

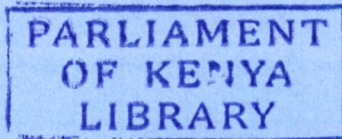
REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA MEDICAL RESEARCH INSTITUTE
(KEMRI)**

**FOR THE YEAR ENDED
30 JUNE 2017**



KENYA MEDICAL RESEARCH INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

KENYA MEDICAL RESEARCH INSTITUTE

Reports and Financial Statements

For the year ended June 30, 2017

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II. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

Kenya Medical Research Institute (KEMRI) is a State Corporation established through the Science and Technology (Amendment) Act of 1979, which has since been amended to Science, Technology and Innovation Act 2013. The 1979 Act established KEMRI as a National body responsible for carrying out health research in Kenya.

b) Principal Activities

Vision

To be a leading centre of excellence in research for human health.

Mission

To improve human health and quality of life through research, capacity building, innovation and service delivery

Institute's Motto:

The motto of the Institute is "In Search of Better Health" towards the realization of the mission.

Core Values

- Purity
- Innovativeness
- Customer Focus
- Team Work
- Uprightness and integrity
- Respect and Fairness
- Excellence

Mandates

- To carry out research in human health.
- To cooperate with other research organizations and institutions of higher learning on matters of relevant research and training.
- To liaise with other relevant bodies within and outside Kenya carrying out research and related activities.
- To disseminate and translate research findings for evidence-based policy formulation and implementation.
- To cooperate with the Ministry of Health, the National Commission for Science, Technology & Innovation (NACOSTI) and the Medical Sciences Advisory Research Committee on matters pertaining to research policies and priorities. To do all things as appear to be necessary, desirable or expedient to carry out its functions.

c) Key Management

The *entity's* day-to-day management is under the following key organs:

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

Designation

Director/CEO

Deputy Director Administration & Finance

Deputy Director Research & Development

Corporate Secretary

Assistant Director Finance

Assistant Director Administration

Assistant Director Commercial Enterprise

Assistant Director Partnerships and

Collaborations

Assistant Director RD & Knowledge

Management

Head of Procurement

Head of Human Resource

Head Corporate Affairs

d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

S/No.	Designation	Name
1	Ag. Director, Kenya Medical Research Institute	Dr. Yeri Kombe
2	Ag. Deputy Director (Research & Development)	Dr. Evans Amukoye
3	Deputy Director (Administration & Finance)	Mr. Kamau Mugenda
4	Assistant Director (Scientific Programmes & Partnerships)	Dr. Lubano Kizito
5	Assistant Director Finance	Mr. Anthony Wachira
6	Ag. Assistant Director Human Resource	Mr. Mungai Gachuhi
8	Corporation Secretary	Mrs. Eunice Kitche-Oduor
9	Director, Centre for Biotechnology Research & Development	Dr. Kimani Gachuhi
10	Director, Centre for Microbiology Research	Prof. Samuel Kariuki
11	Director, Centre for Traditional Medicine and Drug Research	Dr. Peter Mwitari
12	Director Centre for Global Health Research - Kisumu	Dr. Stephen Munga
13	Director, Centre for Infectious & Parasitic Diseases Control Research	Prof. Matilu Mwau
14	Director, Centre for Geographical Medicine Research - Coast	Dr. Benjamin Tsofa
15	Director Eastern & Southern Africa Centre for International Parasite Control	Prof. Sammy Njenga
16	Ag. Director Centre for Clinical Research	Dr. Veronicah Manduku
17	Ag. Director Centre for Viral Research	Prof. Rosemary Sang
18	Ag. Director, Centre for Public Health	Ms. Zipporah Bukania
19	Ag. Director Centre for Respiratory Diseases Research	Dr. Videlis Nduba

e) Fiduciary Oversight Arrangements

- *Audit/ Finance and General Purpose Committees*
- *Investment and Development Committee/ Scientific Programmes Committee*

f) Entity Headquarters

P.O. Box 54840-00200
Mbagathi Road
Nairobi,
KENYA

g) Entity Contacts

Telephone: (254) 0202722541
E-mail: director@kemri.org
Website: www.kemri.org

h) Entity Bankers

- i. Kenya Commercial Bank
Kipande House Branch
Nairobi
- ii. Cooperative Bank Limited
China Centre Ngong Road Branch
Nairobi
- iii. Family Bank
Kilimani Branch
Nairobi







i) Independent Auditors




Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

j) Principal Legal Adviser







The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya




III. THE BOARD OF DIRECTORS

1.		<p>Dr. Naphtali N. Agata Chairperson</p>
2.		<p>Dr. Yeri Kombe Ag. Director/CEO</p>
3.		<p>Amb. Dr. Wenwa A. Odinga Member (aged 66)</p> <p>Key qualifications: PHD in Organic Chemistry</p> <p>Work experience: Ambassador/Consul General of the Kenya Consulate, Los Angeles, United States of America</p>
4.		<p>Dr. Joseph Mutai Member (aged 63)</p> <p>Key qualifications: PHD</p> <p>Work experience: Lecturer Egerton University</p>
5.		<p>Dr. Noor Mohamed Ali Member (aged 59)</p> <p>Key qualifications: Master of Science in Dental Public Health</p> <p>Work experience: Managing Director, Nairobi Dental Polyclinics</p>
6.		<p>Dr. Naomi Mutea Member (aged 60)</p> <p>Key qualifications: Post-doctoral Training in translational research/ Doctor of Nursing Practice</p> <p>Work experience:</p>
		<p>Dr. Michael Mbito Member (aged 51)</p> <p>Key qualifications: Bachelor of Veterinary Medicine</p> <p>Work experience: Managing Partner, BM Logistics Ltd.</p>

7.		<p>Mr. Lazarus K. Tanui Member (aged 61) Key qualifications: Master of Science Chemistry (Combustion & Energy) Work experience: Lecturer, University of Eldoret</p>
8.		<p>Dr. Moses S. Aloba Member (aged 42) Key qualifications: Masters in Public Health in Advanced Epidemiology and Statistics Work experience: Clinical lead for the Africa NCD (Non Communicable Disease) Open lab, GlaxoSmithKline</p>
9.		<p>Mrs. Eunice Kitche-Oduor Corporation Secretary, Legal Key qualifications: MBA Strategic Mgmt., Bachelor of Law (LL.B), CPS (K) Advocate Commissioner for Oaths & Notary Public, Leadership & Management for Africa, Tokyo, Japan</p>

IV. MANAGEMENT TEAM

1. 	<p>Dr. Yeri Kombe Ag. Director/CEO</p>
2. 	<p>Mr. Kamau Mugenda Deputy Director Administration and Finance</p>
3. 	<p>Dr. Evans Amukoye Ag. Deputy Director, Research and Development</p>
4. 	<p>Mungai Gachuhi Ag. Assistant Director, Human Resource</p>
5. 	<p>Mr. Anthony Wachira Assistant Director, Finance</p>
6. 	<p>Mr. John Musau Assistant Director Administration</p>

7.			<p>Dr. Kizito Lubano Ag. Assistant Director Scientific Programmes (Partnerships and Collaborations)</p>
8.			<p>Mrs. Eunice Kitche-Oduor Corporation Secretary, Legal</p>
9.			<p>Mr. Kalu Kitaba Head Procurement</p>

V. CHAIRMAN'S STATEMENT

The Kenya Medical Research Institute (KEMRI) Board of Management, humbly submits the Annual Report and Financial Statement for the year ended 30th June, 2017 in accordance with the provisions of Section 20 of the Science and Technology (Amendment) Act of 1979 (Cap 250 of the Laws of Kenya).

This report gives an account of the achievements of the Institute within the financial year in review in KEMRI's core area of research, capacity building, innovation and service delivery.

It was during this period that KEMRI Board of Management took the bold step to initiate management changes which included the appointment of Acting Director KEMRI, the Deputy Director in charge of Administration and Finance and the Head of Procurement as a way of revamping and strengthening the functions and operations within the top most echelons of decision making within the Institute.

I wish to draw your attention to some of the major milestones that we achieved on the technical front during the year under review. The Institute held the 7th KEMRI Annual Scientific Conference (KASH) where cutting edge scientific abstracts were discussed and disseminated to stakeholders who included key policy makers. In addition, our facilities which received various professional international quality standards and accreditation, continued playing important role in disease management, control, surveillance and eradication efforts that were roundly applauded and recognized. The monumental improvement and up-grade of our facilities under the on-going Defence Threat Reduction Agency (DTRA) programme through which the construction of a Sample Management and Receiving Facility (SMRF) building, a two-storey office connector building and a two-story multi-purpose conference rooms is equally significant. This programme also involves the purchase, installation, and commissioning of two new biomedical waste incinerators, three new insectaries and the renovation of laboratories and office spaces in line with biosafety, biosecurity and the provision of Pathogen Asset Control System (PACS) among other.

However, despite these achievements, we still have challenges which as the Board of Management are striving to address more specifically in strengthening administrative systems in the following critical areas: Human Resource Management, Finance and Procurement Departments.

As a Board, we remain grateful to the Government of Kenya for its continued profound assistance and support to the Institute. The Board is indebted to various partner institutions and governments that continue to support the Institute in various ways.

The Board is also grateful to the Acting Director and CEO, KEMRI and all staff for their invaluable effort and commitment in serving KEMRI *In Search of Better Health*.

VI. REPORT OF THE CHIEF EXECUTIVE OFFICER

Although this Annual Report chronicles research activities and Financial Statement for the year ended 30th June, 2017, it is instructive to note that some of the comments and events are drawn up from the beginning of the year 2016.

Having identified and aggressively dealt with some of the challenges experienced in the previous year, the Institute has continued to register reasonable progress towards fulfilling her national mandate to undertake human health research and to provide solutions to health challenges affecting not just Kenyans, but also humanity in general. As we look back into the period under review, I would like to highlight some of the major achievements and challenges the Institute experienced.

On Institute leadership, major changes were witnessed in the KEMRI Board of Management and within the top management team with Dr. Naphtali Nyabero Agata joining the KEMRI Board of Management as its Chairman and I as an Acting Director and Chief Executive Officer of KEMRI. I thank the Cabinet Secretary of Health for the having confidence in me and for according me the opportunity to serve as CEO during the April, 2017 appointment. The Board also appointed Mr. Kamau Mugenda, the new Deputy Director in charge of Administration and Finance and Mr. Kalu Kitaba as the new Head of Procurement Department to respectively revamp the Institute's administrative and procurement arms of the Institute.

