

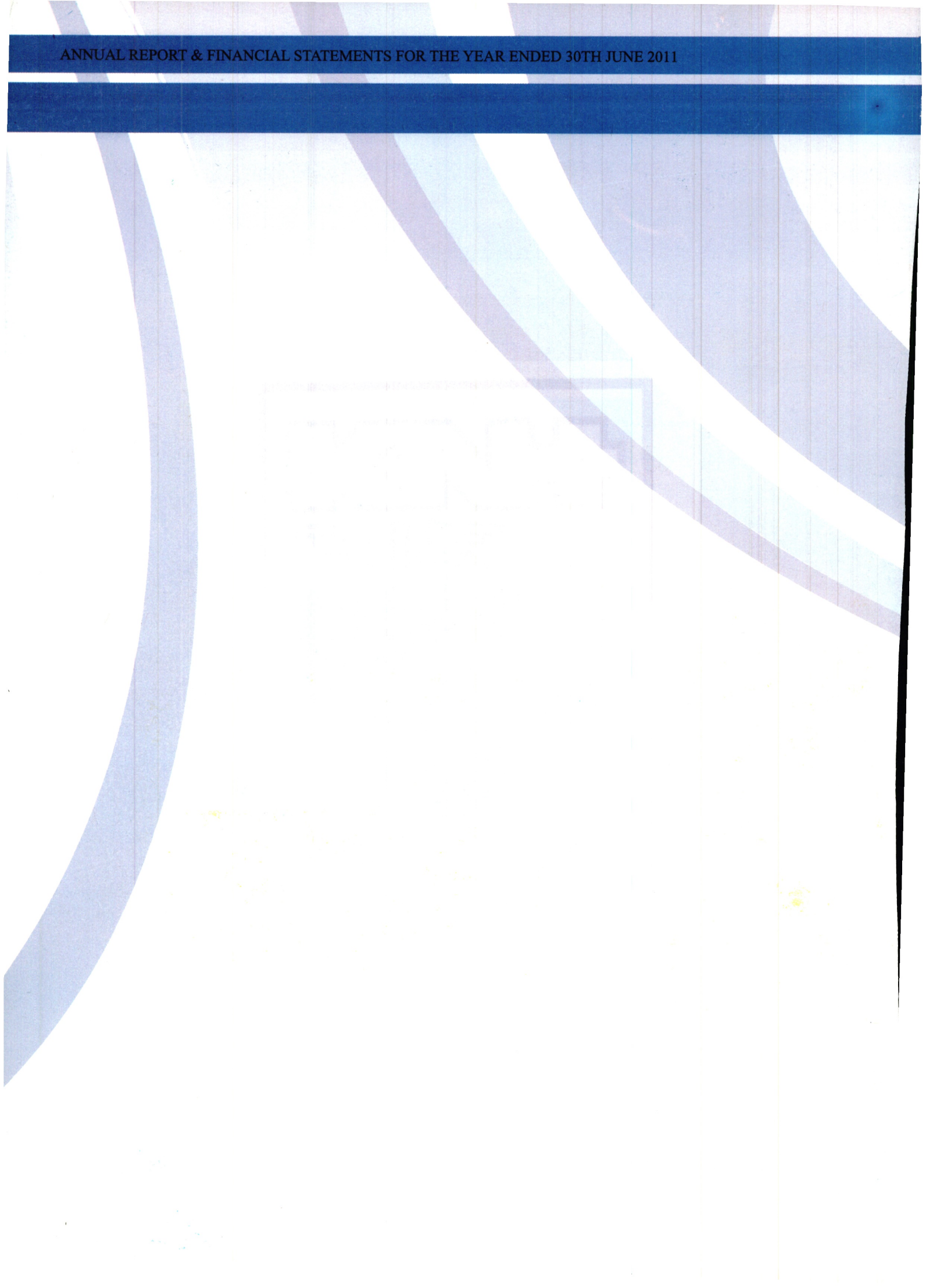


KENYATTA NATIONAL HOSPITAL

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**AUDITED FINANCIAL
STATEMENTS FOR
THE YEAR ENDED
30TH JUNE 2011**



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CORPORATE INFORMATION

ESTABLISHMENT

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

VISION

To be a world class referral hospital in the provision of innovative and specialized healthcare.

MISSION

To provide accessible specialized quality healthcare, facilitate medical training, research, participate in national health planning and policy.

MOTTO

Quality Health Care.

CORE VALUES

We recognize that Core values form the glue that holds an organization together. The Hospital commits itself to the following Corporate Values:

RESPONSIVENESS

Preparedness and timely response to clients needs

QUALITY SERVICES :

Quality Services to our clients at all time.

PROFESSIONALISM, INTEGRITY AND ETHICS :

Uphold professionalism, integrity and ethics in all our activities

CUSTOMER SATISFACTION

Client - driven and always endeavour to exceed their expectation welfare and development

STAFF RECOGNITION

Value our staff and Endeavour to invest in their welfare and development.

TEAM WORK :

Embrace the spirit of team work in all our activities

RESPONSIBLE CORPORATE CITIZENSHIP

Committed to responsible corporate citizenship at all times.

MEMBERS OF THE BOARD OF MANAGEMENT



Mr. Joseph Kinyua
PS- Treasury



Mrs. Margaret Wanjohi
Chairperson
(Re-appointed on 20/7/2010)



Ms. Mary Ngari
PS- Ministry of Medical Services



Mr. Ibrahim M. Abdille
Member
(Appointed on 26/1/2010)



Prof. Isaac Kibwage
Principal, College of Health Sciences
UON



Mr. Richard L. Lesiyampe
Chief Executive Officer
Appointed on 23/06/2011



Dr. Charles Olango Onudi
Director, Kenya Medical
Training College



Jackson K. Mpario
Member
Appointed on 26/1/2010



Ms. Mary W. Mungai
Member
(Appointed on 26/1/2010)



Prof. Achola Pala
Member
(Appointed on 26/1/2010)



Mr. Lawrence O. Omire
Member
(Re-appointed on 26/1/2010)

SENIOR MANAGEMENT



Mr. Kennedy Auka
Deputy Director
(Administration and Finance)



Mr. Richard L. Lesiyampe
Chief Executive Officer
Appointed on 23/06/2011



Dr. Simeon Monda
Ag. Deputy Director
(Clinical Services)



