

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 26 JUN 2019

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THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA MEDICAL RESEARCH INSTITUTE

FOR THE YEAR
ENDED 30 JUNE 2018

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KENYA MEDICAL RESEARCH INSTITUTE
Reports and Financial Statements
For the year ended June 30, 2018



In Search of Better Health

KENYA MEDICAL RESEARCH INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2018

Prepared in accordance with the Accrual Basis of Accounting and
Accounting Standards

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I. 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.

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- 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:

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

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d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

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

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II. THE BOARD OF DIRECTORS







1.		<p>Dr. Naphtali N. Agata Chairperson</p>
2.		<p>Dr. Yeri Kombe Director/CEO</p>
3.		<p>Dr. Joseph Mutai Member (aged 64) Key qualifications: PHD Work experience: Lecturer Egerton University</p>
4.		<p>Dr. Noor Mohamed Ali Member (aged 60) Key qualifications: Master of Science in Dental Public Health Work experience: Managing Director, Nairobi Dental Polyclinics</p>
5.		<p>Dr. Naomi Mutea Member (aged 61) Key qualifications: Post-doctoral Training in translational research/ Doctor of Nursing Practice Work experience:</p>
6.		<p>Mr. Lazarus K. Tanui Member (aged 62) Key qualifications: Master of Science Chemistry (Combustion & Energy) Work experience: Lecturer, University of Eldoret</p>

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7. 	<p>Dr. Moses S. Alobo Member (aged 43) 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>
8. 	<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>

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III. MANAGEMENT TEAM

1. 	Dr. Yeri Kombe Director/CEO
2. 	Mr. Kamau Mugenda Deputy Director Administration and Finance
3. 	Prof. Sam Kariuki Deputy Director, Research and Development
4. 	Dr. Evans Amukoye Assistant Director Research & Administration
5. 	Mr. Daniel Saruni Assistant Director, Human Resource
6. 	Mr. Anthony Wachira Assistant Director, Finance

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

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IV. 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, 2018 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.

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 Director and CEO, KEMRI and all staff for their invaluable effort and commitment in their motto serving KEMRI and humanity *In search of Better Health*.



Dr Naphtali N. Agata

Chairman,

KEMRI Board of Management

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REPORT OF THE CHIEF EXECUTIVE OFFICER

Although this Annual Report chronicles research activities and Financial Statement for the year ended 30th June, 2018, it is instructive to note that some of the comments and events are drawn up from the beginning of the year 2017.

I wish to draw your attention to some of the major milestones that we achieved during the last year towards this end. You will recall that the 8th KEMRI Annual Scientific Conference (KASH) was held from 13th -16th February, 2018 and attended by over 400 participants. The conference attracted a very rich cocktail of scientific papers, presentations, and had seven parallel symposiums that sought to explore possible ways around the challenges of research on different diseases burden and their control. In addition, the conference had over 143 oral and poster presentations reflecting research efforts covering eight different subthemes and at least 15 various exhibitors. The Institute is committed to supporting future KASH conferences for the overall advancement of science in the Institute.

During this year, the Institute moved towards strengthening its ties with the county governments throughout the country with very promising working relationships with over eight counties including Bugoma, Homa Bay, Mandera, Kwale, Kirinyaga and Voi. Already, the Institute began the construction of a perimeter wall around the 100 acres piece of land donated to the Institute Kirinyaga county and more donations of land from Kwale , Mandare and Voi counties.

The Institute plans with the help of the national and county governments and other partners including private and public players, to set up seven key facilities that include, a university purely dedicated to health research, research centres, teaching and referral hospitals, manufacturing plants and specialized laboratories. Other likely facilities may include botanical gardens, administrative and office spaces, utility and other recreational facilities.

On the technical front during this period, you will be pleased to note that the Institute continued to play a leading role in research regionally and internationally. Towards this end, KEMRI is one of the regional partners identified by Mbarara University of Science and Technology of Uganda to assist in the establishment of a regional Pharm biotechnology and Traditional Medicine Centre (PHARMBIOTRAC). This new initiative is aimed at building a critical mass of specialized and skilled human capital in advancing traditional medicine and pharm biotechnology and is part of the World Bank Group (WBG) project geared at developing regional higher education programs in Africa. The PHARMBIOTRAC is collaborating with KEMRI in the area of clinical validation of the Traditional Medicine (TM) products and biopharmaceuticals and plans joint clinical trial projects. The joint venture also provides involves inviting KEMRI staff to offer block lectures and mentorship programs to students and staff in the area of clinical validation and product development at the university.

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Disease outbreaks can be so distressing and disruptive, causing both human suffering and mortality. Kenya has had a share of them from time to time. In collaboration with partners and other global actors in public health the country has variously managed to suppress epidemics as and when they occur. These episodes of epidemics and consequent responses have shaped how the country controls and mitigates possible future outbreaks.

Effective responses and disease control measures largely draw from informed protocols based on good and systematic medical research. Kenya's success in controlling disease outbreaks is predicated on this principle. During the period under review, KEMRI and the Ministry of Health worked closely towards achieving this success in the area of disease outbreak responses with teams being dispatched in prone areas of Madera and Baringo counties with much success.

Besides collection of samples for laboratory identification, KEMRI also studied the nature of the disease strains and patterns, treatment options for the affected and overall monitoring of patients referred for treatment at respective health facilities. The Baringo outbreak response followed another by the Institute's Rapid Response Unit in Marsabit where a mysterious disease had claimed over 20 people. The KEMRI combed the vast county from North Horr to Dukana in search of both vector and human samples that eventually cracked the mystery to the relief of the affected people from the expansive Marsabit County.

On Wednesday, 27th, June 2018, Cabinet Secretary of Health Hon. Cecily Kariuki unveiled the completed and furnished the state-of-the-art Sample Management and Receiving Facility (SMRF) and two new office building blocks constructed with the support of USA Defense Threat Reduction Agency (DTRA) at KEMRI Headquarters.

The facilities that are part of phase one KEMRI – DTRA Collaborative Project are informed by an agreement signed between the Government of the United States of America (USG) and the Government of the Republic of Kenya (GOK) concerning Cooperation in Biological Threat Reduction engagement programs.

The other facilities to follow are the completion of the on-going building, purchase, installation and commissioning of two new biomedical waste incinerators that will enhance the Institute's waste management capabilities. In addition, the facilities also includes two multi-purpose conference rooms, renovations of selected laboratory and office spaces within the complex that includes decongestion of corridors and creation of flexible laboratories through the consolidation of functions and laboratory work flow. Phase two involves installation of access controls in the laboratories, installation of three new insectaries and continuous capacity building for personnel involved.

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Another milestone recorded during the period under review is the unveiling of the second state of the art HIV Viral Load testing and monitoring facility at the KEMRI Headquarters on 14th, August 2018. The facility installed through a public-private partnership initiative between Roche Diagnostics Ltd, a Swiss based manufacturer of biotech medicines and KEMRI. The new instrument, cobas® 8800 is housed at the KEMRI headquarters in Nairobi and is the second of its kind in Kenya following the installation of another one at our center in Kisumu county in 2016. The new laboratory has a capacity to test more than 300,000 Kenyans living with HIV is expected to help minimize the amount of time taken to analyses HIV samples in addition to providing more accurate results.

As part of moving towards archiving optimal staffing levels in the Institute, the KEMRI Board of Management made over 40 staff appointments within the period under review. The appointments were at various levels within the research, technical and administrative cadres and sought to achieve optimal staffing levels in order to achieve the Institute's mandates.

Finally, the Institute was awarded a new International Organization for Standardization (ISO) 9001:2015 for quality management systems replacing the four year old previous certification: ISO 9001:2008. The new version meets a more updated internationally recognized quality management system and emphasizes on risk management and customer focus within a given organization. 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. This has greatly boosted the morale of staff and productivity in the institute.

Our participation during the 2018 annual, regional and international trade, industry and agricultural exhibition in Mombasa, the Institute recorded yet another sterling performance at ASK show. KEMRI was awarded three trophies: First Prize in the Best Stand in Research and Development and the Best Display and Service in Health Sector and Pharmaceuticals Stand and the Second Prize in the Best Innovation and Invention Stand.

