

REPORT OF THE AUDITOR-GENERAL ON KENYATTA NATIONAL HOSPITAL FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenyatta National Hospital set out on pages 80 to 129, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenyatta National Hospital as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenyatta National Hospital Board Order, 1987.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Borrowings

As previously reported, the borrowings balance of Kshs.1,199,863,000 reflected in the statement of financial position as at 30 June 2017 relates to a loan received in 2007/2008 from the Kingdom of Spain in form of medical equipment. According to information available, the loan was repayable by the Hospital at an interest rate of 3% per annum on a reducing balance for the first six (6) years and thereafter the interest plus principal for the next nine (9) years with effect from 1 July 2008. However, records examined indicated that, no interest has been paid or accrued in the nine financial years between 2008/2009 and 2016/2017. Further, the accrued interest, loan repayment and loan balance confirmation certificate as at 30 June 2017 were not availed for audit review. Although indications are that the management has sought assistance from the Ministry of Health towards settlement of the loan, the response from the Ministry on the matter was not availed for audit review.

Under the circumstances, it has not been possible to confirm the accuracy of the borrowings balance reflected in the statement of financial position as at 30 June 2017 and that the balance of Kshs.1,199,863,000 is fairly stated as at the same date.

2. Property, Plant and Equipment

2.1 Land

As previously reported, the property, plant and equipment balance of Kshs.11,609,470,000 included in the statement of financial position as at 30 June 2017 includes four (4) parcels of land with a total of 0.7847 hectares valued at Kshs.50,600,000 which were excised and allocated to other parties as detailed below:-

LR No.	Location	Hectares	Value
LRN-209/11460	Upper hill	0.316	23,000,000
LRN-209/12767	Upper hill	0.226	17,000,000
LRN-209/12822	Upper hill	0.221	9,000,000
LRN-13319	Upper hill	0.0217	1,600,000
Total		0.7847	50,600,000

Further, the property, plant and equipment balance of Kshs.11,609,470,000 also includes three (3) parcels of land with a total of 4.471 hectares valued at Kshs.329,000,000 out of which 1.3 hectares have title deeds in the name of and owned by National Quality Control Laboratory rather than Kenyatta National Hospital as detailed below:-

LR No.	Location	Hectares	Value
LRN -209/14269	Upper hill	0.14	10,000,000
LRN-209/14272	Upper hill	0.531	39,000,000
LRN-209/11976	Upper hill	3.8	280,000,000
Total		4.471	329,000,000

Although the issue has been discussed by the Parliamentary Public Investment Committee (PIC), no action seems to have been taken on the PIC recommendations in the 19th report that the National Land Commission revoke title deeds irregularly issued to private entities, Ethics Anti-Corruption investigate how the hospital land was allocated to individuals and that the then hospital Chief Executive Officer be surcharged for any loss that may have been incurred.

2.2 Acquisition of KNH Land for Construction of Hospital Road and Mbagathi Way Link Road

The Kenya Urban Roads Authority (KURA) in their Gazette Notice No. 9340 of 18th December, 2015 and 6441 of August, 2016 compulsorily acquired seven (7) acres of Kenyatta National Hospital (KNH) land with Hospital's internal valuation of Kshs.4,219,257,210 for construction of Hospital Road and Mbagathi Way Link Road. According to available information, KURA was to pay compensation of Kshs.1,859,297,000 to Kenyatta National Hospital (KNH) for the acquired portion of land. However, no compensation had been made to KNH as at the time of audit in March 2018 despite commencement of the road construction. The excised land has been included in the property plant and equipment balance of Kshs.11,609,470,000.

Under the circumstance, ownership and accuracy of the property, plant and equipment balance of Kshs.11,609,470,000 in the statement of financial position as at 30 June 2017 could not be confirmed.

3. Intangible Assets - Hospital Management Information Systems

The statement of financial position include intangible assets of Kshs.14,751,000 net of amortization charge of Kshs.16,657,000 as disclosed in note 29 to the financial statements. As previously reported in 2015/2016, the balance includes Kshs.26,986,031, which relate to payment made to systems partners for the provision of Hospital Management Information Systems. However, out of Kshs.26,986,031, Kshs.5,397,206 relate to 15% paid in addition to 60% paid earlier as a result of an amendment to the original contract which had provided for 20% payment to be made after testing and commissioning of the system. Further, the project was to take a period of 6 months in 2013, but was commissioned in June 2017 when it was only 70% complete and therefore, having not achieved its intended purpose. In addition, the original contract and performance bond expired before completion of the project. No explanation has been provided for breach of the contract.