Mrs. Ludmila Shitakha
Planning Manager



Dr. Henry Kioko
Chairman Private Wing
Management Committee



Mrs. Philomena Maina
Chief Nurse



Mr. Godfrey Obuya
Chief Pharmacist



Dr. Henry Wanga
Head, Readilogy



Eng. C. Mutura
Ag. Hospital
Engineer



Mr. Michael Kihuga
Finance Manager



Mrs. Lucy Mutugi
Ag. Supplies and Procurement
Manager



Mr. Fredrick Oyombe
Human Resource Manager



Dr. Thomas Mutie
Head Medicine



Dr. Bernard Githae
Head, Surgical

BOARD COMMITTEES

BOARD COMMITTEES

During the 106th Regular Board meeting held on 8th July 2010 in the Hospital Boardroom at 9:00am, the Board constituted the following Committees:

1. FINANCE & ALL PURPOSE COMMITTEE

Ms Mary W. Mungai	-	Chairperson
Mr. Lawrence Omire	-	Member
Rep. Ministry of Finance	-	Member
Rep. Ministry of Medical Services	-	Member
Principal, CHS, UoN	-	Member
Chief Executive Officer, KNH	-	Member/Secretary
Finance Manager, KNH	-	Secretariat

2. AUDIT COMMITTEE

Mr. Ibrahim M. Abdille	-	Chairman
Mr. Jackson K. Mpario	-	Member
Rep. Ministry of Medical services	-	Member
Rep. Ministry of Finance	-	Member
Chief Internal Auditor, KNH	-	Secretariat

3. RESEARCH, STANDARDS, ETHICS AND QUALITY COMMITTEE

Prof. Achola Pala	-	Chairman
Mr. Jackson K. Mpario	-	Member
Principal, CHS, UoN	-	Member
Director, KMTC	-	Member
Chief Executive Officer, KNH	-	Member/Secretary
Deputy Director, Clinical Services, KNH	-	Secretariat
Quality assurance Manager, KNH	-	Secretariat

4. TERMS AND CONDITIONS OF SERVICE & STAFF WELFARE COMMITTEE

Mr. Jackson Mpario	-	Chairman
Mr. Lawrence Omire	-	Member
Prof. Achola Pala	-	Member
Mr. Ibrahim Abdille	-	Member
Rep. Ministry of Medical Services	-	Member
Principal, CHS, UoN	-	Member
Director, KMTC	-	Member
Chief Executive Officer, KNH	-	Member/Secretary
Human Resource Manager, KNH	-	Secretariat

5. STAFF PENSION SCHEME -BOARD OF TRUSTEES

Mr. Lawrence Omire	-	Chairman
Rep. Ministry of Finance	-	Member
Mrs. Itambo M. M.	-	Secretary
Simon J. Ndubai	-	Member
Dr. J.K Mogire	-	Member
Mrs. Truphosa Murila	-	Member

REGISTERED OFFICES

Kenyatta National Hospital
Hospital Road, off Ngong Road
P. O. Box 20723 – 00202
Nairobi.
Tel: +254 20 2726300, +254 20 2726550
Fax: +254 20 2725272
Email address: knhadmin@knh.or.ke
Website: www.knh.or.ke

AUDITORS

Auditor General
Kenya National Audit Office
P. O. Box 30084 - 00100
NAIROBI.
www.kenao.go.ke

BANKERS

National Bank of Kenya Limited
Hospital Branch
P. O. Box 30763 - 00100
NAIROBI.
www.nationalbank.co.ke.

Kenya Commercial Bank Limited
Moi Avenue Branch
P. O. Box 30081
NAIROBI.
Website :
www.kcbbankgroup.com

REPORT OF THE BOARD OF MANAGEMENT

The Board of Management present their annual report together with the audited financial statements for the year ended 30th June 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Hospital is to offer specialized healthcare, provide facilities for medical education, training and research and participate as a national referral hospital in national health planning and policy.

RESULTS

The results for the year ended 30th June 2011 are set out on pages 18 to 29.

BOARD OF MANAGEMENT

The members of the Board of Management who served up to 30th June 2011 are set out page 3 to 5.

BY ORDER OF THE BOARD



Richard L. Lesiyampe
CHIEF EXECUTIVE OFFICER

DATE 30/03/2012

CHAIRPERSON'S REPORT



It is with great pleasure that I present the Hospital Annual Report and Financial Statements for the year ended 30th June 2011. While we appreciate our important role as the National Referral and Teaching Centre, our vision is to be a world class referral Hospital offering the best healthcare not only in the country and region but world-wide.

The burden of disease among the Kenyan population continues to be a challenge and it has direct impact on KNH. Non-communicable diseases such as cancer, diabetes, renal failure and cardiac conditions have continued to have a higher negative effect on the lives of Kenyans. Emerging and re-emerging diseases such as HIV/AIDS and tuberculosis (TB) continue being a challenge; hence we have continued to identify innovative approaches to deal with them as outlined in the following areas.

PROJECTS

Cancer Treatment Machine

In the year under review, Kenyatta National Hospital procured a Cobalt 60 Teletherapy Machine for the treatment of cancer. The installation of the Cobalt 60 Teletherapy Machine is critical and a major investment to the Hospital considering it is the only public facility offering radiotherapy treatment. KNH handles between 3000- 4000 new patients per year with between 120 -150 diagnosed patients being attended for Radiotherapy every day.

Kenyatta National Hospital has already undertaken installations of a simulator and a gamma camera at the Cancer Treatment Centre in partnership with the International Atomic Energy Agency (I.A.E.A.). The Hospital has come up with a Comprehensive Project Proposal on Expansion and Establishment of Cancer Services in Kenya and is spearheading establishment of these Cancer Centre's in the country.

New Elevators

KNH procured six elevators which are expected to make movement easier within the Tower Block which consists of ten (10) floors. The new lifts will offer a full range of quality and optimum performance in a highly demanding patient/client transportation environment especially for the elderly and disabled persons and while loading beds and trolleys to the wards. The old lifts were installed and Commissioned in 1981 when the Tower Block was completed and has served the Hospital for a period of 30 years.

Burns and Paediatric Emergency Centre

The Government and three co-financiers namely, Arab Bank for Economic Development in Africa (BADEA), Saudi Fund for Development (SFD) and OPEC Fund for Development (OFID) had in 2009/2010 signed a loan agreement for the project. The procurement of the consultants who will do the design and supervision of the two projects are in progress.

Nairobi International Trade Fair

The Hospital took part in the Nairobi International Trade Fair 2010 in an effort to enhance public awareness on available specialized services. The forum provided an opportunity for the hospital to showcase its services and also get feedback from the public regarding its healthcare provision.

