REPUBLIC OF KENYA

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KENYA NATIONAL AUDIT OFFICE

REPORT
OF
THE CONTROLLER AND AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENT OF KENYA MEDICAL SUPPLIES AGENCY FOR THE YEAR ENDED 30 JUNE 2008

KENYA MEDICAL SUPPLIES AGENCY YOUR PARTNER IN HEALTHCARE

ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

KEMSA

CONTENTS

Institutional information:

Establishment

Kenya Medical Supplies Agency (KEMSA) was established as a Parastatal under Legal Notice No. 17 of 3rd February, 2000.

Functions of the Agency

- To develop and operate a viable commercial service for the procurement and sale of drugs and other medical supplies.
- To provide a secure source of drugs and other medical supplies to Public Health institutions.
- To advice the Health Management Boards and the general public on matters relating to the procurement, cost effectiveness and rational use of drugs and other medical supplies.

Registered office and principle place of business

Commercial Street, Industrial Area,
P O Box 47715 00100,
NAIROBI

Bankers

1. National Bank of Kenya
   Harambee Avenue,
   NAIROBI

2. Commercial Bank of Africa
   Nyerere Road,
   NAIROBI

3. Kenya Commercial Bank
   Industrial Area
   NAIROBI

Independent Auditor

Controller & Auditor-General
Kenya National Audit Office,
Kencom House, City Hall way,
NAIROBI.

Board Members

a) Mr. Peter T. Kanyago -Chairman

b) The Permanent Secretary, Ministry of Health

c) The Permanent Secretary, Ministry of Finance

d) The Director of Medical Services

e) The Chief Pharmacist

f) The Registrar of the Nursing Council

g) Mr. Jonathan Mutuku

h) Dr. Rodgers Atebe

i) Dr. Samson K. Ndege

j) Dr. Anastasia Nyalita

k) Mr. Bert Mbuvi

l) Ms. Beatrice Sabana - Vice Chairperson

m) Dr. Charles K. Kandie – Chief Executive Officer

Senior management staff

	Name	Designation	Comment
a)	Dr. Charles K. Kandie	Chief Executive Officer	
b)	Mr. Charles M. Nyamai	Finance Director	Resigned November 2007
c)	Dr. John M. Munyu	Director Technical Services	
d)	Mr. John O. Wamwanga	Finance Manager	Resigned February 2008
e)	Mr. Ignatius K. M'Arithi	Logistics Manager	
f)	Dr. Wanjau Mbuthia	National Liaison Manager	
g)	Dr. John Aduda	Quality Assurance Manager	
h)	Mr. Godfrey Kiptum	HR & Adm Manager	
i)	Mr. Paul K. Koske	ICT Manager	
j)	Mr. Edward Buluma	Procurement Manager	
k)	Mr. Samuel Okanda	Warehouse Manager	
l)	Mr. Toddy Madahana	Security Manager	
m)	Mr. Joseph Abok	Internal Audit Manager	
n)	Mr. Fredrick Wanyonyi	Corporations Secretary	

Statement of Board members' responsibilities

The Board members are required to prepare financial statements which give a true and fair view of the state of affairs of The Kenya Medical Supplies Agency as at the end of the financial year and of its surplus or deficit for that year. The Board is required to ensure that the Agency maintains proper accounting records which disclose with reasonable accuracy, the financial position of the Agency.

The Board is responsible for safeguarding the assets of the Agency. The Board accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, consistent with previous years and in conformity with the international financial reporting standards.

The Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Agency as at 30th June 2008 and of its deficit for the year then ended. The Board further confirms the accuracy and completeness of the accounting records maintained by the Agency which have been relied upon for the preparation of financial statements as well as the adequacy of the systems of the internal financial controls.

This statement is approved and signed on behalf of the Board by:

Dr. John M. Munyu	Prof. James L. Ole Kiyiapi, CBS
Ag Chief Executive Officer	PS, Ministry of Medical Services
Signature........................	Signature........................
Date......6/4/2009......	Date...7/4/2009......

e: +254-20-342330
:54-20-311482
.il: cag@kenyaweb.com

REPUBLIC OF KENYA

P.O Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA MEDICAL SUPPLIES AGENCY FOR THE YEAR ENDED 30 JUNE 2008

I have examined the financial statements of Kenya Medical Supplies Agency (KEMSA) set out on pages 8 to 16 which comprise the balance sheet as at 30 June 2008 the income statement, the statement of changes in accumulated funds and the cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of 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.

