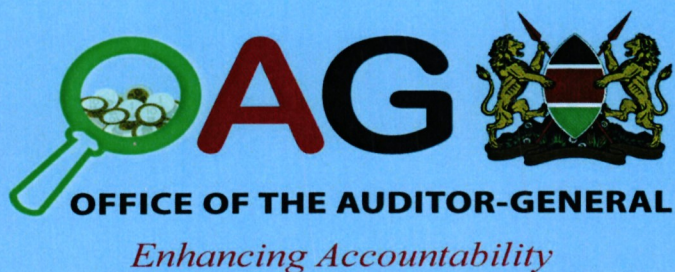


REPUBLIC OF KENYA



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 03 FEB 2022	
DAY: THURS	
TABLED BY:	LOM
CLERK-AT THE-TABLE:	Loah Mwaure

REPORT

OF

THE AUDITOR-GENERAL

ON

**HEALTH SECTOR SUPPORT PROJECT
(CREDIT NO.4771-KE)**

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

**KENYA MEDICAL SUPPLIES
AUTHORITY (KEMSA)**

PARLIAMENT
OF KENYA
LIBRARY



WORLD BANK KE-4771

KENYA HEALTH SECTOR SUPPORT PROJECT

REPORTS AND FINANCIAL STATEMENTS

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

**Prepared in accordance with the Accrual Basis of Accounting Method under the
International Public Sector Accounting Standards (IPSAS)**

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 KENYA HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2021

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KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2021

1. PROJECT GENERAL INFORMATION

(a) Project physical address

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

(b) Project contacts

Telephone: +254 20 3922 000
Email: info@kemsas.co.ke
Website: www.kemsas.co.ke

(c) Project Bank

Co-operative Bank of Kenya
Enterprise Road
NAIROBI

(d) Auditors

Office of the Auditor-General
Anniversary Towers, University Way,
NAIROBI.

(e) Legal Advisers

The Attorney General
State law office,
Harambee Avenue
P. O. Box 40112
NAIROBI

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2021

PROJECT INFORMATION

Kenya Health Sector Support Project (KHSSP) was initiated by the ministry of health, World Bank and DANIDA. The project objectives were to improve:

- (i) The delivery of essential health services for Kenyans, especially the poor,
- (ii) The effectiveness of planning, financing, procurement and logistics of Pharmaceuticals and medical supplies.

The key project indicators include:

- (i) Direct project beneficiaries (number) of which female (percent)
- (ii) Health facilities (level 2-4) without one of 14 tracer drugs at any point between delivery intervals (percent)
- (iii) Children immunized (number, disaggregated for Northeast Province)
- (iv) HSSF facilities meeting core financial management requirements of the fund (percent)
- (v) Timely payment to suppliers by KEMSA, based on agreed procurement contracts
- (vi) Facilities displaying quarterly information on funds received and availability of drugs at facility level (levels 2 and 3) (percent).

The support for commodities is intended to bring sustained relief to the frequent shortages and stock-outs of health commodities experienced in the primary health facilities. A reliable and steady supply of EMMS to the rural health facilities at levels 2 and 3 was to be established through the build-up of a reasonable buffer stock of these commodities at KEMSA, as well as reforms of the supply chain system. The support for commodities was to focus on delivering critical services and was to include EMMS for key health interventions such as child health and malaria. The financial support under the Project was to support reforms in the flow of funds from the ministry of finance through the ministry of health to KEMSA to improve the billing system, cover distribution costs, capacity development, and development of supplementary commodity services for hospitals.

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2021

The Project also addressed the key constraints that currently affect the availability of EMMS in the public health facilities in three coordinated ways.

1. The Project was to help to address the problem of insufficient budget for commodities and build up a buffer stock of EMMS for levels 2 and 3, and a limited extent for level 4 (sub-district hospitals).
2. The Project was supposed to support associated reforms to make the procurement and supply chain system more efficient and effective.
3. Finally, the Project also aimed to strengthen the financial sustainability of the KEMSA through improvements in its billing system, rationalization of the essential drugs list, faster payment of suppliers and activation of the drawing rights system.