It is against such performance that we as the Institute re-dedicate 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.



Dr. Yeri Kombe
CEO and Director,
Kenya Medical Research Institute

V. 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.

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 under review, the board had at least one meeting per quarter to deliberate on issues as mandated by the Act.

The Kenya Medical research institute has nine members including the CEO and the Corporate Secretary, who are employees of the institute. The Board has four committees namely:

- Audit Committee
- Finance and General Purpose Committee
- Infrastructure and Development Committee
- Scientific Programs Committee

The board is pleased to report that the Institute has complied with and shall remain committed to attaining the highest possible standard through the continuous

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adoption of the principles and best practices and all other applicable principles of corporate governance

Corporate Secretary

CORPORATE SOCIAL RESPONSIBILITY EVENTS COVERING THE YEARS 2017 AND 2018

During the period under review the Institute teamed up with other organizations to participate in a number of Corporate Social Responsibility initiatives such as Busia Hospice Run, Campaign to Enhance Hygiene, the Diabetes Management; 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 evidence include the following:

1. BUSIA HOSPICE RUN

At least 20 members of staff from the Centre for Infectious and Parasitic Disease Control (CIPDCR) in Busia joined area residents for the annual Busia Hospice Run aimed at raising awareness on cancer as well as raise funds for supporting the mission of providing quality care to patients receiving palliative care within the County.

2. DONATION OF HAND SANITIZERS TO ENHANCE HEALTH HYGIENE

The Institute donated eight automatic soap dispensers and hand sanitizers to Nairobi Primary School with the aim of reducing risks of infectious diseases among pupils. The sanitizers is benefiting approximately 1,800 pupils given that it is mounted at strategic places like the washrooms and dining hall areas in a bid to enhance personal hygiene and general sanitation within the school environment. According to the school, an average of 10 to 14 students report cases of diarrhoea weekly which may be as a result of sanitation-related challenges. Nairobi Primary School is a Mixed Day & Boarding school established in 1902.

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3. In a bid to raise awareness to the community on various issues as well as raise funds, the institute participated in the following marathons

- Safaricom Diabetes Walk
- The Uap Old Mutual Ndaka-ini Half Marathon
- The 14th Annual Standard Chartered Marathon & Mater Heart Run

The institute is committed at all times to conduct our mandate in responsible in a way that is beneficial to all our stake holders, our environment as well as the wider community.



Dr. Yeri Kombe,
CEO and Director,
Kenya Medical Research Institute

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VI. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the KEMRI's affairs.

Principal activities

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

Results

The results of the Institute for the year ended June 30, 2018 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


Corporate Secretary
Nairobi
Date.....9/14/2019

VII. 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 and the operating results of *KEMRI* for that year. 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 *KEMRI* financial statements, which give a true and fair view of the state of affairs of the *KEMRI* for and as at the end of the financial year ended on June 30, 2018. 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.

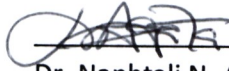
The Directors accept responsibility for the Institute's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required 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, 2018, 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.

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Approval of the financial statements

KEMRI financial statements were approved by the Board on 13th September 2018 and signed on its behalf by:



Dr. Naphtali N. Agata
Chairman of Board

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
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 FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Medical Research Institute set out on pages 1 to 43, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects the financial position of Kenya Medical Research Institute as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Public Finance Management Act, 2012 and the Science, Technology and Innovation Act, 2013.

Basis for Qualified Opinion

1.0 Administrative Costs

1.1 Legal Expenses

Included in the administrative costs of Kshs.439,947,248 in the statement of financial performance for the year ended 30 June 2018 is Kshs.20,752,239 paid as legal expenses to private legal firms. However, approval and issuance of no objection from the Attorney General's office on engagement of the private legal firms was not given as required by the Attorney General's Circular reference AG/CON/6/D/144/VOL.II dated 16 April 2014. Further, during the year, the institute's legal expenses went up by 87% from Kshs.11,083,791 in the previous year. This was occasioned by the Institute's debt owed to vendors amounting to Kshs.222,865,183 for CDC Centre program that was terminated. The Centre's suppliers sort redress in courts and the courts ordered the Institute to pay principal amount, cost of the cases and interest at 14% on the outstanding amount of the invoices notwithstanding legal fee for the Institute's own lawyers. No justifiable reason was provided for not paying the suppliers in order to avoid the escalation of the legal costs.

Report of the Auditor-General on the Financial Statements of Kenya Medical Research Institute for the year ended 30 June 2018

In the circumstances, the propriety of legal expenses totalling to Kshs.20,752,239 could not be confirmed for the year ended 30 June 2018.

1.2 Contracted Cleaning Services

As disclosed at note 6 to the financial statements, administrative costs of Kshs.439,947,248 includes expenditure on contracted cleaning services of Kshs.19,230,756. Available information indicate that the Institute contracted a company in September 2014 for cleaning services which was to run for eleven months up to 31 July 2015 at a monthly charge of Kshs.1,602,563. The contract was however extended for four months to November 2015 to allow a fresh tender by the Institute. However, it was noted that the Company continued offering services from December 2015 up to the time of our audit in March 2018. Available information indicate that there arose a dispute between the Company and the Institute where upon the Company sought legal redress upon which the Institute was directed to pay the Company for services rendered outside the contract from December 2015 to May 2018 totalling to Kshs.48,076,890.

Consequently and in the absence of a valid contract, the validity of the contracted cleaning services expenditure of Kshs.19,230,756 for the year ended 30 June 2018 could not be confirmed.

2.0 Trade and Other Receivables

2.1 Deposit with the Institute Lawyers

As reported in 2016/2017, trade and other receivables balance of Kshs.442,875,202 included in the statement of financial position as at 30 June 2018 is net of an amount of Kshs.120,000,000 in respect of a deposit placed with the Institute's 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.

2.2 Long outstanding Receivables

The trade and other receivables balance of Kshs.442,875,202 as at 30 June 2018 includes capitation recurrent balance of Kshs.139,371,856 which have been outstanding for more than one year. No supporting document was provided to confirm the recoverability of this amount. Further, the trade and other receivables balance includes customers/suppliers control account balance of Kshs.42,398,005 and over remitted statutory deduction of Kshs.368,394 which have also been outstanding for more than one year.

Consequently, it has not been possible to confirm the validity and full recoverability of trade and other receivables balance of Kshs.442,875,202 as at 30 June 2018.

2.3 Staff Advances

The trade and other receivables from non-exchange transactions balance of Kshs.442,875,202 as at 30 June 2018 includes staff advances amounting to Kshs.44,428,853 which had not been surrendered as at 30 June 2018. Included in the unsurrendered balance of Kshs.44,428,853 are imprests totalling to Kshs.4,082,914 which

relate to officers who either retired, resigned, died, absconded or jobs were terminated and therefore recoverability of this amount is in doubt. In addition, trade and other receivables balance includes advances to Centres totalling to Kshs.23,487,268 out of which Kshs.2,908,714 were standing imprests issued to Centres and which had not been surrendered as at 30 June 2018.

This is contrary to Section 93 (5) of the Public Finance Management Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Section 93 (6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

In the circumstance, the Institute is in breach of the law and full recoverability of the trade and other receivables balance of Kshs.442,875,202 as at 30 June 2018 could not be confirmed.

3.0 Property, Plant and Equipment

3.1 Land

As previously reported, the property, plant and equipment balance of Kshs.20,022,026,419 included in the statement of financial position as at 30 June 2018 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.

3.2 Residential Staff Housing

As previously reported, the property, plant and equipment balance of Kshs.20,022,026,419 as at 30 June 2018 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 similarly reported in 2016/17, 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 2018.

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.20,022,026,419 as at 30 June 2018 is fairly stated.

4.0 Intangible Assets Software - Payment for Intangible Assets Not Delivered

As previously reported, included in the statement of financial position as at 30 June 2018 is intangible assets with a cost Kshs.68,151,763 as disclosed at note 21 to the financial statements and out of which Kshs.22,904,126 relate to payment for an Enterprise Resource Planning (ERP) software for use in KEMRI. KEMRI had sourced for this service from a company on 24 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 2 July 2012. Despite the 92% payment of the contract sum by 30 June 2018, only 4 out of 14 modules had been installed. It was further noted that even the 4 modules installed were not operational as at 30 June 2018. KEMRI, therefore, had paid and amortized intangible assets not received. It's not clear and the management has not explained the rationale of making payment and amortizing for a product that is not operational. Currently, the net book value is Kshs.22,811.