On the technical front, the Institute successfully, hosted the 7th KEMRI Annual Scientific and Health (KASH) Conference, held in February, 2017, with over 300 delegates, seven plenaries sessions, and seven symposia and with over 90 cutting edge scientific abstracts being presented. KASH conference continues to be an important forum for dissemination of research findings, and therefore, the Institute will continue to support it and encourage participation from within and without our research staff and academia. The theme of the 2017 KASH gathering was "*Investing in Health through Strengthening County Health Systems towards Prevention and Control of Diseases*".

In addition, the KEMRI Polio Laboratory received two prestigious international recognitions for its continued professional proficiency and adherence to quality tests and results. A Netherlands-based Specialized Reference Laboratory for Polio (RIVM) under the Polio Global Eradication Initiative gave the KEMRI Polio laboratory score of 100 percent in the WHO Global Polio Laboratory Network (GPLN), Virus Isolation Proficiency Testing 2016-1 carried out towards the end of 2016. Similarly, KEMRI participated in the first-ever historical Tuberculosis (TB) survey in post-independence Kenya which covered nearly 60 percent of the country. We were also very blessed when three KEMRI researchers were among 22 early career scientists from the African continent who were recognised by the African Academy of Sciences (AAS).

The KEMRI – Defence Threat Reduction Agency (DTRA)/ Cooperative Biological Engagement Program (CBEP) Collaborative Project was informed by an agreement signed during the visit to Kenya by the former United States of America (USA) President, Barack Obama, between his government and the Government of Kenya (GOK) concerning Cooperation in Threat Reduction Biological Engagement Programs. This collaborative engagement will see the construction of a Sample Management and Receiving Facility (SMRF) building, the construction of a two-storey office connector building and the construction of two, two-story multi-purpose conference rooms. It also involves the purchase, installation, and commissioning of two new biomedical waste incinerators; installation of three new insectaries;

renovations of selected laboratory and office spaces; training and capacity building of KEMRI personnel in line with biosafety, biosecurity and the provision of Pathogen Asset Control System (PACS) and capacity building to operate and utilize the system for sample management.

The Institute hosted the first ever meeting of the Commissioners of the East African Health Research Commission (EAHRC) held from 21st to 22nd March 2016.

It was also during this period that the Institute took a bold step to align its research priorities and activities to respond to the health needs of counties by incorporating the devolution strategy as it relates to human health research in its Strategic Plan for 2013- 2017, and appointed seven cluster coordinators to work with counties in a bid to strengthen existing partnerships with the devolved units for the service of all Kenyans. As a result, new research Centres and facilities were envisioned to take advantage of the newly found relationships with county governments beginning with Kirinyaga where it has been proposed those modern state-of-the art facilities, a research graduate school and a manufacturing plant be constructed with the 100 acres piece of land donated to the Institute. Similar projects are now at the advanced stage with other counties throughout the country. Through this new approach, the Institute devotes to continue the improvement of health and quality of life through innovative health research, and support counties in identifying and implementing research on their priority health problems.

The top KEMRI management intimated that several research projects likely to have positive impact on human health are currently being implemented by KEMRI throughout the country. The Institute is therefore, keen to expand such collaborations with counties, and even forge new ones.

The Institute also made a major breakthrough when they released a report on the status of Iron, Zinc, Vitamins A and D nutritional knowledge & Dietary practices among pregnant women in Nairobi confirming fears that more needs to be done to prevent and treat not just the deficiencies, but also the dietary needs of households.

Similarly, the Board continues to work towards providing a conducive work environment, as well as improve terms and conditions of service, and related matters for the general welfare of staff. For the first time in almost a decade, the KEMRI management sanctioned the promotion of a total of 209 lower cadre officers and 41 for senior management cadre. This has greatly boosted the morale of staff and productivity in the institute.

Indeed, one may argue that it is this new found morale that was at play for the Institute to register a sterling performance yet at an International exhibition at the Mombasa International ASK show. KEMRI was awarded four trophies the Best Health Sector Stand, the Best Manufacturers Stand, the Second Best Stand in Research and the third Best Overall Stand.

We as the Institute, commit to re-dedicating our efforts towards faithfully serving the Institute so that we may not only attain our performance targets, but also, that we may make a positive difference in the lives of millions of Kenyans, who are looking up to KEMRI to provide solutions to their health challenges.

The Kenya Medical Research Institute (KEMRI) Board of Management, humbly submits the Annual Report and Financial Statement for the year ended 30th June, 2017 in accordance with the provisions of Section 20 of the Science and Technology (Amendment) Act of 1979 (Cap 250 of the Laws of Kenya).

This report gives an account of the achievements of the Institute within the financial year in review in KEMRI's core area of research, capacity building, innovation and service delivery.

VII. CORPORATE GOVERNANCE STATEMENT

This KEMRI Management Charter (the "Charter") which was approved by the Board on 3rd September, 2016, defines the Board's roles and responsibilities as well as functions and structures to support the Board members in carrying out their strategic oversight function.

The Charter guides the Board in directing the Institute to maximize the long term value of services provided for all stakeholders. The Charter covers the following areas:-

- Statement on good governance and guiding principles
- Role of the Board of management
- The size of the Board
- Board Composition
- Appointment of Board Members
- Independence of KEMRI Board Members
- Term Limits
- Mode of resignation from the KEMRI Board
- The role Chairperson of the KEMRI Board
- The role of the Director of KEMRI
- What the Board should provide the Director with.
- The office of Corporation Secretary.
- The principle duties of the Corporation Secretary.
- Relationship between the KEMRI Board and Management
- Committees of the Board: -
 - Audit Committee
 - Finance and General Purpose Committee
 - Infrastructure and Development Committee
 - Scientific Programs Committee
- Board Responsibilities.
- Responsibilities of Individual Board Members.
- Principles of Public Service.
- Conduct of meetings, protocol and procedure at meetings
- Notice and Agenda for meetings
- Implementation of Resolutions
- Liability of KEMRI Board Members
- Conflict of Interest.
- Board Members access to Employees.
- Board Induction and Continuous Skills Development.
- Board Remuneration.
- Board Performance.
- The KEMRI Board and Management Succession.

- Board Induction and Continuous Skills Development.
- Board Remuneration.
- Board Performance.
- The KEMRI Board and Management Succession.
- Governance Audit.

KEMRI Board has adopted high standards and applies strict rules of conduct based on the best corporate practices. As part of this commitment, the KEMRI Board adheres to good corporate governance by embracing the following principles:

1. High standards of ethical and moral behaviour;
2. Action in the best interests of the Institute;
3. Favourable terms and conditions of service;
4. Recognition of the legitimate interests of all stakeholders; and
5. Good corporate citizenship.

The Board endeavours to disclose confidential information, avoid real and perceived conflicts of interest, and concentrates on the interests of the Institute over other interests. To achieve this, a Conflict of Interest register is maintained by the Corporation Secretary and disclosure of interest is a standing agenda item in every Board or Committee meeting.

During the reporting period a total of nineteen Board meetings were held with at least one meeting per quarter.

The Board members were not trained due to budgetary constraints during its meeting of 6th December, 2016, consequently, the Board approved a work plan that made provisions for capacity building and training in the subsequent financial year. All Board members of the Board have been inducted on the *Mwongozo* guidelines including the Board chairman who was appointed during the reporting period.

The Board conducted an induction for the new Chairman from 22nd March, 2017 to 24th March, 2017 this was preceded by a handing over meeting between the incoming and outgoing Chairman on 14th November, 2016.

The Board's performance was evaluated by the State Corporations Advisory Committee on 2nd September, 2016.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

A team of health workers drawn from the Kenya Medical Research Institute (KEMRI), teamed up with other bodies such as the Kenya Diabetes Management and Information Centre (DMI); Safaricom; Karen Hospital; Mater Hospital among others to participate in and execute charity medical camps and runs during the period under review.

The events generally had the following objectives:-

1. To give back to the community by assisting the disadvantaged. As a research Institute that continues to benefit from the tax payers' money, we are obligated to support community initiatives.
2. To create awareness about the Institute and build its public profile with a human face.
3. To support the on-going national advocacy initiatives through provision of a better health and sanitation campaigns.
4. To identify with the public and foster goodwill towards the Institute. Since KEMRI relies on the community for its research, it is therefore critical that those communities and the public in general have a positive picture of the Institute.

A brief summary of the events and pictorial evidence include the following:

1. BUSIA County Medical Camp

KEMRI was invited by the Member of Parliament for Teso South, Hon. Mary Emaase Otuch to partner with other like-minded organizations and charities such as the National Social Security Fund (NSSF), Ahadi Kenya, the Beyond Zero Campaign and the Busia County Government in organizing a community medical camp in Teso South sub-county on 30th September 2016 and 1st October 2016.

The medical camp targeted eight primary schools spread across the six wards of the 294 kms constituency with an estimated population of 137,924 people. The eight schools included; Achunet, Opokot, Kodedema, katelenyang, Alomodoi, Akoret, Amoni and Alupe. The Institute was represented by 12 officers led by the Chairperson of the KEMRI Board of Management. A total of 20 media personalities attended the two-day exercise. The journalists were drawn from both the main stream media houses such as the Nation Media Group, the Standard Media Group, the Star and the People Daily Newspaper, Citizen TV, KBC Radio/TV, KNA etc to community-based radio and TV stations.

This medical camp had enormous immediate impact to its beneficiaries: Over 3,000 people in 400 households benefited from the medical camp. Health talks were provided on general body and dental hygiene to improve their health. Removal of jiggers was undertaken. Volunteers were identified and trained as anti-jiggers campaigners to carry-on the campaign.

2. HON. BETH MUGO CANCER FOUNDATION LAUNCH

KEMRI team participated by way of exhibiting during the launch of the Beth Mugo Cancer Foundation on 24th October 2016 at KICC COMESA Grounds, Nairobi which was graced by the First Lady of the Republic of Kenya. The launch was attended by among others Dr. Cleopha Mailu, Cabinet Secretary Ministry of Health, and Sicily Kariuki, Public Service Youth and Gender Affairs, among other dignitaries. Over 1500 persons, both men and women were screened for many other forms of cancers.

3. WORLD AIDS DAY 2016 COMMEMORATION

The Corporate Affairs Department together with the KEMRI AIDS Control Unit (KACU) commemorated the Annual World AIDS Day Celebrations on 1st December, 2016 through having a sensitization exercise for staff, family members and the general community at the KEMRI, Centre for Public Health Research (CPHR) KNH Grounds.

The objective of the sensitization exercise was to enhance total health and HIV/AIDS Awareness promotions as well as achieve ultimate work place all round health promotion through giving health talks on the following health issues: promotion of CSR; enhance staff, family and community interaction, enhance awareness on prevention, treatment and care, encourage voluntary counselling and testing, health and HIV/AIDS awareness promotion, enhance distribution of condoms and dissemination of IEC materials, create awareness on alcohol and drug abuse, promote gender and disability mainstreaming and promote youth (student internship) as special groups.

