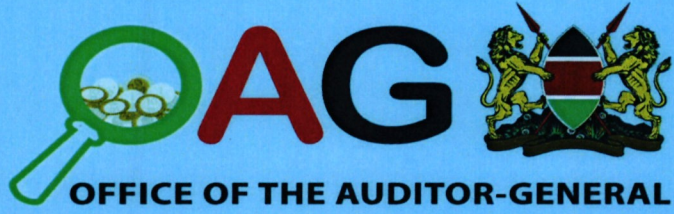


REPUBLIC OF KENYA



Enhancing Accountability



REPORT

**NATIONAL ASSEMBLY
PAPERS LAID**

DATE: 23 SEP 2021

DAY:

Monday

**TABLED
BY**

L.O.M

**CLERK-AT
THE-TABLE:**

Mainah Wangiku

PARLIAMENT
OF KENYA
LIBRARY

THE AUDITOR-GENERAL

ON

**KENYA MEDICAL RESEARCH
INSTITUTE**

**FOR THE YEAR ENDED
30 JUNE, 2019**

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International Public Sector Accounting Standards (IPSAS)
Annual Financial Reporting Template for
Regulatory and Other Non – Commercial Government Owned Entities
*(Semi - Autonomous Government Agencies and Public Funds Established by an Act of Parliament or
a Legal Notice)*

**KENYA MEDICAL RESEARCH INSTITUTE
(KEMRI)**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019**

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

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KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

Kenya Medical Research Institute (KEMRI) is a State Corporation established under the Science and Technology Act of 1979, and accredited under 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

Mandate

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

(c) Key Management

KEMRI's day-to-day management is under the following key organs:

- Director General/CEO
- Director Research and Development
- Director Corporate Services
- Director Research Capacity Building
- Director Scientific Programmes, Partnerships and Grant Management
- Director Strategy and Compliance
- Director Legal Services

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

S/No.	Designation	Name
1.	Director General	Prof. Yeri Kombe
2.	Director, Research & Development	Prof. Samuel Kariuki
3.	Director , Corporate Services	Mr. Kamau Mugenda
4.	Director, Research Capacity Building	Prof. Elijah Songok
5.	Deputy Director, Scientific Programmes & Partnerships	Dr. Lubano Kizito
6.	Deputy Director, Grants Management	Dr. Evans Amukoye
7.	Deputy Director, Finance & Accounts	Mr. Anthony Wachira
8.	Deputy Director, Human Resource	Mr. Daniel Saruni
9.	Deputy Director, Administration	Mr. John Musau
10.	Ag. Corporation Secretary	Ms. Margaret Rigoro
11.	Deputy Director, Centre for Biotechnology Research & Development	Dr. Luna Kamau
12.	Deputy Director, Centre for Microbiology Research	Dr. Willy Sang
13.	Deputy Director, Centre for Traditional Medicine and Drug Research	Dr. Peter Mwitari
14.	Deputy Director Centre for Global Health Research - Kisumu	Dr. Stephen Munga
15.	Deputy Director, Centre for Infectious & Parasitic Diseases Control Research	Prof. Matilu Mwau
16.	Deputy Director, Centre for Geographical Medicine Research – Coast	Dr. Benjamin Tsofa
17.	Deputy Director Eastern & Southern Africa Centre for International Parasite Control	Dr. Doris Njomo
18.	Deputy Director Centre for Clinical Research	Dr. Veronicah Manduku
19.	Deputy Director Centre for Viral Research	Dr. Joel Lutomiah
20.	Deputy Director, Centre for Public Health Research	Dr. Zipporah Bukania
21.	Deputy Director Centre for Respiratory Diseases Research	Dr. Videlis Nduba

(e) Fiduciary Oversight Arrangements

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

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(f) Entity Headquarters

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

(g) Entity Contacts

Telephone: (254) 20 2722541
E-mail: director@kemri.org
Website: www.kemri.org

(h) Entity Bankers

1. Kenya Commercial Bank
Kipande House
Nairobi
2. Cooperative Bank of Kenya
China Centre, Ngong Road
Nairobi
3. 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

THE BOARD OF MANAGEMENT

<p>1. </p>	<p>Dr. Naphtali N. Agata Chairperson</p>
<p>2. </p>	<p>Prof. Yeri Kombe Director General /CEO</p>
<p>3. </p>	<p>Prof. Peter Ngure, Independent Board Member, Chairperson, Human Resource Committee The Technical University of Kenya Faculty of Applied Sciences and Technology P.O Box 52428-00200 Nairobi</p>
<p>4. </p>	<p>Dr. Naomi Mutea Independent Board Member Chairperson, Scientific and Research Committee Meru University Meru</p>
<p>5. </p>	<p>Dr. Eric Ogwora Independent Board Member, Chairperson, Finance and Development Committee Kisii University P.O Box 408-40200 Kisii</p>
<p>6. </p>	<p>Dr. Fatma M. Haji Independent Board Member, Chairperson, Audit Committee P.O Box 81302 Mombasa</p>
<p>7. </p>	<p>Amb. Dr. Wenwa Akinyi Odinga Independent Board Member, Department of Chemistry University of Nairobi, Chiromo Campus P.O Box 30197-00100 Nairobi</p>

8. 	<p>Ms. Harriet Gathoni Muiruri Independent Board Member P.O Box 101006 00100 Nairobi</p>
9. 	<p>Dr. Joseph Mutai Independent Board Member Egerton University</p>
10. 	<p>Dr. Simon Langat Rep. NACOSTI</p>
11. 	<p>Mr. Adow Mohamed Rep. Attorney General's Office</p>
12. 	<p>Dr. Charles Nzioka Rep. PS Ministry of Health</p>
13. 	<p>Ms. Susan Mucheru Rep. PS National Treasury</p>
14. 	<p>Ms. Margaret Rigoro Ag. Corporation Secretary</p>

MANAGEMENT TEAM

1. 	Dr. Yeri Kombe Director/CEO
2. 	Prof. Sam Kariuki Director Research and Development
3. 	Mr. Kamau Mugenda Director Corporate Services
4. 	Prof. Elijah Songok Director Research Capacity Building
5. 	Dr. Evans Amukoye Deputy Director, Grants Management
6. 	Daniel Saruni Deputy Director, Human Resource

7. 	<p>Mr. Anthony Wachira Deputy Director, Finance and Accounts</p>
8. 	<p>Mr. John Musau Deputy Director Administration</p>
9. 	<p>Dr. Kizito Lubano Deputy Director Scientific Programmes (Partnerships and Collaborations)</p>
10. 	<p>Mr. Kalu Kitaba Deputy Director, Supply Chain Management</p>
11. 	<p>Ms. Margaret Rigoro Ag. Corporation Secretary</p>


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, 2019 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 of 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 General 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

REPORT OF THE DIRECTOR GENERAL

The year **2018/19** was the most successful one with new developments at the Board level as well as major milestones on staff development and improvement that will definitely accelerate the growth of the Institute and ensure optimal delivery of services to Kenyans.

The Institute has finally, implemented a new ERP system that has brought together all KEMRI processes and systems. This system has now improved efficiency and effectiveness within the organization.