Consequently, it has not possible to confirm the validity and accuracy of intangible asset net book value 22,811 as at 30 June 2018 and if the Institute obtained value for money on the entire cost of the asset of Kshs.68,151,763.

5.0 Bank Overdraft

The statement of financial position reflects bank overdraft balance of Kshs.158,854 as at 30 June 2018. However, treasury approval for the overdraft was not availed for audit verification. This is contrary to Section 51(2) of the Public Finance Management Act, 2012 which require a national government entity to obtain approval of the Cabinet Secretary-Treasury, for its intended program of borrowing, refinancing and repayment of loans.

Consequently, the management was in breach of the law and the validity of the bank overdraft balance of Kshs.158,854 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Medical Research Institute 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion Section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Financial Performance

During the year under review, the Institute reported a deficit of Kshs.132,621,755 (2016/17-deficit Kshs.26,917,549) resulting in reduction in accumulated surplus from Kshs.1,622,192,844 as at 30 June 2017 to Kshs.1,489,571,089 as at 30 June 2018.

Clearly, the institute's performance is on a downward trend and if strategies are not put in place to reverse the trend, the Institute is likely to experience financial difficulties in the near future.

2. Budgetary Performance

During the year under review, the Institute's actual receipts amounted to Kshs.6,663,515,583 against budgeted receipts of Kshs.8,130,300,710 resulting in a revenue shortfall of Kshs.1,466,785,127. Further, actual expenditure for the year amounted to Kshs.6,699,317,763 against budgeted expenditure of Kshs.8,064,071,783 resulting in an overall under absorption of Kshs.1,364,754,020. It is therefore clear that the Institute did not fully achieve its budget objectives which adversely affected delivery of the intended services to the public. Therefore, there is need for the Institute to review its budget making process with a view to coming up with a vibrant budget implementation follow up mechanism and feedback process with a view to ensuring that all projects and activities are implemented as planned for the Institute to meet its mission and objectives for the benefits of the Citizens of Kenya.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Employee Costs

A review of the Institute's payroll indicated that employee costs amounted to Kshs.2,004,428,482 as disclosed at note 4 to the financial statements. However, a review of the Institute's staff basic salary revealed that a total of 256 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.

2. KEMRI NCG – Service Level Agreement Loss

As previously reported, the Institute signed an MOU with Nairobi City County Government and subsequently entered into a Service Level Agreement (SLA) effective 11 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 was 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 favored the Nairobi City 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 revealed that the last review reflected a performance shortfall which 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 City County Government since there was no service rendered on the amount owing.

Available information further indicate that the County Government vide their letter to the Institute ref:CHS/CECM/BNM/1/016 dated 14 January 2016 terminated the Agreement citing non-performance by the Institute.

Under the circumstances, the Institute is likely to suffer a loss of Kshs.120,000,000 should the County Government sue for damages arising from non-performance of the contract agreement.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, except for the matters described in the Basis for Qualified Opinion and Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Board Composition

A review of the Institute's current board of directors indicate that none of the board members have finance and accountancy background as outlined in paragraph 4.1 of the Kenya Gazette No.2690 dated 15 April 2016, which require that the board should satisfy itself that at least one member of the audit committee has relevant qualifications and expertise in audit, financial management, or accounting with experience in public service or devolved system of government and knowledge in risk management and is a member of a professional body in good standing.

Under the circumstances, the board as currently constituted may experience challenges in executing its mandate due to the limitations arising from the non-compliance with the requirement of paragraph 4.1 of the gazette notice.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were

operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern / sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Institute 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.

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of

the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

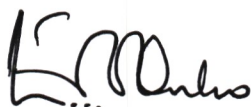
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Institute to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the revenue statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

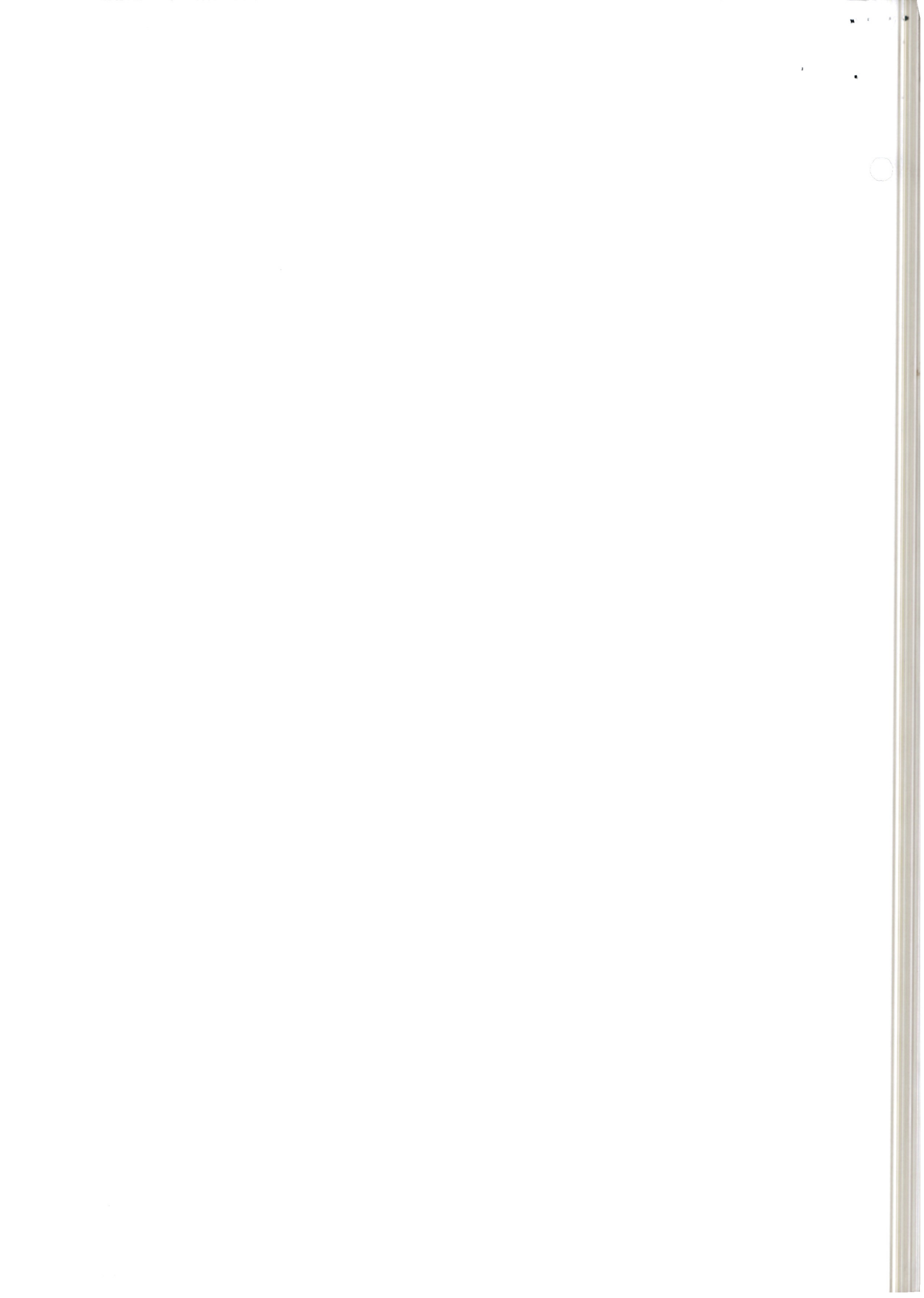
I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

13 May 2019



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IX. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2018