Scientific Conference and Symposium

Kenyatta National Hospital held its 3rd Annual Scientific Conference and Symposium which brought together leading healthcare practitioners and researchers from within the country and the East and Central Africa region. The events provided a forum for sharing ideas, experiences and learn from each other the innovative methods of addressing challenges in healthcare. This event will also enhance the hospital role in research, training and education.

Interlife Kidney Transplant Programme

The Hospital commemorated the 2nd "INTERLIFE" Kidney Transplant Project in March 2011. The joint Kidney Transplant program (INTERLIFE project) is aimed at improving the transplant not only at KNH but also in the country through capacity building, technological transfer and skills development which in the long run shall build confidence of patients in the Kenyan transplant system.

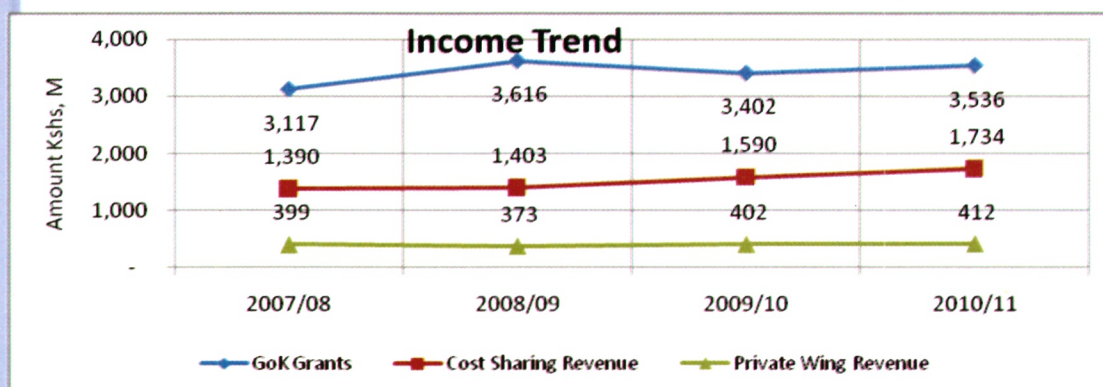
INTERLIFE program is a 5-year program initiated in October 2009 with a view to revamp KNH as a center of excellence in Kenya on kidney transplant by improving the transplant systems and the level of technological knowhow. The program is also focused to support reduction of cost of post kidney transplant drugs where all patients transplanted under the program receive subsidized cost for drugs from Novartis Pharma. With improved technological advancement and rationalized costs of transplants, this partnership will be a new dawn towards re initiating the process by carrying out kidney transplants at Kenyatta National Hospital.

Financial Performance

The financial performance improved by 38% as compared to the previous year. The overall deficit of kshs.284 million was an improvement from the previous year's deficit of Kshs. 455 million. This was due to the higher increase of revenue generated by 5% and a relatively lower increase in expenditure by 1% as below;

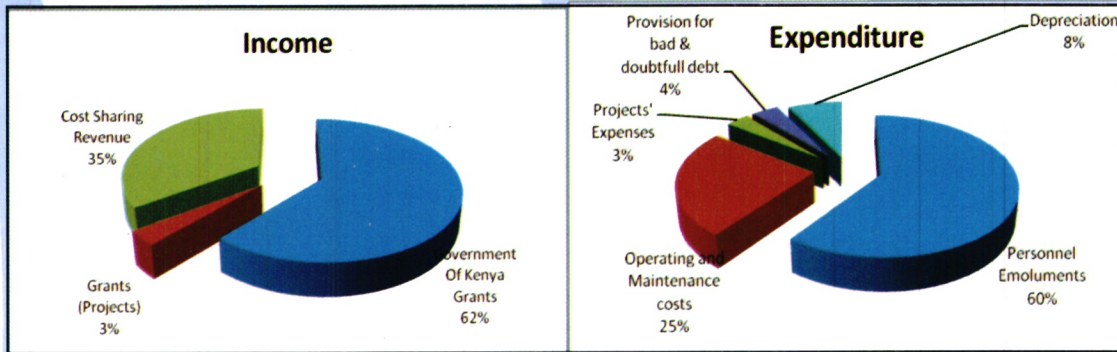
	2010/11	2009/10	Variance	Variance
Details	Kshs. Millions	Kshs. Millions	Kshs. Millions	%
Total Revenue	5,939	5,659	280	5%
Total Expenditure	6,221	6,114	(107)	(1)%
Surplus / (Deficit)	(282)	(455)	172	38%

The revenue generation over the past four years has shown a gradual growth as illustrated below:-



Income vs. Expenses

During the year the GOK grant for recurrent expenditure (mainly for personnel emoluments & settling of pending water bill) constituted 62% of total revenue whereas personnel costs consumed 60% of the total expenses. Contribution from cost sharing revenue and grants from projects was 35% and 3% respectively whereas operation and maintenance costs consumed 33% ; projects costs was 3% of the total expenses. The pie chart below shows the proportion for both incomes and expenses for the year.



Expenditures

Staff costs dropped by 1% to Kshs. 3,551 million in 2010/11 as compared to Kshs. 3,604 million the previous year as a result of non filling positions left by officers resigning, retiring or due to natural attrition and better containment of locum payments. Operation and maintenance costs for the year increased by 4% over the previous year. This was exemplified mainly on the following votes: medical gases, water bills, purchase of drugs and boiler fuel. This was as a result of the volatile economic down times due to inflationary trends, weakening of the Kenya shilling in the international market.

Future outlook

My Board will continue to ensure there is good corporate governance and improvement of the welfare of both patients and staff. In the next financial year, key attention will be focused on:

- ❖? Improving the quality of specialized healthcare to our clients.
- ❖? Strengthening financial and risk management.
- ❖? Improving information communication technology.

On behalf of the Board of Management I wish to sincerely thank the hospital's employees, volunteers, and other stakeholders whose dedication and hard work resulted in the successful performance we enjoyed in 2010/2011. It is my trust and determination that we shall continue working hard to ensure that Kenyatta National Hospital remains the health provider of choice to our clients in the country and beyond. In order to meet the challenges and the national development agenda, the hospital will enhance linkages and collaborations with the Government of Kenya, Semi-Autonomous Government Agencies, implementing and development partners.

MRS MARGARET W. WANJOHI
CHAIRPERSON

Sign *Margaret W. Wanjohi*

DATE 30/03/2012

REPORT FROM THE CHIEF EXECUTIVE OFFICER



Organizations are best judged not by what they accomplish in good times, but on how they manage and move forward in challenging times. This was a challenging year for our staff who continued to respond to a myriad of healthcare complex issues. These challenges were compounded by the patients' inability to pay for their medical bills leading to decreased cash flow and hence the resultant inability to facilitate procurement of additional equipments and over stretching of those already functioning.

