

REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**



**REPORT**

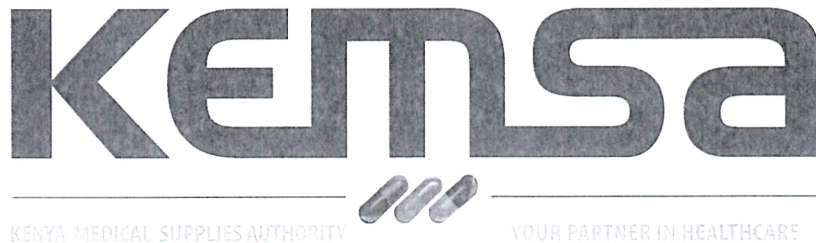
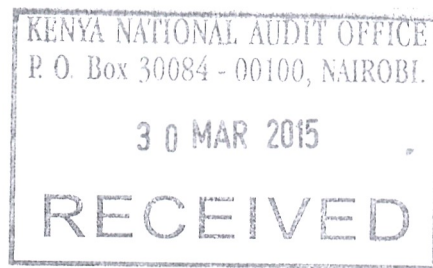
**OF**

**THE AUDITOR-GENERAL**

**ON**

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

**FOR THE YEAR ENDED  
30 JUNE 2014**



## **REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014**

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



**Reports and Financial Statements  
For the year ended June 30, 2014 (Kshs)**

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## **1. KEY ENTITY INFORMATION AND MANAGEMENT**

### **(a) Background Information**

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

### **(b) Principal Activities**

#### **Core Mandate**

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

#### **Functions of the Authority**

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

### **(c) Key Management**

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

- The Chief Executive Officer
- The Executive Directors

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### (c) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2014 and who had direct fiduciary responsibility were:

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

### (d) Fiduciary Oversight Arrangements

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

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

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

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

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<b>Strategy &amp; Development Committee</b>	<b>Human Resources Committee</b>	<b>Finance Committee</b>	<b>Audit Committee</b>	<b>Technical Committee</b>
<b>Composition</b>	<b>Composition</b>	<b>Composition</b>	<b>Composition</b>	<b>Composition</b>
Directors and the CEO	Directors and the CEO	Directors and the CEO	Directors and the Internal Audit Manager	Directors and the CEO
<b>Main Function</b>	<b>Main Function</b>	<b>Main Function</b>	<b>Main Function</b>	<b>Main Function</b>
Oversee implementation of the Task Force recommendations after Board approvals, examine the recommended structure developments including ICT installations and make appropriate recommendations	Consideration of human resources and administration matters that require to be considered by the Board including recruitment, promotions, discipline and welfare of staff.	Review and monitoring of KEMSA financial position, accounts, financial statements and statutory reports, Consideration of audit matters arising out of KEMSA's financial position and statements.	Consideration of matters relating to audit queries, audit management letters and quality assurance of systems and processes, including review of risk management.	Oversee QA & control systems, warehousing & distribution of medicines, customer services, co-ordinate updates of EMMS list, commodities procurement systems compliance to the law, ICT policy, accuracy of stock
<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>
Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis
<b>Chairman</b>	<b>Chairman</b>	<b>Chairman</b>	<b>Chairman</b>	<b>Chairman</b>
Mr. Andrew Onyach	Ms. Florence Oile	Mr. Charles Rigoro	Ms. Elizabeth Mwashinga	Dr. Nelly Kimani
<b>Members</b>	<b>Members</b>	<b>Members</b>	<b>Members</b>	<b>Members</b>
Dr Nelly Kimani, Ms Florence Oile Ms E. Mwashinga Mr Charles Rigoro Mr Bernard Ndung'u Dr John Munyu	Ms Florence Oile Mr Charles Rigoro Dr. John Munyu	Mr Andrew Onyach Dr Nelly Kimani, Mr Wilson Kingathia Prof. Fredrick Segor Dr. John Munyu	Prof. Fredrick Segor Mr Wilson Kingathia Ms Florence Oile Mr. Pariken Sankei	Ms E. Mwashinga Ms Florence Oile Mr Andrew Onyach Dr. John Munyu