4. KEMRI PARTICIPATES IN THE KAREN HOSPITAL-HEART RUN

Over 20 members of staff from Kenya Medical Research Institute joined thousands of Kenyans in participating in the 2017 edition of the Heart Run of the Karen Hospital, Nairobi at Uhuru Gardens on 13th May, 2017. At the event, people interacted with professionals who gave tips on staying healthy and keeping the preventable conditions at bay. KEMRI also gave financial support of Kshs. 20,000/- during the Heart Run to emphasize the importance the Institute has attached to the worthy cause of treatment of children suffering from heart diseases. Heart to Heart Foundation director Mrs. Juliet Nyaga commented that the run had served as an important platform to raise awareness about heart ailments among children. "Providing early interventions to children with heart conditions is a guarantee of fulfilling life for them.

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the KEMRI's affairs.

Principal activities

The principal activities of the Institute is to conduct Human Health Research.

Results

The results of the Institute for the year ended June 30, 2017 are set out on page 1 to page 32.

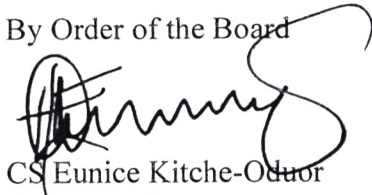
Directors

The members of the Board of Directors who served during the year are shown on page viii.

Auditors

The Auditor General is responsible for the statutory audit of KEMRI in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



CS Eunice Kitche-Oduor
Corporate Secretary
Nairobi
Date.....24/4/2018.....

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (*section 14 of the State Corporations Act*, - in accordance with the provisions of Section 20 of the Science and Technology (Amendment) Act of 1979 (Cap 250 of the Laws of Kenya) require the Directors to prepare financial statements in respect of that *KEMRI*, which give a true and fair view of the state of affairs of *KEMRI* at the end of the financial year/period and the operating results of *KEMRI* for that year/period. The Directors are also required to ensure that *KEMRI* keeps proper accounting records which disclose with reasonable accuracy the financial position of *KEMRI*. The Directors are also responsible for safeguarding the assets of *KEMRI*.


The Directors are responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2017. 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 *KEMRI*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Institute'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 PFM Act, 2012 and (the State Corporations Act) – in accordance with the provisions of Section 20 of the Science and Technology (Amendment) Act of 1979 Cap 250 of the Laws of Kenya). The Directors are of the opinion that the *KEMRI* financial statements give a true and fair view of the state of *KEMRI's* transactions during the financial year ended June 30, 2017, and of the *KEMRI* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Institute, which have been relied upon in the preparation of *KEMRI* 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 *KEMRI* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

KEMRI financial statements were approved by the Board on 29th September 2017 and signed on its behalf by:


Dr. Naphtali N. Agata
Chairman of Board

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL RESEARCH INSTITUTE (KEMRI) FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Kenya Medical Research Institute set out on pages 1 to 28, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1.0 Excess Exchequer Development Releases

Included in the statement of financial performance for the year ended 30 June 2017 is GOK funding balance of Kshs.1,834,962,265. This includes an amount of Kshs.35,500,000 received as development exchequer from the Ministry of Health. However, a review of the Institute's budget and the Ministry of Health approved development budget for the institute revealed that the only amount budgeted for was Kshs.5,000,000 for perimeter wall fence in Taita Taveta and Kirinyaga. The excess development exchequer of Kshs.30,500,000 has not been explained or reconciled.

Consequently, the propriety of GOK funding of Kshs.30,500,000 for the period ending 30 June 2017 could not be confirmed.

Report of the Auditor-General on the Financial Statements of Kenya Medical Research Institute (KEMRI) for the year ended 30 June 2017

2.0 Unsupported Sundry Income-Overheads

Included in the statement of financial performance for the year ended 30 June 2017 is sundry income of Kshs.138,596,264 and whose supporting documents were not availed for audit review.

Consequently, it has not been possible to confirm the accuracy and completeness of sundry income amount of 138,596,264 included in the statement of financial performance for the year ended 30 June 2017.

3.0 Unsupported Interest on Investment

Included in the statement of financial performance for the year ended 30 June 2017 is revenue from exchange transactions of Kshs.104,186,750. As shown in note 6 to the financial statements, this includes interest on investment of Kshs.6,313,232 made up of Kshs.5,072,850.97 and Kshs.1,240,381 from Family bank and Kenya Commercial Bank respectively. However, contract documents and deposit certificates supporting the income were not availed for review.

Consequently, it has not been possible to confirm the accuracy and completeness of the interest on investment balance of Kshs.6,313,232 included under revenue from exchange transactions in the statement of financial performance for the year ended 30 June 2017.

4.0 Human Resources

4.1 Two Thirds Basic Rule

Included in employee costs of Kshs.1,513,076,142 in the statement of financial performance for the year ended 30 June 2017 is personal emoluments of Kshs.824,788,456. A review of the Institute's payroll revealed that fifty (50) employees suffered deductions beyond a third (1/3) of their basic salary contrary to Public Service Commission human resource policies and procedures manual (sec Ci sub sec 3) which require employees to retain at least a third of their salary.

The Institute is therefore in breach of the Law.

4.2 Accumulated Leave

Included in employee costs of Kshs.1,512,531,437 in the statement of financial performance for the year ended 30 June 2017 is passage and leave allowance of Kshs.6,948,500. A review of the Institute's leave schedule revealed that employees were accumulating leave days beyond the allowed maximum of 45 days in a year thus contravening Public Service Commission human resource policies and procedure manual and KEMRI HR policy.

4.3 Unreconciled Staff Cost

Included in the statement of financial performance for the year ended 30 June 2017 is employee costs of Kshs.1,512,531,437. A review of the payroll summaries for the year under review showed an amount of Kshs.1,506,038,686 which when compared against the financial statements figure of Kshs.1,512,531,437 results to unreconciled variance of Kshs.6,492,751.

Consequently, it has not been possible to confirm the accuracy, validity and propriety of the employee cost of Kshs.1,512,531,437 included in the statement of financial performance for the year ended 30 June 2017.

5.0 Collaborators' Funds

5.1 Overpaid Personal Emoluments

Included in Collaborators' Funds of Kshs.4,461,927,815 in the statement of financial performance for the year ended 30 June 2017 is an amount of Kshs.3,253,118,910 in respect of staff costs comprising of Kshs.3,243,128,312.00 and Kshs.9,990,598 for external and internal funding respectively. However, a review of schedule supporting external funding of Kshs.3,243,128,312.00 revealed that the stated amount is net of Kshs.9,840,934 being overpayments on the same. The Institute has not explained this state of affairs.

5.2 Credits on Bank Charges

Included in Collaborators' Funds of Kshs.4,461,927,815 is also an amount of Kshs.2,156,804 in respect of bank charges comprising of Kshs.2,014,888 and Kshs.141,916 for external and internal funding respectively. However, a review of schedule supporting external funding of Kshs.2,014,888 revealed that the stated amount is net of Kshs.368,553 being credits on the same. The Institute has not also explained this state of affairs.

Consequently, it has not been possible to confirm the accuracy, validity and propriety of the collaborators fund of Ksh.4,461,927,815 included in the statement of financial performance for the year ended 30 June 2017.

5.3 Overpaid Laboratory Supplies

Included in Collaborators' Funds of Kshs.4,461,927,815 is an amount of Kshs.93,172,932 in respect of Laboratory supplies comprising of Kshs.49,552,097 and Kshs.43,620,835 for external and internal funding respectively. However, a review of schedules supporting external funding of Kshs.49,552,097 revealed that the stated amount is net of Kshs.236,342 being overpayments on the same. The institute has not supported overpayments of Kshs.236,342 and the reason for the net off of the actual amount on Laboratory supplies.

5.4 Overpaid Travelling and Accommodations

Included in Collaborators' Funds Collaborators' Funds of Kshs.4,461,927,815 is an amount of Kshs.211,468,521 in respect of travelling and accommodation comprising of Kshs.162,006,661 and Kshs.49,461,860 for external and internal funding respectively. However, a review of schedule supporting external funding of Kshs.162,006,661 revealed that the stated amount is net of Kshs.33,853 being overpayments on the same that has not been supported or explained.

5.5 Overpaid Other Operating Expenses

Included in Collaborators' Funds of Kshs.4,461,927,815 is an amount of Kshs.821,797,042 in respect of other operating expenses comprising of Kshs.819,736,078 and Kshs.2,060,962 for external and internal funding respectively. However, a review of schedules supporting external funding of Kshs.819,736,078 revealed that the stated amount is net of Kshs.91,907,241 being overpayments on the same that has not been supported.

Consequently, it has not been possible to confirm the accuracy, validity and propriety of the collaborators fund of 4,461,927,815 included in the statement of financial performance for the year ended 30 June 2017.

6.0 Administrative Costs

6.1 Legal Expenses

Included in the administrative costs of Kshs.326,732,231 in the statement of financial performance for the year ended 30 June 2017 is Kshs.11,083,790.75 paid to private legal firms. However, the Institute had not sought approval and issuance of no-objection from the Attorney General's Office to continue using the services of the same private law firms.

Consequently, the institute did not comply with Attorney General's Circular reference AG/CON/6/D/144/VOL. II of 6th April 2017 on legal expenses and the propriety of the administrative costs of Kshs.326,732,231 included in the statement of financial performance for the year ended 30 June 2017 could, therefore, not be determined.

7.0 Cash and Cash Equivalentents

7.1 Operating Unlawful and Undisclosed Bank Accounts

Included in the statement of financial position as at 30 June 2017 is cash and cash equivalentents of Kshs.1,029,775,253. A review of bank accounts operated by the Institute revealed that the Institute operated a total of twenty five (25) bank accounts held in Kenya Commercial Bank of Kenya, Co-operative Bank of Kenya and Family Bank of Kenya without Treasury approval.

The Institute failed to comply with the Public Finance Management Act, 2012 Section 28(1) which require the National Treasury to authorize the opening, operational and closing of bank accounts and sub-accounts for all National Government entities.

Further, a review of bank accounts operated by the Institute and the supporting documents revealed that the Institute excluded from the cash and cash equivalents of Kshs.1,029,775,253 an amount of Kshs.22,331,178 for KEMRI-Oxford University as analysed below;

Account Name	Bank	Certificate No.	Account No.	Amount as per Cert
KEMRI-Oxford University	KCB	CERT1718814268	1179013859	Ksh22,331,178.90

It was also noted that RCTP Account No.1104166879 changed signatories in the course of the year. The Institute has neither explained why the amounts could not form part of cash and cash equivalent balance of Kshs.1,029,775,253 nor accounted for the transactions on these financial statements.