I am proud to say that in this past year we delivered with expert advice, strategic thinking and creative solutions especially in areas of specialized care where we carried over twenty kidney transplants and several open surgeries to name just but a few.

Patient Care Services

This is where we thrive and add value. It is also a source of renewed energy for our leaders and staff. Inside the Hospital we are pouring our collective positive energy into a significant renewal effort towards realization of ISO 9001:2008. To see our patients recover and leave the Hospital in a happy mood is our commitment in the strengthening, development and improvement of our Hospital. In our determination to pursue the ISO process, we focused on improved business processes, better use of technology, and the development of our people. Through various linkages, we explored new and better ways to provide specialized quality healthcare that meet the client and patients' expectation.

Performance Contract

The fourth quarter of the performance contract period ended on 30th June 2011 was presented. The overall performance based on all the indicators was composite score of 2.8626 which falls within the 'Good' category. The performance index for the last three years is as shown below;

Detail	2008/2009	2009/2010	2010/2011
Overall achievement	2.7076	2.7518	2.8626

While our performance was on vetting on performance contracting and did not realize our expectation, the annual evaluation has helped us to focus on opportunities for innovation, effectiveness and measurable results as contained in our Strategic Plan.

Infrastructure and Development

I can further report that the new automated billing and records system is on track. The initiation and implementation of various projects such as Burns and Paediatric Centres, procurement of cancer treatment equipment, dialysis machines, dental chairs, elevators, PABX and Incinerator are some of the project in our recent history. These projects will guarantee better services to our clients while making our work easier and more efficient.

Collaborations

The Hospital has continued to work closely with other institutions both local and international in the provision of quality services to our clients. During the year under review, The Hospital partnered with AMREF, Kenya Medical Training College, Medical and Education Aid to Kenya-UK (MEAK), Operation Smile International, Operation Ear Drop-Netherlands, Hope for Cancer, Operation Heal the Child, Vesico Vaginal Fistula (VVF), Plastic Surgical Project of Prof. Platt, Heart to Heart Foundation, Neurosurgical Mission of St. Louis USA, Hospital Barcelona, Fortwayne-USA, Kenya Medical Research Institute, Centre for Disease Control (CDC), African Blood Transfusion Society (AfBTS- K), the National Blood Transfusion Services (NBTS), University of Nairobi, AIDS Care Treatment Services (ACTS), National AIDS Control Council, among others.

Corporate Social Responsibility

In the spirit of giving back to the community, Kenyatta National Hospital participated in various Corporate Social Responsibilities throughout the country. Several free medical camps were conducted at Shape the Child Foundation School; Kibera, Wiyumiririe Internally Displaced Persons' Camp; Laikipia; St. Mary's Catholic Church; Ongata Rongai, Mukuru kwa Njenga among others.

Future Outlook

Of greater long-term significance are the preparations currently underway for the development of our next strategic plan. I look forward to working with our Board of Management, the Superannuation Board of trustees, Heads of departments, friends and partners and all of our staff as we begin to look far ahead and plan for our future.

Appreciation

I would like to thank the Board of Management for the productive and initiative partnership we have with them and for their guidance and support. On behalf our management team and all our staff, we look forward to serving Kenyans and our patients in the years ahead.

Mr. Richard L. Lesiyampe
CHIEF EXECUTIVE OFFICE

Sign  DATE 30/03/2012

STATEMENT OF CORPORATE GOVERNANCE

Kenyatta National Hospital governance is a culture built on principles of integrity, accountability and transparency. The Hospital is managed under the direction of the Board of Directors whose responsibility is to maximize long-term economic value for all stakeholders. The Board and its Committees oversee the corporate governance, advises management in developing financial plans, corporate strategy, goals and objectives as well as evaluating management's performance in pursuing and achieving those goals.

Board of Management

Kenyatta National Hospital has adopted high standards and applies strict rules of conduct, based on best practices. As part of this commitment the Board has adhered to the Guidelines on Corporate Governance. The Board consists of eleven members, including a non-executive Chairman/person and the Chief Executive Officer. The full and special Board of Management held 5 and 11 meetings respectively while Board Committees held 29 meetings during the financial year ended 30th, June, 2011. The Board committees set up are five whose members are stated in pages 3 and 4. The committees reinforce the Board's independence and legitimacy in areas where there is potential for conflict of interest.

STATEMENT OF THE BOARD OF MANAGEMENT RESPONSIBILITIES

The State Corporations Act requires the Board of Management to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Hospital. It also requires the Board to ensure that the Hospital keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Hospital.

The Board of Management accept responsibility for the annual financial statements for the year ended 30th June 2011 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in the manner required by State Corporations Act. The Board of Management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Hospital and of its operating result. The of Board of Management further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements as well as adequate systems of internal financial control.

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

Approved by the board of directors on 28th September, 2011 and signed on its behalf by:

MRS MARGARET W. WANJOHI

CHAIRPERSON

Sign..........Date.....30/03/2012.....

Mr. RICHARD L. LESIYAMPE

Sign..........Date.....30/03/2012.....

CHIEF EXECUTIVE OFFICER

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Fax: +254-20-311482

E-mail: cag@kenyaweb.com



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR GENERAL ON KENTATTA NATIONAL HOSPITAL FOR THE YEAR ENDED 30TH JUNE 2011

REPORT ON THE FINANCIAL STATEMENT

I have audited the accompanying financial statements of Kenyatta National Hospital set out on pages 18 to 29, which comprise the of the statement of financial position as at 30 June 2011 and the statement of comprehensive income statement changes in equity and statement of cash flows for the year ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of article 229 of the constitution of Kenya and section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit.

Management's responsibility for the Financial Statements . Management is responsible for the preparation and fair presentation of these financial statements in accordance with the international Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 provision of section 13 of the Public audit Act, 2003.

Auditor-General's responsibility

My responsibility is to express an independent opinion on these financial statements based on the audit and report in accordance with the provision of section 15 of the Public Audit Act, 2003. The audit was conducted in accordance with international Standards on auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depends on the auditor's judgment, including the assessment of the risk of material misstatements, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's Internal Control. An audit also includes reasonableness of accounting estimates made by the management as well as the 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 of qualified opinion

1. Inventories

As similarly reported in 2009/2010, the inventories balance of Kshs. 188,614,497 as at 30 June 2011 includes deficits, surpluses and obsolete stock amounting to Kshs 437,417, Kshs 4,336,009 and Kshs 1,418,000 respectively. Although a Board of enquiry to investigate the cause of the deficits and surpluses had been established and the results of the investigation made available for audit review, the adjustments had not been effected in the inventories balance of Kshs. 188,614,497 as at 30 June 2011.