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**(e) Headquarters**

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

**(f) Contacts**

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

**(g) Bankers**

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

**(h) Auditors**

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

**(h) Legal Advisers**

- |   |   |
|---|---|
| 1. The Attorney General<br>State law office,<br>Harambee Avenue<br>P.o Box 30084<br>NAIROBI | 2. Migos-Ogamba & Co. Advocates<br>4 <sup>th</sup> Floor , Crawford Park<br>State House Road<br>P.o. Box 58387-00200<br>NAIROBI |
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**3. KTK Advocates**

4<sup>th</sup> Floor, KEMU Towers  
University Way  
P.O. Box 10176 – 00100  
NAIROBI





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

**THE BOARD OF DIRECTORS**

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

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

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 <b>Mrs Elizabeth Mwashinga Director</b>	<p><i>Dip. Clinical Medicine</i></p> <p>Work Experience: Clinical Officer-Gatura Health Center, Msambweni District Hospital, Chaani Maternity and Nursing Home, Riflot Nursing Home,</p>
 <b>Mr. Benard Ndung'u, Alt. to PS, The National Treasury</b>	<p><i>B.Com (Finance), CPAK</i></p> <p>Work Experience: Accountant General at the National Treasury. He is a member of ICPAK. He is an expert in public Finance Management.</p>
 <b>Mr Francis Musyimi Alt. to PS, Ministry of Health</b>	<p><i>BA (Political Science &amp; sociology), MPSM</i></p> <p>Work Experience: Principal Administrative Secretary, Deputy Secretary, under secretary, Senior Assistant Secretary, District Officer.</p>
 <b>Mr. Hassan Noor, EBS Alt. to PS, Ministry of Devolution and Planning</b>	<p><i>BA(Political Science), MA(Diplomacy and International studies)</i></p> <p>Work Experience: Director of Administration –Ministry of Local Government, Chief Coordinator, Mau Forest Secretariat, -Lecturer Egerton University, Provincial Commissioner, District Officer.</p>
 <b>Dr John Munyu, MBS Chief Executive Officer</b>	<p><i>B.Pharm, MPSK, MBA, Dip S&amp;M, MPSK</i></p> <p>Work Experience: CEO-KEMSA, Director Technical Services-KEMSA, Country Director-Sanofi Aventis, Regional Manager-Aventis Pharma East Africa, Sales and Marketing Manager, Sales Manager-Rhone Poulone Roler.</p>

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

*LLB, DIP. Law*

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

**SENIOR MANAGEMENT TEAM**

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



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**CHAIRMAN'S STATEMENT**

On behalf of the Board of Directors, I have the pleasure to present to you, the Kenya Medical Supplies Authority (KEMSA), Annual Report and Financial Statements for the year ended 30<sup>th</sup> June 2014.

The financial year came with challenges of implementing the devolved system of government. This impacted on our business operations due to the fact that Health was one of the functions that was devolved from the national government to county governments. There was hence an urgent need to review our business operations and processes to adapt to the new environment. I am glad to report that the Board of Directors steered the organization through the transition process and we now have a new business model that optimally services the needs of the county health facilities.

**BUSINESS PERFORMANCE:**

KEMSA new business model was operationalized in quarter three (3) of the financial year under review and as at the end of 30<sup>th</sup> June 2014 KEMSA was supplying medical supplies to all the 47 counties. We partnered with the County governments through the signing of Memorandum of Understanding (MOUs) in order to effectively service their needs for medical supplies optimally.

KEMSA also continued to offer medical logistics to programs under the national government. KEMSA continues to procure, warehouse and deliver specific specialized medical supplies on behalf of the national government to the doorsteps of the all the public health facilities across the country which numbered over 5,000 and 5047 testing sites for HIV/AIDS.

Our partnership with development partners also continued to grow. KEMSA has strategic partnerships with development partners such as United States Agency for International Development (USAID), German Development Bank (KFW), Global Fund, United Nations International Children's Emergency Fund (UNICEF), World Bank and Danish International Development Agency (DANIDA).

During the financial year ended 30<sup>th</sup> June 2014, the Board of Directors in collaboration with the KEMSA management, Ministry of Health, development partners and other key stake holders attained the following milestones:

- i) KEMSA re- aligned its business operations and processes to create a medical supermarket. Under this arrangement, the authority maintained a wide range of stocks of medical commodities for Counties' health facilities to place their orders. The new business model gives KEMSA self financial sustainability.