The WB financing of commodities was mainly targeted for levels 2 – 3, with some to level 4, and focused on procurement of EMMS and other essential public health commodities. The money was funneled through the Health Commodity Basket of the Joint Financing Agreement to a special account managed by KEMSA. Procurement of the commodities would be done by KEMSA, using World Bank procurement guidelines and primarily international competitive bidding for the financing made available for health commodities. The release of funds was dependent on KEMSA being able to procure the commodities in a timely manner, and on the establishment of clear stocking policies at its central warehouse and for its customers.

Project Start Date:	July, 05 2010
Project End Date:	June 30, 2018
Project Sponsor:	The World Bank, DANIDA, Government of Kenya

Project contact person at Ministry of Health:

Name: Dr. Valeria Makory
Project Coordinator, KHSSP
Address: P.O. Box 30016
Ministry of Health
Afya House
Email: valeria.makory@gmail.com

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2021

CHIEF EXECUTIVE OFFICER'S REPORT

KEMSA has continued to attract and retain a number of key partners that provide Substantial financial, staffing and technical support. Having on board these partners is an Indicator of confidence in KEMSA's financial and operations systems and practices. Key partners include World Bank, USAID, Global Fund, Danida and UNICEF. The World Bank through the Kenya Health Sector Support project has been a key partner in the following areas.

- Provision of seed capital for the medical revolving fund in KEMSA'S new business model
- Strengthening of KEMSA'S financial base from fees charged for procurement, Warehousing and distribution of partner-funded commodities.
- Capacity building of staff and improvement of operational processes.
- Strengthening of KEMSA'S ICT systems.
- Enhancing KEMSA'S filling system through the purchase of bulk filer.

Initially the project was to end on December 2016 however; there was an extension to June 30th 2018. KEMSA has transferred the project fund balance totaling to **KES 289,090,323** back to Ministry of Health.

KEMSA will continue to engage with strategic partners in provision of Medical supply chain solutions that add value to the discharge of its mandate under the KEMSA Act 2013 and realization of its Vision, in support of better health service delivery.

Mr. Edward Njoroge

Ag. Chief Executive Officer

Signature.....

Date 18/11/2021.....

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2021

PROJECT MANAGEMENT STATEMENT OF RESPONSIBILITIES:

The project management is required to prepare financial statements which give a true and fair view of the state of affairs of Kenya Health Sector Support Project as at the end of the financial year and of its surplus or deficit for that year. During FY 2020/2021, the project reported a surplus of Kshs. 2,164,790 compared to a deficit of Kshs. (331,070,910) in FY 2019/2020.

The project management is required to ensure that the Authority maintains proper accounting records which disclose with reasonable accuracy, the financial position of the project; he is also responsible for safeguarding the assets of the project. The project management 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 Public Sector Accounting Standards (IPSAS).

The project management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Project as at 30th June 2021 and of its surplus for the year then ended. The project management further confirms the accuracy and completeness of the accounting records maintained by KEMSA which has 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 by:

Mr. Waiganjo Karanja
Director, Finance & Strategy
ICPAK No. 7023

Signature.....

Date...18/11/2021.....

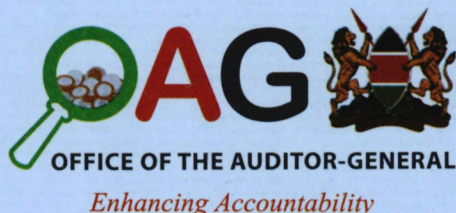
Mr. Edward Njoroge
Ag. Chief Executive Officer

Signature.....

Date...18/11/2021.....

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON HEALTH SECTOR SUPPORT PROJECT (CREDIT NO.4771-KE) FOR THE YEAR ENDED 30 JUNE, 2021 - KENYA MEDICAL SUPPLIES AUTHORITY (KEMSA)

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Health Sector Support Project (Credit No.4771-KE) for the year ended 30 June, 2021 set out on pages 8 to

Report of the Auditor-General on Health Sector Support Project (Credit No.4771-KE) for the year ended 30 June, 2021 - Kenya Medical Supplies Authority (KEMSA)

22, which comprise the statement of financial position as at 30 June, 2021, 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Health Sector Support Project (Credit No.4771-KE) as at 30 June, 2021, 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 Financing Agreement dated 21 January, 2014 between the International Development Association and the Republic of Kenya; and the Public Finance Act, 2012.