Consequently, and as in the previous year, the validity and accuracy of the inventories balance of Kshs. 188,614,497 as at 30 June 2011 could not be ascertained.

2. Trade and other receivables

- i. The trade and other receivables balance of kshs. 788,708,279 as at 30 June 2011 includes receivables from individual debtors, ministry of Medical Services and temporary imprests amounting to Kshs. 199,958,734, kshs. 7,545,365 and Kshs.2, 971,510 respectively which have been outstanding for a considerably long period of time. Similarly, the receivables balance of Kshs. 788,708,279 includes Kshs. 3,061,110, kshs.409,800, Kshs.132,324, Kshs.12,617,795 and Kshs.397,160 all totaling Kshs.16,618,189 for Rd cheques, boarding fees, Rojeans Café, unsettled losses and unclassified debtors respectively have also remained outstanding for more than one year. Although a provision for bad and doubtful debts of 100% has been made for individual debtors (main hospital), Ministry of Medical Services, RD cheques, boarding fees and Rojeans Café, the recoverability in full of these debts is still in doubt.
- ii. The balance of Kshs.788, 708,279 also includes amounts of kshs.282, 554,772 due from national Hospital Insurance Fund (NHIF). However the financial statement of NHIF as at 30 June 2011 showed that an amount of Kshs.45, 173,868 was owing to the hospital. The resultant difference of Kshs.237, 380,904 in the financial statements had not been explained or reconciled as at 30 June 2011.
- iii. The balance of Kshs.788,708,279 similarly includes prepayments totaling Kshs.31,733,575 relating to supply contracts for three firms in amounts of Kshs.15,792,611, Kshs.2,213,309 and Kshs.13,727,655. As similarly observed in the previous year, the first prepayment is in dispute while the second one is under investigation. The third prepayment relates to micro filming project at the hospital which had not been completed as at 30 June 2011
- iv. The balance of kshs.788, 708,279 similarly includes an amount of Kshs.115, 736,188 in respect of letters of credit issued by Hospital to foreign based firms for supply of various goods and services. As in the previous year, the goods and services have not been recognized and accounted for in these financial statements.

In the circumstance, and in the absence of any other information to the contrary, it has not been possible to confirm the validity and accuracy of the trade and other receivables balance of Kshs.788,708, 279 as at June 2011.

3. **Property, Plant and Equipment**

Property, plant and equipment balance of kshs.12, 030,200,331 includes (7) parcels of land valued of Kshs.379, 600,000 out of which four (4) have been exercised and allocated to other parties.

In consequence, it has not been possible to ascertain the ownership status of the parcels of land and that the balance of kshs.12, 030,200,331 as at 30 June 2011 is fairly stated.

4. **Work in progress**

The work -in-progress balance of Kshs.139,015,793 as at 30 June 2011 includes work-in-progress balances of Kshs.2,057,000 and Kshs.35,000,000 totaling Kshs.37,057,000 for upgrading of firefighting equipment and development of isolation ward respectively and which have not been completed for more than two years. The management has explained that the firefighting equipment will be capitalized once the issue of price charges per unit is resolved while the isolation ward will be completed when funds are received from the Parent ministry.

In the circumstances, it has not been possible to confirm the validity of the work-in-progress balance of Kshs.139, 015,793 as at 30 June 2011

5. **Long Term Liability**

The long term liability balance of Kshs.1, 199,862,823 relates to a loan received in 2007/2008 from Kingdom of Spain, in the form of medical equipment. According to information available, the loan was payable by the hospital at an interest rate of 3% per annum on a reducing balance for the first six (6) years and thereafter, the interest plus principal for the next nine years with effect from 1 July 2008. However and according to the records seen, no interest has been paid or accrued in the three financial years 2008/2009, 2009/2010, 2010/2011. Although indications are that the management has sought assistance from the Ministry of Medical Services towards settlement of the loan, response from the ministry had not been availed for audit review by the time of the report.

As a result, it has not been able to confirm the accuracy of the long term loan and that liability balance of Kshs.1,199,862,823 as at 30 June 2011 is fairly stated.

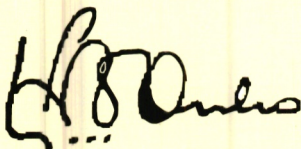
6. **Trade and other payables**

The trade and other payables balance of Kshs.635,734,267 as at June 2011 includes trade creditors amounting to Kshs.76,685,043 which have remained outstanding for a considerably long period of time. Although the management has explained that some creditors have remained outstanding due to inadequate supporting documentation to process the dues, no evidence was seen of any efforts being made to obtain the relevant documents to support payments.

Consequently, the validity and accuracy of the trade and other payables balance of Kshs.635,734,267 at 30 June 2011 could not be confirmed.

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 the financial position of the Hospital as at 30 June 2011 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 Kenyatta National Hospital Board Order, 1987.



Edward R.O. Ouko
AUDITOR GENERAL

Nairobi
4 April 2012

STATEMENT OF COMPREHENSIVE INCOME**FOR THE PERIOD ENDING 30TH JUNE 2011**

		2011	2010
	<u>NOTE</u>	<u>Kshs.</u>	<u>Kshs</u>
Income			
Government Of Kenya Grants		3,583,808,818	3,431,808,811
Grants (Projects)	2	199,174,772	213,554,830
Cost Sharing Revenue	3	2,012,946,962	1,883,272,410
Investment Income		8,888,855	20,536,580
Private Wing Surplus /(Deficit)	4	(37,619,212)	(76,871,410)
		<u>5,767,200,196</u>	<u>5,472,301,231</u>
Expenditure			
Personnel Emoluments	5	3,647,359,133	3,744,104,890
Operating and Maintenance costs	6	1,483,826,842	1,389,410,110
Projects' Expenses	7	199,174,772	193,070,220
Directors Emoluments	8	18,936,587	17,803,840
Provision for bad & doubtful debt	9	237,381,602	133,472,650
Depreciation		462,761,033	449,089,710
		<u>6,049,439,968</u>	<u>5,926,951,450</u>
		<u>(282,239,772)</u>	<u>(454,650,219)</u>
	DEFICIT		