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- ii) KEMSA entered into two years framework contracting with key suppliers of medical commodities to ensure consistency in supplies and price stability. This was a key driver in lowering the cost of medical supplies thereby increasing access to healthcare.
- iii) KEMSA embarked on an organizational restructuring and business process re-engineering. The re-organised/restructuring ensure that the organization is well placed to discharge its mandate under the devolved system of government.
- iv) KEMSA continues to invest heavily in ICT as a catalyst for business growth, operational efficiency and cost effectiveness.
- v) During the financial year under review, KEMSA continually embraced the performance based management and signed the requisite government performance contracting cycle's matrices. KEMSA's performance during the financial year was evaluated as "*very good*" with a composite score of 2.9673

I wish to reaffirm the commitment of the Board of Directors in ensuring that the Authority delivers its mandate fully in line with the KEMSA Act 2013.



**AMB. SOLOMON KARANJA**  
**CHAIRMAN, BOARD OF DIRECTORS**



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**CHIEF EXECUTIVE OFFICER STATEMENT**

During the financial year ended 30<sup>th</sup> June, 2014, Kenya Medical Supplies Authority (KEMSA) management heavily invested in the realignment of its business processes and system strengthening in readiness for providing supply chain services under the devolved system of government.

With the implementation of the devolved system of government and hence the devolved healthcare system, it was necessary for KEMSA to re-engineer all its business processes in order to come up with a business architecture that is aligned to devolved healthcare needs.

KEMSA therefore restructured and reorganized its business processes accordingly for optimal health service delivery under the devolved system of government. KEMSA therefore implemented a new business model in February, 2014.

**NEW BUSINESS MODEL**

To adequately serve the county needs under the devolved system of government, KEMSA implemented a medical supermarket model.

This business model is a not-for-profit commercial model where the KEMSA stores are stocked with the medical commodities required by the counties. Since health is a devolved function, the monies are with the counties. The counties determine their requirements, place their orders to the KEMSA supermarket, KEMSA processes the orders, counties make payments and KEMSA delivers as per their instructions.

KEMSA uses the funds realized to replenish its stocks. To ensure the success of this supermarket business model, KEMSA has heavily invested in a professional sales and marketing team which ensures the needs of the individual counties are fully met. In addition, KEMSA has entered into Memorandum of Understanding and Service Level Agreements with all the counties for the supply of medical commodities.

All the 47 counties ordered commodities from KEMSA.

**FINANCIAL PERFORMANCE**

During the Financial Year 2013/2014, KEMSA business environment changed significantly with the devolution of the health function to the counties.

I am delighted to report that KEMSA made a significant surplus of KShs 605 Million which amounts to 165% growth from the Kshs 228M reported in the financial year 2012/2013.

Revenue grew from Kshs 1.25 Billion in the financial year 2012/2013 to KShs 1.695 Billion in 2013/2014 which is a remarkable growth of 35%.



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The capitalization of KEMSA by the government through the World Bank enabled KEMSA to implement the new business model (supermarket model). The new business model has greatly improved KEMSA balance sheet and helped to build strong customer relationships with the counties.

Through extensive Sales and Marketing efforts, KEMSA sales to the counties have continued to grow and contributed significantly to the total revenue of Kshs 2.2 billion in the year.

Despite the very good growth in Revenue in this year, the operating expenses only grew by 11%. This was due to delayed implementation of the human resource, restructuring, capacity building and late implementation of the new business model.

The favourable results is a clear indication of the resolve of the KEMSA Board and management in ensuring KEMSA has the necessary structures and systems to be a financially self-sustainable corporation that is not dependent on the exchequer grants.

### **HUMAN RESOURCE**

To ensure success of the new business model, KEMSA overhauled its organizational structure and came up with an optimal structure aligned to the needs of the devolved health care system of government. This restructuring ensured that adequate human resources were allocated to the counties. The sales and marketing function was strengthened for optimal all round performance of the corporation in line with the KEMSA Act 2013.