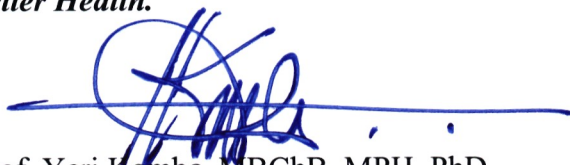
The year saw Board of Management address several Human Resource issues that had remained unresolved over a long period. The Board implemented staff promotions and staff allowances that had brought inequalities within the Institute. As a result, several measures were initiated including liaising with relevant government agencies to resolve and bring fairness, parity and equity among staff.

The Management in its effort to address the long standing Human Resource issues as well as compliance with government regulations approved new Human Resources tools among them Human Resource Manual, Grading Structure, Career Guidelines, Staff Establishment and Organizational Structure. The implementation of these documents will allow the management to fill the existing human resource capacity gaps, as well as create a conducive work environment for attraction, retention and motivation of staff.

The Institute underwent Performance Contract Self-Evaluation exercise facilitated by the Public Service Performance Management Unit on 29th November 2018. The overall performance was rated as “**Very Good.**” A number of areas were identified that the Institute will focus on strengthening in order to achieve an even better score particularly in areas of our core mandates.

As it is our tradition, the Annual 9th KASH Conference was held on **13th to 15th February 2019** at Safari Park Hotel with the theme: *Leveraging & Strengthening Research for Universal Health Coverage in Kenya*. Over **130** Abstracts were presented during the meeting. As a management, we will continue to support this annual conference and other such initiatives that are geared towards supporting research not only in KEMRI, but also in Kenya and the region.

Finally, let me take this opportunity to most sincerely thank all of you for the support you have accorded my office in the past year and I hope you will continue to support the management as they address the enormous challenges facing the Institute. I wish you good health and a prosperous 2019, as I count on you, for your unwavering support and as we work towards our motto: ***In Search of better Health.***



Prof. Yeri Kombe, MBChB, MPH, PhD
Director General/ CEO

CORPORATE GOVERNANCE STATEMENT

The KEMRI Management Charter (the “Charter”) that 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 fourteen members including the CEO and the Corporate Secretary, who are employees of the institute. The Board has four committees namely:

- Audit Committee
- Finance and Development Committee
- Human Resource 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 adoption of the principles and best practices and all other applicable principles of corporate governance

Corporate Secretary

MANAGEMENT DISCUSSION AND ANALYSIS

The Kenya Medical Research Institute has achieved the following during the period under review; Conducted pre-clinical studies for 20 herbal medicines for cancer treatment; Developed Rift Valley fever rapid diagnostic tool (ImmunoLine); Developed of a natural antihelminth fortified meals; Conducted studies that led to the discovery of a natural sterilizing natural contraceptive; 13 PhD and 42 Masters Students were enrolled for the various specialized disciplines in financial year 2018/2019. while in 2018/19 alone a total of 175 new research proposals were developed; Dissemination of results, knowledge and best practices through publication of 707 research manuscripts in peer reviewed journals with 274 publications in 2018/19; Contribution of cutting edge and innovative research results to 19 policy documents;

In order to better understand the implementation of UHC, KEMRI carried out a study titled “Rapid situation analysis on population needs for Universal Health Coverage in the four selected Pilot Counties of Kisumu, Machakos, Nyeri and Isiolo”. The study aimed at identifying gaps that require improvement and subsequently inform roll out of the implementation of UHC program in the country. Arising from this study, recommendations have informed the scale up strategy at National and County level for UHC activities.

KEMRI through proposal development was able to achieve research grants amounting to 4.385B in 2018/19.

During the reporting period, KEMRI provided 2,480,415 specialized laboratory tests in support of ongoing clinical research activities and service provision at KEMRI clinics and collaborating facilities. The institute was able to produce 225,025 diagnostic kits and other products and 10 policy briefs in areas of the major research.

Staff Pension

The KEMRI Staff Retirement Benefits Scheme was established on 1st July, 1983 as a Defined Benefit (DB) Scheme and commenced on the same date. The scheme lost funds amounting to 597M in the hands of the former trustees which came to light in 2008. Actuarial valuation of the scheme as at 30th April, 2015 puts the value of the scheme at Ksh1, 357M of up from Ksh. 597 M on 30th June, 2008 with a growth factor of 8% p.a.

Some of the members of this pension scheme have since retired from the Institute and are demanding their pension from the Institute. It's important to note that we have had to deal with court cases in regard to unpaid pension and more is expected as there is an increased number of staff retiring now after the expiry of the 5-year increase on retirement age from 55 to 60 years. The Institute will therefore provide Ksh 50 m over the next five years to avoid further expenditure on court cases

Capital Projects

Through funding from GoK and donors, KEMRI has commenced the construction of a specimen repository facility to enhance the security of research samples and biological materials. Through counterpart funding KEMRI is expected to meet the cost of construction the damaged road network and parking with KEMRI Headquarters at a cost of Kshs 180M, construction of ramps to enable access to the buildings by people living with disability at an estimated cost of Kshs 35M.

In order to properly secure the stored samples, KEMRI also plans to install security access control at the main entrance and CCTV cameras at various locations at an estimated cost of Kshs 47M

Perimeter fencing at KEMRI Taveta and Kirinyaga

KEMRI is constructing perimeter fencing around various parcels of land as a way of securing the land from encroachment.

Construct and upgrade research facilities

In order to enhance KEMRI research activities in various counties, the institute plans to construct new research facilities in Kirinyaga and Kwale and upgrade existing ones in Busia. To achieve this, Kshs 250M is budgeted for this financial year

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

During the period under review the Institute teamed up with other organizations to participate in a number of Corporate Social Responsibility initiatives such as Beyond Zero Marathon, Zambezi Hospital Cancer, Walk Heart to Heart Foundation by Karen Hospital; Mater Heart run by 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 includes 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. Don Amolo Memorial Kids Ark

The Institute participate in a medical camp in Busia by donating medicine and doctors for consultancy services.

3. Kamukunji Medical Camp

KEMRI donated hand sanitizers and hand wash

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

- The 15th Annual Standard Chartered Marathon & Mater Heart Run
- Beyond Zero Marathon
- Mater Heart Run
- Zambezi Hospital Cancer Walk

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.



Prof. Yeri Kombe,
Director General,

Kenya Medical Research Institute

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019, which show the state of KEMRI's affairs.

Principal activities

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

Results

The results of KEMRI for the year ended June 30, 2019 are set out on page 1

Directors

The members of the Board of Directors who served during the year are shown on page xiv During the year 2018/2019 three board of directors retired/ resigned and four were appointed with effect from 21/12/2018 and one in 03/05/2019 to date.

Auditors

The Auditor General is responsible for the statutory audit of the *Institute* 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:.....

