

# KENYA MEDICAL SUPPLIES AUTHORITY

Commercial Street, Industrial Area  
P.O. Box 47715, 00100 GPO,  
Nairobi, Kenya



Tel: +254 20 3922000, Fax: +254 203922400  
GSM: +254 719 033000, +254 733 606600  
Email: info@kemsa.co.ke

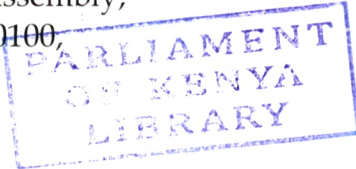
All Correspondence should be addressed to Chief Executive Officer

When replying please quote our ref:

REF: KEMSA/FIN/16/17/3/230(2)

30<sup>th</sup> March 2017

The Clerk,  
Kenya National Assembly,  
P. O. Box 41842-00100,  
NAIROBI.



Dear Sir,

**RE: KEMSA FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2016**

In line with the Chief of Staff and Head of the Public Service's Circular **Ref. No. OP/CAB.1/40** dated 25<sup>th</sup> November 2015, Kenya Medical Supplies Authority is hereby forwarding to your office 50 (Fifty) copies of unaudited financial statements and audit reports for the year ended 30<sup>th</sup> June 2016.

Find attached also our responses to the audit reservations raised by the Auditor General.

Thank you.

Yours Faithfully,

**PHILIP OMONDI**  
**AG. CHIEF EXECUTIVE OFFICER**

# KENYA MEDICAL SUPPLIES AUTHORITY

Commercial Street, Industrial Area  
P.O. Box 47715, 00100 GPO,  
Nairobi, Kenya



Tel: +254 20 3922000, Fax: +254 203922400  
GSM: +254 719 033000, +254 733 606600  
Email: info@kemsaco.ke

*All Correspondence should be addressed to Chief Executive Officer*

When replying please quote our ref:

REF: KEMSA /FM/16/17/3/230(1)

30<sup>th</sup> March, 2017

The Clerk,  
Kenya National Assembly,  
P. O. Box 41842-00100,  
NAIROBI.

Dear Sir,

**RE: RESPONSE TO THE REPORT OF AUDITOR GENERAL ON FINANCIAL STATEMENTS OF KEMSA FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2016**

---

We acknowledge receipt of the letter from Kenya National Audit Office Ref: KEMSA/214/2015/2016/(29) dated 10<sup>th</sup> March, 2017 and the report of the Auditor General on Financial Statements for the year ended 30<sup>th</sup> June 2016.

The report contained two paragraphs and the following is our response.

**Property, Plant and Equipment:**

We concur with the observation that despite having allotment letters and Leases for the various parcels of land, the Authority did not possess title deeds for parcels of land valued at Kshs 183,000,000.

The Authority has however embarked on the process of realization of the titles and has engaged Conveyance experts to assist in the process.

We further agree with the observation that the value of the Meru plot in Meru Municipality measuring 0.3 Ha, has not been included in the financial statements.

KEMSA was allotted the land on 7th October, 2002. Later third parties i.e. Ministry of Public Works and Kenya National Highways Authority occupied a section of the Land. This made

it difficult to accurately apportion the values between KEMSA and Ministry of Public Works/Kenya National Highways Authority.

The current KEMSA Board has taken up the matter and the issue of acquisition of title deeds for all KEMSA properties has been made a standing agenda in all Board meetings to review the progress made on the realization of the title deeds.

The process of titles acquisition was ongoing by the close of the financial year.

## **2. Receivables from Exchange Transactions- Kshs 3,740,340,113**

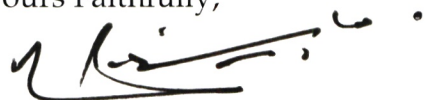
We concur with your observation that as at 30/06/2016, the long outstanding amounts due to KEMSA stood at Kshs 1,708,524,634. This was composed of debts due from the Ministry of Health Programs, County Governments, Donor Partners and Individual public Health Facilities.

KEMSA has made efforts aimed at overall debt management and ensuring timely collection of amounts owing from our various Customers and Strategic partners. These include:

- (a) During the Seven months of Financial Year 2016/2017 (July 2016-March 2017), KEMSA managed to collect Kshs 1,124,452,830.98 from the Donor partners and Kshs 2,897,730,601.20 from the County Governments. The bulk of these collections were for the due debts as at 30<sup>th</sup> June 2016.
- (b) We wish to point out that out of the overdue amount of Ksh 1,708,524,364, the National programmes managed by the Ministry of Health owed KEMSA Kshs 1,024,800,765.77. To date, Kshs 556,881,253,50 has been paid by the Ministry of Health and the balance has been treated as pending bills in the Budget for FY 2017/2018.

We have continuously engaged the Ministry to have all the outstanding amounts settled.

Yours Faithfully,

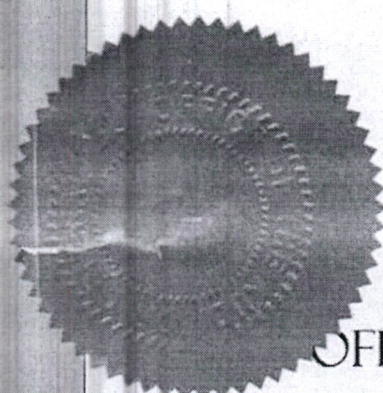


**PHILIP OMONDI**  
**AG. CHIEF EXECUTIVE OFFICER**

REPUBLIC OF KENYA



*for KRA*  
*for A.*  
*✓*



OFFICE OF THE AUDITOR-GENERAL

*15/03/17*

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF**  
**KENYA MEDICAL SUPPLIES**  
**AUTHORITY**

**FOR THE YEAR ENDED**  
**30 JUNE 2016**

---

# **KEMSA**

KENYA MEDICAL SUPPLIES AUTHORITY

YOUR PARTNER IN HEALTHCARE

## **REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2016**

---

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



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

---

<b>CONTENTS</b>	<b>PAGE</b>
Key Entity Information	2-6
Board of Directors	7-9
Senior Management Team	10
Chairman's Statement	11-12
Report of the Chief Executive Officer	13-15
Corporate Governance Statement	16-17
Corporate Social Responsibility Statement	18-19
Report of the Directors	20
Statement of Directors Responsibilities	21
Report of the Auditor General	22-23
Statement of Financial Performance	24
Statement of Financial Position	25-26
Statement of Changes in Net Assets	27
Statement of Cash Flows	28
Statement of comparison of budget and actual amounts	29-30
Summary of Significant Accounting Policies	31-35
Notes to the Financial Statements	36-55



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

## 1. KEY ENTITY INFORMATION AND MANAGEMENT

### (a) Background Information

Kenya Medical Supplies Authority (KEMSA) was established as a State Corporation under the Kenya Medical Supplies Authority Act of 25th January 2013, as a successor to the Kenya Medical Supplies Agency established under the State Corporations Act.

### (b) Principal Activities

#### Core Mandate

The Authority's Core Mandate as defined in the Act is to Procure, Warehouse and distribute medical commodities to public health activities in the Country

#### Functions of the Authority

- To procure, warehouse and distribute drugs and medical supplies for the prescribed public health programmes, the national strategic reserve stock reserve, prescribed essential health packages and national referral hospitals
- To establish a network of storage, packaging and distribution facilities for the provision of drugs and medical supplies to health institutions.
- To enter into partnership with or establish frameworks with county Governments for purposes of providing services in procurement, warehousing, distribution of drugs and medical supplies;
- Collect information and provide regular reports to the national and county governments on the status and cost effectiveness of procurement, the distribution and value of prescribed essential medical supplies delivered to health facilities. Stock status and on any other aspect of supply system and performance which may be required by stake holders;
- Support county governments to establish and maintain appropriate supply chain systems for drugs and medical supplies

### (c) Key Management

The Authority's day-to-day management is under the following key organs

- The Chief Executive Officer
- The Executive Directors



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

---

**(c) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2016 and who had direct fiduciary responsibility were:

- |                             |  |
|-----------------------------|--|
| 1. Dr. John M. Munyu, MBS   | -Chief Executive Officer               |
| 2. Mr. Philip O. Omondi     | -Director- Corporate Services          |
| 3. Mr. Fred Wanyonyi        | -Corporation Secretary/ Legal Director |
| 4. Mr. Charles Juma Ezekiel | -Director- Procurement                 |
| 5. Mr. Joshua Obell         | -Director- Operations                  |
| 6. Mr. Eliud Mureithi       | -Commercial Director                   |
| 7. Ms Teresa Mute           | - Internal Audit Manager               |

**(d) Fiduciary Oversight Arrangements**

The Board of Directors of the Authority comprises of the Chairman who is appointed by the President, the CEO is appointed by the Cabinet Secretary for Health on recommendation by the Board, the Principal Secretary of the Ministry for Health or her representative, the Principal Secretary to the National Treasury or his representative, the Principal Secretary Ministry of Devolution and Planning or his representative, four members who are not public officers with diverse medical supply chain management experience appointed by the Minister. All non-executive directors are independent of management of the Authority. The Board has varied and extensive skills in the areas of medical supply chain management and business management.