### **STRATEGIC PLANNING**

KEMSA has a five year strategic plan in place. To ensure that the strategic plan is re-aligned to the new devolved system of government and devolved healthcare system, KEMSA has revised its Strategic Plan in order to ensure that it is in line with the devolved system of government and devolved healthcare system.

In addition, the revised Strategic Plan lays out strategies to strengthen KEMSA in light of the new business environment and guarantee optimal service delivery to Kenyans.

### **STRATEGIC PARTNERSHIPS**

KEMSA recognizes the importance of strategic partnerships and public private partnerships. In line with the KEMSA Act 2013, KEMSA has entered into strategic partnerships with a number of key players in the health sector in order to enhance performance and service delivery.

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These partnerships have helped greatly in pooling of the much needed resources in terms of funds, technical skills, system strengthening and capacity building.

The current strategic partnerships include;

- United States Agency for International Development (USAID)
- World Bank
- Global Fund
- German Development Bank (KFW)
- United Nations International Children's Emergency Fund (UNICEF)
- Danish International Development Agency (DANIDA)
- Department For International Development (DFID)

KEMSA will continue to invest in strategic partnerships that add value to the discharge of its mandate under the KEMSA Act 2013.



**DR. JOHN MUNYU, MBS**  
**CHIEF EXECUTIVE OFFICER**

**CORPORATE GOVERNANCE STATEMENT:**

Corporate governance is the process by which corporations are directed and controlled with the objective of increasing stake/shareholders value and satisfying them. This is achieved by establishing a system of clearly defined authorities and responsibilities, which result in a system of internal controls that is regularly tested to ensure effectiveness.

At Kenya Medical Supplies Authority, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the Authority's activities. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre of Corporate Governance (Kenya) as its benchmark in developing its corporate governance principles. The Board is responsible for the governance of the Authority and conducts the business and operations of the Authority with integrity and in accordance with generally accepted corporate practices, based on transparency, accountability and responsibility.

**BOARD OF DIRECTORS:**

The composition of the Board is set out on page 5-6. The Board of Directors of the Authority comprises of the Chairman who is appointed by the President, the Chief Executive Officer is appointed by the Cabinet Secretary on recommendation by the Board, the Principal Secretary of the Ministry of Health or her representative, the Principal Secretary to the National Treasury or his representative, the Principal Secretary Ministry of Devolution and Planning or her representative, four private sector members who are not public officers with diverse skills and experience in medical supply chain, finance, law and business management appointed by the Cabinet Secretary. All non-executive directors are independent of management of the Authority. The directors' responsibilities are set out in the Statement of Directors Responsibilities. The directors are responsible for the development of internal financial controls, which give assurance against material mis-statements.

The Chairman provides the overall leadership to the Board without limiting the principle of collective responsibility for Board decisions. He acts as the link between the Board and the Chief Executive Officer and plays a lead role in consensus building between the Board of Directors, the Chief Executive Officer and senior management. The Board has delegated the authority for day-to-day management to the Chief Executive Officer. It however retains the overall responsibility for decisions with regard to finances and operations of the Authority.

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

This includes the duty to ensure that the functions of the KEMSA are carried out in an efficient, transparent and ethical manner and that no particular person or body is given undue preference or subjected to any undue disadvantage. The Board considers and advises the Minister for Health on the development and maintenance of Medical Supply Chain



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policy framework and the objectives of KEMSA. It considers and approves general performance targets, both strategic and business, and the annual budgets of the Authority.

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

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



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**CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT**

As a responsible corporate citizen, KEMSA recognizes the need to engage with its diverse public and stakeholders through CSR in order to cultivate good relations in the environment we operate in.

KEMSA's core responsibility to its various stakeholders is to work closely with them to pursue the enhancement and fulfillment of corporate values through sound business practices in order to promote a sustainable society.

The long term strategy is to engage in strategic CSR which will not only benefit our stakeholders but will also strengthen the Authority's corporate strategy and leverage on key focus areas. Some of the key drivers of CSR initiatives in the year 2013/2014 include the following.

**ENVIRONMENTAL CONSERVATION**

In the year 2013/2014, the Authority partnered with the Kenya Forest Service and the local community in planting and maintaining 1,000 trees at the Kibiku Area of Ngong Forest. The Authority has committed to participate in similar activities in the future.