			2018	2017
			(Kshs)	(Kshs)
	Note	Page	Kshs	Kshs
Revenue from non-exchange transactions				
Exchequer funding	3	11	2,087,547,218	1,834,962,265
Collaborators funds	3	11	4,167,756,600	4,461,927,815
Sundry income - overhead	3	11	246,291,975	138,596,264
Contributed Revenue			25,160,960	
Total from non- exchange transactions			6,526,756,753	6,435,486,344
Revenue from exchange transactions	3	11	136,758,830	104,186,750
Total revenue			6,663,515,583	6,539,673,094
Expenses				
Employee costs	4	11	2,004,428,482	1,512,531,437
Expenses Collaborators funds	5	12	4,167,756,600	4,461,927,815
Administrative Costs	6	12	439,947,248	326,732,231
Operating Cost	7	13	63,903,410	131,839,210
Boards Expenses	8	14	23,282,023	23,772,966
Depreciation and amortization expense	9	14	97,479,325	109,786,985
Total expenses			6,796,797,088	6,566,590,644
Other gains/(losses)				
Gain on sale of Asset	17	17	659,750	
(Deficit)/Surplus for the period			(132,621,755)	(26,917,549)

The notes set out on pages 6 to 21 form an integral part of these Financial Statements

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X. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

Current assets	Note	Page	2018 (Kshs)	2017 (Kshs)
Cash and cash equivalents	16a	16	1,080,224,170	1,029,775,253
Short term deposits	10	14	508,660,750	530,000,000
Trade and other receivables	14	15	442,875,202	510,735,379
Non-current assets			2,031,760,122	2,070,510,632
Property, plant and equipment	19	19	20,022,026,419	19,920,505,937
Intangible assets	21	20	22,811	3,085,093
Investment property	20	20	926,609,447	936,636,083
Sub-total			20,948,658,677	20,860,227,113
Total assets			22,980,418,799	22,930,737,745
Liabilities				
Current liabilities				
Trade and other payables	15	16	464,186,012	212,760,116
Refundable deposits from customers	11	14	54,656,275	33,794,115
Collaborators funds	12	15	675,069,945	834,772,884
Bank Overdraft	16	17	158,854	
Deferred Income	2	6	73,875,898	25,125,898
Total liabilities			1,267,946,984	1,106,453,013
Net assets			21,712,471,815	21,824,284,732
Capital Reserve		3	2,851,394,108	2,830,585,270
Revaluation Reserve		3	17,371,506,618	17,371,506,618
Accumulated surplus		3	1,489,571,089	1,622,192,844
Total net assets and liabilities			21,712,471,815	21,824,284,732

The Financial Statements set out on pages 1 to 21 were signed on behalf of the Board of Directors by:

Director /C.E.O
Dr. Yeri Kombe

Date.....

Head of Finance
Mr. Anthony Wachira
ICPAK Member Number:

Date.....

Chairman of the Board
Naphtaji N. Agata

Date.....

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XI. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018

	Capital Reserve	Revaluation Reserve	Accumulated surplus	Total
	Kshs	Kshs	Kshs	Kshs
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

Balance as at 1 July 2017	2,830,585,270	17,371,506,618	1,622,192,844	21,824,284,732
Adjustment for prior year Depreciation	20,808,838			20,808,838
(Deficit)/Surplus for the period			(132,621,755)	(132,621,755)
Balance as at 30 June 2018	2,851,394,108	17,371,506,618	1,489,571,089	21,712,471,815

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XII. STATEMENT OF CASH FLOWS AS AT 30 JUNE 2018

Receipts	2018 Kshs	2017 Kshs
Gok funding	2,087,547,218	1,834,962,265
Collaborators funds	4,167,756,600	4,461,927,815
Sundry income	246,291,975	138,596,264
Interest on Investment	44,839,164	6,313,232
Rental Income	29,929,308	29,554,988
Revenue Generating Activities	55,049,772	48,437,860
Contributed Revenue	25,160,960	-
Graduate Program (ITROMID)	6,029,868	19,328,800
Miscellaneous Income	910,718	551,870
Total Receipts	6,663,515,583	6,539,673,094
Payments		
Compensation of employees	2,004,428,482	1,512,531,437
Expenses on Collaborators funds	4,167,756,600	4,461,927,815
Administrative costs	439,947,248	326,732,231
Operating costs	63,903,410	131,839,210
Board Expenses	23,282,023	23,772,966
Total Payments	6,699,317,763	6,456,803,658
Surplus before Working Capital Changes	(35,802,180)	82,869,436
Working Capital Changes		
Decrease/(Increase) in receivables	67,860,176	119,839,104
(Increase)/Decrease in Short term deposits	21,339,250	(500,000,000)
Increase in payables	251,752,702	103,071,005
Decrease in Deferred Income	48,750,000	(198,874,102)
Increase in Refundable deposits from customers	20,535,354	15,200,044
(Decrease) in bank overdraft	158,854	(593,291)
Increase in Collaborators Funds	(159,702,938)	326,887,082
Net cash flows from operating activities	214,891,218	(51,600,723)
Cash flows from investing activities		
Purchase of property, plant, equipment and intangible assets	(166,852,301)	(43,263,497)
Proceeds from sale of property, plant and	2,410,000	(5,822,232)
Adjustment on Intangible assets accumulated Depreciation		
Net cash flows used in investing activities	(164,442,301)	(49,085,729)
Net cash flows used in financing activities		
Net increase/(decrease) in cash and cash equivalents	50,448,917	(100,686,451)
Cash and cash equivalents at 1 JULY 2017	1,029,775,253	1,130,461,704
Cash and cash equivalents at 30 JUNE 2018	1,080,224,170	1,029,775,253

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XIII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Collaborators Funds	6,142,908,000	(614,290,800)	5,528,617,200	4,167,756,600	1,360,860,600
Exchequer Funding					
Recurrent	1,835,451,510	393,800,000	2,229,251,510	2,076,297,218	152,954,292
Research Grants					
Development	15,000,000		15,000,000	11,250,000	3,750,000
Revenue from exchange transactions	149,000,000	(55,000,000)	94,000,000	136,758,830	(42,758,830)
Sundry Income – Overheads	263,432,000		263,432,000	246,291,975	17,140,025
Contributed revenue				25,160,960	(25,160,960)
Total income	8,405,791,510	(275,490,800)	8,130,300,710	6,663,515,583	1,466,785,127
Expenses					
Compensation of employees	5,297,322,656	22,625,299	5,319,947,955	4,917,956,145	401,991,810
Goods and services	505,278,448	2,398,500	507,676,948	503,850,658	3,826,290
Expenses on Collaborators Funds	2,457,163,200	(245,716,320)	2,211,446,880	1,254,228,937	957,217,943
Board Expenses	37,250,000	(12,250,000)	25,000,000	23,282,023	1,717,977
Total expenditure	8,297,014,304	(232,942,521)	8,064,071,783	6,699,317,763	1,364,754,020
Surplus for the period	108,777,206	(42,548,279)	66,228,927	(35,802,180)	102,031,107

Recurrent funds of Kshs.152, 954,293 for the month of June 2018 and a development fund of Kshs. 3,750,000 were not received from the Ministry of Health . We were not able to achieve the targeted donor funding budget. The increased revenue generated was due to increased business by production unit, DNA unit. KEMRI received funds in supplementary budget to cater for extraneous and Call allowance .

KENYA MEDICAL RESEARCH INSTITUTE
Reports and Financial Statements
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XIV. 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.

Deferred Income

The national government transferred Kshs.48,750,000, being research funding during the year.

Accounting for Deferred Income:

Debit: Bank Account 48,750,000

Credit: Deferred Income Account 48,750,000.

At the end of the financial year, the balance in the deferred income of Kshs.73,875,898 will be recorded as a Liability in the statement of financial position.

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.

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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

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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%

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.

Included in the Property plant and equipment of Kes 20,022,026,419 is an amount of Kes 25,160,960 being assets bought by the collaborators in the course of their duty and donated to the Institute

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.

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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

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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 KSH 30, 000,000 in compensation for violation of their rights under Article 23 of the constitution. The

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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 Ksh 30, 000,000 be deposited in an Escrow account. The amount held in the Escrow account earned an interest of Kes. 8,538,655.55 as at 30th June 2018.