The Board meets quarterly and has a formal schedule of matters reserved to it. Board papers are generally circulated well in advance of the Board meetings by the Director Legal Services. Directors are required to disclose all areas of conflict of interest to the Board and are excluded from voting on such areas. The key function of the Board is to guide and control the performance and management of the affairs of the Authority.

This includes the duty to ensure that the functions of the KEMSA are carried out in an efficient, transparent and ethical manner and that no particular person or body is given undue preference or subjected to any undue disadvantage. The Board considers and advises the Minister for Health on the development and maintenance of Medical Supply Chain policy framework and the objectives of KEMSA. It considers and approves general performance targets, both strategic and business, and the annual budgets of the Authority.

The Board has appointed various standing Committees to which it has delegated certain responsibilities with the chairmen of the Committees reporting to the full board. The composition of the standing Committees is set out below.



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

Strategy & Development Committee	Human Resources Committee	Finance Committee	Audit Committee	Technical Committee
<b>Composition</b>	<b>Composition</b>	<b>Composition</b>	<b>Composition</b>	<b>Composition</b>
Directors and the CEO	Directors and the CEO	Directors and the CEO	Directors and the Internal Audit Manager	Directors and the CEO
<b>Main Function</b>	<b>Main Function</b>	<b>Main Function</b>	<b>Main Function</b>	<b>Main Function</b>
Oversee implementation of the Task Force recommendations after Board approvals, examine the recommended structure developments including ICT installations and make appropriate recommendations	Consideration of human resources and administration matters that require to be considered by the Board including recruitment, promotions, discipline and welfare of staff.	Review and monitoring of KEMSA financial position, accounts, financial statements and statutory reports, Consideration of audit matters arising out of KEMSA's financial position and statements.	Consideration of matters relating to audit queries, audit management letters and quality assurance of systems and processes, including review of risk management.	Oversee QA & control systems, warehousing & distribution of medicines, customer services, co-ordinate updates of EMMS list, commodities procurement systems compliance to the law, ICT policy, accuracy of stock
<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>
Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis
<b>Chairman</b>	<b>Chairman</b>	<b>Chairman</b>	<b>Chairman</b>	<b>Chairman</b>
Mr. Andrew Onyach	Ms. Florence Oile	Mr. Charles Rigoro	Ms. Elizabeth Mwashinga	Dr. Nelly Kimani
<b>Members</b>	<b>Members</b>	<b>Members</b>	<b>Members</b>	<b>Members</b>
Dr N. Kimani, Ms F. Oile Ms E. Mwashinga Mr C. Rigoro Ms T. Gichana Dr John Munyu	Mr C. Rigoro Mr. F. Musyimi Mr. H. Noor Ms T. Gichana Dr. John Munyu	Mr A. Onyach Dr N. Kimani, Mr B. Ndung'u Mr. F. Musyimi Dr. John Munyu	Mr Benard Ndung'u Ms Florence Oile Ms T. Gichana Mr. F. Musyimi	Ms E. Mwashinga Ms F. Oile Mr A. Onyach Ms. T. Gichana Dr. John Munyu



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

---

**(e) Headquarters**

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

**(f) Contacts**

Telephone: +254 20 3922 000  
Email: [info@kemsaco.ke](mailto:info@kemsaco.ke)  
Website: [www.kemsaco.ke](http://www.kemsaco.ke)

**(g) Bankers**

- |   |   |
|---|---|
| 1. National Bank of Kenya<br>Harambee Avenue,<br>NAIROBI  | 2. Commercial Bank of Africa<br>Nyerere Road,<br>NAIROBI    |
| 3. Kenya Commercial Bank<br>Industrial Area<br>NAIROBI    | 4. Co-operative Bank of Kenya<br>Enterprise Road<br>NAIROBI |
| 5. Equity Bank Ltd<br>Westlands Supreme Centre<br>NAIROBI |   |

**(h) Auditors**

Auditor-General  
Kenya National Audit Office,  
Anniversary Towers, University Way,  
NAIROBI.



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

---

**(h) Legal Advisers**

1. The Attorney General  
State law office,  
Harambee Avenue  
P.o Box 30084  
NAIROBI



2. Migos-Ogamba & Co. Advocates  
4<sup>th</sup> Floor , Crawford Park  
State House Road  
P.o. Box 58387-00200  
NAIROBI

3. KTK Advocates  
4<sup>th</sup> Floor, KEMU Towers  
University Way  
P.O. Box 10176 - 00100  
NAIROBI

4. E.K. Mutua & Co. Advocates  
11<sup>th</sup> Floor, View Park Towers  
P.o. Box 60596-00200  
NAIROBI

## THE BOARD OF DIRECTORS

The Directors who served the Authority during the year were as follows:

 <b>Amb. Solomon Karanja, Board Chairman</b>	<p><i>B.A(Makerere) M.A(London)</i></p> <p>Work Experience: University Registrar(UON), Managing Director &amp; Chairman, (EAPCC), Executive Chairman (NBK), Ambassador &amp; Kenya Representative to UN Habitat – Retired on 9<sup>th</sup> October 2015</p>
 <b>Mr. Andrew Onyach Director</b>	<p><i>BBA,MBA,MIDK,FMKIM</i></p> <p>Work Experience: Group CEO- Creative consolidated Systems Ltd, Group Strategy and Administration Director-Business Machines (K) Ltd.</p>
 <b>Mr. Charles M. Rigoro Director</b>	<p><i>LLB (Hons), DIP. Law (KSL), B.Com, MBA, LLM.</i></p> <p>Work Experience: Partner-Mose.Murugu and Rigoro Advocates, Lawyer/Advocate- Oira and Company, Banking Career rising from Management trainee to Senior Bank Manager, Trustee, Higher Education Loans Board (HELB). –Retired 19<sup>th</sup> November 2015</p>
 <b>Mrs Florence Oile Director</b>	<p><i>BBA, MBA,MCIPS,MKISM</i></p> <p>Work Experience: Procurement and Supply Chain Manager –IUCN (2000 to date), Operations Officer-IUCN (1994-2000) Retired on 19<sup>th</sup> November 2015</p>
 <b>Dr. Nelly Kimani Director</b>	<p><i>B. Pharm , MBA,MPSK</i></p> <p>Work Experience: Pharmacist-MP Shah Hospital, Company Pharmacist-Cadilla Pharmaceuticals, Pharmacist-Mater Hospital, Manager-Lemuma Pharmacy, Pharmacist(Nairobi Hospital), Marketing Trainee-Spread Marketing Consulting Agency.</p>

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

 Mrs Elizabeth Mwashinga <b>Director</b>	<p><i>Dip. Clinical Medicine</i></p> <p>Work Experience: Clinical Officer-Gatura Health Center, Msambweni District Hospital, Chaani Maternity and Nursing Home, Riflot Nursing Home, - Retired on 19<sup>th</sup> November 2015</p>
 Mr. Benard Ndung'u,	<p><i>B.Com (finance), CPAK</i></p> <p><b>Alt. to PS, The National Treasury</b></p> <p>Work Experience: Accountant General at the National Treasury. He is a member of ICPAK. He is an expert in public Finance Management.</p>
 Mr Francis Musyimi	<p><i>BA (Political Science &amp; sociology), MPSM</i></p> <p><b>Alt. to PS, Ministry of Health</b></p> <p>Work Experience: Principal Administrative Secretary, Deputy Secretary, under secretary, Senior Assistaht Secretary, District Officer.</p>
 Mr. Hassan Noor .EBS	<p><i>BA(Political Science), MA(Diplomacy and International studies)</i></p> <p><b>Alt. to PS, Ministry of Devolution and Planning</b></p> <p>Work Experience: Director of Administration –Ministry of Local Government, Chief Cordinator, Mau Forest Secretariat, -Lecturer Egerton University, Provincial Commissioner. District Officer. Retired on 25<sup>th</sup> April 2015</p>
 Ms Theodora Gichana	<p><b>B.Com, MBA (Finance), Diploma MIS</b></p> <p><b>Representing Inspector General State Corporations</b>          Retired on 19<sup>th</sup> November 2015</p>



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



**Dr John Munyu, MBS**  
**Chief Executive Officer**

*B.Pharm, MPSK, MBA, Dip S&M, MPSK*

Work Experience: CEO-KEMSA, Director Technical Services-KEMSA, Country Director-Sanofi Aventis, Regional Manager-Aventis Pharma East Africa, Sales and Marketing Manager, Sales Manager-Rhone Poulone Roler. Retired on 28<sup>th</sup> January 2017








**Mr. Fred Wanyonyi**  
**Corporation**  
**Secretary/Legal Director**

*LLB, DIP. Law*

Work Experience: Company Secretary-Nzoia Sugar, Advocate-Wetangula & Co. Advocate-P.L. Nalo & Co. Advocates, Pupil-Simiyu Wetangula & Co Advocates.