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2011

		2010/2011 <u>Kshs.</u>	2009/2010 <u>Kshs.</u>
ASSETS			
Non-Current Assets			
Property, Plant & -Equipment	10	12,030,200,331	12,023,676,101
Work-In-Progress	11	139,015,793	96,471,909
		12,169,216,124	12,120,148,010
Current Assets			
Inventories	12	188,614,497	205,303,651
Trade & other receivables	13	788,708,279	1,215,199,967
Cash & cash equivalents	14	437,937,998	499,459,834
		1,415,260,774	1,919,963,452
Total Assets		13,584,476,898	14,040,111,462
EQUITY & LIABILITIES			
Equity			
Capital Reserves		3,252,149,993	3,182,145,421
Accumulated Fund		(739,336,295)	(343,214,951)
Revaluation Reserve		9,199,351,259	9,199,351,259
		11,712,164,957	12,038,281,729
Liabilities			
Long Term Liability			
Spanish loan	15	1,199,862,823	1,199,862,823
Current Liabilities			
Payables and Accruals	16	635,734,267	769,132,602
General & Patients Deposits	17	36,714,851	32,834,308
Total Current Liabilities		672,449,118	801,966,910
Total Equity & liabilities		13,584,476,898	14,040,111,462

MRS. MARGARET W. WANJOHI
CHAIRPERSON

Sign.....*Margaret W. Wanjohi*.....Date.....30/03/2012.....

MR. RICHARD L. LESIYAMPE
CHIEF EXECUTIVE OFFICER

Sign.....*Richard L. Lesiyampe*.....Date.....30/03/2012.....

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30TH JUNE 2011

	2010/2011	2009/2010
Net Surplus/(Deficit) For The Year	(282,239,772)	(454,650,216)
Adjusted For: -		
Depreciation	462,761,033	449,089,718
Investment Income	(8,888,855)	(20,536,580)
Provision for bad & doubtful debt	338,768,894	133,472,654
Grant Projects	(199,174,772)	(213,554,839)
Prio period adjustments	(88,695,784)	-
Adjustment for pension withdrawal/ transfers	(27,540,895)	(14,373,825)
NHIF surplus	55,810,705	78,605,857
Operating Deficit Before Working Capital Changes	250,800,554	(41,947,232)
(Increase) / Decrease In Stock	16,689,154	62,628,176
(Increase) / Decrease In Prepayment	214,339,667	-
(Increase) / Decrease In Debtors	(207,418,817)	(257,276,275)
(Increase) / Decrease In GOK Grant Receivable	-	112,000,000
Increase / (Decrease) In Creditors	(133,398,334)	(234,546,867)
Increase / (Decrease) In General Deposits	3,880,543	(1,545,529)
Net Cash Outflow From Operating Activities	144,892,768	(360,687,727)
Cash Flows From Investing Activities		
Purchase Of Fixed Assets	(473,547,288)	(64,422,030)
(Increase) / Decrease In Work In Progress	(42,543,884)	(50,273,985)
Investments Income	6,973,529	21,729,462
Investments withdrawals/Receipts	33,523,695	17,092,918
Increasing in Capital reserves	70,004,572	-
Net Cash Outflows From Investing Activities	(405,589,376)	(75,873,636)
Cash Flows From Financing Activities		
Projects Grants	199,174,772	213,554,839
Net Cash Inflows From Financing Activities	199,174,772	213,554,839
(Decrease)/Increase In Cash and Cash Equivalents	(61,521,836)	(223,006,525)
Cash and Cash Equivalents at the beginning	499,459,834	722,466,359
Cash and Cash Equivalents at the end	437,937,998	499,459,834

STATEMENT OF CHANGES IN ACCUMULATED FUND & RESERVES

FOR THE YEAR ENDED 30TH JUNE 2011

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2011

	CAPITAL RESERVE KSHS	ACCUMULATED FUND KSHS	REVALUATION RESERVE KSHS	TOTALS KSHS
At 30th June 2009	3,182,145,421	362,657,168	9,199,351,259	12,744,153,848
Adjust for :				
Grant for 2008/09 not received		(144,568,000)		(144,568,000)
Differed projects grant 2008/09		(49,949,804)		(49,949,804)
Provision for doubtful debts 2008/09		(135,323,793)		(135,323,793)
Bank charges 2008/09 letters credit		(5,353)		(5,353)
Overstated depreci 2007/08/09		19,192		19,192
At 1st July 2009		32,829,410	9,199,351,259	12,414,326,090
Deficit for the year		(454,650,216)		(454,650,216)
NHIF surplus		78,605,855		78,605,855
As previously reported	3,182,145,421	(343,214,951)	9,199,351,259	12,038,281,729
Prior year adjustments*		(169,692,277)		(169,692,277)
At 30th June 2010(As restated)	3,182,145,421	(512,907,228)	9,199,351,259	11,868,589,452
At 1st July 2010	3,182,145,421	(512,907,228)	9,199,351,259	11,868,589,452
Capital adjustment(Grant-development)	70,004,572			70,004,572
Deficit for the year		(282,239,772)		(282,239,772)
NHIF surplus		55,810,705		55,810,705
At 30th June 2011	3,252,149,993	(739,336,295)	9,199,351,259	11,712,164,957

*The accumulated fund of kshs.(512,907,229) has been restated by the following prior year adjustments:

- Capital expenditure of kshs. 5,940,000 which was captured as recurrent expenditure in the financial year 2009/2010
- Income from bill boards of kshs. 1,500,000 which ought to have been accrued in the financial year 2009/2010
- Increase in audit fees of kshs.300,000 and adjustment for private wing receipts kshs.5,551,507.55 for the financial year 2009/2010
- Private wing expenses of kshs. 164,549 which relates to the financial year 2009/2010
- Increase in provision for bad & doubtful debts kshs.182,219,236.55 for both main Hospital and private for prio periods