Petition No. 31 of 2013 KEMRI Vs Agnes Muthoni & 34 others: -

The court directed that a deposit of Ksh 50,570,578 be made in an interest earning bearing account held jointly by council for the petitioners and the 1st interested party. These funds are kept in an Escrow account

o) Retention on close out

Included in Kshs 139,181,321 in Bank account 1104158574 is an amount of Kshs 14,891,841 retention on close out. This is amount which remained after the close out of the Fixed project account.

p) Other Deposits

Included in the payable is a figure of Ksh. 49,425,958 being other deposits. These are funds held on behalf of beneficiaries of deceased members of staff.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Notes 3

Revenue from non-exchange transactions

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Exchequer Funding				
Recurrent			2,076,297,218	1,799,462,265
Development			11,250,000	35,500,000
Total Exchequer Funding			2,087,547,218	1,834,962,265
Collaborators Funds			4,167,756,600	4,461,,927,815
Sundry Income - Overheads			246,291,975	138,596,264
Contributed Revenue			25,160,960	-
Subtotal (1)			6,526,756,753	6,435,486,344
Revenue from exchange transactions				
Interest on Investment			44,839,164	6,313,232
Rental Income			29,929,308	29,554,988
Revenue Generating Activities			55,049,772	48,437,860
Graduate Program (ITROMID)			6,029,868	19,328,800
Miscellaneous Income			910,718	551,870
Subtotal (2)			136,758,829	104,186,750
Total Income (1+2)			6,663,515,583	6,539,673,094

4) Employee costs

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Basic Salary			786,191,212	824,243,750
Gratuity & pension contribution			167,959,090	137,151,352
House allowance			301,658,899	273,072,833
Other allowance			625,511,740	168,319,575
Medical allowance			152,490	4,141,160
Passages & leave			6,799,167	6,948,500
Staff Insurance			19,142,078	16,312,964
Medical & Ex-gratia			97,013,806	82,341,303
			2,004,428,482	1,512,531,437

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5) Expenses on Collaborators Funds

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Staff Costs			2,913,527,663	3,253,118,910
Bank Charges			1,888,414	2,156,804
Training			29,480,757	44,498,938
Laboratory Supplies			92,578,492	93,172,932
Travelling and Accommodation			201,199,621	211,468,521
Motor Vehicle Expenses			22,773,339	21,506,588
Purchase of assets			25,160,960	14,208,079
Other Operating Expenses			881,147,353	821,797,042
			4,167,756,600	4,461,927,815

6) Administrative Costs

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Transport			24,396,260	19,222,058
Travelling & accommodation			54,754,178	30,264,729
Legal expenses			20,752,239	11,083,791
External travelling & accommodation.			12,650,578	9,256,880
Postal & telegrams			59,645	59,386
Telephones			4,004,896	2,923,672
Official entertainment			2,015,946	1,832,826
Conferences/workshops			8,121,090	5,704,717
Electricity			48,639,712	58,697,623
Water & conservancy			9,633,289	9,367,989
Purchase of consumable stores			3,123,681	6,241,877
Publishing & printing			706,486	871,505
Purchase of uniforms & clothing			1,825,782	1,010,473
Library Expenses			922,177	1,308,094
Purchase of stationery			6,303,050	5,683,511
Advertising, publicity & shows			9,590,076	7,050,299
Industrial Diesel			445,247	668,590
Rents and rates			469,000	3,233,306
Computer Expenses			4,176,881	8,595,152
Internet service			7,692,140	13,474,688
Miscellaneous			1,234,240	1,850,271
Audit Fees			812,000	812,000
Fees Commission & Honoraria			11,815,667	8,990,614

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Training			16,439,185	8,744,722
Insurance - Fire and burglary			2,823,139	
Insurance - Motor Vehicle			10,267,311	7,934,011
Security Expenses			29,853,228	31,967,328
Maintenance. -Plant, mach.& equip.			3,492,753	1,888,544
Maintenance - buildings & stations			17,420,751	8,283,403
Maintenance of Water & Sewer			1,025,808	2,576,941
Prevention of Drugs & Substance Abuse			305,000	
Contracted Services – Cleaning			19,230,756	19,535,066
Financial control & Inspections/Int. audit			5,763,383	3,877,495
Staff Welfare			11,317,997	4,862,335
Strategic Initiatives			22,147,699	14,311,072
Subscriptions & Membership Fees			2,468,339	2,106,252
Gender Mainstreaming			535,500	485,600
Disability Mainstreaming			547,492	518,794
Bank Charges			1,283,437	1,392,542
Valuation of Fixed Assets			1,845,185	736,883
Devolution Expenses			2,047,499	749,924
Remittances-JKUAT			-	3,786,184
Human Resource Consultancy			-	4,771,084
Workshops			3,200,940	
HIV Awareness			369,300	
CDC Debt			51,100,000	
Corruption Eradication			248,000	
Compensation & ex-gratia payments			882,746	
CCR catering services			1,187,542	
			439,947,248	326,732,231

7) Operating costs

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Laboratory reagents & supplies			21,180,161	12,816,398
Purchase of drugs & dressings/staff clinic			5,215,506	3,382,349
Purchase of animal feeds			840,500	568,989
Research Programs –Internal			-	59,772,316
Research funding			36,611,194	55,299,158
Research Materials			53,600	
purchase of research animals			2,450	
			63,903,410	131,839,210

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8) Boards Expenses

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Sitting Allowance			8,810,000	10,582,000
Travel & Accommodation			10,491,475	10,519,737
Official Entertainment			713,548	1,099,871
Insurance			60,000	539,358
Honoraria			960,000	960,000
Telephone			72,000	72,000
Training			2,175,000	-
			23,282,023	23,772,966

9) Depreciation

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Property Plant and Equipment			84,390,407	96,698,067
Investment Property			10,026,636	10,026,636
Intangible Assets			3,062,282	3,062,282
			97,479,325	109,786,985

10) Short-term deposits

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Escrow Account – Kenya Commercial Bank			30,000,000	30,000,000
Fixed Deposit – CBK Treasury Bills			478,660,750	500,000,000
Total Short-term Deposit			508,660,750	530,000,000

11) Refundable deposits from customers

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Caution Money			4,488,000	4,432,000
Research Fees			742,327	-
Other Deposits			49,425,948	29,362,115
Total deposits			54,656,275	33,794,115

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12) Collaborators Funds

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Treasury Bills and Funds In Escrow account			430,000,000	30,000,000
Collaborators Bank balances			245,069,946	804,772,884
Total deposits			675,069,946	834,772,884

13) Bad debt

	Notes	Page	2018 (Kshs)	2017 (Kshs)
ITROMID Students			43,609,491	43,609,491
Sande Makhadia			120,000,000	120,000,000
Total deposits			163,609,491	163,609,491

14) Trade and other receivables from non-exchange transactions

Category	Notes	Page	2018 (Kshs)	2017 (Kshs)
Graduate school – Outstanding Fees			113,426,247	123,963,940
Interest Receivable			19,463,272	1,240,381
Capitation-Recurrent			139,371,856	139,371,855
Sande Makhandia & Co. Advocates			120,000,000	120,000,000
Advances to Centres			23,487,268	954,933
Staff advances			44,428,853	41,230,837
Over remitted Statutory Deduction			368,394	276,563
MISC.			103,540,796	141,600,121
Customers/suppliers Control Account			42,398,005	105,706,241
Total Receivables			606,484,695	674,344,871
Less: Impairment allowance			(163,609,492)	(163,609,492)
Total Receivables			442,875,203	510,735,379

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15) Trade and other payables from exchange transactions

	Notes	Page	2018 (Kshs)	2017 (Kshs)
Graduate School prepayments			30,866,649	24,522,060
Mortgage Scheme			-	51,846,166
Research Fees			-	326,807
Retention Money			18,842,765	13,660,329
Un-remitted Statutory Deductions			7,936,723	5,136,244
Staff Over deductions			4,847,259	12,645,867
Advances to Centres			103,047	787,928
Suppliers Control Account			5,189,302	73,270,922
Unremitted staff deductions			2,600,267	2,152,262
Extraneous allowance			393,800,000	-
Payable to Local Grants				28,411,531
Total			464,186,012	212,760,116