**SENIOR MANAGEMENT TEAM**

	<p>Dr John Munyu, MBS <i>B.Pharm, MPSK, MBA, Dip S&amp;M</i> <b>CHIEF EXECUTIVE OFFICER</b> <i>Retired on 28<sup>th</sup> January 2017</i></p>
	<p>Mr. Philip Omondi <i>Bsc,MBA,CPA(K),MKIM</i> <b>DIRECTOR-CORPORATE SERVICES</b></p>
	<p>Mr. Fred Wanyonyi <i>LLB, DIP. Law</i> <b>CORPORATION SECRETARY/LEGAL DIRECTOR</b></p>
	<p>Mr. Charles Juma Ezekiel <i>BA (Hons),MBA,MKISM,MCIPS</i> <b>DIRECTOR-PROCUREMENT</b></p>
	<p>Mr. Joshua obell <i>Bsc,Msc</i> <b>DIRECTOR OPERATIONS</b></p>
	<p>Mr. Eliud Mureithi <i>BA,MBA,IHRM,CIM(UK),MSK</i> <b>COMMERCIAL DIRECTOR</b></p>
	<p>Ms. Teresa Mute <i>B.Ed, MBA, ACCA, IAQA</i> <b>INTERNAL AUDIT MANAGER</b></p>



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

---

**CHIEF EXECUTIVE OFFICER'S STATEMENT**

KEMSA has made great strides in creation of a flawless supply chain process that guarantees delivery of quality, effective, efficient and sustainable medical commodities supplies chain services to public health facilities nationwide, supported by a new business model that meets the need of the devolved healthcare system.

The financial year 2015/2016 witnessed the growth of the Authority in all aspects i.e., financial, operational, human resources and strategic partnerships. The accelerated growth was stirred by the reconfiguration of our business model, transforming it into a mega medical store to better serve our growing customer base, under the devolved healthcare system.

**Financial Performance**

During the financial year, KEMSA registered significant financial gains through engagement with the various stakeholders ie. National government, County governments, Institutions and strategic partners.

Grants from the National Government increased by 4% from Kshs 348.6 Million in the financial year 2014/2015 to Kshs 363.7 Million in 2015/2016. KEMSA Supplies to counties increased by 16% from Kshs 4.09 Billion in the year 2015/2016 to Kshs 4.76 Billion in the year 2015/2016. Other income grew by 16% to Kshs 2.15 Billion from 1.85 Billion realized in the previous financial year. Recurrent Expenditure increased by 25% from Kshs 1.7 Billion in financial 2014/2015 to Kshs 2.13 Billion in 2015/2016.

The continued growth in internally generated income is an indication of the success of the new business model adopted in the financial year 2013/2014 in response to devolution of healthcare in Kenya.

**Our People**

KEMSA has continued to focus on personnel development and motivation as a key to the achievement of its objectives. Our employees are continuously trained in order to equip them with the skills required to carry out their responsibilities. Where gaps are identified, the management works with employees by identifying and participating in relevant training programs.

Continuous improvement is the cornerstone of our high performance culture which drives us to learn, change and improve.



## **Reports and Financial Statements** **For the year ended June 30, 2016 (Kshs)**

During the financial year 2015/2016, the Authority carried out various corporate wide cross cutting training programs to equip staff with necessary skills such as financial management, customer service, inventory management, records management etc.

The Authority also competitively recruited new members of staff to boost service delivery in key areas such as Sales and Marketing, Public Relations, ICT, Warehouse, Planning, MCP, Internal Audit and Quality Assurance, .

### **Risk Management**

KEMSA has defined policies and procedures to ensure that the system of internal controls provide reasonable assurance that the assets are safeguarded, transactions are authorised and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. There is a clearly defined organisational structure within which individual responsibilities are identified in relation to internal controls. The structure is complemented by defined procedures, financial and information system controls. The Authority's internal audit department performs various activities in the evaluation of the risk management, control and governance process. Significant business risks and weaknesses in the systems in operational and financial controls are highlighted and brought to the attention of senior management. Areas accorded high-risk profiles are given high attention.

The Risk Champion Network was initiated by the Government through the treasury circular of 2009, which directed that all heads of public institutions develop and implement a risk management framework.

KEMSA has developed the Institutional Risk Management Framework (IRMF). During the financial year 2015/2016, Risk Champions were nominated from the various KEMSA departments and taken through training to equip them with relevant skills. The champions have documented terms of reference in order to clearly understand their duties and responsibilities.

### **Strategic Partnerships**

The Authority solidified its engagement with strategic partners in the financial year 2015/2016. The key highlights of these engagements were:

- 1) The award of the KShS 65 Billion Medical Commodities Program by the United States Government to offer supply chain services of US Government funded products; HIV/AIDS commodities, Family planning, nutrition and malaria drugs. This program is projected to run for 5 years. KEMSA was contracted to offer supply chain services.
- 2) Partnership with UNICEF and the Government of Japan for distribution of Ready to Use Therapeutic Foods (RUTE) to be supplied to malnourished children in Kenya.



## **Reports and Financial Statements**

**For the year ended June 30, 2016 (Kshs)**

the Cabinet Secretary for Health on the development and maintenance of Medical Supply Chain policy framework and the objectives of KEMSA. It considers and approves general performance targets, both strategic and business, and the annual budgets of the Authority.

The Board has power to control the use and oversee the administration of assets of the Authority and also to determine the provisions to be made for capital and recurrent expenditure and for revenue reserves of the Authority.

The Board has appointed various standing Committees which have delegated responsibilities - with the respective chairpersons of the Committees reporting to the full Board as set out in page 4.



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

## CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

As we conduct business, we interact with a broad range of stakeholders, including our staff, customers, shareholders, financial partners, suppliers of business, the environment, government and the local communities. We strive to combine a powerful business sense and a strong sense of social responsibility towards these stakeholders. We have managed to create and sustain long-term relationships, marked by mutual respect and trust.

### Quality Assurance

Our Quality Assurance systems ensure that all medicines and commodities conform to the highest standards possible. Over and above the use of in-house quality control systems as outlined in the official "Quality and Procedures Manual", we use other quality certification bodies such as the National Quality Control Laboratories and the Kenya Bureau of Standards to assure quality of medical commodities.

### Health and Safety

KEMSA maintains an unwavering commitment to the health, safety and welfare of its employees, stakeholders and the environment. This core belief is embedded in our corporate culture and integrated into every aspect of KEMSA's operations. In the course of the year, several initiatives were under taken to enhance the safety and welfare of employees and stakeholders. This included:

- Participation in various Medical Camps through provision of free medical supplies in medical camps across the country in collaboration with area representatives.
- Frequent open health day forums for staff ,their families and the neighbouring community where a wide range of services such as screening for HIV, Diabetes, High Blood Pressure, counselling on Nutrition, teaching on prevention of non-communicable diseases, Healthy lifestyles etc. are offered.

### Emergency Preparedness

The Authority has commenced efforts to improve it's emergency preparedness, response and business continuity. An emergency response team comprising First Aiders and Fire Marshals have been trained and equipped to deal with emergencies. Emergency drills are conducted regularly and the response time of respondents monitored. KEMSA is planning



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

for increased training and focus on Emergency preparedness and Business Continuity in the next financial year.

**Environmental Conservation**

In the year 2015/2016, KEMSA once again partnered with the Kenya Forest Service and the local community in planting and maintaining a total of 1,200 trees at the Kibiku Area of Ngong Forest.

We have also been carrying out responsible disposal of damaged/obsolete medical commodities by use of service providers approved by the National Environment Management Authority (NEMA).

**Internship Programmes and Workplace Mentorship**

KEMSA continues to offer several University and middle level college students work integrated learning specific to their areas of interest in all the sections and departments. Under this program, the interns are based at a specific business unit for a period of 3-6 months in order to learn on the job and get the appropriate mentorship in the specific areas.

An intern is assigned to a Manager whose role is to provide support, mentorship as well as regular feedback on performance and development. This exposure in our highly specialized departments e.g Procurement, Warehousing, Quality assurance, Finance, Human resources, and ICT has enabled the students have the ability to link theory and practice and gain practical experience.

**Commitment to Principles**

In adhering to our core values, KEMSA seeks to communicate its commitment to its customers, associates, suppliers, dealers and other business partners, and to the communities in which we live and work. Further, we expect that any party conducting business with KEMSA will embrace and uphold these principles to the best of their ability.



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

---

**REPORT OF THE DIRECTORS**

The directors submit this report together with the financial statements for the year ended 30 June 2016, in accordance with Section 14 of the State Corporations Act, section 17(2) of the KEMSA Act of 2013.

**PRINCIPAL ACTIVITIES**

The Kenya Medical Supplies Authority ("KEMSA") was established by the Kenya Medical Supplies Act of 25<sup>th</sup> January 2013, as a successor to the Kenya Medical Supplies Agency to procure, warehouse and distribute medical supplies to prescribed health programmes, the national strategic stock reserve, prescribed essential health packages and national referral hospitals.

**RESULTS**

The net surplus for the year is Kshs 1,094,928,203 (2014/2015 Kshs 1,379,680,254).

**DIRECTORS**

The names of the directors who held office during the year to the date of this report are set out on page 7. In accordance to the KEMSA Legal Notice No. 17 of 3<sup>rd</sup> February, 2000 as amended on 15<sup>th</sup> May 2009, directors who are not public officers retired in October 2012 for the chairman of the Board and in August 2012 for the other non-executive directors. New board members were appointed on 9<sup>th</sup> October 2012 for the chairman and 19<sup>th</sup> November 2012 for other directors.

