fees NHIF Tenants	157,000	157,000
Pension Payable	288,351	284,888
Rent Deposits	22,480,499	22,480,499
Retention Money	6,399,100	3,803,382
Rockefeller Foundation Grant	12,415	12,415
Salary Clearance Accounts	6,036,822	6,061,751
Tender Refundable Deposits	1,065,000	945,000
Trade Creditors	258,069,109	158,813,547
Value Added Tax (Agency A/C)	15,032,866	7,320,412
Value Added Tax on Property A/C	1,123,121	1,120,400
W.H.T Payable - Creditors	6,437,018	5,555,592
HISP	-	123,620,497

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OPPSD	-	6,373,140
County PSC Scheme	15,620,616	20,225,216
Total	376,315,326	421,202,233

	2016	2015
	Kshs	Kshs
28 WITHHOLDING TAX PAYABLE		
W.H.T Payable - Investments	99,754,534	10,190,933
Total	99,754,534	10,190,933

29 PROVISION FOR LIABILITIES

Provision for Civil Servants Scheme	324,382,044	324,382,044
Provision for External Audit Fees	4,966,000	2,160,000
Provision for Open Heart Surgery	500,000,000	-
Total	829,348,044	326,542,044

Provision of Kshs. 324,382,044 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 Kshs. 500 Million is to cater for sponsorship for Open heart surgery program.

30 ANALYSIS OF CASH AT BANK

National Bank of Kenya	975,481,999	1,169,067,178
Kenya Commercial Bank	5,293,197,344	1,610,144,842
Cooperative Bank	3,981,799,405	1,642,098,029
Central Bank of Kenya	2,590,000,000	100,000,000
Equity Bank	3,388,423,848	434,859,167
Safaricom (Mpesa)	-	23,205,399
Total	16,228,902,596	4,979,374,615

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31 NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Operating Surplus to Cash Generated from Operations

	Note	2016	2015
		Kshs	Kshs
Operating Surplus		13,543,264,295	2,751,996,245
Depreciation	12	567,327,657	262,690,755
Amortization	13	3,480,000	3,480,000
Gain On Disposal Of Property, Plant & Equipment	7	(4,941,640)	(442,500)
Interest From Investments	7	(1,263,423,585)	(306,059,048)
Operating Surplus Before Working Capital Changes		12,845,706,728	2,711,665,452
Working Capital Changes			
Increase in Trade and Other Receivables	20	(1,672,987,467)	(1,724,845,625)
Decrease/Increase in Claims Payables	26	(201,916,653)	254,774,025
Decrease/ Increase in Other Trade Payables	27	(44,886,907)	242,408,747
Increase in Tax Payable	28	89,563,601	3,110,259
Increase in Provisions	29	502,806,000	141,600
		(1,327,421,427)	(1,224,410,994)
Cash Generated From Operations		11,518,285,301	1,487,254,459

32 CONTINGENT LIABILITIES

The Fund has a civil suit filed by Meridian Medical Centre in the High Court of Kenya, Milimani Commercial Courts (Civil suit No.345 of 2013).The Plaintiff filed the claim to be paid for services offered to Civil Servants and Disciplined Force Medical Pilot project. As the amount to be awarded by the courts cannot be determined, this contingent liability is hereby disclosed by the way of note as per IAS 37. Consultants commissioned to carry out a feasibility study on the development on the parcel of land at Karen Area, Nairobi, have raised claims for services rendered. The extent of liability to the Fund shall be known once the

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necessary approvals are received. This contingent liability is hereby disclosed by the way of note as per IAS 37.

33 CAPITAL COMMITMENTS

There were no capital commitments in the year.

34 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.

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

	Full performing	Past due	Impaired	Total
	Kshs	Kshs	Kshs	Kshs
30th June 2016				
Due from related parties	1,255,790,408	-	-	1,255,790,408
Trade receivables		2,670,523,136	180,587,538	2,851,110,674
Bank balances	952,203,506	-	-	952,203,506
	2,207,993,913	2,670,523,136	180,587,538	5,059,104,587
30th June 2015				
Due from related parties	853,720,885	-	-	853,720,885
Trade receivables		1,399,605,191	180,587,538	1,580,192,729
Bank balances	1,696,335,738	-	-	1,696,335,738
	2,550,056,623	1,399,605,191	180,587,538	4,130,249,352

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

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

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However, the finance department is pursuing various measures to recover the impaired debt.

b) Liquidity risk

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

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

At 30th June	2016	2015
	Kshs.	Kshs.
Trade payables	315,317,222	517,233,875
Tax Payable	99,754,534	10,190,933
Other Trade Payables	376,315,326	421,202,233
Total	791,387,081	948,627,041

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

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market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

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

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

i) Interest rate risk

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

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Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 162.3 million (2015: KShs 49.8 million). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 811.4 million (2015: KShs 249 million)

ii) Foreign exchange risk

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

iii) Price risk

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

35 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 consists of debt, which includes cash and cash equivalents and equity attributable to accumulated fund and surplus funds.

36 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

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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 OP&PwSD, Civil Servants Scheme (CS&DS) and HISP. The transactions have been shown under notes 3, 4 & 5 respectively.

c) Key Management remuneration

	2016	2015
	Kshs	Kshs
Board of Management	13,476,653	34,862,937
Key Management Remuneration	48,499,800	29,655,600

Members of the board of management have been shown on page 7 & 8 while key management are on page 9, 10 & 11.

37 INCORPORATION

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