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 KEMRI, which give a true and fair view of the state of affairs of the 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 KEMRI'S financial statements, which give a true and fair view of the state of affairs KEMRI for and as at the end of the financial year (period) ended on June 30, 2019. 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 KEMRI; (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 KEMRI'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). The Directors are of the opinion that KEMRI's financial statements give a true and fair view of the state of KEMRI's transactions during the financial year ended June 30, 2019, and of KEMRI's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for KEMRI, which have been relied upon in the preparation of KEMRI's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

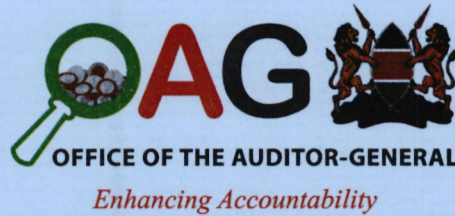
KEMRI's financial statements were approved by the Board on 27/9/ 2019 and signed on its behalf by:



Chairman of the board

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL RESEARCH INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2019

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 49, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects the financial position of the Kenya Medical Research Institute as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Science, Technology and Innovation Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Finance Income – External Investments

As disclosed in Note 8 to the financial statements, the statement of financial performance reflects finance income-external investments balance of Kshs.30,506,394. The balance includes Treasury Bills interest income of Kshs.26,114,784 whose supporting certificates were not availed for audit review.

Consequently, the accuracy and validity of interest income from treasury bills of Kshs.26,114,784 for the year ended 30 June, 2019 could not be confirmed.

2. Recoverability of Staff Advances

As disclosed in Note 21 to the financial statements, the statement of financial position reflects receivables from non-exchange transactions balance of Kshs.446,925,910. The balance includes staff advances amounting to Kshs.38,437,671 which constitutes imprests totalling to Kshs.5,736,759 owed by officers who have since separated with the Institute through termination of service, resignation and death rendering the amount irrecoverable.

In the circumstance, the validity and recoverability of receivables from non-exchange transactions balance of Kshs.38,437,671 as at 30 June, 2019 could not be confirmed.

3. Unsupported Property, Plant and Equipment

As disclosed in Note 23 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.20,035,378,571. The balance includes various parcels of land totalling to Kshs.4,152,168,160 whose title/ownership documents were, as previously reported, not provided for audit review.

Further, as previously reported, the balance also includes land and buildings for a staff housing project valued at Kshs.476,001,556. The vendor of the land who is also the developer had initially used the title documents as collateral to borrow funds from a commercial bank. In an effort to have the documents discharged, the Government spent a sum of Kshs.280,000,000 in 1993 and a further amount of Kshs.142,000,000 in 2000 all totalling Kshs.422,000,000 towards settling the developer account with the bank. Available information indicates that the ownership documents have since been released to the National Treasury but the title has not been discharged by the bank and remains in the name of the vendor as at 30 June, 2019.

In the circumstances, the ownership status of the parcels of land of Kshs.4,152,168,160 and staff housing project valued at Kshs.476,001,556 as at 30 June, 2019 could not be confirmed.

4. Unsupported Intangible Assets-Software

As disclosed in Note 24 to the financial statements, the statement of financial position reflects intangible assets net book value of Kshs. 33,129,095 which includes Kshs.22,904,126 relating to a payment for an Enterprise Resource Planning (ERP) software. As previously reported the Institute 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, 2019, only four (4) out of fourteen (14) modules had been installed. It was further noted that even the installed modules were not operational as at 30 June, 2019.

Consequently, the validity and accuracy of intangible asset net book value Kshs.33,129,095 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

5. Unsupported Investments and Grant Fund

As disclosed in Note 22 to the financial statements, the statement of financial position reflects investments balance of Kshs.416,661,800. The balance includes fixed deposit balance of Kshs.30,000,000 whose supporting certificate was not availed for audit review.

Similarly, and as disclosed in Note 28 to the financial statements, the statement of financial position reflects grant fund balance of Kshs.926,881,060 which includes a fixed deposits balance of Kshs.379,238,750. The supporting certificates were not availed for audit review.

Consequently, the accuracy and validity of fixed deposit balance of Kshs.30,000,000 and grant fund balance of Kshs.379,238,750 as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Medical Research Institute Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Financial Performance

During the year under review, the Institute reported a deficit of Kshs.164,395,118 (2017/2018-deficit Kshs.132,621,755) resulting in reduction in accumulated surplus from Kshs.1,489,571,089 as at 30 June, 2018 to Kshs.1,325,175,971 as at 30 June, 2019. The Institute's performance therefore is on a downward trajectory and if strategies are not put in place to reverse the trend, the Institute is likely to experience financial difficulties in future.

My opinion is not modified based on the effects of the matter.

Key Audit Matters

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

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.7,479,401,243 and Kshs.6,641,432,170

respectively, resulting to an under-funding of Kshs.837,969,073 or 11% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.7,479,401,243 and Kshs.6,688,117,984 respectively resulting to an under expenditure of Kshs.791,283,259 or 11% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved all the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref. No. PSASB/1/12/(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Non-Compliance with the Attorney General's Circular

As disclosed in Note 18 to the financial statements, the statement of financial performance reflects general expenses amounting to Kshs.463,923,464. The balance includes legal expenses to private legal firms of Kshs.23,043,896. However, the Management did not provide, for audit review, approval and issuance of no objection from the Attorney General's office on engagement of the private legal firms as required by the Attorney General's Circular reference AG/CON/6/D/144/VOL.II dated 16 April, 2014.

In the circumstance, it has not been possible to determine compliance with the law.

2. Contracted Services

As disclosed in Note 15 to the financial statements, the statement of financial performance reflects contracted services-cleaning of Kshs.20,833,319 paid to a company. As previously reported, the Institute had contracted a company in September, 2014 for cleaning services which was to run for eleven (11) months up to 31 July, 2015 at a monthly charge of Kshs.1,602,563. The Management extended the contract for four (4) months to November, 2015 to allow for a fresh tender. However, it

was noted that the company continued offering services from December, 2015 up to the time of this audit in January, 2020. Available information indicated that a dispute arose between the contractor and the Management where upon the company sought legal redress. The Institute was directed to pay the company for services rendered from December, 2015. The Management did not provide evidence of action it intends to ensure there is a valid contract is consummated with the company or another service provider.

In the circumstances, it has not been possible to determine whether value for money has been achieved and the payments amounts to wasteful utilization of public resources.

3. Non-Compliance with the One Third of Basic Salary Rule

During the year ended 30 June, 2019, two hundred and fifty-six (256) employees earned a net salary of less than a third (1/3) of the basic salary contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016. The Management has not given explanation for failure to comply with the policy.

In the circumstances, Management is in breach of the law

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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

Long Outstanding Receivables

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.446,925,910 which includes capitation balance of Kshs.139,371,856 which has been outstanding for more than two (2) years. No supporting documents were provided to confirm the recoverability of this amount. Further, the receivables from non-exchange transactions balance includes customers/suppliers control account balance of

Kshs.40,471,198 which has also been outstanding for more than two years and recoverability appears doubtful.

In the circumstances, I am unable to confirm existence of effective debt management mechanisms at the Institute.