Consequently, it has not been possible to confirm the accuracy, validity and propriety of the cash and cash equivalent balance of Kshs.1,029,775,253 included in the statement of financial position as at 30 June 2017.

7.2 Bank Reconciliation

7.2.1 Exchequer Account 1104161362

The bank reconciliation statement for the exchequer cash book (**Account No.1104161362**) as at 30 June 2017, reflects payments in cash book not recorded in the bank statement totaling Kshs.27,322,287.51 which includes an amount of Kshs.45,459.43 in respect of stale cheques. No reason has been given for failure to replace the cheques or having the same credited back in the cash book. The statement also reflects receipts in the bank statement not recorded in the cash book totaling Kshs.657,747.20 out of which an amount of Kshs.108,145.27 has been outstanding for more than six months. No reason has been given for delay in entering the amount in the cash book. The statement further reflects payments in bank statement not in cash book totaling to Kshs.3,662,825.24 out of which Kshs.2,532,148.74 has been outstanding for more than six months. No reason has been provided for the delay in recording these payments in the cash book. The statement also reflects receipts of Kshs.194, 689.40 in the cash book but not recorded in the bank statement. No explanation has been given for the delay in recording the payments in the cashbook. The management has not provided an explanation on this state of affairs.

7.2.2 RGA Account No. 1104174529

The bank reconciliation statement for the RGA cashbook (**Account No. 1104174529**) as at 30 June 2017 reflects payments in cash book not recorded in the bank

statement totaling Kshs.764,880 which includes an amount of Kshs.719,986 in respect of stale cheques. No reason has been given for failure to replace the cheques or having the same credited back in the cash book. The statement also reflects receipts in the bank statement not recorded in the cash book totaling Kshs.7,892,608.10 out of which an amount of Kshs.2,335,462 has been outstanding for more than six months. No reason has been given for the delay in entering the amount in the cash book. The statement further reflects payments in bank statement not in cash book totaling to Kshs.1,082,963.60 out of which Kshs.254,388.30 has been outstanding for more than six months. No reason has been provided for the delay in recording these payments in the cash book. Also the statement reflects receipts of Kshs.1,917,994.70 in the cash book but not recorded in the bank statement. As in the previous instance, no explanation has been given for the inordinate delay.

7.2.3 KEMRI EAST AFRICA Account No.1128126671100

The bank reconciliation statement for the KEMRI East Africa cashbook (**Account No. 1128126671100**) as at 30 June 2017 reflects payments in bank statement not in cash book totaling to Kshs.68,255 out of which Kshs.63,910 has been outstanding for more than six months. No reason has been provided for the delay in recording these payments in the cash book.

7.2.4 KEMRI JICA Production Department Account 1104166194

The bank reconciliation statement for KEMRI JICA production department cashbook (Account 1104166194) as at 30 June 2017 reflects payments in cash book not recorded in the bank statement totaling Kshs.223,377.20 which includes an amount of Kshs.92,627.20 in respect of stale cheques. No reason has been given for failure to replace the cheques or having the same credited back in the cash book.

Consequently, it has not been possible to confirm the accuracy, validity and propriety of the cash and cash equivalent balance of Kshs.1,029,775,253 included in the statement of financial position as at 30 June 2017.

7.3. Unexplained Foreign Currency Translation Rate

Included in the cash and cash equivalents amount of Kshs.1,029,775,253 is an amount of Kshs.17,467,856 (€ 149,591.98) and Kshs.4,693,750 (\$46,044.24) and whose translation rate and reconciliations were not availed for audit review.

Consequently, it has not been possible to confirm the accuracy, validity and propriety of the cash and cash equivalent balance of Kshs.1,029,775,253 included in the statement of financial position as at 30 June 2017.

8.0 Unsupported Short Term Deposit

Included in the statement of financial position as at 30 June 2017 is short term deposits amounting to Kshs.530,000,000 which comprises of Kshs.500,000,000

invested in CBK Treasury bills and Kshs.30,000,000 invested in Kenya Commercial bank. Analysis of two years financial statements 2015/2016 and 2016/17 reflects a gap/deficit of Kshs.66,769,206 and Kshs.28,565,808 respectively. The management has not provided the basis of recognizing Kshs.530,000,000 as a surplus and thus available for investment. Further, no Treasury approval has been provided for investing Kshs.30,000,000 in KCB. A further review of the end year support documents show that the bank confirmation Certificates from CBK showed a nil balance for the Treasury Bills investment of Kshs.500,000,000 while the certificate of balance availed for the fixed deposit account in KCB reflected Kshs.35,817,808.20. The Institute has not reconciled the resulting differences.

Consequently, the accuracy, validity and existence of the short-term deposit balance of Kshs.530,000,000 included in the statement of financial position as at 30 June 2017 could not be determined.

9.0 Trade and Other Receivables

9.1 Deposit with the Institute Lawyers

As reported in 2015/2016, trade and other receivables balance of Kshs.510,735,379 included in the statement of financial position as at 30 June, 2017 is net of an amount of Kshs.120,000,000 in respect of a deposit placed with the Institute of lawyers in the year 2000 while the Institute was following up issues related to the stalled residential staff housing project. Although the institute has fully provided for this amount as doubtful debts, the matter is still under police investigation. A further review of the statements indicates that the interest accumulated over time on the amount of Kshs.120,000,000 was not taken into account in arriving at the balance.

9.2 Temporary Imprest

The trade and other receivables balance of Kshs.510,735,379 as at 30 June, 2017 includes temporary imprests amounting to Kshs.18,308,554.60 which had not been surrendered at the close of the financial year. Further, this amount for unsurrendered imprests included Kshs.7,625,903.65 as advances to centres and long outstanding temporary imprest of Kshs.2,795,258.61 which relates to officers who have since left the Institute.

The Public Finance Management (National Government) Regulation, 2015 Section 93(5) requires a holder of temporary imprest to account or surrender the imprest within seven working days after returning to duty station.

Consequently, the management failed to comply with the Public Finance Management (National Government) Regulation, 2015 Section 93(5) on requirement of temporary imprest.

9.3 Unsupported Impairment Allowance

Excluded from trade and other receivables balance of Ksh.510,735,379 is Kshs.163,609,492 in respect of impairment allowance which has not been supported.

9.4 Unsupported Over Remitted Statutory Deductions

Included in trade and other receivables balance of Kshs.510,735,379 is Kshs.276,563 which relates to over remitted statutory deduction (withholding tax) which has not been explained or supported.

In the circumstance, it has not been possible to confirm the validity and accuracy of the trade and other receivables balance of Kshs.510,735,379 included in the statement of financial position and whether the same is fairly stated as at 30 June, 2017.

10.0 Property, Plant and Equipment

10.1 Land

As previously reported, the property, plant and equipment balance of Kshs.19,920,505,937 included in the statement of financial position as at 30 June 2017 includes various parcels of land totaling Kshs.4,240,135,760 as summarized below:

No	Location	County	Acreage	Valuation (Kshs)
1	Mbagathi Road	Nairobi	2.4282 Ha	4,143,768,160
2	Taita Taveta	Taita Taveta	15 Acres	8,400,000
3	Busia	Busia	100 Acres	87,967,600
Total				4,240,135,760

However, the title/ownership documents in respect of the above parcels of land were not availed for audit verification.

10.2 Residential Staff Housing

As similarly reported in year 2014/2015, the property, plant and equipment balance of Kshs.19,920,505,937 as at 30 June, 2017 also includes a staff housing project valued at Kshs.476,001,556 located on a 2.4282 ha area along Mbagathi Road - Nairobi and against which a developer had used the title documents as collateral to borrow funds from the National Bank of Kenya. In an effort to have the documents discharged, and as similarly reported in 2014/15, the Government spent a sum of Kshs.280 million in the year 1993 and a further amount of Kshs.142 million in the year 2000 towards settling the developer account with the Bank. However and in spite of

payments totaling Kshs.422 million having been made thus settling the debt in full, the documents had not been discharged to KEMRI as at 30 June 2017.

In the circumstance, it has not been possible to ascertain the ownership status of the parcels of land and whether the property, plant and equipment balance of Kshs.19,920,505,937 as at 30 June 2017 is fairly stated.

11.0 Intangible Assets Software

11.1 Payment for Intangible Assets not Delivered

As reported in the year 2014/2015, included in the statement of financial position as at 30 June, 2017 is intangible asset which had cost Kshs.68,151,763 as per note 22 and out of which Kshs.22,904,126 relate to payment for an Enterprise Resource Planning (ERP) software for use in KEMRI 14 modules. KEMRI had sourced for this service from M/S Alliance Technologies on 24th August 2011 at a contract sum of Kshs.24,865,500. The installation and commissioning of this software was to take one year up to 2nd July 2012. Despite the 92% payment of the contract sum by 30th June, 2017 it was observed that only 4 out of 14 modules had been installed. It was further noted that even the 4 modules installed were not in operation. KEMRI, therefore, had paid and amortized intangible assets not received.

A review of the Intangible assets movement schedule disclosed in note 22 to the financial statements revealed an impairment loss of Kshs.5,822,232 which had not been supported nor explained.

Consequently, it has not possible to confirm the validity and accuracy of the intangible asset net book value of Kshs.3,085,093 in the statement of financial position as at 30 June, 2017.

12.0 Trade and Other Payables

Included in the trade and other payables balance of Kshs.212,760,116 in the statement of financial position as at 30 June 2017 is Kshs.787,928 in respect of advance to centres, Kshs.240,000 in respect of salary in advance, Kshs.27,618 in respect of salary advance to employees and Kshs.5,246,854 in respect of temporary imprests which were not supported.

Further, the trade and other payables balance of Kshs.212,760,116 includes unremitted statutory deductions of Kshs.5,136,244 as disclosed in note 14 to the financial statements which is payable to Kenya Revenue Authority and which has not been supported.

In the circumstance, it has not been possible to confirm the accuracy of trade and other payables balance of Kshs.212,760,116 included in the statement of financial position as at 30 June 2017.

13.0 Unsupported Deferred Income

Included in the statement of financial position as at 30 June 2017 is deferred income of Kshs.25,125,898. Information available indicate that a total of Kshs.224,000,000 was deferred in 2015-2016 financial year and with a change to Kshs.25,125,898 an amount of Kshs.198,874,102 was expected to be a transfer to statement of financial performance. A review of statement of financial performance for the period ending 30 June 2017, showed there was no transfer from deferred income. It was therefore not possible to confirm how Kshs.198,874,102 deemed to have been transferred from deferred income was accounted for.