Boards' Responsibility for the Financial Statements

The Board is responsible for the preparation of financial statements which give a true and fair view of the Agency's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view of obtaining reasonable assurance that 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 the financial statements, whether due to fraud of error. In making those risk assessments, 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 Agency's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Objects of KEMSA as a State Corporation

As similarly observed in the Report for 2006/07, one of the objects for which the Agency was established is to develop and operate a viable commercial service for the procurement and sale of drugs and medical supplies to the Public Health Institutions. The financial statements as presented for audit do not however reflect activities on procurement and sale of drugs and medical supplies, consequent upon which KEMSA has not so far been able to fulfill its mandate as a state corporation, nine (9) years after its establishment. According to the management this unsatisfactory position has been caused by failure by the Ministry of Medical Services to address the matter and issue policy guidelines necessary to enable KEMSA to trade with public health facilities and institutions, inadequate capitalization for the Agency, and inadequate budgetary provision for procurement.

2. Title Deeds

The property, plant and equipment balance of Kshs.288,502,789 as at 30 June 2008 includes land valued at Kshs.151,528,000 for which the Agency does not possess title deeds. According to information available, the land includes depots situated in Nairobi, Mombasa, Eldoret, Nakuru and Nyeri. Although management has indicated that action is being taken to acquire title deeds, it will not be possible and until the process is completed, to confirm ownership of the land asset reflected in the financial statement as at 30 June 2008.

3. Receivables

The receivables figure of Kshs.1,327,197,801 as at 30 June 2008 includes an amount of Kshs.4,864,499.00 due from KEMSA – E – SOKONI Project which has been outstanding since 2004. No efforts appear to have been made to recover this amount. In the circumstances, it was not possible to confirm recoverability of the amount due from the Project.

4. Inventory

As disclosed in note 14 to the financial statements, the inventory of drugs held by the Agency on behalf of the Ministry of Health as at 30 June 2008 stood at Kshs.6.564 billion. Out of this amount, drugs worth Kshs.76,915,381 are damaged or expired and additional funds will be required for incineration services. Further, the drugs are not accounted for in the financial statements on the grounds that the drugs are owned by the Ministry of Health and KEMSA is only holding the stock on Agency basis. Consequently, it is not possible to confirm that the disclosed inventories of drugs are fairly stated as at 30 June 2008.

Opinion

Except for the reservations set out in the preceding paragraphs, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the financial position of the Agency as at 30 June 2008 and of its deficit and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Kenya Medical Supplies Agency Order, 2000.

A.S.M. GATUMBU
CONTROLLER AND AUDITOR GENERAL

Nairobi

13 May 2009

Kemsa

KENYA MEDICAL SUPPLIES AGENCY

INCOME & EXPENDITURE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Kshs.	2007 Kshs.
Grants from MOH	2	392,383,090	332,456,279
Other incomes	3	31,084,294	93,558,175
Distribution costs	4	(206,421,226)	(152,504,870)
Administrative costs	5	(119,356.709)	(108,303,212)
Other Operating costs	6	(153,172,054)	(113,390,842)
Surplus/(Deficit)	7	**(55,482,606)**	**51,815,530**

KEMSA

KENYA MEDICAL SUPPLIES AGENCY

BALANCE SHEET AS AT 30 JUNE 2008

ASSETS	NOTE	2008 Kshs.	2007 Kshs.
Non- Current Assets			
Property, Plant & Equipment	8	288,502,789	297,111,657
Work in Progress(Intangible Assets)	8	2,848,830	2,848,830
Longterm Investments	9A	5,000,000	5,000,000
		296,351,619	304,960,487
Current Assets			
Cash and Cash-equivalents	9B	35,365,909	54,037,389
Receivables	10	1,327,197,801	12,086,301
Total Assets		1,658,915,330	371,084,177
EQUITY AND LIABILITIES			
Capital and Reserves			
Accumulated fund		265,454,493	320,922,299
Revaluation Reserve	13	8,404,069	10,229,500
Total Equity		273,858,562	331,151,799
Non Current Liabilities			
Deferred Grant Income	12	7,266,652	14,533,303
Current Liablities			
Payables	11	1,377,790,116	25,399,075
Total Equity and Liablities		1,658,915,330	371,084,177