16 (a) Cash at Bank			
Bank Name	Account No	2018 (Kshs)	2017 (Kshs)
KCB			
Exchequer	1104161362	509,658,695	245,881,843
ITROMID Account	1104167611	35,740,703	77,639,528
RGA	1104174529	35,045,420	16,750,782
Production Department	1104166194	3,610,464	12,497,755
Conference Collection	1112776850	1,386,319	1,390,189
External Grants	1104158574	139,181,321	192,004,609
RCTP	1104166879	710,187	2,900,846
IPM	1110258925	97,512	135,504
KEMRI CDC	1104175975	376,847	728,831
Local Grants	1104161966	52,289,198	117,199,918
Dollar Account	1168110491	6,152,612	4,693,750
Euro Account	1170930956	2,102	17,467,856
CDC/Non Grants Accounts	1123818177	2,499,791	32,887,415
Welcome Trust	1110259204	8,869,625	8,910,832
CDC Research Grants	1101722291	27,006,136	9,963,909
Mortgage Account	46000014289	249,553,770	270,842,272
Kemri Oxford University	46000012346	203,616	6,194,266

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Cooperative bank		(Kshs)	(Kshs)
CNHR RLGA	1128126178201	-	1,192,1
CNHR RLGA	1128126178200	3,734,490	3,750,014
CNHR RLGA	1128126178202	283,441	284,541
CNGR RLGA	1128126178203	1,602	2,592
KEMRI IPM SUBA	1128126178700	2,728,294	1,088,704
KEMRI EAST AFRICA	1128126671100	822,586	5,097,739
KEMRI/EDCPT	1128127558400	269,439	269,439
		1,080,224,170	1,029,775,253

16 (b) Bank Overdraft

Bank Overdraft			
CNHR RLGA	112812617820		-
	1	158,854	

17) Gain on disposal of Motor Vehicle

	Notes	Page	Kshs
Disposed Assets at cost			11,675,742.00
Accumulated Depreciation			(9,925,492.00)
Proceeds on sale			(2,410,000.00)
			(659,750.00)

18) Sundry income - Overheads

Overheads	Kshs
American Embassy	39,861,951
Avac-Usa	195,598
Bill And Melinda Gates Foundation	211,958
Brown University	336,085
Children Investment Funds Foundation	35,347
CIRC-WHO	189,045
DNDI	625,745
EDCTP	5,604,932
Emory University	351,176
Evidence Action Incorporated	1,033,912
Family Health International	1,930,620
Fred Hutchinson Cancer Centre	350,432
GARP – Kenya	48,210
General Hospital Corporation	3,792,832
GHIT	1,958,875
Global Alliance Against Tb	122,486
Global Fund Round 5	317,520

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Government Treasury – USA	82,006,972
Helmholtz Centre For Environmental Research	153,720
Indiana University	113,648
John Hopkins University	444,163
KUMC Research Institute	24,489
Liverpool School Of Tropical Medicine	14,117,303
London School Of Hygiene & Tropical Medicine	1,319,497
MERK Accounting Solutions & Services	708,000
MRC-LSTM	93,668
NIH	1,988,639
NIMRI EDCTP	5,433,787
Noguchi Memorial Institute For Medical Research	150,600
North Western University	135,349
NUITIM	931,254
Other Collaborative Agencies	16,644,302
PATH	1,731,517
EAHRC	69,165
Research Triangle Institute	283,180
Sanofi Aventis(SA)	205,975
Sense International	201,123
Texas Biomedical Research Institute	197,166
University Of California- San Francisco	22,382,086
University Of Colorado	205,922
University Of Connecticut	462,211
University Of Georgia	248,012
University Of Kansas City	480,276
University Of Liverpool	3,802,800
University Of Maryland	10,617,662
University Of New Mexico	1,202,315
University Of North Carolina	1,897,759
University Of Nottingham	497,877
University Of St Andrews	118,976
University Of Virginia	2,025,600
University Of Washington	9,885,980
University Of Waterloo	11,252
UVRI Entebbe	1,359,361
Washington State University	6,274,985
Wellcome Trust Research Laboratories	68,643
WHO	26,551
Yeshiva University	803,466
	246,291,975

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19. Property, plant and equipment

	Land	Office Building Kshs	Motor Vehicle Kshs	Motor Boat Kshs	Furniture Kshs	Computer Kshs	Office & Medical Equipment Kshs	Total Kshs
At 1st July 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 30th 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
Additions	-	59,539,937	60,038,713	-	7,749,824	9,905,190	29,618,637	166,852,301
Disposals			(11,675,742)					(11,675,742)
At 30th June 2018	15,767,933,880	3,899,579,738	319,024,842	2,638,103	81,297,903	102,671,976	813,709,457	20,986,855,899
Depreciation and impairment								
At 1st July 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
Disposals								
At 30th June 2017		336,956,003	121,980,847	791,430	19,210,196	106,880,783	325,354,144	911,173,403
Depreciation		38,995,797	1,951,242	131,905	2,032,448	6,936,279	20,342,736	84,390,407
Disposals			(9,925,492)					(9,925,492)
Impairment								
Transfer/adjustment						-20,808,838		-20,808,838
At 30th June 2018	-	375,951,800	128,006,597	923,335	21,242,644	93,008,224	345,696,880	964,829,480
Net book values								
At 30th June 2018	15,767,933,880	3,523,627,938	191,018,245	1,714,768	60,055,259	9,663,752	468,012,577	20,022,026,419
At 30th June 2017	15,767,933,880	3,541,484,196	162,214,118	1,978,578	56,176,585	9,077,700	478,338,947	19,920,505,937

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. Investment property

At 1 July2016	1,002,663,552
Additions – internal development	0
Revaluation	0
At 30 June2017	1,002,663,552
Additions – internal development	0
At 30 June2018	1,002,663,552
Amortization and impairment	
At 1July2016	56,000,833
Amortization	10,026,636
At 30 June2017	66,027,469
Amortization	10,026,636
Impairment loss	-
At 30 June2018	76,054,105
Net book values	
At 30 June2018	926,609,447
At 30 June 2017	936,636,083

21. Intangible assets–software

At 1 July2016	68,151,763
Additions	0
At 30 June2017	68,151,763
Additions – internal development	0
At 30 June2018	68,151,763
Amortization and impairment	
At 1 July2016	67,826,620
Amortization	3,062,282
	70,888,902
Adjustment on Acc. Depreciation	(5,822,232)
At 30 June2017	65,066,670
Amortization	3,062,282
At 30 June2018	68,128,952
Net book values	
At 30 June2018	22,811
At 30 June 2017	3,085,093

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22. Currency

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

23. Exchange Rate

The foreign currency bank accounts were converted using the exchange rate that were in place as at 30th June 2018.

24. 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.

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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>Excess Exchequer Development Releases</p> <p>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.</p> <p>Consequently, the propriety of GOK funding of Kshs. 30,500,000 for the period ending 30 June 2017 could be confirmed.</p>	<p>The funds were budgeted for as per approved 2016/2017 budget and Government printed estimates and were to be utilized as follows:</p>		Resolved	
2.	<p>• Unsupported Sundry Income-Overheads</p> <p>Included in the statement of financial performance for the year ended 30 June 2017 is sundry income of Ksh. 138,596,264 and whose supporting documents were not availed for audit review.</p> <p>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.</p>	<p>These documents are available for inspection and review.</p>		Resolved	

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	<p>Human Resources</p> <ul style="list-style-type: none"> Two thirds Basic Rule <p>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.</p>	<p>The management noted that some of the officers were not adhering to this rule. Going forward, the management has ensured that no officer's salary is below 1/3 of the basic.</p>	<p>Assistant Director Human resource</p>	<p>Resolved</p>
	<ul style="list-style-type: none"> Accumulated Leave <p>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.</p> <ul style="list-style-type: none"> Un reconciled Staff Cost <p>Included in the statement of financial performance for the year ended 30 June 2017 is employee costs of Kshs. 1,512,513,437. A review of the payroll summaries for the year under review showed an amount of Kshs. 1,506,531,437 results to unreconciled variance of Kshs. 6,492,751.</p>	<p>As noted some officers, due to exigencies of work, some officers have accumulated beyond the allowed maximum of 45 days. The officers have since been plan their word and ensure that they proceed on leave within the 18 months as stipulated in the Employment Act.</p> <p>Unreconciled staff costs: This related to payment honoraria to persons not in the payroll like the lectures in the graduate school. The relevant ledgers are available for review.</p>	<p>Resolved</p> <p>Resolved</p>	<p>Resolved</p>