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

Responsibilities of Management and Board of Directors

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 overall governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error,

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

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

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

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

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional 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 applicable 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's 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

19 August, 2021

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For the year ended June 30, 2019

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2018-2019	2017-2018
		Kshs	Kshs
Revenue from non-exchange transactions			
Transfer from Ministry of Health	5	1,855,385,079	2,087,547,218
Collaborators Funds	6	4,326,305,598	4,192,917,560
Revenue from exchange transactions			
Rental revenue from facilities and equipment	7	28,330,708	29,929,308
Finance income - external investments	8	30,506,394	44,839,164
Other income	9	400,904,390	308,282,333
Total revenue		6,641,432,170	6,663,515,583
Expenses			
Use of goods and services	10	84,195,822	60,741,340
Employee costs	11	1,638,230,146	2,004,428,482
Remuneration of directors	12	35,573,046	23,282,023
Depreciation and amortization expense	13	117,709,304	97,479,325
Repairs and maintenance	14	22,150,415	21,939,313
Contracted services	15	53,767,913	49,083,984
Collaborators Expenses	16	4,326,305,598	4,167,756,600
Operating Expenses	17	63,971,579	63,903,410
General Expenses	18	463,923,464	308,182,611
Total expenses		6,805,827,288	6,796,797,088
Other gains/(losses)			
Gain on sale of assets	19	-	659,750
Surplus/(deficit) for the period/year		(164,395,118)	(132,621,755)

The notes set out on pages 1 to 50 form an integral part of these Financial Statements

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

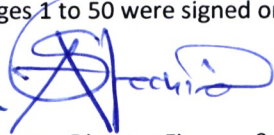
	Notes	2018-2019	2017-201
		Kshs	Kshs
Assets			
Current assets			
Cash and cash equivalents	20	993,739,305	1,080,224,170
Receivables from non-exchange transactions	21	446,925,910	442,875,203
Investments	22	416,661,800	508,660,750
		1,857,327,015	2,031,760,122
Non-current assets			
Property, plant and equipment	23	20,035,378,571	20,022,026,419
Intangible assets	24	33,129,095	22,811
Investment property	25	963,005,397	926,609,447
		21,031,513,063	20,948,658,677
Total assets		22,888,840,078	22,980,418,799
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	26	218,336,205	464,186,011
Refundable deposits from customers	27	35,749,206	54,656,275
Grant funds	28	926,881,060	675,069,945
Bank Overdraft			158,854
Deferred Income	29	159,796,910	73,875,898
		1,340,763,380	1,267,946,983
Net assets		21,548,076,697	21,712,471,816
Capital replacement development reserve/ Capital Reserve		2,851,394,108	2,851,394,108
Revaluation Reserve		17,371,506,618	17,371,506,618
Accumulated surplus		1,325,175,971	1,489,571,089
Total net assets and liabilities		21,548,076,697	21,712,471,815

The Financial Statements set out on pages 1 to 50 were signed on behalf of the Board of Directors by:



Director General/C.E.O
 Prof. Yeri Kombe

Date.....



Deputy Director Finance & Accounts
 Mr. Anthony Wachira
 ICPAK Member Number:6547

Date -----



Chairman of the Board
 Dr. Naphtali N. Agata

Date.....

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STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2019

	Capital replacement development reserve/Capital Reserve	Revaluation Reserve	Accumulated surplus	Total
	Kshs	Kshs	Kshs	Kshs
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
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
Adjustment for prior year Depreciation				-
Balance as at 1 July 2018	2,851,394,108	17,371,506,618	1,489,571,089	21,712,471,815
Surplus for the period			(164,395,118)	(164,395,118)
Balance as at 30 JUNE 2019	2,851,394,108	17,371,506,618	1,325,175,971	21,548,076,696

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

		2018-2019	2017-2018
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfer from Governments		1,855,385,079	2,087,547,218
Collaborators Funds		4,326,305,598	4,192,917,560
Rental revenue from facilities and equipment		28,330,708	29,929,308
Finance income - external investments		30,506,394	44,839,164
Revenue Generating Activities		114,610,355	55,049,772
Graduate Program (ITROMID)		19,435,928	6,029,868
Miscellaneous Income		1,956,244	910,718
Overheads		264,901,864	246,291,975
Total Receipts		6,641,432,170	6,663,515,583
Payments			
Use of goods and services		84,195,822	60,741,340
Employee costs		1,638,230,146	2,004,428,482
Remuneration of directors		35,573,046	23,282,023
Repairs and maintenance		22,150,415	21,939,313
Contracted services		53,767,913	49,083,984
Collaborators Expenses		4,326,305,598	4,167,756,600
Operating Expenses		63,971,579	63,903,410
General Expenses		463,923,464	308,182,611
Total Payments		6,688,117,984	6,699,317,763
Surplus before Working Capital Changes		(46,685,814)	(35,802,180)
Working Capital Changes			
Decrease/(Increase) in receivables		(4,050,707)	67,860,176
(Increase)/Decrease in Short term deposits		91,998,950	21,339,250
Increase in payables		(245,849,807)	251,752,702
Decrease in Deferred Income		85,921,012	48,750,000
Increase in Refundable deposits from customers		(18,907,070)	20,535,354
(Decrease) in bank overdraft		(158,854)	158,854
Increase in Collaborators Funds - payment received in advance		251,811,115	(159,702,939)

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Net cash flows from operating activities		114,078,825	214,891,217
Purchase of property, plant, equipment and intangible assets		(200,563,690)	(166,852,301)
Proceeds from sale of property, plant and		-	2,410,000
Adjustment on Intangible assets accumulated Depreciation		-	
Net cash flows used in investing activities		(200,563,690)	(164,442,301)
Net increase/(decrease) in cash and cash equivalents		(86,484,865)	50,448,916
Cash and cash equivalents at 1 JULY		1,080,224,170	1,029,775,252
Cash and cash equivalents at 30 JUNE		993,739,305	1,080,224,168

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2019

	Original Budget		Adjustments		Final Budget		Actual on Comparable basis		Performance Difference	
	2018-2019	Kshs	2018-2019	Kshs	2018-2019	Kshs	2018-2019	Kshs	2018-2019	Kshs
Revenue										
GOK Recurrent	1,855,385,079		-		1,855,385,079		1,855,385,079		-	
Collaborators funds	5,168,240,000		-		5,168,240,000		4,326,305,598		(841,934,402)	
Sundry Income - Overheads	280,000,000		20,000,000		300,000,000		264,901,864		(35,098,136)	
Rendering of services - Revenue Generating	71,000,000		10,000,000		81,000,000		136,002,526		55,002,526	
Finance Income - Interest on investments	45,000,000		-		45,000,000		30,506,394		(14,493,606)	
Rental income	29,348,208		427,956		29,776,164		28,330,708		(1,445,456)	
Total income	7,448,973,287		30,427,956		7,479,401,243		6,641,432,170		(837,969,073)	
Expenses										
Compensation of employees-Exchequer	1,684,200,177		(45,469,491)		1,638,730,686		1,638,230,146		500,540	
Compensation of employees-Collaborators	3,100,944,000		-		3,100,944,000		3,083,176,404		17,767,596	
Goods and services-Exchequer	674,650,000		(2,219,443)		672,430,557		723,582,240		(51,151,683)	
Goods and services-Collaborators	2,067,296,000		-		2,067,296,000		1,249,098,962		818,197,038	
Total expenditure	7,527,090,177		(47,688,934)		7,479,401,243		6,694,087,752		785,313,491	
Surplus for the period	(78,116,890)				-		(52,655,582)			

Budget notes

Provided in page 8 under budget information

I. 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 based on 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. 228,800, 000, being research funding during the year. At the end of the financial year, the balance in the deferred income of Kshs. 159,796,910 has been 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.

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.

3. Budget information – IPSAS 24

The original budget for FY 2018-2019 was approved by the National Assembly April 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by KEMRI upon receiving the respective approvals in order to conclude the final budget. Accordingly, KEMRI recorded additional appropriations of 30,427,956 on the 2018-2019 budget following the governing body's approval.