**INTERNSHIP PROGRAMS**

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

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

**HEALTH**

Provision of adequate health care to all remains a key focus for both the National and county Governments in the country. The high cost of providing specialized treatment makes access to health care by majority of Kenyans to be a major challenge.

It is in recognition of the above that KEMSA has continued to support community initiatives aimed at improving health care. This includes participation in various Medical Camps through provision of free medical supplies to selected free public medical camps.



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KEMSA management also ensures that KEMSA has a healthy workforce through frequent open health day forums for staff and their families where a wide range of services such as screening for HIV, Diabetes, High Blood Pressure, counselling on Nutrition, teaching on prevention of non-communicable diseases, Healthy lifestyles etc. are offered to all staff and their families.

**SAFETY**

In the financial year, KEMSA organized employee education sessions that continually sensitized staff on the benefits of safety. All employees underwent basic firefighting training and First Aid training. KEMSA has partnered with St. Johns Ambulance in First Aid training.

**Reports and Financial Statements  
For the year ended June 30, 2014 (Kshs)****REPORT OF THE DIRECTORS**

The directors submit this report together with the financial statements for the year ended 30 June 2014, in accordance with Section 14 of the State Corporations Act, section 17(2) of the KEMSA Act of 2013.

**PRINCIPAL ACTIVITIES**

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

**RESULTS**

The net surplus for the year is Kshs 605,656,885 (2013/2014 Kshs 227,977,024).

**DIRECTORS**

The names of the directors who held office during the year to the date of this report are set out on page 6. In accordance to the KEMSA Legal Notice No. 17 of 3<sup>rd</sup> February, 2000 as amended on 15<sup>th</sup> May 2009, directors who are not public officers retired in October 2012 for the chairman of the Board and in August 2012 for the other non-executive directors. New Board of Directors were appointed on 9<sup>th</sup> October 2012 for the chairman and 19<sup>th</sup> November 2012 for other directors.

**AUDITORS**

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



By Order of the Board  
Corporation Secretary

Nairobi  
September 2014

**STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITIES**

The Board of Directors are required to prepare financial statements which give a true and fair view of the state of affairs of The Kenya Medical Supplies Authority as at the end of the financial year and of its surplus or deficit for that year. The Board is required to ensure that the Authority maintains proper accounting records which disclose with reasonable accuracy, the financial position of the Authority.

The Board is responsible for safeguarding the assets of the Authority. The Board accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, consistent with previous years and in conformity with the international financial reporting standards.

The Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority as at 30<sup>th</sup> June 2013 and of its surplus for the year then ended. The Board further confirms the accuracy and completeness of the accounting records maintained by the Authority which has been relied upon for the preparation of financial statements as well as the adequacy of the systems of the internal financial controls.

This statement is approved and signed on behalf of the Board by:

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

**Amb. Solomon Karanja**  
**Board Chairman**

Signature.....

Signature.....

Date.....27/3/2015.....

Date.....27/3/15.....

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Medical Supplies Authority as set out on pages 23 to 47, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

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

The management is also responsible for the submission of the financial statements to the Auditor General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion**

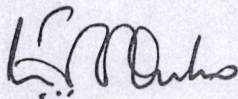
#### **Property, Plant and Equipment**

As previously reported, the property, plant and equipment balance of Kshs.1,050,410,648 as at 30 June 2014 includes various parcels of land valued at Kshs.183,000,000 for which the Authority does not possess ownership documents. According to information available, the parcels of land are spread across the country and include depots situated at Mombasa, Eldoret, Kisumu, Nakuru, Kakamega, Nyeri and Garissa. Further, the property, plant and equipment balance of Kshs.1,050,410,648 excludes the unspecified value of parcel of land in Meru also belonging to the Authority. The management has however indicated that, the process of acquiring ownership documents for the remaining parcels of land is ongoing.

In the circumstances, it has not been possible to confirm the validity and accuracy of the property, plant and equipment balance of Kshs.1,050,410,648 as at 30 June 2014.

### **Qualified Opinion**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2014 its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Kenya Medical Supplies Authority Act, 2013.