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	<p>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 30 June 2017.</p>			
<p>Collaborators' Funds</p> <p>5.1 Overpaid Personal Emoluments</p> <p>Included in Collaborator's 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. 3,243,243,128,312.00 revealed that the stated amount is net of Ksh. 9,840,934 being overpayments the same. The Institute has not explained this state of affairs.</p>	<p>The amount of KES. 9,840,934 netted off from the Staff costs relate to transfer between projects in respect of personnel costs and honoraria. The inter-project transfers are due to the fact that some employees work for different projects but only have one pay point in the payroll.</p>	<p>Resolved</p>		

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	<p>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 Kshs. 4,461,927,815 included in the statement of financial performance for the year ended 30 June 2017.</p>		Resolved	
<p>5.3 Overpaid Laboratory Supplies Included in Collaborator's 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 over payments of Kshs. 236,342 and the reason for the net off of the actual amount of Laboratory and supplies.</p>	<p>The amount of KES. 236,342 netted off the Laboratory supplies expenditure is a net off arising from cashbook adjustment (CR) of KES. 569,100 relating to reversal of overcast in payment to Beckton Dickinson International KES. 200,000(DR) and KES 132,758(DR) being lab expenses incurred under the project E 1332.</p>		Resolved	

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	<p>5.4 Overpaid Travelling and Accommodations Included in Collaborator's 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.</p>	<p>The amount of KES. 33,853.15 netted of the Travelling and accommodation expenditure includes KES. 21,253.15 that relates to cash book adjustment (reversal of payment to commissioner VAT which remained unrepresented) and KES. 12,600 being reversal of double payment to Felix Maloba.</p>	Resolved
	<p>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 Kshs. 461,927,815 included in the statement of financial performance for the year ended 30 June, 2017.</p>	<p>The amount of KES 91,907,241.93 netted off the other operating expenses relate to mainly from collaborators overhead entries between Account E 1002 and other projects. It also includes inter- project transfers in respect of other operational costs.</p>	Resolved
	<p>5.0 Administrative Costs Legal Expenses</p> <p>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 firms. However, the Institute had not sought approval and issuance of no-objection from the Attorney</p>	<p>The amount of KES. 11,083,790.75 includes monies paid out in settlement of court awards arising from vendor debts e.g. CDC. Ordinarily, these awards are settled through the vendors Advocates; whose names appear in the ledger and are</p>	The matter is in progress.

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	<p>General's office to continue using the services of the same private law firms.</p> <p>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.</p>	<p>recorded as private lawyers. These are therefore not the Institute's private lawyers. In future we shall be accounts these at specific list and not legal fees. Whenever the Institute has engaged private lawyers, the same was done in line with provisions of the existing laws including the Advocates Remuneration Order. More recently and following classification from the AG's office (AG/CON/6/144 dated 6th June, 2017 VOL II), KEMRI has requested for ipso-facto approval as a matter of abundant caution.</p>			
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Cash and Cash Equivalents	In progress										
<p>Operating Unlawful and Undisclosed Bank accounts Included in the statement of financial position as at 30 June 2017 is cash and cash equivalents of Kshs. 1,029,775,253. A review of bank account operated by the Institute revealed that the Institute operated twenty five (25) bank accounts held in Kenya Commercial Bank, 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 (10) which require National Treasury to authorize the opening, operationalize and closing of bank and sub-accounts for all National Government entities. Further, a review 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 analyzed below;</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Account Name</th> <th style="text-align: center;">Bank</th> <th style="text-align: center;">Certificate No.</th> <th style="text-align: center;">Account No.</th> <th style="text-align: center;">Amount as per Cert</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">KEMRI-Oxford University</td> <td style="text-align: center;">KCB</td> <td style="text-align: center;">CERT1718814268</td> <td style="text-align: center;">11790138559</td> <td style="text-align: center;">Kshs 22,331,178.90</td> </tr> </tbody> </table> <p>It was also noted that RCTP Account No. 114166879 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 this financial position as at 30 June 2017.</p>	Account Name	Bank	Certificate No.	Account No.	Amount as per Cert	KEMRI-Oxford University	KCB	CERT1718814268	11790138559	Kshs 22,331,178.90	<p>The account was opened for purposes of managing funds received for the KEMRI/Wellcome Trust, Kilifi. The account is maintained by our partner KEMRI Wellcome Trust for paying of staff salaries in Kilifi. An MOU was signed between Government of Kenya, Director KEMRI, & Wellcome Trust. The institute opened this account way before 2012</p> <p>The Board minutes approving the delegation of payment of payroll is available. The MOU Between The Government of Kenya and Wellcome Trust Research Programme dated 17th November 2016 provides for Audit of Financial Statements by National treasury. The Financial statements bank reconciliation and cash book are maintained at the KEMRI/Wellcome Trust, Kilifi. The funds raised do not belong to the institute but to one of our partners and do not pass through our account. The bank is fully operated by the partners</p>
Account Name	Bank	Certificate No.	Account No.	Amount as per Cert							
KEMRI-Oxford University	KCB	CERT1718814268	11790138559	Kshs 22,331,178.90							

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	<p style="text-align: center;">Bank Reconciliation Exchequer Account 1104161362</p> <p>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 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.</p>	<p>The stale cheques were credited in the cash book. The receipts of Kes.657,747.20 in the bank statement have been recorded in the cash book. The Kes.2,532,144.74 has been identified as deductions from payroll.</p>		
<p>7.2.2 RGA account No. 1104174529</p> <p>The Bank reconciliation statement for the RGA cashbook (Account No. 1104174529) as at 30 June 2017 reflects payments ion the cashbook not recorded in the bank statement totaling Kshs. 764,880, which</p>		<p>The stale cheques were credited in the cash book, receipts in bank statement have been recorded in cash book.</p>	Resolved	

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<p>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 cashbook. 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 cashbook. In addition, the statement reflects receipts of Kshs. 1,917,994.70 in the cashbook but not recorded in the bank statement. as in previous instance, no explanation has been given for the inordinate delay.</p>				
<p>7.2.3 KEMRI EAST AFRICA Account No. 112812667100 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 cashbook.</p>	<p>The stale cheque of Kes.63,210 has been reversed in 2017/2018</p>	<p>Resolved</p>		

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	<p>7.2.4 KEMRI JICA Production Department account 1104166194 The bank reconciliation statement for KEMRI JICA Production department casbook 9 Account N. 1104166194) as at 30 June 2017 reflects payments in cash book not recorded in the bank statement totalling Kshs. 223,337.20 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 Ksh. 1,029,775,253 included in the statement of financial position as at 30 June 2017.</p>	<p>The stale cheque of Kes.92,627.20 were reversed in 2017/2018.</p>	Resolved	
	<p>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 (USD 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.</p>	<p>The Bank balance and translation date as disclosed in the Financial Statements is based on KCB advise.</p>		
	<p>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</p>	<p>The National Treasury Circular No. 15/16 directed that no State Corporation should invest surplus funds</p>	Resolved	

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	<p>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 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 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 variance of Kshs. 530,000,000 included in the statement of financial position as at 30 June 2017 could not be determined.</p>	<p>in any Financial Institutions/banks without approval from National Treasury other than investment in Treasury Bills and bonds. The kes 500M had been transferred to CBK in June who, wired it back to KEMRI after the applied treasury bills bid failed. The deposit of Kes. 30,000,000 is in an escrow account in Kenya Commercial Bank following a court order. The funds are held in interest earning account in the joint name of KEMRI and Registrar of High Court</p>	
<p>Trade and Other Receivables Deposit with the Institute Lawyers</p> <p>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 was not taken into account in arriving at the balance.</p>		<p>The amount of KES 120,000,000 was deposited with our Institute's lawyers in the year 2000 in regard to the KEMRI residential staff housing project. The matter is being investigated by the EACC and the Office of DPP. However, the recoverability of the debt is doubtful and therefore it is unlikely that any interest will be received, and thus, providing for interest</p>	<p>In progress</p>