KEMRI's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 8 of these financial statements.

Notes to the Budget

I. Collaborators funds- Ksh 4,326 million

The collaborators funds during the year totaled Ksh 4,326 million compared to Ksh 4,192 million during 2017/18 FY. This is a marginal growth of Ksh 134 million (4.6%) as a result of the US Government reducing external funding to countries.

II. Overheads- Ksh 265 million

The overheads income in 2018/19 FY is Ksh 265 million compared to Ksh 246 million, a growth of Ksh 23 million (9.3%). Management is keenly following up on all new project funds to ensure that overheads are included.

III. Interest on investments- Ksh 30.5 million.

The Interest on investment declined from 44.8 million in 2017/18 FY to Ksh 30.5 million as a result of reduced Treasury Bill rates as well as reduction of amount invested from

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Ksh 500 million to Ksh 400 million. The reduction of amount invested was reduced by non-receipt of Ksh 152 million as noted in a.2 above.

IV. Other income- Ksh 114 million.

The Institute generated Ksh 114 million on other incomes during 2018/19 FY compared to Ksh 55 million in 2017/18 FY. The growth is attributed to DCI training (Ksh 38 m) and increase in sales by Production Unit

V. Expenditure

The Institute's exchequer staff cost for the year amounted to Ksh 1,638 million compared to Ksh 2,004 million in 2017/18 FY; a reduction of Ksh 366 million. The 2017/18 FY employee cost included Ksh 393 million comprising of arrears for extraneous and health workers' allowances. The National Treasury released the funds in June 2018.

VI. 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 recognized when either 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.

(a) Property, plant and equipment – IPSAS 17

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

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

Office and residential buildings	1.0%
Office and medical equipment	2.5%

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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 Kshs. 21, 0096,355,962 is an amount of Kshs. 13,613,645 being assets bought by the collaborators in the course of their duty and donated to the Institute

(b) 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.

(c) 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.

(d) 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.

(e) 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.

(f) Employee benefits – IPSAS 25

Retirement benefit plans

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

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

(g) 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.

(h) 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

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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.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and 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.

(j) Comparative figures

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

(k) 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 Kshs.30, 000,000 in compensation for violation of their rights under Article 23 of the constitution. The institute immediately appealed the judgment, and a stay of execution was granted by Hon Justice Mathew N. Nduma of 18th July, 2014 industrial Court on condition that a sum of Kshs.30, 000,000 be deposited in an Escrow account.

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.

(l) External Grants Accounts

Included in the payable is a figure of Kshs. 54,524,120 being other money owed to External Grant Account number 11041 58574. These are funds paid to CDC, Atlanta Kshs. 50,350,000 overheads owed of Kshs. 4,174,120.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Revenue recognition (Continued)

i. Revenue from exchange transactions

Rendering of services

KEMRI recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

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

Sale of goods

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

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.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or KEMRI's right to receive payments is established.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. TRANSFERS FROM MINISTRY OF HEALTH

Description	2018-2019	2017-2018
	KShs	KShs
Conditional grants		
Recurrent	1,855,385,079	2,076,297,218
Development	-	11,250,000
Total government grants and subsidies	1,855,385,079	2,087,547,218

5b) TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

Name of KEMRI sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under Deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2018-2019
			KShs	KShs	KShs
Ministry of Health	1,855,385,079	-	-	-	1,855,385,079
Exchequer-Development	-	228,800,000		228,800,000	228,800,000
Total	1,855,385,079	228,800,000	-	228,800,000	2,084,185,079

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 COLLABORATORS FUNDS

Description	2018-2019	2017-2018
	KShs	KShs
Collaborators Funds	4,312,691,953	4,167,756,600
Contributed revenue	13,613,645	25,160,960
Total revenue from the rendering of services	4,326,305,598	4,192,917,560

7 RENTAL REVENUE FROM FACILITIES AND EQUIPMENT

Description	2018-2019	2017-2018
	KShs	KShs
Rent from Institutional houses	28,330,708	29,929,308
Contingent rentals	-	-
Total rentals	28,330,708	29,929,308

8 FINANCE INCOME - EXTERNAL INVESTMENTS

Description	2018-2019	2017-2018
	KShs	KShs
Cash investments and fixed deposits	4,391,611	-
Interest income from Treasury Bills	26,114,784	44,839,164
Total finance income – external investments	30,506,394	44,839,164

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER INCOME

Description	2018-2019	2017-2018
	KShs	KShs
Revenue Generating Activities	114,610,355	55,049,772
Graduate Program (ITROMID)	19,435,928	6,029,868
Miscellaneous Income	1,956,244	910,718
Sundry Income - Overheads	264,901,864	246,291,975
Total other income	400,904,390	308,282,333

10 USE OF GOODS AND SERVICES

Description	2018-2019	2017-2018
	KShs	KShs
Electricity	73,869,886	48,639,711
Water	8,157,506	9,633,289
Subscriptions	2,168,430	2,468,339
Total good and services	84,195,822	60,741,340

11 EMPLOYEE COSTS

	2018-2019	2017-2018
	KShs	KShs
Basic Salary	801,699,174	786,191,212
Gratuity & pension contribution	166,227,026	167,959,090
House allowance	293,253,385	301,658,899
Other allowance	251,108,285	625,511,740
Medical allowance	168,885	152,490
Passages & leave	6,709,000	6,799,167
Staff Insurance	19,571,215	19,142,078
Medical & Ex-gratia	99,493,176	97,013,806
Employee costs	1,638,230,146	2,004,428,482

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 BOARD EXPENSES

Description	2018-2019	2017-2018
	KShs	KShs
Sitting Allowance	12,552,000	8,889,000
Travel & Accommodation	17,164,229	9,366,513
Official Entertainment	2,695,957	1,819,510
Insurance	496,460	-
Honoraria	960,000	960,000
Telephone	72,000	72,000
Training	1,632,400	2,175,000
Total Board Expenses	35,573,046	23,282,023

13 DEPRECIATION AND AMORTIZATION EXPENSE

Description	2018-2019	2017-2018
	KShs	KShs
Property Plant and Equipment	96,147,911	84,390,407
Investment Property	10,495,550	10,026,636
Intangible Assets	11,065,843	3,062,282
Total depreciation and amortization	117,709,304	97,479,325

14 REPAIRS AND MAINTENANCE

Description	2018-2019	2017-2018
	KShs	KShs
Maintenance. -Plant, mach.& equip.	2,340,347	3,492,753
Maintenance - buildings & stations	19,390,793	17,420,751
Maintenance of Water & Sewer	419,275	1,025,808
Total repairs and maintenance	22,150,415	21,939,313

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15 CONTRACTED SERVICES

Description	2018-2019	2017-2018
	KShs	KShs
Security Expenses	32,934,594	29,853,228
Contracted Services - Cleaning	20,833,319	19,230,756
Total contracted services	53,767,913	49,083,984

16 COLLABORATORS EXPENSES

Description	2018-2019	2017-2018
	KShs	KShs
Staff Costs	3,083,176,404	2,913,527,663
Bank Charges	823,941	1,888,414
Training	50,713,194	29,480,757
Laboratory Supplies	86,645,711	92,578,492
Travelling and Accommodation	242,096,841	201,199,621
Motor Vehicle Expenses	27,327,562	22,773,339
Purchase of assets	13,613,645	25,160,960
Other Operating Expenses	821,908,300	881,147,353
Total Collaborators Expenses	4,326,305,598	4,167,756,600