In the absence of support documents, it has not been possible to confirm the accuracy of the deferred income balance of Kshs.25,125,898 included in the statement of financial position as at 30 June 2017.

14.0 Unsupported Collaborators Funds

Included in the statement of financial position as at 30 June 2017 is collaborators fund balance of Kshs.834,772,884. A review of schedules supporting the same showed an opening and closing balance of Kshs.491,402,509 and Kshs.376,975,507 which when compared against the prior year and current year closing balances of Kshs.507,885,802 and Kshs.834,772,884 result to unsupported difference of Kshs.16,483,293 and Kshs.457,797,377, respectively, which has not been explained. A further review of the supporting schedules showed unexplained debt or overpayments brought forward and carried down of Kshs.56,002,126 and Kshs.161,400,478, respectively, that have been used to net off the schedule's opening and closing balances respectively.

In the absence of supporting documents, it has not been possible to confirm the accuracy of the collaborators funds balance of Kshs.834,772,884 in the statement of financial position as at 30 June 2017.

15.0 KEMRI NCG – Service Level Agreement Loss

As previously reported in the year 2015/2016, the Institute signed an MOU with Nairobi City Government (N.C.G) and subsequently entered into a Service Level Agreement (SLA) effective 11th March 2015 with an objective to collaborating with one another to improve standards of testing food handlers in the county of Nairobi with a view of ensuring provision of quality and hygienic services to the residents of the County.

The Institute committed itself to clause 7.7 (service level credits/penalties) that stipulated that KEMRI were to examine 50,000 food handlers per month which translate to Kshs.50,000,000 at the charge rate of Kshs.1,000 per client. The amount was to be shared at the ratio of 75:25 for KEMRI and Nairobi County Government respectively. Out of the KEMRI share of Kshs.750 per client, Kshs.500 was to cater for operational costs. The clause further stipulated that should KEMRI fail to reach

the target of 50,000 people they were to forfeit their share of the proceeds so as to cover Nairobi County Government share fully. This clause appears to have favoured the Nairobi County Government given that the target of 50,000 people that KEMRI was expected to certify was unrealistic and was not based on any baseline survey.

Further, a scrutiny of the implementation process for the last 10 months revealed that only a target of 83,665 people was realized as opposed to a target of 518,000 people expected translating to a shortfall of 434,335 people. The shortfall resulted to KEMRI owing Kshs.120,000,000 to Nairobi County Government emanating from this biased Service Level Agreement. This may result to a loss of Kshs.120,000,000 should KEMRI pay Nairobi County Government since there was no service rendered on the amount owing.

16.0 Partial Deliveries – Food Handlers Programme

As previously reported, included in the administrative costs of Kshs.396,657,988 in the statement of financial performance for the previous year ended 30 June 2016 is a payment of Kshs.10,123,000 paid in full value payment vouchers numbers, 38 and 56 for consumables ordered from various suppliers. It was, however, established that the consumables worth Kshs.5,119,952 paid for had not been delivered. Further, the inspection and acceptance certificate, goods receipts notes and delivery notes used to support this irregular payment had been acknowledged by the KEMRI management.

In the circumstance, it has not been possible to confirm what action the management has initiated to recover the amount involved.

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

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

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Institute's or to cease operations, or have no realistic alternative but to do so.

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

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

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

My responsibility is to conduct an audit of the Institute's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Kenya Medical Research Institute (KEMRI) in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

Nairobi

19 April 2018

KENYA MEDICAL RESEARCH INSTITUTE**Reports and Financial Statements****For the year ended June 30, 2017****XII. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	Page	2016-2017	2015-2016 RESTATED
			Kshs	Kshs
Revenue from non-exchange transactions				
Gok funding	3	15	1,834,962,265	1,806,412,265
Collaborators funds	4	15	4,461,927,815	4,649,212,778
Sundry income - overhead	5	15	138,596,264	104,958,929
Total from non-exchange transactions			6,435,486,344	6,560,583,971
Revenue from exchange transactions	6	15	104,186,750	256,487,932
Total revenue			6,539,673,094	6,817,071,903
Expenses				
Employee costs	7	15	1,512,531,437	1,518,112,135
Expenses Collaborators funds	8	15	4,461,927,815	4,649,212,778
Administrative Costs	9	16	326,732,231	396,657,988
Operating Cost	10	17	131,839,210	182,270,726
Boards Expenses	11	18	23,772,966	17,250,064
Depreciation and amortization expense	12	18	109,786,985	120,679,420
Total expenses			6,566,590,644	6,884,183,111
Other gains/(losses)				
Gain on sale of Asset	20	21	-	342,000
Surplus/(deficit) for the period			(26,917,550)	(66,769,207)

The notes set out on pages 8 to 27 form an integral part of these Financial Statements

KENYA MEDICAL RESEARCH INSTITUTE
Reports and Financial Statements
For the year ended June 30, 2017

XII. STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

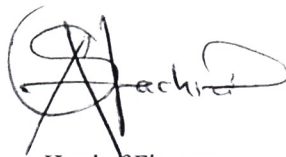
			2016-2017	2015-2016 RESTATED
Assets	Note	Page	Kshs	Kshs
Current assets				
Cash and cash equivalents	18	20	1,029,775,253	1,130,461,704
Short term deposits	13	18	530,000,000	30,000,000
Trade and other receivables	16	19	510,735,379	630,574,482
			2,070,510,632	1,791,036,186
Non-current assets				
Property, plant and equipment	23	25	19,920,505,937	19,973,768,392
Intangible assets	24	26	3,085,093	325,143
Investment property	25	26	936,636,083	946,662,719
			20,860,227,113	20,920,756,254
Total assets			22,930,737,745	22,711,792,440
Liabilities				
Current liabilities				
Trade and other payables	14	18	212,760,116	109,689,111
Refundable deposits from customers	15	19	33,794,115	18,594,071
Deferred Income	P	14	25,125,898	224,000,000
Collaborators funds	17	20	834,772,884	507,885,802
Bank Overdraft	19	21	-	593,291
Total liabilities			1,106,453,013	860,762,275
Net assets			21,824,284,732	21,851,030,165

Capital replacement development reserve	XII	4	2,830,585,270	2,830,585,270
Revaluation Reserve	XII	4	17,371,506,618	17,371,506,618
Accumulated surplus	XII	4	1,622,192,844	1,648,938,277
Total net assets and liabilities			21,824,284,732	21,851,030,165

The Financial Statements set out on pages 1 to 32 were signed on behalf of the Board of Directors by:

Director /C.E.O
Name:

Date.....
18/4/18



Head of Finance
Name

ICPAK Member Number: 6547
Date 18/4/2018



Chairman of the Board
Name: DR NADHATI ALATA
Date... 23/4/18

KENYA MEDICAL RESEARCH INSTITUTE
Reports and Financial Statements
For the year ended June 30, 2017

XIII. STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2017

	Reserves			Total
	Capital replacement development reserve/Capital Reserve	Revaluation Reserve	Accumulated surplus	
	Kshs	Kshs	Kshs	Kshs
Balance as at 1 July 2015	2,830,585,270	17,371,506,618	1,715,707,485	21,917,799,373
Surplus/(deficit) for the period	-	-	(66,769,208)	(66,769,208)
Balance as at 30 JUNE 2016	2,830,585,270	17,371,506,618	1,648,938,277	21,851,030,165
Balance as at 1 July 2016	2,830,585,270	17,371,506,618	1,648,938,277	21,851,030,165
Adjustment for prior year Depreciation			172,117	172,117
Surplus for the period			(26,917,550)	(26,917,550)
Balance as at 30 JUNE 2017	2,830,585,270	17,371,506,618	1,622,192,844	21,824,284,732

Notes

In the prior year, depreciation was provided as Kes 19,312,499 on the Office and medical Equipment instead of Kes. 19,140,382 thus an adjustment for Kes. 172,117 to correct the Error of Transposition

STATEMENT OF CASH FLOWS
AS AT 30 JUNE 2017

	2016-2017	2015-2016 RESTATED
	Kshs	Kshs
Cash flows from operating activities		
Receipts		
Gok funding	1,834,962,265	1,806,412,265
Collaborators funds	4,461,927,815	4,649,212,778
Sundry income	138,596,264	104,958,929
Interest on Investment	6,313,232	11,473,232
Rental Income	29,554,988	29,354,878
Revenue Generating Activities	48,437,860	156,193,805
Graduate Program (ITROMID)	19,328,800	57,637,700
Miscellaneous Income	551,870	1,828,317
Total Receipts	6,539,673,094	6,817,071,904
Payments		
Compensation of employees	1,512,531,437	1,518,112,135
Expenses on Collaborators funds	4,461,927,815	4,649,212,778
Administrative costs	326,732,231	396,657,988
Operating costs	131,839,210	182,270,726
Board Expenses	23,772,966	17,250,064
Total Payments	6,456,803,658	6,763,503,690
Surplus before Working Capital Changes	82,869,436	53,568,214
Working Capital Changes		
Decrease/(Increase) in receivables	119,839,104	(403,884,771)
(Increase)/Decrease in Short term deposits	(500,000,000)	70,000,000
Increase in payables	103,071,005	61,905,683
Decrease in Deferred Income	(198,874,102)	224,000,000
Increase in Refundable deposits from customers	15,200,044	3,177,347
(Decrease) in bank overdraft	(593,291)	(63,532,446)

Increase in Collaborators Funds - payment received in advance	326,887,082	140,031,246
Net cash flows from operating activities	(51,600,723)	85,265,272
Cash flows from investing activities		
Purchase of property, plant, equipment and intangible assets	(43,263,497)	(51,912,681)
Proceeds from sale of property, plant and	-	640,000
Decrease in non-current receivables	-	-
Increase in investments	-	-
Adjustment on Intangible assets accumulated Depreciation	(5,822,232)	-
Net cash flows used in investing activities	(49,085,729)	(51,272,681)
Cash flows from financing activities		
Proceeds from borrowings	-	-
Repayment of borrowings	-	-
Increase in deposits	-	-
Net cash flows used in financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	(100,686,451)	33,992,593
Cash and cash equivalents at 1 JULY 2016	1,130,461,704	1,096,469,111
Cash and cash equivalents at 30 JUNE 2017	1,029,775,253	1,130,461,704

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**XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30 JUNE 2017**