Basis for Qualified Opinion

1. Interest Payable to DANIDA

The statement of financial position reflects trade and other payables from exchange transactions of Kshs.38,224,311 (2020 – Kshs.38,009,352) as disclosed under Note 6 to the financial statements. Management attributed this to be 9% share of interest earned from financial year 2012/2013 to 2020/2021 payable to DANIDA. However, the sharing of 9% earned interest with DANIDA is not supported by the financing agreement or any approved document.

Consequently, the accuracy, completeness and validity of trade and other payables of Kshs.38,224,311 as at 30 June, 2021 could not be confirmed.

2. Purchase of Assets Equipment and Consumables

The statement of financial performance reflects nil balance on purchase of assets, equipment and consumables against a comparative balance of Kshs.25,046,348. However, as previously reported the supporting schedule for this expenditure reflected Kshs.641,309,540 resulting to a variance of Kshs.616,263,192 which was offset against deferred income without justification.

In the circumstances, the accuracy and validity of nil balance on purchase of assets, equipment and consumables for the year ended 30 June, 2021 and comparative balance of Kshs.25,046,348 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Health Sector Support Project (Credit No.4771-KE) in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other

ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Unresolved Prior Year Matters

1.1. Non-Compliance with Public Procurement and Assets Disposal Act, 2015

As previously reported, the Kenya Medical Supplies Authority (KEMSA) procured 45,500 dispensing plastic resealable envelopes at a cost of Kshs.28,665,000 through tender No.KEMSA/DP03/2019-2021 and pharmaceutical items amounting to Kshs.94,962,092 through tender No.KEMSA/DP15/2018-2020 using direct procurement method. According to the Management, the use of the direct procurement method was aimed at mitigating against stock outs of critical items needed by the counties and that the identified supplier was a not for profit Faith-Based Organization. However, the reasons for using direct procurement method do not satisfy the conditions provided in Section 103(1)(2) of the Public Procurement and Asset Disposal Act, 2015.

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

1.2. Delay in Delivery of Goods

As previously reported, review of procurement contracts entered into between the Authority and suppliers revealed instances of delay in delivery of goods for periods of 2-6 months by six suppliers with total orders of Kshs.19,718,531

The noted delay in delivery of goods if not addressed could adversely affect timely realization of the project objectives.

1.3. Variation of Contract Price

As previously reported, the contract for supply of chlorhexidine gluconate solution 5% was awarded to a supplier as per framework contract dated 18 October, 2018. The initial quantity was 16,573 units at Kshs.684.50 per unit translating to Kshs.11,344,218.50. Purchase order No. 819731 and 819732 were issued for supply of 7,500 units and 9,073 units respectively. The supplier delivered only 7,500 units but in the subsequent call off, the supplier agreed to supply additional quantity of 11,070 units at the price of Kshs.684.50. The Authority revised unit price from Kshs.684.50 to Kshs.787.17 based on the 12 November, 2019 supplier request for 15% price variation citing increase in global price of raw materials and fluctuation of foreign exchange rates. Subsequently, the Authority cancelled purchase order No. 819732 for the 9,073 units and issued purchase order No.824031 for 11,070 units at Kshs.787.17 each. This resulted to additional cost of Kshs.931,524 for 9,073 units had they been supplied at Kshs.684.50 each.

In view of the above, the public may not have realized value for money in respect of the varied contract that resulted in additional cost of Kshs.931,524.

1.4. Delay in Distribution of Equipment

As previously reported, the statement of comprehensive income for the year ended 30 June, 2019 reflected purchase of assets, equipment and consumables amounting to Kshs.400,099,529 out of which equipment valued at Kshs.3,051,499 was still at KEMSA warehouses and had not been distributed for installation and commissioning despite the suppliers having been fully paid. A review of the matter in financial year 2020/2021 indicated that equipment valued at Kshs.511,111 had still not been distributed for installation and commissioning as at 30 June, 2021.