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	<ul style="list-style-type: none"> Temporary Imprest The trade and other receivables balance of Kshs. 510,735,379 as at 30 June 2017 includes temporary imprest amounting to kshs. 18,308,554.60 Which had not been surrendered at at the close of the Financial Year. Further, this amount for un surrendered 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 too duty station. Consequently, he management failed to comply with the Public Finance Management (National Government) regulation, 2015 Section 93(5) on requirement of temporary imprest.2017 	<p>receivable accrued may not be prudent.</p> <p>KES. 2,795,258.60 relate to officers who are deceased, have retired, resigned and/or dismissed on disciplinary grounds. They have not been cleared. Imprest held by deceased persons alone amounted to KES.744, 607.10. The Management has invested in a Human Resource Management System that shall pick out such cases in future. In the meantime, a process of write-off of bad debts has been initiated.</p>	<p>ADF</p> <p>In progress</p>	
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<ul style="list-style-type: none"> • 7. 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. 	<p>The unsupported impairment allowance of Kes. 163,609,492 includes the amount of Kes. 120,000,000 deposited with Sande Makhandia and Company Advocates. Kes. 43,609,492 comprise of provision of doubtful debt for students who have since discontinued from the program for the graduate school</p> <p>The impairment allowance of Kes. 163,609,492 include the amount of Kes. 120,000,000 deposited with Sande Makhandia and Company Advocates in 2000 FY. The management has followed up the issue and handed it over to the EACC. However the funds have unlikely to be recovered and thus the BOM decided to provide for the allowance.</p> <p>Likewise, the 43m is funds that had been invoiced to the ITROMID students over the years. the students dropped out and thus is</p>	<p>Resolved</p>	
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	<p>The amount of VAT and withholding tax pending relates to amount deducted from various suppliers. Documents are available for inspection.</p>																						
<ul style="list-style-type: none"> Unsupported Over Remitted Statutory deduction (withholding tax) which has not been explained or supported. <p>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.</p>																							
<ul style="list-style-type: none"> property, Plant and Equipment Land <p>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:</p> <table border="1" data-bbox="981 1198 1236 1814"> <thead> <tr> <th>No</th> <th>Location</th> <th>County</th> <th>Acreage</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Mbagathi Road</td> <td>Nairobi</td> <td>2.4282 ha</td> </tr> <tr> <td>2</td> <td>Taita Taveta</td> <td>Taita Taveta</td> <td>15 Acres</td> </tr> <tr> <td>3</td> <td>Busia</td> <td>Busia</td> <td>100 Acres</td> </tr> <tr> <td>Total</td> <td></td> <td></td> <td>4,240,135,760</td> </tr> </tbody> </table> <p>However, the title/ownership documents in respect of the above parcels of land were not availed for audit verification.</p>	No	Location	County	Acreage	1	Mbagathi Road	Nairobi	2.4282 ha	2	Taita Taveta	Taita Taveta	15 Acres	3	Busia	Busia	100 Acres	Total			4,240,135,760	<p><i>Kilifi (2.705 ha) Copy of title deed available as evidenced that the property is registered in KEMRI's name. Mbagathi Road (2.4282 ha)</i></p> <p>As earlier indicated, this title was used by the developer as collateral to borrow funds from the National Bank of Kenya. The loan was fully paid to the bank and the title has since moved from the bank and is with the National Treasury. National Treasury is in the process of transferring the title deed from the developer's name to that of KEMRI.</p>	<p>In progress</p>	
No	Location	County	Acreage																				
1	Mbagathi Road	Nairobi	2.4282 ha																				
2	Taita Taveta	Taita Taveta	15 Acres																				
3	Busia	Busia	100 Acres																				
Total			4,240,135,760																				

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		<p>Taita Taveta (10 Acres) and (5 Acres) These properties are yet to be officially handed over by the county government of Taita Taveta. The management is pursuing the same with Principal Secretary Ministry of land.</p> <p>KEMRI Busia (100 Acres) The documents for issuance of the title have been signed off by the county government of Busia and lodged at the National Lands Commission. Release of the title is awaited.</p>		
	<ul style="list-style-type: none"> • Residential Staff Housing As similarly reported in year 2014/15, 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 30 June 2017. 	<p>The government has fully paid the bank and the title has since moved from the bank and is with the National Treasury. We are, with the help of the Ministry of Health and Ministry of Land following up the process of transferring the title deed from the developer's name to that of KEMRI</p>		

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	<p>In the circumstances, 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. 19,920,505,93 as at 30 June 2017 is fairly stated.</p>			
<ul style="list-style-type: none"> • Intangible assets Software • Payment for Intangible Assets not delivered <p>As reported in the year 2014/15, 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 contact sum by 30 June 2017 it was observed that only 4 out of 14 modules had been installed. KEMRI, therefore, had paid and amortized intangible assets not received.</p> <p>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 been 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.</p>	<p>The Intangible Asset note in Financial Statements provided for adjustment of Accumulated depreciation which has been supported. The Amortization of Kes.12,249,131.15 is provided on asset brought on 2014/2016 at the of 25%</p>		<p>In progress</p>	
<ul style="list-style-type: none"> • Trade and Other Payables <p>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 centers,</p>		<p>i) The KES. 7,879,258 in respect of Advances to Centres, KES 240,000 in respect to salary advance, KES 27,618 in respect to salary advances to</p>	<p>resolved</p>	

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	<p>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 imprest 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.</p>	<p>employees and KES 5,246,854 in respect to temporary imprests is supported with schedules ii). KES. 212,875,897 the amount payable to KRA KES 5,136,244 is supported with schedule.</p>		
<ul style="list-style-type: none"> • Unsupported Deferred Income <p>Included in the statement of financial position as at 30 June 2017 is differed income of Kshs. 25,125,898. Information available indicate that a total of Kshs. 224,000,000 was deferred from 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.</p>	<ul style="list-style-type: none"> • Unsupported Collaborators Funds. <p>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</p>	<p>Deferred Income Relates to the Research Funds which were not utilized in the year 2015/2016. The expenditure for the Research is captured under Local Grants.</p>	<p>In progress</p>	
	<ul style="list-style-type: none"> • Unsupported Collaborators Funds. <p>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</p>	<p>The schedule of collaborators Funds balance of Kes. 834,772,884 comprises of the bank for the collaborators programme</p>	<p>Resolved</p>	

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	<p>balance of Kshs. 491,402,509 and Ksh.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 for 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 Ksh.834,774,884 in the statement of financial position as at 30 June 2017.</p>	<p>as analyzed in the Financial Statements</p>		
<ul style="list-style-type: none"> KEMRI NCG- Service Level Agreement Loss <p>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 tasting food handlers in the county of Nairobi with a view of ensuring provision of quality and hygienic services to the residents of the County.</p> <p>The Institute committed itself to clause 7.7 (Service Level Credits/penalties) that stipulated that KEMRI were to examine 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 Kshs 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 favored 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.</p>	<p>Management has noted this anomaly and will ensure that any claim touching on the Kes. 120m is not sustained. Indeed, the County Government already made such an attempt and the Institute advised them to refer their claim to Arbitration since no such claim has been filed two (2) years down the line. It is the belief of KEMRI that this matter is settled.</p>	<p>In progress</p>		

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	<p>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.</p>				
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<p>• Partial Deliveries – Food Handlers Programme</p> <p>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 Ksh.10,123,000 paid in full vide payment vouchers numbers, 38 and 56 for consumables ordered from various suppliers. It was, however, established that the consumables worth Ksh. 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.</p> <p>In the circumstance, it has not been possible to confirm what action the management has initiated to recover the amount involved.</p>	<p>As noted, payment for goods that were partially delivered was done in full. This was based on the inspection and acceptance certificates given by the project. The Director has written to Suppliers to supply the balance to the FHP program or repay an equivalent of the difference</p>	<p>In progress</p>
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DR. YERI KOMBE
DIRECTOR
KENYA MEDICAL RESEARCH INSTITUTE

Date: 9/4/2019



DR. NAPHTALI N. AGATA
CHAIRPERSON
BOARD OF MANAGEMENT

Date: 9/4/2019