**AUDITORS**

Kenya National Audit Office audits the accounts of KEMSA, in accordance with Section 14 of the State Corporations Act and Section 17(2) of KEMSA Act of 25<sup>th</sup> January 2013.

**By Order of the Board  
Corporation Secretary**

**Nairobi  
September 2016**



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

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 68 (2) of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Kenya Medical Supplies Authority (KEMSA), which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results for that year. The Directors are also required to ensure that KEMSA keeps proper accounting records which disclose with reasonable accuracy of its financial position. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of KEMSA's financial statements, which give a true and fair view of the state of affairs as at the end of the financial year ended 30<sup>th</sup> June, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of KEMSA; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the KEMSA's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of KEMSA'S transactions during the financial year ended 30<sup>th</sup> June 2016, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained by KEMSA which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

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

The Kenya Medical Supplies Authority (KEMSA) financial statements were approved by the Board and signed on its behalf by:

Mr. Andrew Onyach  
For: Board Chairman

Signature.....

Date.....

6/2/2017

Philip Omondi  
Ag. Chief Executive Officer

Signature.....

Date.....

6/2/2017

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: oag@oagkenya.go.ke  
Website: www.kemao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Medical Supplies Authority set out on pages 24 to 58, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the 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.

#### Management's Responsibility for the Financial Statements

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

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

#### Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

*Report of the Auditor-general on the Financial Statements of Kenya Medical Supplies Authority for the year ended 30 June 2016*

accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

#### **Basis for Qualified Opinion**

##### **1. Property, Plant and Equipment**

As previously reported, the property, plant and equipment balance of Kshs.3,199,737,846 as at 30 June, 2016 includes various parcels of land valued at Kshs.183,000,000 for which the Authority does not possess ownership documents. According to information available, the parcels of land are spread across the country and include depots situated in Mombasa, Eldoret, Kisumu, Nakuru, Kakamega, Nyeri and Garissa. Further, the property, plant and equipment balance of Kshs.3,199,737,846 excludes the unspecified value of a parcel of land in Meru Municipality measuring 0.3 Ha which also belongs to the Authority. No explanation has been provided for failure to obtain the title deeds for these parcels of land and to bring into account the parcel of land in Meru.

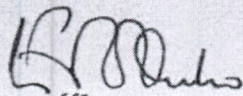
In the circumstances, it has not been possible to confirm the validity and accuracy of the property, plant and equipment balance of Kshs.3,199,737,846 as at 30 June, 2016.

##### **2. Receivables from Exchange Transactions**

The receivables from exchange transactions balance of Kshs.3,740,340,113 reflected in the statement of financial position as at 30 June, 2016 includes long outstanding receivables balance totalling to Kshs.1,708,524,634 whose recovery is doubtful. No explanation has been provided for the failure to recover these long outstanding debts. In the circumstance, the accuracy and validity of the exchange transactions balance of Kshs.3,740,340,113 reflected in the statement of financial position as at 30 June, 2016 cannot 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, in all material respects, the financial position of Kenya Medical Supplies Authority as at 30 June 2016, 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 Kenya Medical Supplies Authority Act, 2013.



FCPA Edward R. O'ouko, CBS  
AUDITOR-GENERAL

**Nairobi**

**01 March 2017**



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

STATEMENT OF FINANCIAL PERFORMANCE  
For the year ended 30 June 2016

	Note	2015/2016 Kshs	2014/2015 Kshs
Revenue from non-exchange transactions			
Grants from National Government	1	363,729,432	348,613,926
Public contributions and donations	2	13,599,195	12,092,532
		<b>377,328,627</b>	<b>360,706,458</b>
Revenue from exchange transactions			
Net Sales	3	688,066,936	874,077,857
Other Income		2,158,259,624	1,849,315,716
	4	2,846,326,561	2,723,393,573
Total Revenue		<b>3,223,655,187</b>	<b>3,084,100,031</b>
Expenses			
Staff Costs	5	621,789,439	485,391,824
Distribution Costs	6	735,166,455	685,279,159
Insurance costs	7	50,200,280	62,225,849
Rental expenses	8	133,751,123	84,282,669
Legal expenses	9	51,867,521	48,580,562
Utilities expenses	10	13,684,167	10,465,464
Staff travel expenses	11	63,257,759	32,376,684
Finance costs	12	5,585,704	607,628
Audit fees	13	1,832,800	1,044,000
BOD expenses	14	3,888,582	8,499,288
Depreciation & amortization	15	74,383,418	51,074,420
Other Operating Expenses	16	373,319,735	234,592,231
Total expenses		<b>2,128,726,984</b>	<b>1,704,419,777</b>
Other gains/(losses)			
Surplus before tax		<b>1,094,928,203</b>	<b>1,379,680,254</b>
Taxation			
Surplus for the period		<b>1,094,928,203</b>	<b>1,379,680,254</b>



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

**STATEMENT OF FINANCIAL POSITION**

As at 30th June 2016

	Note	2015/2016 Kshs	2014/2015 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	17	7,873,103,994	6,103,025,001
Receivables from exchange transactions	18	3,740,340,113	4,538,742,598
Receivables from non-exchange transactions	19 (a)	1,466,795	2,242,079
Provision For Insurance Compensation	19 (b)	-	760,000,000
Current portion of long-term receivables from exchange transactions	20	28,396,006	23,807,433.00
Inventories	21	13,767,436,443	11,154,654,426
		<b>25,410,743,351</b>	<b>22,582,471,536</b>
<b>Non-current assets</b>			
Property, plant and equipment	29(a)	3,199,737,846	1,043,521,200
Intangible assets	29 (b)	199,856	1,349,941
		3,199,937,702	1,044,871,141
<b>Total assets</b>		<b>28,610,681,054</b>	<b>23,627,342,676</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	22	918,569,249	336,752,969
Payments received in advance	23	45,630,015	204,587,070
Provisions	24	2,065,899,009	41,522,395
Project Fund	25	193,029,193	34,695,623
Staff Payables	26	-	49,879
Medical Commodity Fund	27	11,952,437,312	10,267,587,807
		<b>15,175,564,777</b>	<b>10,885,195,743</b>
<b>Non-current liabilities</b>			
Deferred income	28	100,379,037	70,952,920
		<b>100,379,037</b>	<b>70,952,920</b>
<b>Total liabilities</b>		<b>15,275,943,814</b>	<b>10,956,148,663</b>
<b>Net assets</b>			
KEMSA Capital	30	8,461,576,303	8,992,773,879
Accumulated Funds	31 (a)	256,950,298	256,950,298
Surplus/Deficit	31(b)	3,866,014,147	2,771,085,944
Revaluation reserve	31 (c)	750,196,492	650,383,892
<b>Total net assets and liabilities</b>		<b>28,610,681,054</b>	<b>23,627,342,675</b>

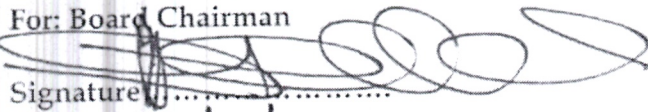


Reports and Financial Statements  
For the year ended June 30, 2016 (Kshs)

---

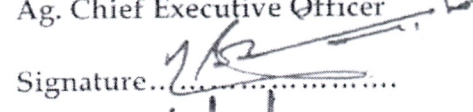
The financial statements were approved on behalf of the board by:

Mr. Andrew Onyach  
For: Board Chairman

Signature 

Date..... 6/2/2017

Philip Omondi  
Ag. Chief Executive Officer

Signature 

Date..... 6/2/2017

**STATEMENT OF CHANGES IN NET ASSETS**  
For the year ended 30 June 2016

	Attributable to the owners of the controlling entity				Total
	KEMSA Capital	Reserves, Accumulated Funds	Surplus/Deficit	Revaluation Reserve	
	Kshs	Kshs	Kshs	Kshs	Kshs
Balance as at 1st July 2014	8,776,375,242	256,950,298	1,391,405,689	650,383,892	11,075,115,121
Changes in Capital Account	216,398,637	-	-	-	216,398,637
Surplus for the period	-	-	1,379,680,254	-	1,379,680,254
Balance as at 30 June 2015	8,992,773,879	256,950,298	2,771,085,944	650,383,892	12,671,194,013
Changes in Capital Account**	(531,197,576)	-	-	-	(531,197,576)
Revaluation Surplus	-	-	-	99,812,600	99,812,600
Surplus for the period	-	-	1,094,928,203	-	1,094,928,203
Balance as at 30 June 2016	8,461,576,303	256,950,298	3,866,014,147	750,196,492	13,334,737,240

\*\*The Changes in Capital Account are as a result of financial transactions that increased/decreased KEMSA's Capitalization base established in the financial year 2013/2014 in line with the Authority's business model. This is in agreement with International Accounting Standard (IAS 15) section 135. Being a state Corporation established under the KEMSA Act of 2013, there are no externally imposed capital requirements.