	Note	Original budget 2016-2017 Kshs 000	Adjustments 2016-2017 Kshs 000	Final budget 2016-2017 Kshs 000	Actual on comparable basis 2016-2017 Kshs 000	Performance difference 2016-2017 Kshs 000
Revenue						
Collaborators Funds	1	3,617,645	922,012	4,539,657	4,461,928	77,729
GOK Funding-Recurent		1,799,462	-	1,799,462	1,799,462	-
Development		35,500		35,500	35,500	-
Revenue from Exchange transactions	2	82,000	(10,000)	72,000	104,187	(32,187)
Sundry Income-Overheads	3	115,500	34,500	150,000	138,596	11,404
Total income		5,650,107	946,512	6,596,619	6,539,673	56,946
Expenses						
Compensation of employees	4	1,606,751	(106,103)	1,500,648	1,512,531	(11,883)
Goods and services	5	1,560,004	(1,053,141)	506,863	458,571	48,292
Board Expenses		15,000	10,000	25,000	23,773	1,227
Expenses on Collaborators funds	6	2,532,352	2,007,305	4,539,657	4,461,928	77,729
Total expenditure		5,714,107	858,061	6,572,168	6,456,804	115,365
Surplus for the period		(64,000)	88,451	24,451	82,870	(58,419)

Note:

i) **Collaborators Funds:**

The decline of funds received was due to actual funds received for payroll from KEMRI Wellcome Trust and Washington State University.

ii) **Revenue from Exchange Transactions:**

The Production unit received an order for Kes. 25 million for supply of TB Cide to KEMSA.

iii) **Sundry Income-Overheads:**

The decline of collaborators funds contributed to overheads received from the research funding.

iv) **Compensation of Employees:**

The Industrial Court awarded a salary increase of 17% to all unionisable employees of the Institute with effect from July 2013. This culminated in the signing of a Collective Bargaining Agreement(CBA) committing the Institute to pay Kes 126Million. The institute in the Financial year 2015/16 paid the first phase of the arrears. The second and final phase was paid in July 2016.

v) **Goods and Services:**

The Institute spent less on administration and operation.

v) **Expenses on Collaborators Funds:**

The decline resulted from reduced funding from collaborators.

XV. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation – IPSAS 1

The Institute's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Institute. The institute has changed from IFRS to IPSAS in order to comply with the Public Finance Act (2000)

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Transfers from other government entities

Revenues from non-exchange transactions from Exchequer and other collaborative partners are measured at fair value and recognized on obtaining control of the asset cash, 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 Institute and can be measured reliably.

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

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

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 Institute

iii) Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information – IPSAS 24

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 Institute. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Institute 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) Investment property – IPSAS 16

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

d) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Institute recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation of fixed assets is calculated to write down the cost over their estimated useful lives on a straight-line basis. The rates are as follows:

Office and residential buildings	1.0%
Office and medical equipment	2.5%
Office furniture	2.5%
Motor Vehicle	5%
Computer and related equipment	25%
Boat	5%
Intangible assets–IPSAS 31	25%

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets are amortized at the rate of 25% with an expected life of four years. The useful life of the intangible assets is assessed as either finite or indefinite.

e) Research and development costs

The Institute expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Institute can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

f) Provisions – IPSAS 19

Provisions are recognized when the Institute has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Institute expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Institute 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.

g) Nature and purpose of reserves

The Institute creates and maintains reserves in terms of specific requirements. Institute to state the reserves maintained and appropriate policies adopted.

h) Changes in accounting policies and estimates – IPSAS 3

The Institute recognizes the effects of changes in accounting policy retrospectively. The graduate school academic year starts in May. Previously, the revenue was recognized in full at the beginning of the academic year but in the year under review the revenue has been apportioned to the two financial years.

i) Employee benefits – IPSAS 25

Retirement benefit plans

The Institute provides retirement benefits for its employees. Defined contribution plans are postemployment benefit plans under which an Institute pays fixed contributions into a separate Institute (a fund administrator), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the

current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

j) Foreign currency transactions – IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction.

k) Service concession arrangements – IPSAS 32

The Institute analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Institute recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Institute also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include at 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 authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

m) Comparative figures

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

n) Subsequent events – IPSAS 14

Civil Application No: Nai, 204 of 2014 (Ur 160/2014) –KEMRI Vs Samson Gwer and 5 Others

In this application, a judgment was passed on 18th July, 2014 by the Industrial Court of Kenya that the six (6) petitioners are entitled to a total sum of KES 30, 000,000 in compensation for violation of their rights under Article 23 of the constitution. The institute immediately appealed the judgment, and a stay of execution was granted by Hon Justice Mathew N. Nduma of 18th July, 2014 industrial Court on condition that a sum of KES 30, 000,000 be deposited in a fixed account.

o) Other Deposits

Included in the payable is a figure of Kes. 29,362,115 being other deposits. These are funds held on behalf of beneficiaries of deceased members of staff.

p) IAS 20 Accounting for Government Grants and Disclosure of Governments Assistance

Government Grants are Assistance from Government of Kenya to carry out specific research.

During the Financial Year 2015/2016 the Government awarded KEMRI Kes. 224 million to carry out research. The **Kes 198,874,102** funds were transferred to Local Grants Account for Research activities in the year leaving unspent balance of **Kes 25,125,898** (Note 22):

We have recognized Deferred Income in the current liabilities in the Financial Statement and as an expense in the Local Grants.

KENYA MEDICAL RESEARCH INSTITUTE**Reports and Financial Statements****or the year ended June 30, 2017****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Note	INCOME	2017	2016 RESTATED
	Revenue from non-exchange transactions	(Kes.)	(Kes.)
3	Exchequer Funding		
	Recurrent	1,799,462,265	1,672,462,265
	Development	35,500,000	133,950,000
	Exchequer Research Grants	-	
	Total Exchequer Funding	1,834,962,265	1,806,412,265
4	Collaborators Funds	4,461,927,815	4,649,212,778
5	Sundry Income - Overheads	138,596,264	104,958,929
	Subtotal (1)	6,435,486,344	6,560,583,971
6	Revenue from exchange transactions		
	Interest on Investment	6,313,232	11,473,232
	Rental Income	29,554,988	29,354,878
	Revenue Generating Activities	48,437,860	156,193,805
	Graduate Program (ITROMID)	19,328,800	57,637,700
	Miscellaneous Income	551,870	1,828,317
	Subtotal (2)	104,186,750	256,487,932
	Total Income (1+2)	6,539,673,094	6,817,071,903
7	Employee costs		
	Personal emoluments	824,243,750	866,354,482
	Gratuity & pension contribution	137,151,352	152,863,080
	House allowance	273,072,833	255,411,703
	Other allowance	168,319,575	134,482,219
	Medical allowance	4,141,160	16,397,832
	Passages & leave	6,948,500	7,122,000
	Staff Insurance	16,312,964	16,389,620
	Medical Cover	82,341,303	69,091,199
		1,512,531,437	1,518,112,135
8	Expenses on Collaborators Funds		
	Staff Costs	3,253,118,910	3,182,468,900
	Bank Charges	2,156,804	1,587,774

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	Training	44,498,938	32,228,973
	Laboratory Supplies	93,172,932	54,487,308
	Travelling and Accommodation	211,468,521	143,108,422
	Motor Vehicle Expenses	21,506,588	18,073,243
	Purchase of assets	14,208,079	5,791,841
	Other Operating Expenses	821,797,042	1,211,466,317
		4,461,927,815	4,649,212,778

9	Administrative Costs		
	Transport	19,222,058	17,520,095
	Travelling & accommodation	30,264,729	36,920,834
	Legal expenses	11,083,791	5,501,921
	External travelling & accommodation.	9,256,880	10,573,816
	Postal & telegrams	59,386	671,329
	Telephones	2,923,672	4,194,481
	Official entertainment	1,832,826	-
	Conferences	5,704,717	10,797,372
	Electricity	58,697,623	57,797,784
	Water & conservancy	9,367,989	9,958,777
	Purchase of consumable stores	6,241,877	7,323,209
	Publishing & printing	871,505	2,103,849
	Purchase of uniforms & clothing	1,010,473	409,436
	Library Expenses	1,308,094	957,056
	Purchase of stationery	5,683,511	8,748,256
	Advertising, publicity & shows	7,050,299	6,793,711
	Industrial Diesel	668,590	692,060
	Rents and rates	3,233,306	1,820,633
	Computer Expenses	8,595,152	8,197,370
	Internet service	13,474,688	11,073,108

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	Miscellaneous	1,850,271	2,449,981
	Audit Fees	812,000	812,000
	Fees Commission & Honoraria	8,990,614	14,239,419
	Training	8,744,722	10,505,933
	Insurance - Fire and burglary		1,161,641
	Insurance - Motor Vehicle	7,934,011	7,156,025
	Security Expenses	31,967,328	28,823,948
	Maintenance. -Plant, mach.& equip.	1,888,544	7,666,149
	Maintenance - buildings & stations	8,283,403	4,941,059
	Maintenance of Water & Sewer	2,576,941	429,900
	Prevention of Drugs & Substance Abuse		-
	Contracted Services - Cleaning	19,535,066	19,793,588
	Financial control & Inspections	3,877,495	1,609,505
	Staff Welfare	4,862,335	11,249,929
	Strategic Initiatives	14,311,072	8,998,388
	Strategic Plan & Vision 2030		320,000
	Subscriptions & Membership Fees	2,106,252	2,552,844
	Gender Mainstreaming	485,600	951,462
	Disability Mainstreaming	518,794	155,400
	Bank Charges	1,392,542	715,809
	Valuation of Fixed Assets	736,883	5,533,330
	Devolution Expenses	749,924	2,822,962
	Remittances-JKUAT	3,786,184	13,384,714
	CCR catering services		754,860
	Food Handlers Operating Cost		17,574,045
	Provision for contingency liabilities		30,000,000
	Human Resource Consultancy	4,771,084	-
		326,732,231	396,657,988
10	Operating costs		
	Laboratory reagents & supplies	12,816,398	45,510,306
	Purchase of drugs & dressings	3,382,349	5,852,699

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	Production		6,665,000
	Purchase of animal feeds	568,989	1,278,430
	Research Programs -Internal	59,772,316	81,315,124
	Research funding	55,299,158	41,649,167
		131,839,210	182,270,726
11	Boards Expenses		
	Sitting Allowance	10,582,000	6,260,000
	Travel & Accommodation	10,519,737	9,393,072
	Official Entertainment	1,099,871	564,992
	Insurance	539,358	-
	Honoraria	960,000	960,000
	Telephone	72,000	72,000
		23,772,966	17,250,064
12	Depreciation		
	Property Plant and Equipment	96,698,067	93,614,843
	Investment Property	10,026,636	10,026,636
	Intangible Assets	3,062,282	17,037,941
		109,786,985	120,679,420
13	Short-term deposits		
	Fixed Deposit – Kenya Commercial Bank	30,000,000	30,000,000
	Fixed Deposit – CBK Treasury Bills	500,000,000	
	Total Short-term Deposit	530,000,000	30,000,000