The financial statements on pages 8 to 16 have been signed on behalf of the Members of the Board by:

Dr. John M. Munyu	Prof. James L. Ole Kiyiapi
Ag. Chief Executive Officer	PS, Ministry of Medical Services
Signature..............	Signature..............
Date........... 6/4/2009	Date....7/4/2009

KENYA MEDICAL SUPPLIES AGENCY
STATEMENT OF CHANGES IN ACCUMULATED FUNDS
FOR THE YEAR ENDED 30 JUNE 2008

	Notes	General Fund Kshs.	Revaluation Reserves Kshs.	Deferred Income Kshs.	Total Kshs.
Year ended 30 June 2007					
At start of the year (as previously reported)		270,070,033		24,758,016	294,828,049
-Depreciation		(963,264)			(963,264)
As restated		269,106,769	-	24,758,016	293,864,785
			-	-	-
Surplus		51,815,530	-	-	51,815,530
Recognition of assets into the register		-	10,229,500		10,229,500
Deferred income recognised	12	-	-	(10,224,713)	(10,224,713)
At end of Period		320,922,299	10,229,500	14,533,303	345,685,102
Year ended 30 June 2008					
At start of the year (as previously reported)		320,937,099	10,229,500	14,533,303	345,699,902
Overstated revaluation	13		(1,825,431)		(1,825,431)
As restated		320,937,099	8,404,069	14,533,303	343,874,471
Surplus/(Deficit)	13	(55,482,606)	-	-	(55,482,606)
Deferred income recognised	12			(7,266,652)	(7,266,652)
At end of Period		265,454,493	8,404,069	7,266,652	281,125,214

KENYA MEDICAL SUPPLIES AGENCY

CASHFLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
CASHFLOWS FROM OPERATING ACTIVITIES	**Kshs.**	**Kshs.**
Surplus (Deficit) Before Tax & Extra Ordinary Items	(55,482,606)	51,815,530
Adjustments For:		
Depreciation	25,840,335	20,160,370
E-sokoni/ Usaid/ World bank	(7,266,652)	(10,224,713)
Foreign Ex Loss/ (gain)		-
Interest on deposits	(232,005)	(2,470,882)
Interest Payable/ (Receivable)		
Loss/ (Profit) on Disposal Of Fixed Assets	-	(892,746)
Surplus/(Deficit) Before Working Capital Changes	(37,140,927)	58,387,559
Decrease/ (Increase) in Receivables	(1,312,733,293)	(7,127,057)
Increase/ (Decrease) in payables	1,350,012,833	27,395,111
Cash Generated From Operations	138,613	78,655,613
Cashflows Before Extra ordinary Items	138,613	78,655,613
Extra ordinary Items	-	-
Net Cash From Operating Activities	138,613	78,655,613
CASHFLOWS FROM INVESTING ACTIVITIES		
Purchase of Tangible Assets	(19,056,897)	(27,568,511)
Proceeds From Sale of Equipment		
Longterm Investment		(5,000,000)
Interest Received	232,005	2,470,882
Dividends Received	-	-
Disposal of fixed assets	-	1,748,406
Net Cash Used On Investing Activities	**(18,824,893)**	**(28,349,223)**
CASHFLOWS FROM FINANCING ACTIVITIES		
Net Cash used On Financing Activities	-	-
Net (Decrease)/Increase in Cash & Cash Equivalents	(18,686,280)	50,306,390
Cash & Cash Equivalents at start of Year	54,052,189	3,834,975
Prior Period cashbook correction		(103,975)
Cash & Cash Equivalents end of Period	35,365,909	54,037,390

1 ACCOUNTING POLICIES:

The principal accounting policies adopted in the preparation of the Financial Statements are set out below and are in accordance with International Financial Reporting Standards:

a) Basis of preparation

The Financial statements have been prepared on historical cost accounting basis as modified to include revaluation of certain assets.

b) Income recognition

Grants from the Ministry of Health and other sources are recognised when due and received respectively. Grant for payment of medical commodities has been accounted for using the capital method as per the IAS 20

Deferred grant income is as a result of grants related to property,plant and machinery accounted for and recognised in Financial Statements on a systematic basis over the useful life of the assets

c) Property, Plant and Equipment

Property, Plant and Equipment is stated at historical cost adjusted for any revaluations less accumulated depreciation The depreciation charge is based on Straight line method

The assets have been depreciated as follows,

	Rate per annum (%)
* Building	2.5
* Fixtures, fittings & equipments	12.5
* Plant & Machinery	10
* Furniture	12.5
* Motor vehicles	25
* Computer & Equipment	33.33
* Intangible Assets	33.33

d) Inventories

1 Inventories are stated at the lower of cost and net realisable value Net realisable value is the estimate of the selling price in the ordinary course of business less the selling expense Cost is determined by the average cost method For the period in question, the value of inventory does not appear in the Financial Statements because the ownership of the stock is still not clear Some of the stock was purchased by the Ministry of Health, KEMSA via MOH grant and other Development Partners.