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

<b>STATEMENT OF CASH FLOWS</b>			
<b>For the year ended 30 June 2016</b>			
	Note	2015/2016	2014/2015
		Kshs	Kshs
Net Surplus for the Year		1,094,928,203	1,379,680,254
<b>Adjustments for Non Cash Movements</b>			
Depreciation Charge		74,383,418	51,074,420
Deferred Income		(13,599,195)	(12,092,532)
Decrease/(Increase) in Current Assets		(1,058,192,822)	(4,555,144,513)
Increase/(Decrease) in Current Liabilities		4,290,369,035	4,060,518,890
Net cash flows from operating activities		4,387,888,639	924,036,520
<b>Cash flows used in investing activities</b>			
Purchase of property, plant, equipment and intangible assets	29	(2,129,437,380)	(42,232,525)
In Kind donations-Fixed Assets		42,825,310	-
Net cash flows used in investing activities		(2,086,612,071)	(42,232,525)
<b>Cash Flows from Financing activities</b>			
KEMSA Capital	30	(531,197,576)	216,398,637
Net cash flows used in financing activities		(531,197,576)	216,398,637
Net increase/(decrease) in cash and cash equivalents		1,770,078,993	1,098,202,631
Cash and cash equivalents at 1 July 2015		6,103,025,001	5,004,822,370
Cash and cash equivalents at 30 June 2016		7,873,103,994	6,103,025,001

STATEMENT OF BUDGET COMPARISON MATERIAL VARIANCES EXPLANATIONS  
For the year ended 30 June 2016

	Final Budget	Actual on Comparable Basis	Performance Difference	Variance Percentage	Variance Explanation
	2015-2016	2015-2016	2015-2016	2015-2016	
<b>INCOME</b>					
Public contributions and donations	-	13,599,195	13,599,195.14	100%	This was recognition of deffered income from Donations of capital Items from astrategic partners.
Net Sales	1,268,483,551	688,066,936	(580,416,614.97)	-46%	This was due to rise in cost of sales as a result of unfavourable exchange rates. KEMSA prices to Counties and facilities remained constant
Other Income	1,253,130,000	2,158,259,624	905,129,624.07	72%	The growth in other income was driven by increased services to the National Programs and strategic partners e.g USAID, UNICEF
<b>TOTAL INCOME</b>	<b>2,855,227,477</b>	<b>3,223,655,187</b>	<b>368,427,709.74</b>	<b>13%</b>	

**STATEMENT OF BUDGET COMPARISON MATERIAL VARIANCES EXPLANATIONS**  
For the year ended 30 June 2016

	Final Budget	Actual on Comparable Basis	Performance Difference	Variance Percentage	Variance Explanation
	2015-2016	2015-2016	2015-2016	2015-2016	
<b>EXPENDITURE</b>					
Legal expenses	100,575,300	51,867,521	48,707,778.68	48%	The Underexpenditure due to non completion of conveyancing plans for KEMSA assets across the country
Utilities expenses	25,701,600	13,684,167	12,017,432.74	47%	The Under expenditure due to savings as a result of continuous sensitization on Electricity conservation, use of borehole water at Commercial street Offices and less usage of Power Generators due to less outages on Power Supplied by Kenya Power.
Staff travel expenses	76,310,500	63,257,759	13,052,740.91	17%	The underexpenditure is due to austerity measures to reduce costs e.g restriction of air travel, and also delayed recruitment of programs and field staff
Finance costs	6,930,000	5,585,704	1,344,295.58	19%	The underexpenditure is due to non realization of LC charges anticipated under SSD for purchase of Specialised equipment on behalf of the public health facilities
Audit fees	1,794,000	1,832,800	(38,800.00)	-2%	The underexpenditure is due to non realization of anticipated audit fees
<b>BOD expenses</b>	<b>20,650,000</b>	<b>3,888,582</b>	<b>16,761,418.00</b>	<b>81%</b>	<b>The Underexpenditure due to expiry of the Board's term in October 2015. By 30th June 2016, a new board had not been appointed</b>



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

---

**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. 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 judgement in the process of applying the entity's accounting policies. The Authority adopted IPSAS in the year 2014 following the gazettelement of the Public Sector Accounting Standards Board (PSASB), which was established by the Public Financial Management Act (PFM) No. 18 of 24th July 2012. PSASB issued financial reporting standards and guidelines to be adopted by all state organs and public sector entities, which the Authority complies with.

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 PFM Act, the State Corporations Act, and 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.



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

---

**ii) 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.

*Sale of goods*

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

*Finance Income*

Finance income comprises interest receivable from holding current accounts.

**b) Budget Information**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

**c) In-Kind Contributions**

In-kind contributions are donations that are made to the KEMSA in the form of support programs, equipment, funds, plant and motor vehicles.

**d) Property, Plant And Equipment**

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

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

If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.

If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease is recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

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

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

Lease hold Land	No depreciation
Buildings 2.5%	2.5%
Motor vehicles 25%	25%
Fixtures and fittings 12.5%	12.5%
Furniture 12.5%	12.5%
Equipment 12.5%	12.5%
Plant and Machinery 10%	10%
Computers 33.3%	33.3%
Intangible Assets 33.3%	33.3%

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal. Depreciation and impairment of property, plant and equipment

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.



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

---

**e). Intangible Assets**

Intangible assets comprise purchased computer software licenses, and rebranding activities, which are capitalized on the basis of costs incurred to acquire and bring to use. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

**f). Inventories**

Inventories are stated at the cost. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the actual price method. After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

**g). Trade And Other Receivables**

Trade and other receivables are recognized at fair values.

**h). 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.

**i). 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.

---



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

---

**j). 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

**k). Comparative figures**

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

**l). Contingent liabilities**

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

**m). 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, 2016.



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

NOTES TO THE FINANCIAL STATEMENTS

1. Grants from National Government				
Name of the Entity Sending the Grant	Amount recognized to Statement of Comprehensive Income	Amount Deffered	Total Grant Income 2015/2016	Total Grant Income 2014/2015
Ministry of Health	363,729,432	-	363,729,432	348,613,926
<b>Total</b>	<b>363,729,432</b>	<b>-</b>	<b>363,729,432</b>	<b>348,613,926</b>

2. Public Contributions and Donations

	2015-2016 Kshs	2014-2015 Kshs
Income From Donations	13,599,195	12,092,532

3. Net Sales

	2015-2016 Kshs	2014-2015 Kshs
Sale Revenue -Pharmaceutical	3,398,474,070	2,966,536,283
Sale Revenue -Non-Pharmaceuticals	1,365,432,177	1,123,428,607
<b>TOTAL</b>	<b>4,763,906,247</b>	<b>4,089,964,891</b>
<b>Cost of Sales</b>		
Cost of Sales CGS (Pharms)	2,937,857,282	2,263,783,834
Cost of Sales -CGS (Non-Pharms)	1,137,982,029	952,103,200
<b>TOTAL</b>	<b>4,075,839,310</b>	<b>3,215,887,034</b>
 Net Sales	 688,066,936	 874,077,857



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

4. Other Income

	2015-2016 Kshs	2014-2015 Kshs
Supply Chain Fees: -USAID	410,850,103	462,896,433
-Global Fund	496,999,032	446,087,246
-UNICEF	11,534,580	1,011,364
-Ministry of Health	586,732,800	525,419,313
-Other Strategic Partners	6,154,347	13,926,863
Proceed From Disposal of Fixed Assets	3,048,900	-
Sale of Tender Documents	1,680,000	904,000
Bank Interest Received	532,106,654	370,836,974
Forex Realized Gain	93,595,377	14,152,424
Forex Unrealized Gain	-	2,162,973
Other Miscellaneous Income	15,557,831	11,918,125
	<u>2,158,259,624</u>	<u>1,849,315,716</u>

5. Staff Costs

	2015-2016 Kshs	2014-2015 Kshs
Basic Pay	378,821,343	298,140,810
Overtime	9,900,748	9,610,111
Arrears	7,231,681	112,471
House Allowance	114,668,620	94,679,360
Acting Allowance	733,859	725,050
Leave Allowance	3,923,553	4,514,319
Entertainment Allowance	1,914,000	1,704,000
NSSF (Kemsa Part)	1,341,800	1,104,600
Gratuity and Pensions	47,596,404	26,916,165
Committee Allowances	10,443,000	7,027,500
Transport Allowance	31,061,000	25,346,997
Other Taxable Benefits	456,000	627,301
Casual and Contract Employees	1,749,883	3,087,354
Ex-Gratia Payments	182,182	-
Shift Allowance	420,476	405,638
Staff Seconded to Kemsa	11,344,890	11,390,149
	<u>621,789,439</u>	<u>485,391,824</u>

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

**6. Distribution Costs**

	2015-2016	2014-2015
	Kshs	Kshs
Fuel and Oil for own Trucks	3,104,252	3,727,202
Maintenance of own Trucks	1,173,310	1,190,136
Insurance and Govt. Levies	-	6,910
Hire of Transport	630,380	306,860
Outsourced Distribution Costs fuel and Oils	708,371,676	660,469,869
Fuel and Oils	10,241,861	7,068,887
Vehicle Maintenance	7,748,138	7,412,541
Vehicle Insurance & Govt. Levies	1,273,477	907,903
Fork Lift Maintenance	2,623,360	4,043,852
Fork Lift Fuel and Oils	-	145,000
	735,166,455	685,279,159