Consequently, the public may not have realized value for money in respect of the undistributed equipment valued at Kshs.511,111 as at 30 June, 2021.

2. Project Closure and Unutilized Funds

The statement of financial position reflects cash and cash equivalents of Kshs.40,655,003 (2020 - Kshs.38,275,254). The project commenced in 21 January, 2014 and ended on 31 December, 2016 but extended to 30 June, 2018. However, no further extension was granted.

Therefore, expenditures from the project are continuously being incurred without approval from the donor.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Financing Agreement dated 21 January, 2014 International Development Association and the Republic of Kenya, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by Health Sector Support Project (Credit No.4771-KE), so far as appears from the examination of those records; and,
- iii. The financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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 maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that

misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's 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 ability of the Project to continue 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 Project to cease 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 Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

16 December, 2021

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF FINANCIAL PERFORMANCE
For the Year Ended 30th June 2021

	Note	2020/2021 Kshs	2019/2020 Kshs
Revenue from non-exchange transactions			
Receipts for KEMSA Main		-	29,000,000
		-	29,000,000
Revenue from exchange transactions			
Bank Interest	1	2,388,431	29,690,951
		2,388,431	29,690,951
Total Revenue		2,388,431	58,690,951
Expenses			
Purchase of Asset, Equipment & consumable	2	-	25,046,348
Bank Charges	3	8,682	11,406
Operating Expenses	4	214,959	2,198,916
Transfer to MOH		-	289,090,323
Bank Transfer		-	73,414,867
Total expenses		223,641	389,761,860
Surplus/(Deficit) for the year		2,164,790	(331,070,910)

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF FINANCIAL POSITION

As at 30th June 2021

	Note	2020/2021 Kshs	2019/2020 Kshs
-			
-			
Assets			
Current assets			
Cash and Cash-equivalents	5	40,655,003	38,275,254
Total Assets		40,655,003	38,275,254
Liabilities			
Current Liabilities			
Trade and Other Payable from Exchange Transaction	6	38,224,311	38,009,352
Total Current Liabilities		38,224,311	38,009,352
Non -Current Liabilities			
Deferred income	7	-	-
Total liabilities		38,224,311	38,009,352
Net assets			
Revenue reserve	8	2,430,692	265,901
Total Net Assets and Liabilities		40,655,003	38,275,254

The Financial Statements approved by:

Mr. Waiganjo Karanja
 Director, Finance & Strategy
 ICPAK No. 7023

Signature.....

Date...18/11/2021.....

Mr. Edward Njoroge
Ag. Chief Executive Officer

Signature.....

Date...18/11/2021.....



Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended 30th June 2021

Attributable to the owners of the controlling entity						
	Self Insurance reserve Kshs	Reserve capital replacement development reserve Kshs	Housing Reserve Kshs	Accumulated Surplus Kshs	Minority Interest Kshs	Total Kshs
Balance as at 30 June 2019	-	-	-	331,336,812	-	331,336,812
Surplus For the Period Transfer to/from Accumulated Surplus	-	-	-	(331,070,910)	-	(331,070,910)
Balance as at 30 June 2020	-	-	-	265,902	-	265,902
Surplus For the Period Transfer to/from Accumulated Surplus	-	-	-	2,164,790	-	2,164,790
Balance as at 30 June 2021	-	-	-	2,430,692	-	2,430,692

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 KENYA HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF CASH FLOWS
As at 30th June, 2021