2 KEMSA was issued with Authority letter to procure medical commodities for the FY amounting to Kes 3,270,449,338 and awarded a total of Kes 3,155,044,237 By 30 June 2008, receipts relating to this authority amounted to Kes 2,652,480,073 KEMSA had received cheques to pay supplier amounting to Kes 886,693,932 and the Ministry had issued LCS of Kes 454,522,300

e) Cash and Cash equivalents

For the purposes of the cashflow statement, Cash & Cash-equivalents comprise cash in hand and bank, un-dispatched cheques and Fixed deposits held at call with banks

f) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year

			2008 Kshs	2007 Kshs
2	Grants From MOH			
	P&E		119,800,000	119,800,000
	Distribution-Voted		154,000,000	162,656,279
	Distribution-Extra		68,583,090	-
	Development		50,000,000	50,000,000
			392,383,090	332,456,279
3	Other Incomes			
	Sale of tender documents		2,370,000	3,070,000
	Miscellaneous income			351,138
	European Union			55,105,753
	Global Fund		21,215,638	15,882,769
	Sale of Scrap			695,676
	Profit/(loss) on Disposal of FA's			892,746
	Interest on Deposits		232,005	2,470,882
	USAID	(Note 12)	922,976	3,881,037
	World Bank	(Note 12)	6,343,675	6,343,675
	Claims E-Sokoni			4,864,499
			31,084,294	93,558,175
4	Distribution Costs			
	Fuels & oils		10,576,249	10,408,047
	Vehicle maintenance & Levies		6,137,808	5,834,498
	Outsourced distribution		189,707,170	136,262,325
			206,421,226	152,504,870
5	Administrative costs			
	Salaries & Wages			
	Staff seconded to KEMSA		6,936,688	6,274,693
	Casual Employees		18,540,529	15,129,767
	Kemsa Permanent & Contractual		86,023,674	77,422,256
			111,500,891	98,826,716

The Ministry of Medical Services has seconded staff to KEMSA who are on the Ministry payroll and KEMSA pays them a Top-up salary being the difference between MOMs salary and the equivalent payable as per the

Board & Conferences		
Sitting & Lunch All	5,422,793	6,028,641
Travel & Accomodation	1,389,025	2,507,728
Conferences& Study Tours	0	46,400
Honoraria & Allowances	1,044,000	893,727
	7,855,818	9,476,496
	119,356,709	**108,303,212**

6 Other Operating Costs

	2008 Kshs	2007 Kshs
EU RHFs commodities	2,912,000	
Training	5,977,924	5,381,624
Entertainment	7,741,805	5,555,076
Telephone,fax & postage	8,280,122	8,746,679
ICT consumables	6,209,726	4,028,355
Water,electricity,generators	1,602,578	1,680,654
Rent & Rates	42,320,862	13,571,728
Travel & Accomodation	13,013,744	12,377,401
Stationery & Office Expenses	4,327,952	5,781,619
Warehouse Mat'ls,Pallets,other costs	6,984,617	6,550,595
Security	3,839,202	5,481,862
Social and external relations	1,524,059	762,261
Procurement	1,763,606	2,031,372
Stock Damage & Disposal	35,264	1,624,297
Audit Fees	600,914	
Consultancy	627,758	3,185,078
Legal	1,052,980	916,893
Quality assurance	794,996	1,001,400
Assets repair & maint	5,731,678	2,613,080
Other office expenses	2,493,643	1,479,900
	117,835,429	82,769,874

Insurance

Staff Group Insur--BOD	41,476 00	196,528 00
Staff Group Insur--Staff	1,285,978	677,917
Money.Fire,Travel,GoodsIntransit	873,765	1,611,681
Medical Ins	4,382,779	5,757 768
M/Vehicles	2,315,309	1,248,497
Fixed Assets	596,984	968,207
	9,496,291	10,460,598

Plant, Property & Equipment (Schedule 1)

Depreciation Charge	25,840,335	20,160,370
	153,172,054	**113,390,842**

7 Deficit

The income and expenditure account shows a deficit of Ksh. 55,482,606 This deficit is not as a result of losses in operations, but as a result of timing differences in incomes &expenditures, capital expenditures & wear and tear allowances.