**7. Insurance costs**

	2015-2016	2014-2015
	Kshs	Kshs
Medical Premiums	23,289,008	46,096,497
Insurance Expenses - premiums	26,818,772	15,991,508
Insurance Expenses - Policy Excess	92,500	137,844
	50,200,280	62,225,849

**8. Rental expenses**

	2015-2016	2014-2015
	Kshs	Kshs
Warehouse Rent	132,948,563	83,581,845
Hire of Space	802,560	700,824
	133,751,123	84,282,669

**9. Legal Expenses**

	2015-2016	2014-2015
	Kshs	Kshs
Legal Fees	51,867,521	48,580,562
	51,867,521	48,580,562



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

**10. Utilities Expenses**

	2015-2016	2014-2015
	Kshs	Kshs
Water and Conservancy Expenses	950,725	402,740
Electricity & Lighting Expenses	10,267,513	9,815,553
Generator Fuel & Maintenance	2,465,929	247,170
	<u>13,684,167</u>	<u>10,465,464</u>

**11. Staff travel expenses**

	2015-2016	2014-2015
	Kshs	Kshs
Staff Travel Allowance - Local	48,928,733	26,140,210
Staff Travel Allowance - International	5,547,333	1,717,114
Air Tickets	6,884,745	3,663,020
Hire of Taxi & Other Transport	1,874,173	832,591
Mileage Claims -Use Own Cars	22,775	23,748
	<u>63,257,759</u>	<u>32,376,684</u>

**12. Finance costs**

	2015-2016	2014-2015
	Kshs	Kshs
Bank Charges	5,585,704	607,628

**13. Audit fees**

	2015-2016	2014-2015
	Kshs	Kshs
Audit Fees & Others	1,832,800	1,044,000

**14. BOD expenses**

	2015-2016	2014-2015
	Kshs	Kshs
BOD Sitting & Lunch Allowances	1,904,000	4,836,030
BOD Travel & Accommodation Exp.	1,663,582	2,619,258
BOD Conferences	60,000	
BOD Honoraria & Other Allowances	261,000	1,044,000
	<u>3,888,582</u>	<u>8,499,288</u>



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

15. Depreciation & amortization

	2015-2016	2014-2015
	Kshs	Kshs
Buildings - Depreciation	10,412,655	10,461,257
Plant & Machinery - Depreciation	13,709,253	13,446,390
Office Equipment - Depreciation	5,263,423	5,768,289
Furniture & Fittings - Depreciation	4,098,744	1,480,722
Computer Equipment - Depreciation	16,853,824	5,797,538
Intangible Assets - Depreciation	1,350,084	2,552,018
Motor Vehicles - Depreciation	22,695,435	11,568,206
	<u>74,383,418</u>	<u>51,074,420</u>

16. Other Operating Expenses

	2015-2016	2014-2015
	Kshs	Kshs
Training Expenses	31,468,881	17,685,404
Conference Expenses	10,819,552	3,610,750
Change Management Expenses	424,000	3,024,222
Recruitment Agency Cost	-	1,265,881
Official Entertainment	8,038,803	8,982,328
Office Beverages	4,901,537	4,818,732
End Of -Year Staff Staff Party	6,216,320	6,186,371
Other Staff Parties	569,142	610,726
Staff Support Expenses	610,720	332,507
Purchase Of New Uniforms	477,740	389,199
Laundry and Cleaning	134,265	122,560
Telephone - Switchboard LLS	3,120,570	2,604,043
Telephone - Direct Land Lines	589,023	208,253
Cell Phones	5,931,010	4,473,357
Leased Lines	672,003	897,709
E-mail/Internet	3,054,467	886,000
Postage & Courier	87,050	318,420
Computer Maintenance Expenses	3,828,077	4,470,376
Computer Maintenance Agreement	2,712,824	4,078,118
Computer Software and Licenses	2,189,528	3,403,103
Computer Stationery Expenses	3,815,939	5,018,365
Hire of Services - Security Firms	10,998,600	8,698,734 <sup>†</sup>
Hire of Services From Police	3,846,342	3,625,500
Security Equipment	359,896	274,880
Cleaning Materials & Implement	2,332,059	6,973,672
Pest Control Expenses	400	399,968
Outsourced Clening Expenses	3,513,000	1,593,280



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

Sanitation Expenses	316,000	1,218,570
Plant Repairs & Maintenance	339,443	28,450
Repairs To Buildings and Roads	4,577,661	12,557,008
Purchase of Tools & Maintenance	1,720	54,000
Rates Paid To The Local Govt.	58,770	321,725
Reagents	1,808,600	1,436,040
Third Party Services	5,819,008	1,545,036
Maintenance Of QA Tools & Equipment	17,400	120,060
Palleting Costs	-	-
Packaging Material and Expenses	8,753,642	9,421,045
Protective Clothing & Gear	827,890	3,928,195
Cost -Disposing Damage Stock	5,682,000	4,394,079
Stationery Expenses	5,868,243	4,305,465
Office Expenses	3,902,096	2,406,800
General Admin expenses	2,095,476	2,233,209
Staff Subsscription Expenses	434,350	648,687
Statutory Subscriptions	351,750	318,100
Fire Fighting & Safety Equipment	301,982	140,000
Miscellaneous And Other Expenses	-	(1,000)
Bank Charges and Commission - Re	31,913	6,643
**Bank Charges And Commissin -Re	181,701,081	68,274,864
Penalties And Fines	6,149	-
Risk Assessment & Evaluation	2,722,426	1,700,912
Consultancy	5,208,284	2,446,527
Preparation of Annual Accounts	49,250	98,899
Public Relations Expenses	12,930,448	1,398,017
Donations	260,000	386,676
Advertising Expenses	1,240,826	3,467,041
Corporate & Other Calenders	3,510,139	3,897,000
Advertising Of Tenders	9,496,884	10,281,503
Publicity & Advertising Expenses	3,807,544	1,503,348
Newspaper Expenses	487,010.00	1,053,347
Jornals and Periodicals	-	49,530
	<u>373,319,735</u>	<u>234,592,231</u>

\*\* Bank Charges and Commission -Realized are a result of exchange movements from the time of issue of Local Purchase Orders (LPOs) and the time of invoice payment after delivery for Suppliers who tender in foreign Currency. The average Central bank of Kenya Mean US dolla Exchange rate for the Period 1<sup>st</sup> July 2014 to 30<sup>th</sup> July 2015 was Kshs 91.74 when many of the Tenders were awarded. The average rate 1<sup>st</sup> July 2015 and 30<sup>th</sup> June 2016 when the payments for the tenders were done was Kshs 101.76.



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

18. Cash and Cash Equivalents

	2015-2016	2014-2015
	Kshs	Kshs
NBK - OPERATIONS	120,613,492	68,586,299
WORLD BANK E.A LAB PROJECT	128,132,544	29,818,096
NBK DISTRIBUTION	10,177,017	971,352
KCB DRUGS	173,146	178,271
KCB DISTRIBUTION	20,983	25,887
CBA	11,880,325	11,388,371
CO-OP - MEDICAL GRANTS	1,330,848,104	552,416,725
CO-OP BANK GF OPERATIONS	219,323,893	211,184,160
CO-OP BANK GF OPERATIONS	214,939,023	132,204,301
CO-OP BANK GF ATM R4P1	26,475	39,393
CO-OP BANK GF ATM R5P1	1,872,138	1,841,181
CO-OP BANK GF ATM R6	152,912	162,750
CO-OP BANK GF ATM R4P2	16,935	30,628
CO-OP BANK GF ATM R5P2	56,056	69,339
CO-OP BANK GF ATM R7P1	6,683,678	6,527,920
CO-OP BANK GF ATM R4P1	-	-
CO-OP BANK GF ATM R4P2	5	5
CO-OP BANK GF ATM R5P1	6,205,414	6,179,470
CO-OP BANK GF ATM R5P2	-	-
CO-OP BANK GF ATM R6	1,008,528	1,004,680
CO-OP BANK GF ATM R7P1	4,166,328	4,161,892
WORLD BANK HSSP NON POOLED	64,896,649	4,877,527
WORLD BANK HSSP POOLED PROJECT	703,160,385	93,482,034
SSD CO-OP BANK	62,551,622	415,254,366
SSD EQUITY BANK	4,784,726,159	4,562,620,356
KEMSA EQUITY BANK OPERATIONS	4,428,611	-
KEMSA EQUITY BANK OPERATIONS	197,043,575	-
	<u>7,873,103,994</u>	<u>6,103,025,001</u>

17(b) Cash and Cash Equivalents

	2015-2016	2014-2015
	Kshs	Kshs
Bank	7,873,103,994	6,103,025,001
Cash on Hand and On Transit	-	-
Short Term Deposits	-	-
Total Cash And Cash Equivalent	<u>7,873,103,994</u>	<u>6,103,025,001</u>