	2010/ 2011	2009/2010
2 GRANTS (PROJECTS)		
PARTICULARS	Kshs.	Kshs.
Voluntary Counselling and Testing (VCT)	27,522,386	35,253,466
Partners in Prevention Study	88,054,487	71,340,244
Aids Care Treatment Services (ACTS)	43,919,585	25,913,795
HAARRT Adherence Study	-	19,715,736
CAT Study	5,206,187	15,246,866
Preps Income	2,664,658	3,816,420
Prevention of Mother to Child Transmission (PMCT)	31,805,719	41,763,870
Asthma Study	1,750	504,443
TOTALS	199,174,772	213,554,839
3 COSTS SHARING REVENUE		
In-patient Fees	412,594,104	428,828,075
Rental income	123,732,880	144,146,355
Out-patient Fees	26,650,559	31,819,661
Laboratory Fees	79,322,246	75,886,414
Physiotherapy Fee	13,728,790	10,244,764
Occupational Therapy Fees	4,956,666	3,120,636
Workmens Compensation	212,080	660,443
Renal Unit Fee	33,678,423	21,540,704
Mausoleum Charges	31,934,394	30,957,255
Pharmacy Fee	257,941,615	209,926,917
Heart Unit Fee	21,558,105	28,474,023
Medical Records	29,908,912	22,669,218
ENT	13,132,390	12,220,281
Ophthalmology Fee	6,782,822	5,358,290
Medicine	16,461,395	13,466,651
Obs & Gynaecology	77,503,924	69,247,302
SOPC	7,976,503	8,257,219
Theatres	82,147,714	71,825,180
Radiotherapy Fee	19,835,158	17,695,590

Radiology Fee	134,155,438	123,712,811
Dental Charges	13,415,165	13,654,567
Nursing Fee	165,922,767	110,409,192
Casualty/Orthopaedic Fee	10,197,930	10,222,663
Family Planning Clinic	2,196,600	2,447,678
ICU Fees	504,600	143,400
Private wing charges	311,308,944	323,253,459
Orthopaedic Income	9,834,920	9,251,278
Paediatrics Income	18,435,707	16,020,807
Donations	14,170,599	4,106,021
VCT - Training Income	555,000	827,400
Mausoleum Car Hire	65,550	56,296
Sale of Artificial Limbs	10,000	40,008
Miscellaneous income-Sale IV fluids	776,362	3,034,750
Seminars and Training	5,655,144	1,979,320
Senior Staff Canteen	6,874,528	5,923,872
Pigs Will	360,000	360,000
Sale of Stores	344,679	329,389
Fax and Telex	628,133	192,656
Miscellaneous Income	6,453,211	12,256,750
Service charge from remittances	2,115,506	2,757,624
Ethics & Reserch Fees	1,057,400.00	3,105,300.00
Respiratory Infectious Diseases	986,838.00	1,008,015.00
Practicam Charges	1,310,750.00	1,545,500.00
Couple Counselling Centre	11,141,252	12,850,420
Patient Support Centre	963,600.00	1,240,250.00
Directorate of industrial training	4,433,625.00	655,000.00
Sale of Tender	3,168,900.00	5,183,600.00
Admin Charges (Projects)	10,501,756.42	2,388,521.00
Other Revenue	15,343,377	7,970,890
TOTALS	2,012,946,962	1,883,272,414

4 PRIVATE WING INCOME & EXPENDITURE STATEMENT		
	2010/2011	2009/ 2010
INCOME		
Gross Income	423,174,281	402,448,573
EXPENDITURE		
Personnel Emoluments	282,107,787	292,802,648
Operations & Maintenance	165,817,659	173,723,293
Administrative Expenses	8,606,022	8,455,478
Depreciation	4,262,025	4,338,569
Total Expenses	460,793,493	479,319,988
Surplus	(37,619,212)	(76,871,415)
5 PERSONNEL COST		
Personnel Emoluments	3,217,152,281	3,227,344,196
Other Staff Costs	430,206,852	516,760,696
	3,647,359,133	3,744,104,892
6 OPERATION AND MAINTENANCE COSTS		
Financing Costs	2,410,697	3,114,926
Administrative Costs	105,839,201	101,119,384
Transport, Utilities, & Maintenance	544,758,533	499,594,234
Medical Costs	761,646,747	721,029,802
Research Costs	39,918,297	8,413,592
Stock change	29,253,368	56,138,175
TOTAL O&M	1,483,826,842	1,389,410,113
7 PROJECTS COSTS		
Voluntary Counselling and Testing (VCT)	20,990,044	25,443,372
Prevention of Mother to Child Transmission (PMCT)	45,606,104	30,696,075
Partners in Prevention Study	85,687,372	74,068,252
Aids Care Treatment Services (ACTS)	35,197,212	56,280,273
HAART Adherence Study	297,300	988,816
TUMAINI Study	-	1,685,181
Couple against Transmission (CAT)	1,369,315	3,908,261
Gender based violence recovery	6,193,384	-
HIV ACQUISITION DURING & AFTER PREGNANCY	1,663,096	-
PACT-COE	2,170,945	-
TOTAL	199,174,772	193,070,228
8 DIRECTORS EMOLUMENTS		
Sitting allowance	9,100,000	5,434,000
Travelling & Accommodation:-	-	-
Local	-	-
Overseas	-	-
Mileage	4,964,320	2,724,350
Honoraria	910,968	480,000
CEO:- Salary	-	4,080,000
-Others	-	2,285,696
Accommodation	2,820,000	2,321,800
Lunch allowance	750,000	436,000
Others	391,299	42,000
TOTAL	18,936,587	17,803,846
9 PROVISION FOR BAD & DOUBTFULL DEBT KSHS. 237,381,602		
This relates to credit facilities extended to poor kenyan for Kshs. 172,556,425 and Hospital's lost revenue due to abscondment by patients from wards without clearing their bills of Kshs.64,825,177.		