Consequently, it has not been possible to determine the accuracy and propriety of the balance of intangible assets of Kshs.145,751,000 included in the statement of financial position as at 30 June 2017.

4. Board Members

The statement of financial performance for the year ended 30 June 2017 reflect board expenses of Kshs.19,244,000. However, a review of records on the board members indicated that the Hospital had twelve board members with one community constituting 42% of the Board contrary to the National Cohesion and Integration Act, 2008 which state that no single ethnic community should constitute more than 33% of members of a national institution. No explanation has been provided for breach of this requirement. In the circumstance, the Hospital failed to comply with the National Cohesion and Integration Act, 2008 on ethnic composition of the Board of Directors and, therefore, the Board as currently constituted is in breach of the law.

5. Medical Service Contract Loss

5.1 Contracts with National Hospital Insurance Fund (NHIF)

As previously reported, the statement of financial performance for the year ended 30 June 2017 includes medical services contracts loss of Kshs.377,271,000 out of which Kshs.165,201,000 relate to loss from National Hospital Insurance Fund (NHIF). This loss is net of rebate received from the NHIF and the amount the Hospital spent in the treatment of NHIF members. According to information available, the Hospital entered into a contract with NHIF in August 2008 to treat NHIF members at a rebate rate of Kshs.2,400 for inpatient care per day with the contract ending in August 2010. However, information available indicate that on 1 August 2016 the rebates were increased to Kshs.4,000.

Under the circumstance, the medical service contract loss of Kshs.377,271,000 in the statement of financial performance for the year ended 30 June 2017 could have been avoided had the management taken action in time.

5.2 Free Maternity Program

Included in the statement of financial performance for the year ended 30 June 2017 is medical services contracts loss of Kshs.377,271,000 out of which Kshs.200,634,000 relate to loss on free maternity program offered by the Hospital, as disclosed in note 22 to the financial statements. This follows from a letter ref. ACC/FCM HS/1/28A dated 1 April 2014 from the Cabinet Secretary, Ministry of Health which communicated the decision of the Government to reimburse an amount of Kshs.17,500 for every delivery. However, Kenyatta National Hospital being a referral hospital receives complicated maternal referrals and as a result the costs are higher and the reimbursable amount of Kshs.17,500 per delivery has remained the same despite the high costs.

Consequently, the hospital will continue to incur losses if the reimbursable amounts are not reviewed.

5.3 Security Investigation Expenses

The statement of financial performance include administrative and general expenses of Kshs.751,642,000 out of which as disclosed in note 18 to the financial statements, Kshs.7,938,000 relate to security investigation expenses in respect of meal allowances paid to the hospital police security officers for the year ended 30 June 2017. However, authority in support of the payments were not availed for audit review. No explanation has been provided for paying security officers meals allowances for working in their duty station.

Under the circumstance, the accuracy and propriety of administrative and general expenses of Kshs.7,938,000 included in the statement of financial performance for the year ended 30 June 2017 could not be confirmed.

6.0 Receivable from Exchange Transactions

6.1 Long Outstanding Debts

As previously reported in the year 2015/2016, the receivables from exchange transactions balance of Kshs.1,178,717,000 as at 30 June 2017 includes receivables of Kshs.192,926,279, Kshs.94,970,458 and Kshs.3,286,110 for National Hospital Insurance Fund (NHIF) rebate, Ministry of Health disaster debts and return to drawer (RD) cheques respectively which have been outstanding for more than two years.

No explanation has been provided by the management for failure to recover these long outstanding debts.

6.2 Absconded Patients Debts

As previously reported in the year 2015/2016, the receivables from exchange transactions balance of Kshs.1,178,717,000 as at 30 June 2017 includes absconded patients debts of Kshs.61,719,861 incurred during the year thus resulting to a cumulative total absconded patients debt of Kshs.662,363,990 as indicated in note 25 to the financial statements on medical services receivables for the year ended 30 June 2017. No explanation has been provided by the management for failure to recover these long outstanding debts.

6.3 Receivables from National Hospital Insurance Fund (NHIF)

Further, the receivables from exchange transaction balance of Kshs.1,178,717,000 includes Kshs.445,967,244 due from NHIF while the NHIF financial statements as at 30 June 2017 reflects Kshs.56,661,035 thus resulting to unreconciled variance of Kshs.389,306,209. No explanation has been provided by the management for failure to reconcile the two sets of records.