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

<b>17 (C) Short Term Deposits</b>				
NAME OF BANK	TYPE AND TENOR DEPOSIT	CURRENCY	2015-2016	2014-2015
National Bank	Current Accounts	Kshs	258,923,052	99,375,746
Kenya Commercial Bank	Current Accounts	Kshs	194,129	204,158
Commercial Bank of Africa	Current Accounts	Kshs	11,880,325	11,388,371
Co-Operative Bank	Current Accounts	Kshs	2,615,908,144	1,429,436,370
Equity Bank	Current Accounts	Kshs	4,986,198,345	4,562,620,356
<b>TOTAL</b>			<b>7,873,103,995</b>	<b>6,103,025,001</b>

**18. Receivables from Exchange Transactions**

	2015-2016	2014-2015
	Kshs	Kshs
<b>Current Receivables</b>		
Trade Debtors -Receivable	3,716,318,926	4,529,772,479
Less - Impairment Allowance	-	-
<b>Total Current Receivables</b>	<b>3,716,318,926</b>	<b>4,529,772,479</b>
<b>NON-Current Receivables</b>		
Supplier Prepayments	24,021,187	8,970,118
Less- Impairment Allowance	-	-
<b>Total Non Current Receivables</b>	<b>-</b>	<b>-</b>
<b>Total Receivables</b>	<b>3,740,340,113</b>	<b>4,538,742,597</b>

**19. (a) Receivables from Non Exchange Transactions**

	2015-2016	2014-2015
	Kshs	Kshs
Travel Imprest Debtors	328,501	447,661
Staff Salary Advances Debtors	247,713	344,667
Standing Imprest Debtors	0	38,748
Staff Medical Advances	813,081	1,080,358
Staff Accountable Imprest †	77,500	8,865
Unallocated Payments	-	56,004
Rent Prepayments	-	265,775
	<b>1,466,795</b>	<b>2,242,079</b>



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

20. Long Term Receivables from Non Exchange Transactions

	2015-2016	2014-2015
	Kshs	Kshs
Rent Deposit	28,396,006	23,807,433

21. Inventories

	2015-2016	2014-2015
	Kshs	Kshs
Pharmaceutical Stocks	13,764,699,096	11,151,868,910
Stationery	1,880,118	1,851,409
Beverages & Others	857,229	934,107
<b>TOTAL</b>	<b>13,767,436,443</b>	<b>11,154,654,426</b>

22. Trade and other payables from exchange transactions

	2015-2016	2014-2015
	Kshs	Kshs
Trade Creditors - Medical	779,859,654	177,069,114
Trade Creditors - Operations	62,685,615	61,296,068
Trade Creditors - Distribution	59,829,403	83,166,087
Stale Cheques - Unclaimed Payments	1,899,792	974,701
Suppliers Funds Retained	14,294,785	14,246,999
<b>TOTAL</b>	<b>918,569,249</b>	<b>336,752,969</b>

23. Payments received in advance

	2015-2016	2014-2015
	Kshs	Kshs
Customer Prepayments	45,630,015	204,587,070



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

24. Provisions	2015-2016	2014-2015
	Kshs	Kshs
Balance Brought Forward	41,522,395	1,114,000.00
Additional Provisions	2,065,899,009	41,522,395.00
Provision Utilized	(41,522,395)	(1,114,000.00)
	<u>2,065,899,009</u>	<u>41,522,395</u>
25. Project Fund	2015-2016	2014-2015
	Kshs	Kshs
Project Fund	193,029,193	34,695,623
26. Staff Payables	2015-2016	2014-2015
	Kshs	Kshs
Employee Imprest Payable (Refunds)	-	37,979
Board Imprest Debtors	-	11,900
	<u>-</u>	<u>49,879</u>
27. Medical Commodity Fund	2015-2016	2014-2015
	Kshs	Kshs
Medical Commodity Fund	11,952,437,312	10,267,587,807
28. Deferred income	2015-2016	2014-2015
	Kshs	Kshs
Current Portion recognized from Donated Assets	100,379,037	70,952,920



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

---

30. Kemsas Capital

	2015-2016 Kshs	2014-2015 Kshs
Balance at the end of the Financial Year	8,461,576,303	8,992,773,879

**Reports and Financial Statements**

**For the year ended June 30, 2016 (Kshs)**

**29(a) Property, Plant and Equipment**

	LAND	BUILDINGS	OFFICE EQUIPMENT	PLANT & MACHINERY	FURNITURE	MOTOR VEHICLE	COMPUTER HARDWARE	WIP	TOTALS
<b>COST/VALUATION AS AT 1/7/2014</b>	554,538,002	376,601,888	64,371,999	134,734,005	20,652,137	107,775,218	55,061,340	17,067,726	1,330,802,316
<b>ADDITIONS</b>		29,945,877	2,195,180.00	3,993,611	2,108,164.02	521,642.00	2,868,480.00		41,632,554
<b>WIP Transfer</b>		9,958,430						(9,958,430.00)	
	554,538,001.98	416,506,195	66,567,179.48	138,727,615.59	22,760,301.45	108,296,860.20	57,929,820.18	7,109,296.00	1,372,435,270
<b>DEPRECIATION AS AT 1/7/2014</b>		33,485,990	37,837,970	55,881,359	15,308,935	88,557,221	49,320,173		280,391,667
<b>DEPREC. CHARGE FOR THE YEAR</b>		10,461,257	5,768,289	13,446,390	1,480,722	11,368,206	5,797,538		48,522,402
<b>ACCUMULATED DEPRECIATION</b>		43,947,247	43,606,259	69,327,749	16,789,676	100,125,427	55,117,711		329,914,070
<b>NBV AS AT 30/06/15</b>	554,538,002	372,558,948	22,960,920	69,399,867	5,970,625	8,171,433	2,812,109	7,109,296	1,043,521,200

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

COST VALUATION AS AT 1/7/2015	554,538,002	416,506,195	66,567,179	138,727,616	22,760,301	108,296,860	57,929,820	7,109,296	1,372,435,270
COST RESTATMENT AT FAIR VALUES	554,538,002	416,506,195	29,737,009	103,230,499	28,039,113	108,296,860	39,949,500	-	1,280,297,178
ADDITIONS	-	-	12,370,372	33,862,036	4,750,840	60,583,698	10,617,029	2,007,253,405	2,129,437,380
COST OF DISPOSED MOTOR VEHICLE	-	-	(3,104,856)	-	-	(7,994,270)	-	-	3,405,744,728
COST AS AT 30/06/2016	554,538,002	416,506,195	39,002,525	137,092,535	32,789,953	160,886,288	50,566,529	2,014,362,701	3,405,744,728
DEPRECIATION AS AT 1/7/2015	-	43,947,247	43,606,259	69,327,749	16,789,676	100,125,427	55,117,711	-	328,914,070
ACCUMULATED DEPRECIATION REVERSAL ON REVALUATION	-	-	(43,606,259)	(69,327,749)	(16,789,676)	-	(55,117,711)	-	(184,841,396)
DEPRECIATION CHARGE FOR THE 12 MONTHS	-	10,412,655	-	13,709,253	4,098,744	22,695,435	16,853,824	-	73,033,334
ACCUMULATED DEPRON DISPOSED M.VEHICLE	-	-	(3,104,856)	-	-	(7,994,270)	-	-	-
ACCUMULATED DEPRECIATION	-	54,359,902	-	2,158,567	4,098,744	114,826,592	16,853,824	-	206,006,882
NBV AS AT 30/06/16	554,538,002	362,146,293	36,843,958	123,383,282	28,691,209	46,059,696	33,712,705	2,014,362,701	3,199,737,846



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

**29 (b) Intangible Assets**

	COMPUTER SOFTWARE	INTANGIBLE	TOTALS
COST/VALUATION AS AT 1/7/2014	130,204,894	11,781,039	141,985,933
ADDITIONS		599,571.00	599,571
WIP Transfer			
	130,204,894.20	12,380,610.00	142,585,504
DEPRECIATION AS AT 1/7/2014	130,204,894	8,278,652	138,483,546
DEPREC. CHARGE FOR THE YEAR		2,552,018	2,552,018
ACCUMULATED DEPRECIATION	130,204,894	10,830,670	141,035,564
NBV AS AT 30/06/15		1,549,940	1,549,940



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

COST/VALUATION AS AT 1/7/2015	-	1,549,940	1,349,940
COST RESTATEMENT AT FAIR VALUES			
ADDITIONS	-	-	
COST OF DISPOSED MOTOR VEHICLE			
COST AS AT 30/06/2016	130,204,894	12,380,610	142,585,504
DEPRECIATION AS AT 1/7/2015	130,204,894	10,830,670	141,035,564
ACCUMULATED DEPRECIATION REVERSAL ON REVALUATION			
DEPRECIATION CHARGE FOR THE 12 MONTHS	-	1,350,084	1,350,084
ACCUMULATED DEPR. ON DISPOSED M.VEHICLE			
ACCUMULATED DEPRECIATION	130,204,894	12,180,754	142,385,648
NBV AS AT 30/06/16	-	199,856	199,856



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

---

## **31. Reserves**

### **a) Accumulated Funds**

These are the realized surpluses over the years when the Authority was fully dependent on the National Government for its operations. The Accumulated funds were specifically meant for cushioning the organisation against any shortfall in Grants in the subsequent years.