17 OPERATING EXPENSES

Description	2018-2019	2017-2018
	KShs	KShs
Laboratory reagents & supplies	46,696,455	21,180,161
Purchase of drugs & dressings/staff clinic	2,858,635	5,215,506
Purchase of animal feeds	635,295	840,500
Research Programs -Internal	11,723,925	
Research funding	1,996,764	36,611,194
Research Materials	60,505	53,600
purchase of research animals		2,450
Total Operating Expenses	63,971,579	63,903,410

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 GENERAL EXPENSES

Description	2018-2019	2017-2018
	KShs	KShs
Transport	43,704,837	24,396,260
Travelling & accommodation	86,527,821	54,754,178
Legal expenses	23,043,896	20,752,239
External travelling & accommodation.	20,459,335	12,650,578
Postal & telegrams	19,992	59,645
Telephones	4,970,769	4,004,896
Official entertainment	1,711,618	2,015,946
Conferences, Seminars & Workshops	12,238,319	8,121,090
Purchase of consumable stores	6,690,568	3,123,681
Publishing & printing	1,818,665	706,486
Purchase of uniforms & clothing	2,171,650	1,825,782
Library Expenses	1,918,483	922,177
Purchase of stationery	6,869,248	6,303,050
Advertising, publicity & shows	17,132,369	9,590,076
Industrial Diesel	2,510,170	445,247
Rents and rates		469,000
Computer Expenses	3,217,036	4,176,881
Internet service	9,887,873	7,692,140
Miscellaneous	1,399,697	1,234,240
Audit Fees	1,188,000	812,000
Fees Commission & Honoraria	13,121,404	11,815,667
Training	22,136,828	16,439,185
Insurance - Fire and burglary	1,753,568	2,823,139
Insurance - Motor Vehicle	9,550,070	10,267,311
Prevention of Drugs & Substance Abuse	379,618	305,000
Financial control & Inspections/Int audit	5,475,478	5,763,383
Staff Welfare	15,661,207	11,317,997
Strategic Initiatives	32,755,146	22,147,699

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Gender Mainstreaming	185,000	535,500
Disability Mainstreaming	951,692	547,492
Bank Charges	1,821,635	1,283,437
Valuation of Fixed Assets	2,407,144	1,845,185
Devolution Expenses	3,023,608	2,047,499
Remittances-JKUAT	4,086,583	
Human Resource Consultancy	1,694,319	
Workshops	4,068,343	3,200,940
HIV Awareness	1,260,530	369,300
CDC Vendors Debt	42,600,637	
CDC Debt Repayment	50,350,000	51,100,000
Corruption Eradication	1,329,195	248,000
Compensation & ex-gratia payments	1,574,316	882,746
CCR catering services	57,653	1,187,542
New products Devt costs	199,145	
Total general expenses	463,923,464	308,182,611

19 GAIN ON SALE OF ASSETS

Description	2018-2019	2017-2018
	KShs	KShs
Proceeds on sale	-	2,410,000
Accumulated Depreciation	-	9,925,492
Disposed Assets at cost	-	(11,675,742)
Total gain on sale of assets	-	659,750

20 CASH AND CASH EQUIVALENTS

Description	2018-2019	2017-2018
	KShs	KShs
Current account	993,739,305	1,080,224,170
Cash at Hand	-	-
Total cash and cash equivalents	993,739,305	1,080,224,170

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 (a). DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS

		2018-2019	2017-2018
Financial institution	Account number	KShs	KShs
a) Current account			
KCB bank accounts			
Exchequer	1104161362	83,361,931	509,658,695
ITROMID Account	1104167611	41,412,309	35,740,703
RGA	1104174529	47,978,508	35,045,420
Production Department	1104166194	16,544,086	3,610,464
Conference Collection	1112776850	3,513,640	1,386,319
External Grants	1104158574	488,459,045	139,181,321
RCTP	1104166879	1146	710,186
IPM	1110258925	128,369	97,512
KEMRI CDC	1104175975	1,022,306	376,847
Local Grants	1104161966	21,263,492	52,289,198
Dollar Account	1168110491	35,215	6,152,612
Euro Account	1170930956	1,037	2,102
CDC/Non Grants Accounts	1123818177	12,040,936	2,499,791
Welcome Trust	1110259204	8,900,182	8,869,625
CDC Research Grants	1101722291	8,066,997	27,006,136
Mortgage Account	6000014289	253,286,519	249,553,770
Kemri Oxford University	46000012346	194,316	203,616
Cooperative bank accounts			
CNHR RLGA	1128126178201	195,646	
CNHR RLGA	1128126178200	3,718,730	3,734,490
CNHR RLGA	,1128126178202	282,981	283,441
CNGR RLGA	1128126178203	1,142	1,602

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KEMRI IPM SUBA	1128126178700	2,981,423	2,728,294
KEMRI EAST AFRICA	,1128126671100	349,348	822,586
KEMRI/EDCPT	,1128127558400	-	269,439
Grand total		993,739,305	1,080,224,170

21 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Description	2018-2019	2017-2018
	KShs	KShs
Current receivables		
Graduate school – Outstanding Fees	110,260,675	113,426,247
Interest Receivable	6,082,805	19,463,272
Capitation-Recurrent	139,371,856	139,371,856
Sande Makhandia & Co. Advocates	120,000,000	120,000,000
Ngetich Ciira Advocates, Escrow Account	5,848,220	
Advances to Centres	738,160	23,487,268
Staff advances	38,437,671	44,428,853
Over remitted Statutory Deduction	150,682	368,394
Donor – MISC.	149,174,135	103,540,796
Customers/suppliers Control Account	40,471,198	42,398,008
Total Receivables	610,535,402	606,484,695
Less: impairment allowance	(163,609,492)	(163,609,492)
Total current receivables	446,925,910	442,875,203

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 INVESTMENTS

Description	2018-2019	2017-2018
	KShs	KShs
CBK-Treasury Bills	386,661,800	500,000,000
KCB-Fixed Account	30,000,000	30,000,000
Total	416,661,800	530,000,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 PROPERTY, PLANT AND EQUIPMENT

	LAND	OFFICE BUILDING	MOTOR VEH.	MOTOR BOAT	FURNITURE	COMPUTER	OFFICE & MEDICAL EQUIPMENT	TOTAL
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
At 1st July 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)
Revaluation	-	-	-	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-	-	-	-
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
Additions	-	23,505,203	-	-	10,117,414	48,912,262	26,965,184	109,500,063
Disposals	-	-	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-	-	-
At 30th June 2019	15,767,933,880	3,923,084,941	319,024,842	2,638,103	91,415,317	151,584,238	840,674,641	21,096,355,962
Depreciation and impairment								
At 1st July 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	15,951,242	131,905	2,032,448	6,936,279	20,342,736	84,390,407
Disposals	-	-	(9,925,492)	-	-	-	-	(9,925,492)