	Note	2020/2021 Kshs	2019/2020 Kshs
Cash flows from operating activities			
Receipts			
Other Income-Bank interest Earned	1	2,388,431	29,690,951
Receipt from KEMSA Main		-	29,000,000
		2,388,431	58,690,951
Payments			
Bank Charges	3	8,682	11,406
Purchase of Asset, Equip & consumable	2	-	25,046,348
Operational Expenses	4	214,959	364,704,106
		223,641	389,761,860
Cash Flows from operating activities		2,164,790	(331,070,910)
Adjust For:			
Decrease (Increase) in payable		214,959	(27,789,971)
(Increase) Decrease in receivable		-	101,482,453
Increase (decrease) in Deferred Income		-	(616,263,192)
Net cash flows from operating activities		2,379,749	(873,641,620)
Cash flow from investing activities			
Cash flows used in Finance Activities		-	-
Net Decrease in cash and cash Equivalents		2,379,749	(873,641,620)
Cash and cash equivalents at the start of the year	5	38,275,254	911,916,874
Cash and cash equivalents at the end of the period		40,655,003	38,275,254

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS				
For the year ended 30th June 2021				
	Original Budget	Actual on Comparable Basis	Performance Difference	Reasons for re-allocation-IPSAS 24.29
	2020-2021	2020-2021	2020-2021	
Revenue				
Other Income - Bank Interest	-	2,388,431	2,388,431	This relate to interest received for the month July 2020 to June 2021
TOTAL INCOME	-	2,388,431	2,388,431	
Payments				
Bank Charges		8,682	(8,682)	These are bank charges incurred during the year.
Operating Expenses - KEMSA Fees expense	-	214,959	(214,959)	This is interest refundable to DANIDA for the year.
TOTAL EXPENSES	-	223,641	(223,641)	
SURPLUS FOR THE PERIOD	-	2,164,790	2,164,790	



Reports and Financial Statements
For the year ended June 30, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the entity's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity.

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

a). Revenue Recognition

i) Revenue from non-exchange transactions

Fees

The entity recognizes revenues from fees, when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Funds Transfers from the Ministry of Health's Swap Secretariat to the KHSSP Project are categorized into two:

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- a) Funds meant for KEMSA's Capitalization in line with the project's objectives
- b) Funds meant for the Project's operations which is mainly strengthening of systems in public health facilities.

KEMSA follows the guidance of IPSAS 23 to determine which elements of the financial statements will be recognized because of the transactions. The standard gives clear guidance on treatment of assets when there is obligation to transfer future economic benefits or service potential to third parties.

Funds received for KEMSA capitalization have are recognized as both assets (cash) and Liability in the statement of financial position because the economic benefit is meant to be transferred to KEMSA.

Funds for the Project's operations are recognized as income in the Project's statement of Financial Performance.

Revenue from exchange transactions
Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Finance Income

Finance income comprises interest receivable from holding current accounts.

b). Trade and Other Receivables

Trade and other receivables are recognized at fair values.

c). Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

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d). Trade and Other Payables

Trade and other payables are non-interest bearing and are carried at amortized 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 entity or not, less any payments made to the suppliers.

e). Exchange Rate Differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation as at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. KEMSA uses Central Bank Mean rate as at end of reporting period.

f). Comparative figures

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

g). Subsequent events

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

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NOTES TO THE FINANCIAL STATEMENTS FY 2020/2021

<u>1</u>	<u>Operating income</u>	2020/2021	2019/2020
		Kshs	Kshs
	Receipts from Swap Secretariat	-	-
	Bank transfer from KEMSA Main	-	29,000,000
	MOH Medical Grant	-	-
	Income for KEMSA Fees	-	-
	Bank Interest Earned	2,388,431	29,690,951
		2,388,431	58,690,951
<u>2</u>	<u>Purchase Asset, Equip & Consumable</u>	2020/2021	2019/2020
		Kshs	Kshs
	Purchase Asset, Equip & Consumable	-	25,046,348
		-	25,046,348
<u>3</u>	<u>Finance costs</u>	2020/2021	2019/2020
		Kshs	Kshs
	Bank Charges	8,682	11,406
	Total Expenses	8,682	11,406