### **b) Revaluation Reserves**

These arose from past revaluation of different classes of property, plant and equipment. The purpose of the reserve is to cushion the authority against any decrease in the carrying amounts of the assets arising from future revaluations.

### **c) Surplus/Deficit**

These are accumulated surpluses from income and expenditures since the financial year 2010/2011. The reserves are meant to finance future capital expenditures e.g. Construction of Modern warehouses in Nairobi and the Regional Depots.

## **32. Other Disclosures**

### **32(a) Financial Risk Management**

The Authority's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Authority's business and the operational risks are an inevitable consequence of being in business. The Authority's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance.

The Authority has exposure to the following risks from its use of financial instruments.

- i) Market risk – includes currency and interest rate risk.
- ii) Credit risk
- iii) Liquidity risk

The Authority's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimize potential adverse effects of such risks on its financial performance within the options available by setting acceptable levels of risks.

**i) Market Risk**

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Market risk - includes currency, interest rate and other price risk

**a) Foreign Currency risk**

The Authority's policy is to record transactions in foreign currencies at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange in effect at the reporting date. All gains or losses on changes in currency exchange rates are accounted for in profit or loss. Consequently, the Authority's exposure to exchange risk is minimal. In light of this, the directors are of the opinion that any sensitivity analysis with respect to the foreign exchange exposure would be unrepresentative.

**b) Interest rate risk**

Interest rate risk is the risk that the future profitability and/or cash flows of financial instruments will fluctuate because of changes in the market interest rates.

Interest from short term deposits is one of the significant sources of revenue for the authority. The Authority's exposure to the risk of changes in market interest rates relates primarily to probability of reduction in in finance income if interest rates were to go down significantly. The average interest rate in the financial year 2015/2016 was 9%. A 5% increase/ decrease in interest rates would have increased/decreased the Authority's income by Kshs 291,525,915.35

**ii) Liquidity Risk**

Liquidity risk is the risk that the authority will not be able to meet its financial obligations as they fall due. The authority' approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

Typically the authority ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political violence. The authority monitors its risk to shortage of funds using a monthly cash flow planning and projection tool and a daily cash monitor.



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

The following are the contractual maturities of financial liabilities at the reporting date.

As at 30<sup>th</sup> June 2016:

	0-30 Days	31-60 Days	61-90Days	Over 91 Days	TOTAL
Trade Payables	519,555,227	-	295,550,469	76,605,154	891,710,850
Stale Cheque	-	-	-	1,503,698	1,503,698
Retentions	14,294,785	-	-	-	14,294,785
Customer Prepayments	45,630,015	-	-	-	45,630,015
Provisions	2,235,899,009	-	-	-	2,235,899,009
<b>TOTAL</b>	<b>2,915,379,035</b>	<b>-</b>	<b>295,550,469</b>	<b>78,108,851</b>	<b>3,289,038,356</b>

As at 30<sup>th</sup> June 2015:

	0-30 Days	31-60 Days	61-90Days	Over 91 Days	TOTAL
Trade Payables	183,495,653	26,882,042	37,686,735	88,688,540	336,752,969
Customer Prepayments	204,587,070	-	-	-	204,587,070
Provisions	41,522,395	-	-	-	41,522,395
Staff Payables	49,879	-	-	-	49,879
<b>TOTAL</b>	<b>429,654,997</b>	<b>26,882,042</b>	<b>37,686,735</b>	<b>88,688,540</b>	<b>582,912,313.00</b>

**iii) Credit Risk**

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

The largest concentration of credit exposure within the Authority arises principally from the Authority's receivables from exchange transactions. The Authority has an established credit policy which stipulates the standard payment terms and conditions. However, in specific cases especially when transacting with Development partners, the Memorandum of Understandings (MOUs) signed



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

by both parties are used to define applicable credit terms. The credit risk is low since the customers are primarily public institutions, development partners and faith based organizations. The Management has the responsibility of managing the Authority's credit risk.

The carrying amount of financial assets represents the maximum exposure to credit risk.

	2016	2015
Trade Receivables	3,717,521,954.31	4,529,772,479
Cash and Bank Balances	7,865,744,297.21	6,103,025,001
<b>Total</b>	<b>11,583,266,251.52</b>	<b>10,632,797,480</b>

The ageing of accounts receivables that explain the Authority's exposure to credit risk as at 30 June 2016 was made up as follows:

	2016	2015
	Kshs	Kshs
-by up to 30 days	1,329,966,809.35	755,931,364.16
-by 31-60 days	322,313,229.70	600,478,386.62
-by 61-90 days	356,717,280.71	273,641,315.46
-Over 91 days	1,708,524,634.55	2,899,721,412.76
<b>TOTAL</b>	<b>3,717,521,954.31</b>	<b>4,529,772,479.00</b>

### 33. Related Party Transactions

The Authority is 100% owned by the Government of Kenya. The Authority's main related parties are the Government of Kenya - Ministry of Health and the County Governments. KEMSA's core business is procurement, warehousing and distribution of medical supplies to public health facilities.

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party in making financial or operational decisions. During the year the following transactions were carried out with related parties.



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

	2016	2014
	KShs	KShs
Grants From the National Government	363,729,432	348,613,926
Sale of Medical Commodities To Public Health facilities	4,763,857,847	4,089,964,891
Board Expenses	3,888,582	8,499,288
Key Management Compensation	33,063,445	31,260,966
<b>TOTAL</b>	<b>5,164,539,306</b>	<b>4,478,339,071</b>

### 34. Operating Lease Commitments

The Authority's prepaid operating lease rentals paid are recognised as assets and are subsequently amortized over the lease period. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

The Authority has entered into operating lease agreements for leasing of warehouses in three locations (Nairobi-Embakasi, Nairobi-Mombasa Road, and Garissa) for warehousing of medical commodities. The leases are issued under non-cancellable terms for a period of five years with rental escalation after every two years.

The operating lease payments recognized in the year amounted to Kshs 133,751,123.28  
As at 30<sup>th</sup> June 2016 the future Minimum lease payments are were as detailed below.

	2016	2015
Not later than 1 year	100,316,914.59	119,766,082.27
Later than 1 year and not later than 5 Years	-	125,380,199.74
Later than 5 years	-	-
<b>TOTAL</b>	<b>100,316,914.59</b>	<b>245,146,282.02</b>

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

### 35. Explanations for Material variances between the Budget and Actual Amounts

The Authority considers material variances as those that are above 15% from the Final budget for both revenue and expenditure. Overall, the Authority's expenditures were within the approved budgets. Any budget reallocations were approved by the Board of Management. Below are the explanations for material variances in the budget.

	Final Budget	Actual on Comparable Basis	Performance Difference	Variance Percentage	Variance Explanation
	2015-2016	2015-2016	2015-2016	2015-2016	
<b>INCOME</b>					
Public contributions and donations	-	13,599,195	13,599,195.14	100%	This was recognition of deferred income from Donations of capital Items from astrategic partners.
Net Sales	1,268,483,551	688,066,936	(580,416,614.97)	-46%	This was due to rise in cost of sales as a result of unfavourable exchange rates. KEMSA prices to Counties and facilities remained constant
Other Income	1,253,130,000	2,158,259,624	905,129,624.07	72%	The growth in other income was driven by increased services to the National Programs and strategic partners e.g. USAID, UNICEF

**STATEMENT OF BUDGET COMPARISON MATERIAL VARIANCES EXPLANATIONS**  
For the year ended 30 June 2016

	Final Budget 2015-2016	Actual on Comparable Basis 2015-2016	Performance Difference 2015-2016	Variance Percentage 2015-2016	Variance Explanation
<b>EXPENDITURE</b>					
Legal expenses	100,575,300	51,867,521	48,707,778.68	48%	The Underexpenditure due to non completion of conveyancing plans for KEMSA assets across the country
Utilities expenses	25,701,600	13,684,167	12,017,432.74	47%	The Under expenditure due to savings as a result of continuous sensitization on Electricity conservation, use of borehole water at Commercial street Offices and less usage of Power Generators due to less outages on Power Supplied by Kenya Power.
Staff travel expenses	76,310,500	63,257,759	13,052,740.91	17%	The underexpenditure is due to austerity measures to reduce costs e.g restriction of air travel, and also delayed recruitment of programs and field staff
Finance costs	6,930,000	5,585,704	1,344,295.58	19%	The underexpenditure is due to non realization of LC charges anticipated under SSD for purchase of Specialised equipment on behalf of the public health facilities
Audit fees	1,794,000	1,832,800	(38,800.00)	-2%	The underexpenditure is due to non realization of anticipated audit fees
<b>BOD expenses</b>	<b>20,650,000</b>	<b>3,888,582</b>	<b>16,761,418.00</b>	<b>81%</b>	The Underexpenditure due to expiry of the Board's term in October 2015. By 30th June 2016, a new board had not been appointed



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

---

**36. Contingent Assets and Liabilities**

There was no contingent Assets/Liabilities at the end of financial year.

**37. Events after the Reporting Period**

No material subsequent events have taken place post financial reporting date.