10. PROPERTY PLANT AND EQUIPMENT

MAIN HOSPITAL			PLANT ,MACHINERY		FURNITURE	
DESCRIPTION	LAND	BUILDING	MEDICAL EQUIPMENT	MOTOR VEHICLE	FITTING&OFFICE EQUIPMENT	GRANT TOTAL
	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)
COST	4,014,600,000.00	6,675,936,845.00	2,947,376,505.00	52,453,625.00	192,605,360.00	13,882,972,335.00
ADDITIONS		14,121,545.00	442,447,139.00	3,694,000.00	9,558,384.00	469,821,068.00
TOTAL COST	4,014,600,000.00	6,690,058,390.00	3,389,823,644.00	56,147,625.00	202,163,744.00	14,352,793,403.00
DEPRECIATION						
DEPRECIATION B/F		618,583,731.00	1,157,625,615.00	33,221,119.00	80,235,753.00	1,889,666,218.00
DEPRECIATION FOR THE YEAR		151,786,866.00	286,611,459.00	5,769,583.00	18,593,125.00	462,761,033.00
TOTAL DEPRECIATION		770,370,597.00	1,444,237,074.00	38,990,702.00	98,828,878.00	2,352,427,251.00
NET BOOK VALUE 30/06/2010	4,014,600,000.00	6,057,353,115.00	1,789,750,890.00	19,232,506.00	112,369,607.00	11,993,306,118.00
NET BOOK VALUE 30/06/2011	4,014,600,000.00	5,919,687,793.00	1,945,586,570.00	17,156,923.00	103,334,866.00	12,000,366,152.00
PRIVATE WING						
COST/VALUATION			4,234,000.00		46,308,760.00	50,542,760.00
ADDITIONS			3,243,584.00		482,636.00	3,726,220.00
TOTAL COST			7,477,584.00		46,791,396.00	54,268,980.00
DEPRECIATION						
DEPRECIATION B/F			1,126,137.00		19,046,641.00	20,172,778.00
DEPRECIATION FOR THE YEAR			793,931.00		3,468,094.00	4,262,025.00
TOTAL DEPRECIATION			1,920,068.00		22,514,735.00	24,434,803.00
NET BOOK VALUE 30/06/2010			3,107,863.00		27,262,119.00	30,369,982.00
NET BOOK VALUE 30/06/2011			5,557,516.00		24,276,661.00	29,834,177.00
CONSOLIDATED						
NET BOOK VALUE 30/06/2010	4,014,600,000.00	6,057,353,115.00	1,792,858,753.00	19,232,506.00	139,631,726.00	12,023,676,100.00
NET BOOK VALUE 30/06/2011	4,014,600,000.00	5,919,687,793.00	1,951,144,086.00	17,156,923.00	127,611,527.00	12,030,200,329.00

	2010/2011	2009/2010
	Kshs.	Kshs.
11 WORK IN PROGRESS		
Computerisation	-	6,534,132
Replacement of power metre	2,374,968	-
Completion of Casualty	-	526,950
Equipment & Supplies Medical & Surgical	600,000	9,632,518
Purchase of PABX	36,684,381	-
Upgrading fire fighting equipment	2,057,000	2,057,000
Boundary fence mbagathi road	-	2,918,733
Development of isolation ward MDRTB	35,000,000	35,000,000
Re-roofing of Radiology	-	2,600,995
Rehabilitation of Compressed Air System	-	20,050,600
Purchase of incinerator	16,758,048	14,318,374
Purchase of Lifts	45,541,395	-
Upgrading of P/W kitchen	0	2,382,852
Upgrading of private wing	-	449,755
	139,015,793	96,471,909
12 INVENTORIES		
Main Hospital	150,859,733	180,113,101
Private Wing	37,754,764	25,190,550
	188,614,497	205,303,651
13 TRADE & OTHER RECEIVABLES		
Debtors	2,683,877,892	2,424,089,565
Less: Provision	(2,042,639,377)	(1,623,038,539)
Grant receivable	144,568,000	144,568,000
Less: Provision	(144,568,000)	(144,568,000)
Prepayments	147,469,764	361,809,430
	788,708,279	1,215,229,967

GRANT RECEIVABLE

This relate to Government of Kenya grant (**Kshs.144,568,000**) being the balance due after implementation of the CBA agreement in 2006/2007 financial year .

	2010/2011	2009/2010
14 CASH & CASH EQUIVALENTS		
<i>A) Short term deposits</i>	<i>Kshs.</i>	<i>Kshs.</i>
National Bank of Kenya	6,411,481	21,862,273
Housing Finance Co. of Kenya	44,999,281	63,072,183
Euro Bank Ltd (in liquidation)	429,660,514	429,660,514
Less: Provision for Euro Bank	(429,660,514)	(429,660,514)
	<u>51,410,762</u>	<u>84,934,456</u>
<i>B) Cash and Bank balances</i>		
Bank balances	385,788,454	413,045,267
Cash in hand	738,782	1,480,111
	<u>386,527,236</u>	<u>414,525,378</u>
<i>Total cash & cash equivalents</i>	<u>437,937,998</u>	<u>499,459,834</u>
15 SPANISH LOAN		
This Government guaranteed loan received from the Kingdom of Spain in form of Medical Equipment of Ksh.1,199,862,823. The Hospital is to pay interest of 3% p.a on reducing balance for the first six (6)years,thereafter interest plus principal for the next nine(9) years with effect from from 1st July 2008.		
16 PAYABLES & OTHER PAYABLES		
	2010/2011	2009/2010
Trade Creditors	429,211,064	447,497,996
Accrued Expenses - Trade Creditors	23,378,396	18,226,123
Contingent Liability(water bill)	-	48,325,006
Unpaid Pensions	-	16,613,859
Unpaid Salaries	2,964,077	1,871,359
Payroll Remittances	10,905,143	43,981,597
Deffered income	48,989,795	50,000,000
Private Wing	120,285,791	142,616,662
	<u>635,734,267</u>	<u>769,132,602</u>
17 DEPOSIT		
Main Hospital	11,182,233	12,687,666
Private Wing	25,532,618	20,146,642
	<u>36,714,851</u>	<u>32,834,308</u>

18 **CONTINGENT LIABILITIES**

OUTSTANDING NSSF ARREARS-KSHS. 311 MILLION

NSSF Claims Kshs. 310,830,280 being accumulated contribution arrears for the period 1991 to November 2009. The hospital is negotiating with the Parent Ministry on how to settle this obligation.

19 **EMPLOYEE BENEFITS**

a) Retirement Benefits

The hospital operates staff superannuation scheme for its employees. The scheme is a defined scheme and it provides for payment of pension and related benefits to the members. The investment of the scheme's assets are managed by the Investment Manager (Old Mutual Assets Manager (K) Ltd) on behalf of the trustees.

b) Pension Scheme Deficit

Currently the Staff Superannuation Scheme is having a deficit of Kshs.3,637,400,000 as at 30th June 2009 a build up from Kshs.1,352,000,000 as at 30th June 2007. This has been attributed to salary increase to staff in the years 2005/2006 and 2006/2007. The hospital contribution to the scheme for the year ended 30th June 2010 amounted to Kshs. 203,221,250.15 and Kshs. 157,494,470.80 in 2008/2009.

c) Other Employee Benefits

The Hospital provides free medical treatment to staff and their dependants. Contracted staff are eligible to a gratuity based on employment terms.

20 COMPARATIVES

Where necessary comparative figures have been provided to indicate the position in the previous year.

21 GOVERNMENT OF KENYA GRANT

The Hospital received grant from Government of Kenya to cater for Personnel Emoluments and Capital Expenditure.

22 PROJECT GRANTS

The Hospital received grants from Path Finder International to fund the VCT Study Project and the rest are funded by University of Washington in the US.



KENYATTA NATIONAL HOSPITAL
ADMINISTRATION BLOCK



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