8 Property, Plant and Equipment

	LAND	BUILDINGS	FIXTURES, FITTINGS & EQUIPMENT	PLANT & MACHINERY	FURNITURE	MOTOR VEHICLE	COMPUTER HARD & SOFT WARE	INTANGIBLE	TOTALS
COST/VALUATION AS AT 1/7/2007	151,528,000	83,019,376	20,425,265	20,928,131	10,928,864	63,831,102	18,139,890		368,800,628
WIP c/F								2,848,830	2,848,830
ADDITIONS	-	2,379,703	8,327,801	-	325,316	6,502,636	1,861,160	-	19,396,616
USAID/WBANK									-
DISPOSALS									-
	151,528,000	85,399,079	28,753,066	20,928,131	11,254,180	70,333,738	20,001,050	2,848,830	391,046,074
DEPRECIATION AS AT 1/7/2007	Nil	10,630,080	6,409,358	6,153,832	3,971,400	36,364,987	10,324,465	-	73,854,121
ACC DEPR ON DISPOSAL									-
DEPRECIATION CHARGE FOR THE 12 MONTHS	Nil	2,081,497	3,074,363	1,666,442	1,024,316	12,460,976	5,532,741		25,840,335
	Nil	12,711,577	9,483,721	7,820,274	4,995,716	48,825,963	15,857,206	-	99,694,456
NBV AS AT 30/06/2008	151,528,000	72,687,503	19,269,345	13,107,857	6,258,464	21,507,775	4,143,844	2,848,830	291,351,618
NBV AS AT 30/06/2007	151,528,000	72,389,296	14,176,257	14,'09,299	7,102,721	27,466,115	9,400,250		296,771,938

Work in Progress comprises of re-branding expenses of Kshs 2,848,830.00. This will be armortised over a period of three (3) years on a straight line basis on capitalisation upon completion of the works.

NOTES TO THE FINANCIAL STATEMENTS :

9 (A) Cash & Cash-equivalents

	2008 Kshs	2007 Kshs
Cash at hand	14,399	35,625
National Bank Of Kenya	1,211,780	2,858,414
CBA Bank	4,603,896	51,143,350
KCB DRUG A/C	25,526,690	0
KCB DISTRIBUTION A/C	4,009,145	0
	35,365,909	54,037,389

(B) Longterm Investments

There is a longterm investment of Kshs 5 Million with the NBK which acts as a guarantee against employees car loan scheme and also earns an interest for the organisation.

10 Receivables

KEMSA/E-SOKONI project	4,864,499	4,864,499
Staff-Travel Imprest/Advances	428,330	1,719,137
Prepayments & Deposits	10,641,132	5,502,664
Medical grants receivable	1,311,263,840	
	1,327,197,801	12,086,300

11 Payables

Transporters & other creditors	34,337,667	10,074,664
Drug Creditors	1,336,790,530	
Accruals for the period	5,692,051	14,380,133
MOH Distribution advance grant		
Other Payables (Retained Funds)	969,867	944,278
	1,377,790,116	25,399,075

12 Deferred Income

This is as a result of grants in form of Property,Plant&Equipment from USAID and World bank with a useful life of four(4) Years as follows;

Development Partner	2003/04	2005/06	Recognised	Deferred
USAID	11,832,244	3,691,905	14,601,173	922,976
World Bank	-	25,371,701	19,031,026	6,343,675
Totals	11,832,244.00	29,063,606	33,632,198	7,266,652

13 Revaluation Reserve	8,404,069	10,229,500

Mis-statement of Kes 1,825,431.00 on property, plant and equipment has been prior adjusted.

14 **Inventory**

The stocks held at KEMSA as at 30 June 2008 were valued at Kshs. 6.564 Billion. However this was not reflected in the Financial statements as the stocks are owned by the Ministry of Health and KEMSA is only holding the stocks on Agency basis only.

15 Currency

These financial statements are presented in Kenya Shillings (KShs.)