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Impairment	-	-	-	-	-	-	(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	
Depreciation	-	39,230,849	15,951,242	131,905	2,285,383	17,531,666	21,016,866	96,147,911	
Disposals	-	-	-	-	-	-	-	-	
Impairment	-	-	-	-	-	-	-	-	
Transfer/adjustment	-	-	-	-	-	-	-	-	
Fully Depreciated Assets	-	-	-	-	-	-	-	-	
At 30th June 2019	-	415,182,649	143,957,839	1,055,240	23,528,027	110,539,890	366,713,746	1,060,977,391	
<i>Net book values</i>									
At 30th June 2019	15,767,933,880	3,507,902,292	175,067,003	1,582,863	67,887,290	41,044,348	473,960,895	20,035,378,571	
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	

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Description	2018-2019	2017-2018
	KShs	KShs
Cost		
At beginning of the year	68,151,763	68,151,763
Additions—internal development (new ERP)	44,172,127	-
At end of the year	112,323,890	68,151,763
Amortization and impairment		
At beginning of the year	68,128,952	65,066,670
Amortization	11,065,843	3,062,282
At end of the year	79,194,795	68,128,952
NBV	33,129,095	22,811

25 INVESTMENT PROPERTY

Description	2018-2019	2017-2018
	KShs	KShs
At beginning of the year	1,002,663,552	1,002,663,552
Additions	46,891,500	-
At end of the year	1,049,555,052	1,002,663,552
Depreciation		
At beginning of the year	76,054,105	66,027,469
Depreciation	10,495,550	10,026,636
At end of the year	86,549,655	76,054,105
NBV	963,005,397	926,609,447

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Description	2018-2019	2017-2018
	KShs	KShs
Graduate School prepayments	31,822,896	30,866,650
Mortgage Scheme	76,059,523	
Retention Money	22,477,772	18,842,765
Un-remitted Statutory Deductions	4,839,314	7,936,723
Staff Over deductions	753,326	4,847,259
Advances to Centers'	446	103,047
Suppliers Control Account	22,526,609	5,189,302
Unremitted staff deductions	1,780,575	2,600,267
Extraneous allowance	-	393,800,000
JKUAT Remittance	3,551,623	
External Grants	54,524,120	
Total trade and other payables	218,336,205	464,186,011

27 REFUNDABLE DEPOSITS FROM CUSTOMERS

Description	2018-2019	2017-2018
	KShs	KShs
Caution Money	4,764,000	4,488,000
Research Fees	204,669	742,327
Other Deposits	30,780,537	49,425,948
Total Refundable Deposits from Customers	35,749,206	54,656,275

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 GRANT FUND

Description	2018-2019	2017-2018
	KShs	KShs
Current Account	547,642,310	245,069,945
Fixed Deposit	379,238,750	430,000,000
Total deposits	926,881,060	675,069,945

29 DEFERRED INCOME

Description	2018-2019	2017-2018
	KShs	KShs
National government	159,796,910	73,875,898
Total deferred income	159,796,910	73,875,898

The deferred income movement is as follows:

	National government
Balance brought forward	73,875,898
Additions	228,800,000
Transfers to Capital fund	(134,642,000)
Other transfers	(8,236,988)
Balance carried forward	159,796,910

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 CASH GENERATED FROM OPERATIONS

	2018-2019	2017-2018
	KShs	KShs
Cash flows from operating activities	xxx	xxx
Receipts		
Transfer from Governments	1,855,385,079	2,087,547,218
Collaborators Funds	4,326,305,598	4,192,917,560
Rental revenue from facilities and equipment	28,330,708	29,929,308
Finance income - external investments	30,506,394	44,839,164
Revenue Generating Activities	114,610,355	55,049,772
Graduate Program (ITROMID)	19,435,928	6,029,868
Miscellaneous Income	1,956,244	910,718
Overheads	264,901,864	246,291,975
Total Receipts	6,641,432,170	6,663,515,583
Payments		
Use of goods and services	84,195,822	60,741,340
Employee costs	1,638,230,146	2,004,428,482
Remuneration of directors	35,573,046	23,282,023
Repairs and maintenance	22,150,415	21,939,313
Contracted services	53,767,913	49,083,984
Collaborators Expenses	4,326,305,598	4,167,756,600
Operating Expenses	63,971,579	63,903,410
General Expenses	463,923,464	308,182,611
Total Payments	6,688,117,984	6,699,317,763
Surplus before Working Capital Changes	(46,685,814)	(35,802,180)
Working Capital Changes		
Decrease/(Increase) in receivables	(4,050,707)	67,860,176
(Increase)/Decrease in Short term deposits	91,998,950	21,339,250
Increase in payables	(245,849,807)	251,752,702
Decrease in Deferred Income	85,921,012	48,750,000

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Increase in Refundable deposits from customers	(18,907,070)	20,535,354
(Decrease) in bank overdraft	(158,854)	158,854
Increase in Collaborators Funds - payment received in advance	251,809,969	(159,702,939)
Net cash flows from operating activities	114,077,680	214,891,217

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31. DONOR RECEIPTS

Collaborators	Kes
Africa Centre For Technical Studies	1,067,666.80
American Embassy	845,876,347.27
Barcelona Institute For Global	723,752.00
Bill and Melinda Gates Foundation	12,527,682.38
Brown University	19,778,841.70
Case Western Research University	7,438,253.31
Children Investment Funds Foundation	235,010.00
DNDI	27,290,745.45
EAHRC	950,248.80
EARAS - Global TB Vaccine Foundation	58,843,677.48
Eastern Virginia Mdicl School	727,038.90
EDCTP	67,037,614.66
EMORY University	921,530.31
Evidence Action Incorporated	3,161,822.39
Family Health International	44,187,027.23
Food Agriculture Org Of United Nations	2,625,779.32
Foundacion Privada Institute Salud (Barcelona)	9,722,698.73
Fred Hutchinson Cancer Centre	28,540,802.28
Gain	6,581,716.43
General Hospital Corporation	26,602,672.91
GHIT	19,811,331.04
GIHSN	13,583,675.20
Global Alliance Against Tb	1,048,776.90
Government Of Kenya	143,374,157.73
Government Treasury - USA	1,168,057,077.28
GSK Biologicals(Sa)	25,144,923.72
GSK IHC Limited	5,045,789.45
Havard College-Masachusetts	1,341,782.01
Helmholtz Centre For Environmental Research	464,574.93
Indiana University	3,538,767.58
Infinite Computer Solutions Limited	648,414.60
International Aids Vaccine Initiative (IAVI)	79,379,977.80
International Partnership For Microbicide (IPM)	3,757,960.10
John Hopkins University	353,000.00
Kenya Redcross	978,458.00
Liverpool School Of Tropical Medicine	185,557,054.03
London School Of Hygiene & Tropical Medicine	10,258,925.27
MERK Accounting Solutions & Services	11,163,044.30
MRC-LSTM	2,443,165.14
MTRH-Moi University	64,146.00
National Foundation For CDC	20,329,468.11
National Research Fund	94,400,880.00
NIH	25,886,628.33