14	Trade and other payables		
	Graduate School prepayments	24,522,060	19,501,885
	Research Fees	326,807	326,807
	Mortgage Scheme	51,846,166	-
	Payable to RG(FHP)	-	1,844,202
	Advances to Centres	787,928	2,108,327

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	Unremitted staff deductions -Insurance	2,152,262	2,103,924
	Un-remitted Statutory Deductions	5,136,244	3,787,873
	Payable to Local Grants	28,411,531	
	Provision for audit fees	-	1,582,000
	Retention Money	13,660,329	19,254,185
	Staff Over deductions	12,645,868	7,179,384
	Fines & Surcharge		20,150
	Suppliers Control Account	73,270,922	21,980,374
	Contingency liabilities		30,000,000
		212,760,116	109,689,111

15	Refundable deposits from customers	2017	2016
	Caution Money	4,432,000	4,328,000
	Other Deposits	29,362,115	14,266,071
	Total deposits	33,794,115	18,594,071

16	Trade and other receivables	2017	2016
	Graduate school – Outstanding Fees	123,963,940	130,094,415
	Interest Receivable	1,240,381	4,424,192
	Capitation-Recurrent	139,371,855	278,743,711
	Advances to Centers	954,933	14,436,574
	Staff advances	41,230,837	36,388,391
	Sande Makhandia & Co. Advocates	120,000,000	120,000,000
	Over remitted Statutory Deduction	276,563	628,190
	Donor – Accrued Income	141,600,121	202,396,360
	Customers/suppliers Control Account	105,706,241	7,072,141
	Total Receivables	674,344,871	794,183,974
	Less: Impairment allowance	163,609,492	163,609,492
	Total Receivables from non-exchange transactions	510,735,379	630,574,482

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16(a)	Dad debt		
	ITROMID Students	43,609,492	43,609,492
	Sande Makhandia	120,000,000	120,000,000
	Total deposits	163,609,492	163,609,492

17	Collaborators Funds		
	Fixed deposit account	30,000,000	30,000,000
	Other Deposits	804,772,884	477,885,802
	Total deposits	834,772,884	507,885,802

18	Cash and cash equivalents		
	Bank (Note 18b)	1,029,775,253	1,130,446,704
	Cash-on-hand and in transit (Note 18a)		15,000
	Total cash and cash equivalents	1,029,775,253	1,130,461,704

18 (a) Cash in Hand

Account Number			
Kenya Commercial Bank			
Exchequer	1104161362	-	15,000

18 (b) Cash at Bank

Account Number			
Kenya Commercial Bank			
Exchequer	1104161362	245,881,843	149,311,050
ITROMID Account	1104167611	77,639,528	165,777,173
RGA	1104174529	16,750,782	17,763,756
External Grants	1104158574	192,004,609	281,847,484
Production Department	1104166194	12,497,755	684,040
RCTP	1104166879		

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Reports and Financial Statements
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		2,900,846	
IPM	1110258925	135,504	860,519
KEMRI CDC	1104175975	728,831	7,841,429
Conference Collection	1112776850	1,390,189	825,114
Local Grants	1104161966	117,199,918	74,066,372
Dollar Account	1168110491	4,693,750	-
Euro Account	1170930956	17,467,856	
CDC/Non Grants Accounts	1123818177	32,887,415	27,862,105
Welcome Trust	1110259204	8,910,832	6,980,776
CDC Research Grants	1101722291	9,963,909	37,903,262
Mortgage Account	46000014289	270,842,272	317,616,687
Kemri Oxford University	46000012346	6,194,266	
Cooperative bank			
CNHR RLGA	1128126178201	1,192,119	1,191,217
CNHR RLGA	1128126178200	3,750,014	-
CNHR RLGA	,1128126178202	284,541	284,651
CNGR RLGA	1128126178203	2,592	2,702
KEMRI IPM SUBA	1128126178700	1,088,704	1,099,870
KEMRI EAST AFRICA	1128126671100	5,097,739	38,258,948
KEMRI/EDCPT	,1128127558400	269,439	269,549
Total		1,029,775,253	1,130,446,704

19 Overdrafts

Bank Account	KSHS	KSHS
1128126178200	-	10,210
46000012346	-	583,080
TOTAL	-	593,291

20. Gain on disposal of Motor Vehicle

Accumulated Depreciation		1,472,000
Proceeds on sale		640,000
Disposed Assets at cost		(1,770,000)
Gain on Disposal		342,000

KENYA MEDICAL RESEARCH INSTITUTE**Reports and Financial Statements****For the year ended June 30, 2017****21. Sundry Income – Overheads**

	Description	%	Amount (KES)
1	Bayer Pty Ltd.	8	244,153.61
2	CDC	8	33,540,164.73
3	Children Investment Funds Foundation	5	906,629.03
4	Dafra Pharma	10	62,619.68
5	Duke University	8	1,027,369.01
6	EDCTP	10	154,568.89
7	Emory University	8	722,905.40
8	Family Health International	8	3,117,952.69
9	GARP Kenya	8	96,590.00
10	General Hospital Corporation	8	797,585.28
11	GlaxoSmithKline	8	250,563.48
12	Global Alliance Against TB	8	125,958.75
13	Global Health Scholars	8	840,274.56
14	ICIPE	8	31,360.00
15	Imperial College of Sciences	8	122,610.36
16	Indiana University	8	659,302.14
17	International Vaccine Institute	8	803,743.73
18	John Hopkins University	8	586,975.02
19	London School of Hygiene and Tropical Medicine	8	743,951.95
20	LSTM	10	6,968,527.81
21	Massachusetts General Hospital	8	356,719.41
22	MSF	8	855,257.25
23	Nagasaki University	10	2,476,038.00
24	National Institutes of Health	8	678,080.48
25	North Western University	8	460,859.23
26	Nyanza Reproductive Health Society	10	1,014,270.50
27	Pacific Institute of Research	8	649,135.73
28	PATH	8	534,715.45
29	Premise Data Corporation	8	144,842.08
30	Research Foundation for Mental Hygiene	8	479,590.88
31	Seattle Children's Hospital	8	111,443.20
32	Sense International	8	59,680.00
33	Stanford University	8	1,111,058.84
34	STC Biologics/LEAF Therapeutics LLC	8	1,809,542.63
35	Task Force for Global Health	8	31,557.54
36	Triclinium	8	21,717.93
37	Umea University, Sweden	8	40,374.17

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38	University of Maryland	8	5,046,442.12
39	University of Alabama	8	284,079.40
40	University of California, San Francisco	8	20,219,500.43
41	University of Colorado	8	1,461,661.38
42	University of Connecticut	8	1,489,082.38
43	University of Kansas	8	703,874.29
44	University of Liverpool	8	771,998.35
45	University of Massachusetts	8	506,365.60
46	University of New Mexico	8	1,030,750.20
47	University of North Carolina	8	2,555,074.41
48	University of Washington	8	2,570,318.37
49	Walter Reed - US Army	8	35,298,446.62
50	Washington State University	8	3,606,408.06
51	Yeshiva University	8	413,572.83
	TOTAL		138,596,263.88

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22. GOK Research Funds

CENTRE		IRG NUMBER	ACOUNT	AMT. AWARDED	AMT Transferred
ESACIPAC	BEATRICE WASUNNA	IRG/181/6		1,000,000.00	1,000,000.00
ESACIPAC	FAITH MWENDE MUTUNGI	IRG/182/6	L-0658	1,000,000.00	1,000,000.00
CGMR	DR. JOSEPH MUMO MWANGANGI	IRG/020/2	L-0700	3,000,000.00	2,000,000.00
CMR	DR. CHRISTINE BII	IRG/019/2	L-0410	3,000,000.00	2,000,000.00
CMR	BRIDGET WANJIKU KIMANI	IRG/173/6	L-.413	1,000,000.00	1,000,000.00
CRDR	PAUL MWANGI WAIGANJO	IRG/178/6	L-0311	1,000,000.00	1,000,000.00
CBRD	JACKLINE MILKAH MUTHONI	IRG/165/6	L-0222	1,000,000.00	1,000,000.00
CVR	VINCENT OKOTH	IRG/161/6		1,000,000.00	1,000,000.00
CMR	DR. CHRISTINE BII	GRG/15/14	L-0412	8,000,000.00	5,000,000.00
CVR	DR. BHAVNA CHOCHAN	GRG/15/22	L-0276	20,000,000.00	17,000,000.00
CMR	DR. BERNARD MWANGANGI	GRG/15/55	L-0414	2,000,000.00	2,000,000.00
CVR	MS. DAMA OLUNGAE	GRG/15/23	L-0278	3,000,000.00	3,000,000.00
CCR	MS. ANNE KORIR	GRG/15/43	L-0177	17,000,000.00	14,000,000.00
CGHR	PROF. CHARLES OBONYO	GRG/15/47	L-0318	10,570,000.00	10,570,000.00
CGMR-C	DR. ANTHONY ETANG & DR. KIMANI	GRG/15/09	L-0702	26,420,000.00	26,420,000.00
CCR	DR. SIMON NJOROGE	GRG/15/53	L-0180	11,708,400.00	11,708,400.00
CBRD	DR. FRANCIS KIMANI	GRG/15/26	L-0216	9,500,000.00	7,500,000.00
HQS	DR. B. WASUNNA & PROF. S. NJENGA	GRG/15/19	L-0656	5,000,000.00	5,000,000.00
CGHR-KISUMU	DR. S. KARIUKI & MR. K. OTIENO	GRG/15/06	L-317	3,500,000.00	1,632,517.00
PRODUCTION	DR. ALLAN O. KWALLAH	GRG/15/56	L-0058	17,000,000.00	14,000,000.00
HQS	PROF. SAMUEL KARIUKI	GRG/15/07	L-0411	12,000,000.00	9,000,000.00
CGMR-C	MR. DAVID B. WALUMBE	GRG/15/13	L-0701	2,000,000.00	1,000,000.00
CCR	DR. LINNET ONGERI	GRG/15/16	L-0178	17,500,000.00	17,500,000.00
ESACIPAC	DR. DORIS NJOMO	GRG/15/31	L-0657	17,500,000.00	14,500,000.00
CRDR	DR.HELLEN MEME	GRG/15/32	L0309	25,000,000.00	22,000,000.00
CRDR	MS. OLGA M-NDUWIMANA	GRG/15/33	L-0310	4,000,000.00	1,000,000.00
CRDR	MR. FRED ORINA	GRG/15/28	L-0308	8,000,000.00	5,000,000.00
CCR	DANIEL NJENGA	IRG/139/5		1,000,000.00	1,000,000.00
CTMDR	Lucia Keter		L-0507		43,185.00
				248,830,917.00	198,874,102.00