Consequently, it has not been possible to determine the accuracy of the receivables from exchange transactions balance of Kshs.1,178,717,000 included in the statement of financial position as at 30 June 2017.

6.4 Supply Contracts

In addition, the receivables from exchange transactions balance of Kshs.1,178,717,000 includes prepayments of Kshs.128,095,000 out of which prepayments totaling Kshs.31,733,575 related to supply contracts awarded to three firms of Kshs.15,792,611, Kshs.2,213,309 and Kshs.13,727,655. As reported in the previous year, the first prepayment is in dispute while the second one is under investigation. The third prepayment relates to micro filming project at the hospital which had not been completed as at 30 June 2017. Although the issue has been discussed by the Public Investment Committee, it was not clear whether action has been taken on the PIC

recommendations that the three companies be investigated, prosecuted and the then hospital Chief Executive Officer be held accountable for the loss and be surcharged.

6.5 Letters of Credit

The receivables from exchange transactions balance of Kshs.1,178,717,000 also includes a sum of Kshs.96,361,633 in respect of letters of credit issued by the Hospital to foreign based firms for supply of various goods and services. As in the previous year, the goods and services have not been accounted for in these financial statements.

6.6 Impairment Allowance

The receivables from exchange transactions balance of Kshs.1,178,717,000 included in the statement of financial position as at 30 June, 2017 is the net amount obtained from the gross balance of Kshs.6,632,454,000 less impairment allowance of Kshs.5,453,737,000 as given in note 25 to the financial statements. The impairment allowance of Kshs.5,453,737,000 includes long outstanding debts of Kshs.3,759,665,395 and whose recoverability is doubtful. In addition, the impairment allowance of Kshs.5,453,736,000 includes a provision of Kshs.1,248,877,758 and whose schedule of beneficiaries was not availed for audit review.

Under the circumstance, the receivables from exchange transactions balance of Kshs.1,178,717,000 included in the statement of financial position as at 30 June 2017 could not be confirmed.

6.7 Ministry of Health (MoH) Staff Long Outstanding Debts

Included in the statement of financial position as at 30 June 2017 are receivables from exchange transactions of Kshs.1,178,717,000 out of which Kshs.28,450,000 relate to rental receivables as disclosed in note 25 to the financial statements. The rental receivables balance of Kshs.28,450,000 include MoH staff rent amounting to Kshs.4,103,760 that has been outstanding for periods ranging from 4 months to 47 months, and which ought to have been deducted from the payroll through the check-off system and forwarded to Kenyatta National Hospital.

Also noted on the rent receivable are five officers who vacated the houses without paying rent arrears amounting to Kshs.991,000.

Under the circumstance, the accuracy and recoverability of the receivables from exchange transactions balance of Kshs.5,094,760 included in the statement of financial position as at 30 June 2017 could not be determined.

7. Receivables from Non-Exchange Transactions

The receivables from non-exchange transactions balance of Kshs.773,784,000 as at 30 June 2017 includes staff receivables of Kshs.15,816,000 out of which temporary

imprests and staff debtors amounting to Kshs.1,013,509 and Kshs.1,676,161 respectively have been outstanding for a considerably long period of time. Management has not explained steps taken to recover the outstanding debts.

Under the circumstances, the recoverability of Kshs.2,689,670 included in receivables from non-exchange transactions balance of Kshs.773,784,000 in the statement of financial position as at 30 June 2017 could not be confirmed.

8. Trade and Other Payables from Exchange Transactions

As similarly reported in 2015/2016, the trade and other payables from exchange transactions balance totaling Kshs.1,011,646,000 in the statement of financial position as at 30 June 2017 includes long outstanding accounts payables of Kshs.164,514,375 included under trade payables as per note 30 to the financial statements. No explanation has been provided for failing to clear these long outstanding account payables.

Consequently, it has not been possible to determine the accuracy and validity of the trade and other payables from exchange transactions balance of Kshs.1,011,646,000 included in the statement of financial position as at 30 June 2017.

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

Key Audit Matters

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

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Hospital's ability to continue as a going concern / sustain services, disclosing, as applicable, matters related to going concern / sustainability of services and using the

applicable basis of accounting unless the management either intends to liquidate the Hospital or to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Hospital's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Hospital's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the

audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Hospital to cease as a going concern or to continue to sustain its services.

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

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

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



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

Nairobi

15 May 2018