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NIMRI/EDCTP	13,879,258.81
Noguchi Memorial Institute For Medical Research	636,900.00
North Western University	1,886,263.24
NTD-DFID	4,439,250.00
Open University	6,731,020.00
Other Collaborative Agencies	182,357,935.97
Research Triangle Institute	25,009.00
Sanofi Aventis (Sa)	25,819,218.13
Sanofi Pasteur (Sa)	441,414.48
Sense International	979,750.72
Stanford University	6,005,220.65
Stockholm	496,896.28
Task Force For Global Health	34,662,906.89
Texas Biomedical Research Institute	1,811,710.32
University Of Alabama(Birmingham)	11,648,631.21
University Of California- San Francisco	287,581,779.54
University Of Cambridge	7,196,273.45
University Of California (URVINE)	132,987.07
University Of Colorado	8,771,424.18
University Of Connecticut	24,169,885.33
University Of Georgia	2,694,312.46
University Of Georgia(UGA)	3,768,065.04
University Of Kansas City	5,052,497.32
University Of Liverpool	7,344,749.78
University Of Maryland	278,103,330.67
University Of Nairobi	459,415.00
University Of New Mexico	10,632,188.38
University Of North Carolina	11,373,112.81
University Of Notre Dame	1,992,720.00
University Of Nottingham	5,779,382.78
University Of Oxford	1,284,300.00
University Of St Andrews	12,173,639.60
University Of Virginia	14,689,054.60
University Of Washington	182,494,760.76
UNOPS	100,000.00
UVRI Entebbe	8,692,694.78
Vestergaard Frandsen(Sa)	596,848.00
Washington State University	125,061,310.26
Wellcome Trust Research Laboratories	25,630,957.40
Western University Of Health Sciences	96,958.78
WHO	15,744,270.45
Yeshiva University	11,394,388.25
Total	4,326,305,598.26

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APPENDIX 1: 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.

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.	<ul style="list-style-type: none"> Unsupported Sundry Income-Overheads <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. 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	
	Human Resources	The management noted that	Assistant	Resolved	

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<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>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>Director Human resource</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. 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>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 lecturers in the graduate school. The relevant ledgers are available for review.</p>		<p>Resolved</p>	

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Collaborators' Funds				
	<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, Kshs., 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>	Resolved	
<p>5.2 Credits on Bank Charges</p> <p>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.</p> <p>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>	<p>The amount of KES. 368,553.20 netted off the bank charges expenditure relates to Cashbook adjustment of KES. 357,000 for Project E1742 and KES. 11,553.20 transfer of expenditure on close out from A/C 1328 & E1317</p>	Resolved		

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<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 Beck ton Dickson International KES. 200,000(DR) and KES 132,758(DR) being Lab expenses incurred under the project E 1332.</p>	<p align="center">Resolved</p>	
<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>	<p align="center">Resolved</p>	
<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>	<p align="center">Resolved</p>	
<p>5.0 Administrative Costs Legal Expenses Included in the administrative costs of Kshs. 326,732,231 in the statement of financial performance for the year ended 30 June 2017 is Kshs.</p>	<p>The amount of KES. 11,083,790.75 includes monies paid out in settlement of court awards arising from vendor debts</p>	<p align="center">The matter is in progress.</p>	

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<p>11,083,790.75 paid to private firms. However, the Institute had not sought approval and issuance of no-objection from the Attorney General's office to continue using the services of the same private law firms.</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>e.g. CDC. Ordinarily, these awards are settled through the vendors Advocates; whose names appear in the ledger and are 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</p> <p>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.</p> <p>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" data-bbox="646 421 801 1176"> <thead> <tr> <th>Account Name</th> <th>Bank</th> <th>Certificate No.</th> <th>Account No.</th> <th>Amount as per Cert</th> </tr> </thead> <tbody> <tr> <td>KEMRI-Oxford University</td> <td>KCB</td> <td>CERT1718814268</td> <td>11790138559</td> <td align="right">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.</p> <p>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>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 in the cashbook not recorded in the bank statement totaling Kshs. 764,880, which includes an amount of Kshs. 719,986 in respect of stale cheques. No reason has been given for failure to replace the cheques or having the same credited back in the 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>The stale cheques were credited in the cash book, receipts in bank statement have been recorded in cash book.</p>	<p>Resolved</p>		

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<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>	
<p>7.2.4 KEMRI JICA Production Department account 1104166194 The bank reconciliation statement for KEMRI JICA Production department cashbook 9 Account N. 1104166194) as at 30 June 2017 reflects payments in cash book not recorded in the bank statement totaling 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>	<p>Resolved</p>	
<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 Kshs. 30,000,000 invested in Kenya Commercial bank. Analysis of two</p>	<p>The National Treasury Circular No. 15/16 directed that no State Corporation should invest surplus funds in</p>	<p>Resolved</p>	

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	<p>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.</p> <p>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>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 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 receivable</p>		<p>In progress</p>	

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	<p>accrued may not be prudent.</p>		
<ul style="list-style-type: none"> • Temporary Imprest <p>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.</p> <p>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.</p> <p>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>	<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.</p> <p>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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	<p>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>	<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 unlikely for us to recover the same</p>	<p>Resolved</p>	
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<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>	<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"> 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="402 555 657 1169"> <thead> <tr> <th>No</th> <th>Location</th> <th>County</th> <th>Acreage</th> <th></th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Mbagat hi Road</td> <td>Nairobi</td> <td>2,4282 ha</td> <td>4,143,768,160</td> </tr> <tr> <td>2</td> <td>Taita Taveta</td> <td>Taita Taveta</td> <td>15 Acres</td> <td>8,400,000</td> </tr> <tr> <td>3</td> <td>Busia</td> <td>Busia</td> <td>100 Acres</td> <td>87,967,600</td> </tr> <tr> <td>Total</td> <td></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	Mbagat hi 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	<p>Kilifi (2.705 ha) Copy of title deed available as evidenced that the property is registered in KEMRI's name.</p> <p>Mbagathi Road (2.4282 ha)</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.</p> <p>National Treasury is in the process of transferring the title deed from the developer's name to that of KEMRI.</p> <p>Taita Taveta (10 Acres) and (5 Acres) These</p>		<p>In progress</p>	
No	Location	County	Acreage																										
1	Mbagat hi 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																									

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		<p>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)</p> <p>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 <p>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. 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>		<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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<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. A review of the intangible assets movement schedule disclosed in note 22 to the financial statements revealed an impairment loss of Kshs. 5,822,232 which had not been supported nor explained. Consequently, it has not possible to confirm the validity and accuracy of the intangible asset net book value of Kshs.3,085,093 in the statement of financial position as at 30 June,2017.</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>		In progress	
<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, 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>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 employees and KES 5,246,854 in respect to temporary imprests is supported with schedules</p> <p>ii). KES. 212,875,897 the amount payable to KRA KES 5,136,244 is supported with schedule.</p>		resolved	

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	<ul style="list-style-type: none"> • Unsupported Deferred Income Included in the statement of financial position as at 30 June 2017 is deferred income of Kshs. 25,125,898. Information available indicate that a total of Kshs. 224,000,000 was deferred 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>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. Included in the statement of financial position as at 30 June 2017 is collaborators fund balance of Kshs. 834,772,884. a review of schedules supporting the same showed an opening and closing balance of Kshs. 491,402,509 and 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 ne 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>The schedule of collaborators Funds balance of Kes. 834,772,884 comprises of the bank for the collaborators programme as analyzed in the Financial Statements</p>	<p>Resolved</p>		

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<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>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>	<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 align="center">In progress</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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Director General/C.E.O

Date.....
 30/4/2020.....