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<u>4</u>	<u>Operating expenses</u>	2020/2021	2019/2020
		Kshs	Kshs
	Interest Transfer	-	73,414,867
	Interest Refundable to DANIDA	214,959	2,198,916
	Transfer to MOH	-	289,090,323
	Total expenses	<u>214,959</u>	<u>364,704,106</u>
<u>5</u>	<u>Cash and cash equivalent</u>	2020/2021	2019/2020
		Kshs	Kshs
	Non Pooled Account	174,107	177,679
	Pooled Account	40,480,896	38,097,575
	Total Expenses	<u>40,655,003</u>	<u>38,275,254</u>
<u>6</u>	<u>Trade and other payables</u>	2020/2021	2019/2020
		Kshs	Kshs
	Interest Payable to DANIDA b/f	38,009,352	35,810,436
	Interest Payable to DANIDA for the year	214,959	2,198,916
	Other Creditors (suppliers)	-	-
	Total	<u>38,224,311</u>	<u>38,009,352</u>

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7	<u>Deferred income</u>	2020/2021	2019/2020
		Kshs	Kshs
	At the beginning of the Year B/F	-	616,263,192
	Purchase of Medical Commodities	-	(616,263,192)
	World Bank Capitalization Receipts		
	Total Bal	-	-
8	<u>Revenue Reserves</u>	2020/2021	2019/2020
		Kshs	Kshs
	At the beginning of the year	265,902	331,336,812
	Surplus/ deficit for the year	2,164,790	(331,070,910)
	Total Revenue Reserves	2,430,692	265,902
9	<u>Cash Generated from Operations</u>	2020/2021	2019/2020
		Kshs	Kshs
	<u>Surplus (Deficit) Before Tax & Extra Ordinary Items</u>	2,164,790	(331,070,910)
	Adjustments For:		
	Depreciation	-	-
	Surplus/ (Deficit) Before Working Capital Changes	2,164,790	(331,070,910)
	Increase/(Decrease) in payables	214,959	(27,789,971)
	Increase/(Decrease) in Receivable	-	101,482,453
	Increase (decrease) in Deferred Income	-	(616,263,192)
	Cash From Operations	2,379,749	(873,641,620)
	Decrease/ (Increase) in Deferred Income	-	-
	Cash flows Before Extra-ordinary Items	2,379,749	(873,641,620)
	Extra ordinary Items	-	-
	Net cash generated from operating activities	2,379,749	(873,641,620)

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10. Interest Refundable to DANIDA

Trade and other payables include an amount of Kshs 38,224,310.64 being interest earned from DANIDA's contribution to the fund that may be refunded to them. It comprises of an amount Kshs. 38,009,352 for the period up to June 2020 and Kshs. 214,958.82 for year ending 30th June 2021. The amount refundable for the year is a 9% provision on interest earned during the year.

DANIDA's Auditor Deloitte and Touché audited the project and came up with the composition of the funds both at the Ministry and the portion disbursed to KEMSA. The audit established that DANIDA's portion of interest earned was 9% of the total interest earned by KEMSA.

KEMSA has been accruing the interest refundable to DANIDA annually at the rate of 9% of the interest earned from the project's funds.



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PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated period within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0	Non-Compliance with Public Procurement and Asset Disposal Act, 2015 - During the year under review, the Kenya Medical Supplies Authority (KEMSA) procured 45,500 dispensing plastic resealable envelopes at a cost of Kshs.28,665,000 through tender No. KEMSA/DP03/2019-2021 and pharmaceutical items amounting to Kshs. 94,962,092 through tender No. KEMSA/DPI15/2018-2020 using direct procurement method. According to the Management, the use of the direct procurement method was aimed at mitigating against stock outs of critical items needed by the counties. The use of the direct procurement method further justified on the basis that the identified supplier was a not for profit Faith-Based Organization. However, reasons given for the use of the direct procurement method in this case do not satisfy the conditions for use of the method as provided in Section 103(1) (2) of the Public Procurement and Asset Disposal Act, 2015. In the circumstances, the Management was in breach of the law	The justification to use Direct Method of procurement for above mentioned tender was provided for in the attached approved MEMO (see Appendix 3.1 - Justification to undertake procurement through Direct Procurement from Mission for Essential Drugs and Supplies). Further, KEMSA had contracted MEDS who are not for profit, faith based institution to provide EMMS to fill the gaps to mitigate against stock outs of critical selected commodities during the rollout of UHC.			