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23. Property, plant and equipment

Cost	Land and Buildings	Office Building	Motor Vehicle	Motor Boat	Office Furniture	Computers	Office & Medical Equipment	Total
At 1 July 2015	227,642,500	2,212,408,538	233,984,600	2,638,103	65,463,663	81,454,229	749,505,976	3,573,097,609
Additions	-	-	29,278,196	-	3,168,165	3,265,780	16,109,295	51,821,436
Disposals	-	-	(1,770,000)	-	-	-	-	(1,770,000)
Revaluation	15,540,291,380	1,624,803,303	-	-	-	-	-	17,165,094,683
At 30 th June 2016	15,767,933,880	3,837,211,841	261,492,796	2,638,103	68,631,828	84,720,009	765,615,271	20,788,243,728
Additions	-	2,827,960	9,169,075	-	4,916,251	8,046,777	18,475,549	43,435,612
At 30 th June 2017	15,767,933,880	3,840,039,801	270,661,871	2,638,103	73,548,079	92,766,786	784,090,820	20,831,679,340
Depreciation and								
At 1 July 2015	-	260,183,487	96,845,113	527,620	15,655,698	62,509,084	286,611,491	722,332,493
Depreciation	-	38,372,118	13,074,640	131,905	1,715,796	21,180,002	19,140,382	93,614,843
Disposal	-	-	(1,472,000)	-	-	-	-	(1,472,000)
At 30 June 2016	-	298,555,605	108,447,753	659,525	17,371,494	83,689,086	305,751,873	814,475,336
Depreciation	-	38,400,398	13,533,094	131,905	1,838,702	23,191,697	19,602,271	96,698,067
At 30 th June 2017	-	336,956,003	121,980,847	791,430	19,210,196	106,880,783	325,354,144	911,173,403
Net book values								
At 30 th June 2017	15,767,933,880	3,503,083,798	148,681,024	1,846,673	54,337,883	(14,113,997)	458,736,676	19,920,505,937
At 30 th June 2016	15,767,933,880	3,538,656,236	153,045,043	1,978,578	51,260,334	1,030,923	459,863,398	19,973,768,392

KENYA MEDICAL RESEARCH INSTITUTE**Reports and Financial Statements****For the year ended June 30, 2017****NOTES TO THE FINANCIAL STATEMENTS (Continued)****24. Intangible assets-software**

Description	2016-2017	2015-2016
	KShs	KShs
Cost		
At 1 st July 2015	68,151,763	68,060,518
Additions	-	91,245
At 30 th June 2016	68,151,763	68,151,763
Additions-internal development	-	-
At 30 th June 2017	68,151,763	68,151,763
Amortization and impairment		
At 1 st July 2015	50,788,679	33,773,549
Amortization	17,037,941	17,015,130
At 30 th June 2016	67,826,620	50,788,679
Amortization	3,062,282	17,037,941
At 30 th June 2017	70,888,902	67,826,620
Adjustment on accumulated depreciation	5,822,232	-
At end of the year	65,066,670	67,826,620
NBV	3,085,093	325,143

25. Investment property

Description	2016-2017	2015-2016
	KShs	KShs
Cost		
At 1 st July 2015	1,002,663,552	796,251,617
Revaluation	-	206,411,935
At 30 th June 2016	1,002,663,552	1,002,663,552
Amortization and Impairment		
At 1 st July 2016	56,000,833	45,974,197
Amortization	10,026,636	10,026,636
	66,027,469	56,000,833

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At 30 th June 2017		
Net Book Values	936,636,083	946,662,719

26. Intangible Asset

Intangible Asset valued at Kes. 55,902,630.87 bought in Financial 2012/2013 have fully amortized to zero value.

Amortization of Kes. 12,249,131.25 is only provided for Asset bought in 2014/2016 at the rate of 25 percent straight line for four years.

27. Currency

The financial statements are presented in Kenya Shillings (Kshs).

28. Exchange Rate

The foreign currency bank accounts were converted using the exchange rate that were in place as at 30th June 2017. The accounts are:

Account No	Bank Balance	Exchange Rate	Balance in Ksh.
1168110491	\$46,044.24	101.94	4,693,750
1170930956	€149,591.98	116.77	17,467,856

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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	<p>Property Plant and Equipment</p> <p>i. Land As previously reported the property plant and equipment balance of KSHS. 19,973,768,392 as Revalued at 30th June 2016 includes various parcels of land valued at KSHS 145,925,500, situated at Kilifi (2.705 ha), Mbagathi Road (2.4282 ha), Busia (100 Acres) and Taita Taveta (4.047 ha), whose respective title documents were not availed for audit verification.</p> <p>In the absence of the title documents, it has not been possible to confirm the ownership status of the parcels of land and that the property, plant and equipment balance of KSHS 19,973,768,392 as at 30th June 2016 is fairly stated.</p>	<p>i. The management commenced the process of obtaining Provisional Titles for the said parcels, and we are pleased to report that the title for the parcel of land next to Kenyatta National Hospital is now available (Appendix I)</p> <p>ii. We wish to confirm that the Title Deed for 2.705 ha parcel of land in Kilifi currently under caution by one of our collaborative partners who claim interest as Charge, owing to extensive development projects situated on that parcel of land constructed through funds from the collaborative partner. The management has however put a caveat for this. (Appendix II)</p> <p>iii. The Title Deed for the 2.428 ha parcel of land along the Mbagathi road is being held by the Investment Secretary after the National Treasury settled all the outstanding debt owed at National Bank that had been charged to this</p>	<p>Legal Office</p> <p>Legal Office</p>	<p>Resolved</p> <p>Not Resolved</p> <p>Not resolved</p>	

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	<p>ii. Residential Staff Housing</p> <p>As similarly reported in 2014/2015, the property, plant and equipment balance of KSHS 19,973,768,392 as at 30 June 2016 also include a staff housing project valued at KSHS 476,001,556 located on a 2.4282 ha area along Mbagathi road - Nairobi and against which a developer had used the title documents as collateral to borrow funds from the National bank of Kenya. In an effort to have the documents discharged and as similar reported in 2014/2015 the Government spent a sum of KSHS 280 million in the year 1993 and further amount of KSHS 142 million in 2000 towards settling the developer account with the Bank. However, and in spite of payments totalling KSHS 422 million having been made thus settling the debt in full, the documents had not been discharged to KEMRI as at 30th June 2016.</p>	<p>iv. Title: The CS, MOH has written to the AG, copied CS, treasury, for the AG to provide legal advice to facilitate transfer of title to KEMRI.</p> <p>The 4.047 ha Taita Taveta has been surveyed and currently fencing is going on. All documents necessary for issuance of the Title Deed have been presented to the Commissioner of Lands, Nairobi. Further action is being awaited from the office of the Commissioner of Lands. Certificate of beacons for the land is available (Appendix II)</p>	<p>Legal Office</p>	<p>Not resolved</p>	<p>December 2017</p>
			<p>Directors office</p>	<p>Not resolved</p>	

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	<p>In the circumstances, it has not been possible to ascertain the ownership status of parcel of land and that the property, plant and equipment balance of KSHS 19,973,768,392 as at 30th June 2015, is fairly stated</p>				
<p>2.</p>	<p>Intangible Assets Software Included in the statement of financial position as at 30 June, 2016 is total intangible asset cost of Kshs 68,060,518 out of which Kshs 22,904,126 relate to payment for an Enterprise Resource Planning (ERP) software for use in KEMRI 14 modules. KEMRI had sourced for this service from M/S Alliance Technologies on 24th August 2011 at a contract sum of Kshs 24,865,500. The installation and commissioning of this software was to take one year upto 2nd July 2012. Despite the 92% payment of the contract sum by 30th June 2016, it was observed that only 4 out of 14 modules had been installed. It was further noted that even the 4 modules installed were not in operation. KEMRI therefore, had paid and amortized intangible assets not received, and it was therefore not possible to confirm the validity and accuracy of the intangible assets net book value of Kshs 325,143 in the statement of financial position.</p>		<p>Head of ICT</p>	<p>Not Resolved</p>	

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	<p>Trade and other Receivables</p> <p>i. As reported in 2014/2015, the trade and other receivables balance of KSHS 630,574,483 as at 30th June 2016 is net off an amount of KSHS 120,000,000 in respect of a deposit placed with the institute lawyers in the year 2000 while the institute was following up issues related to the stalled residential staff housing project. Although the Institute was fully provided for this amount as bad debts, the matter is still under police investigation. A further review of the statements indicates the interest accumulated over time on the amount of KSHS 120,000,000 may not have been taken into account during the year. Further the trade and other receivables of KSHS 630,574,483 as at 30 June 2016 includes temporary imprests amounting to KSHS 2,410,300.06 which have been outstanding for over one year. Out of KSHS 2,410,300.06, long outstanding temporary imprest, Kshs:978,202.56 relates to officers who have since left the institute.</p> <p>In the circumstances, it has not been possible to confirm the validity and accuracy of the trade and other receivables balance of KSHS 630,574,483.</p>	<p>a. Deposit to the Institute Lawyers</p> <p>The Institute's Board of Management has referred this matter to the offices of the Director of Public Prosecution (DPP) and the Criminal Investigations Department (CID) for further investigations. The collectability of this debt seems unlikely at the present moment, and management has accordingly presented it as doubtful debt in the accounts. Interest receivable from the same is also doubtful. These notwithstanding, the future treatment of this debt in the institute's books of accounts will now await the outcome of the investigations by the DPP and CID.</p> <p>b. Temporary Imprests (KES) 4,096,153</p> <p>The temporary imprest totalling to KES 4,096,153 was imprest the staff had failed to account for as at 30th June 2014. The salaries department has since been instructed to commence recovery from the affected staff as per the attached documents.</p>	<p>Legal Office</p> <p>Assistant Director Finance</p>	<p>Not resolved</p> <p>Not Resolved</p>	<p>June, 2017</p>
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VI. PROGRESS ON FOLLOW UP OF AUDITOR 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 time frame within which we expect the issues to be resolved.



DR. YERI KOMBE
DIRECTOR
KENYA MEDICAL RESEARCH INSTITUTE

Date: 18/4/18



DR. NAPHTALI N. AGATA
CHAIRPERSON
BOARD OF MANAGEMENT

Date: 23/4/18