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2.0	Delay in Delivery of Goods - A review of procurement contracts entered into between the Authority and suppliers revealed instances of delay in delivery of goods for periods of 2-6 months by six suppliers with total orders of Ksh. 19,718,531. The noted delay in delivery of goods if not addressed could adversely affect timely realization of the project objectives.	Suppliers are expected to make deliveries within the agreed timelines. However, due to various reasons such as warehouse space constrains, logistics challenges on the suppliers' side and availability of adequate stocks in KEMSA warehouse hence deferring the deliveries to a later date. KEMSA procurement contract team follows up and expedites deliveries from suppliers. A supplier appraisal tool has been developed to facilitate supplier performance measurement, which will enhance timely deliveries of medical commodities.	
3.0	Variation of Contract Price - Contract for supply of Chlorhexidine gluconate solution 5% was awarded a supplier as per framework contract dated 18 October, 2018. The initial quantity was 16,573 units at Kshs.684.50 per unit translating to Kshs.11,344,218.50. Purchase order No. 819731 and 819732 were issued for supply 7,500 units and 9,073 units respectively. However, out of the initial quantity of 16,573 units, only 7,500 units were delivered leaving a balance of 9,073 units. It was also noted that in call down No. 1 dated 20 November 2019, the supplier agreed to supply additional quantity of 11,070 units at the price of Kshs. 684.50 despite the fact that he had not supplied 9,073 units from the initial contract which was outstanding for more than one year. Further, in a letter dated 12 November, 2019, the Supplier sought a 15% price variation citing increase in a global prices of	Call offs are informed by the stock handling policy of maintaining 9 months of stock quantity which include pipeline and warehouse stock levels. Therefore, to avoid stock outs, call offs can be made when other deliveries are in pipeline. This assists the suppliers in preparing to avail the commodities in appropriate time. The price variation was approved by the accounting officer following the request from the supplier vide a letter citing increase cost of raw materials and foreign exchange fluctuations. Following, the COVID -19 global pandemic, cost of raw materials increased especially China where majority of materials are sourced from (see Appendix	

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	raw materials and fluctuations of foreign exchange rates. Consequently, the Authority revised the price upward from Kshs. 684.50 to Kshs.787.17 and cancelled purchase order No. 819732 for the 9,073 units and issued purchase order No. 824031 for 11,070 units thereby resulting in additional cost of Kshs. 931,524 for the 9073 units supplied at the revised price of Kshs. 787.17 per unit. In view of the above, the public may not have realized value for money in respect of the varied contract that resulted in additional cost of Kshs. 931,524.	6 - Letter from Nijimia Kenya Ltd. requesting for review of award unit price). Pursuant to section 139(4) of the PPADA 2015, For the purpose of this section, any variation of contract shall only be considered after twelve months from the date of signing the contract and shall only be considered if the following are satisfied- a) <i>The price variation is based on the prevailing consumer price index obtained from Kenya National Bureau of statistics or the monthly inflation rate issued by the central Bank of Kenya;</i> The exchange rate during tender opening of 28th June 2018 was USD 1 = Ksh 101.15 while in March when the variation was effected, it was USD 1= Ksh 104.792.			
4.0	Delay in Distribution of Equipment - In 2018/2019, it was reported that the statement of comprehensive income for the year ended 30 June, 2019 reflected purchase of assets, equipment and consumables amounting to Kshs.400,099,529 out of which equipment valued at Kshs.3,051,499 was still at KEMSA warehouses and had not been distributed for installation and commissioning despite the suppliers having been fully paid. A review of the matter in 2019/2020 indicated that equipment valued at Ksh. 511,111 had still not been distributed for installation and commissioning as at 30th June 2020. Consequently, the public may not have realized value for money in respect of the undistributed equipment valued at Kshs.511,111 as at 30 June. 2020	KEMSA is liaising with Ministry of Health for re-distribution of the remaining commodities valued at Ksh. 511,111	Warehouse Manager	Not resolved	30/06/2022