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

**Nairobi**

**1 April 2015**

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2014**

	Note	2013/2014 Kshs	2012/2013 Kshs
<b>Revenue from non-exchange transactions</b>			
Grants from National Government	1	461,495,140	396,795,000
Public contributions and donations	2	12,374,944	17,177,054
		<b>473,870,084</b>	<b>413,972,054</b>
<b>Revenue from exchange transactions</b>			
Net Sales	4	321,876,980	-
Other Income	5	900,041,317	841,998,964
		<b>1,221,918,297</b>	<b>841,998,964</b>
<b>Total revenue</b>		<b>1,695,788,381</b>	<b>1,255,971,018</b>
<b>Expenses</b>			
Staff Costs	6	305,278,224	283,549,881
Distribution Costs	7	387,358,170	392,682,335
Insurance costs	8	38,797,016	35,923,732
Rental expenses	9	75,368,803	63,237,534
Legal Fees	10(a)	46,689,751	16,679,990
Conveyancing & Other Costs	10(b)	17,983,120	-
Utilities expenses	11	12,282,641	10,790,038
Staff travel expenses	12	24,098,175	23,188,084
Finance costs	13	766,708	442,102
Audit fees	14	1,044,000	1,188,000



**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

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BOD expenses	15	6,267,621	7,555,889
Depreciation & amortization	16	54,063,455	95,776,570
Other Operating Expenses	17	120,145,585	96,979,838
<b>Total expenses</b>		<b>1,090,143,268</b>	<b>1,027,993,994</b>
<b>Other gains/(losses)</b>			
Gains on disposal of Fixed Assets	3	11,771	-
<b>Surplus before tax</b>		<b>605,656,885</b>	<b>227,977,024</b>
Taxation		-	-
<b>Surplus for the period</b>		<b>605,656,885</b>	<b>227,977,024</b>

**STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2014**

	Note	2013/2014 Kshs	2012/2013 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	18	5,004,916,491	5,230,793,668
Receivables from exchange transactions	19	2,974,839,700	1,573,390,381
Receivables from non-exchange transactions	20(a)	21,987,392	19,853,453
Provision for Insurance Claim Receivable	20(b)	1,040,299,216	1,285,780,027
Current portion of long-term receivables from exchange transactions	21	6,766,404	4,732,652
Inventories	22	7,880,409,310	7,811,112,363
		<b>16,929,218,513</b>	<b>15,925,662,545</b>
<b>Non-current assets</b>			
Property, plant and equipment	23(a)	1,050,410,648	1,033,597,506
Intangible assets	23(b)	3,302,387	2,497,055
		1,053,713,035	1,036,094,561
<b>Total assets</b>		<b>17,982,931,547</b>	<b>16,961,757,105</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	24	455,366,521	264,918,377
Payments received in advance	25	4,662,861	0
Provisions	26	1,114,000	1,044,000
Project Fund	29	10,515,479	63,305,327
Staff Payables	30	5,798	23,948
Medical Commodity Fund	27	6,353,106,314	14,844,669,650
		<b>6,824,770,974</b>	<b>15,173,961,302</b>
<b>Non-current liabilities</b>			
Deferred income	28	83,045,452	94,712,809
		<b>83,045,452</b>	<b>94,712,809</b>
<b>Total liabilities</b>		<b>6,907,718,305</b>	<b>15,268,674,110</b>

**Reports and Financial Statements  
For the year ended June 30, 2014 (Kshs)**

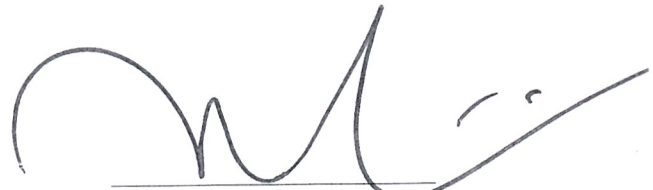
Net assets		11,075,115,121	1,693,082,995
KEMSA Capital	31	8,776,375,242	0
Accumulated Funds		256,950,298	256,950,298
Surplus/Deficit		1,391,405,689	650,383,892
Revaluation reserve		650,383,892	785,748,806
<b>Total net assets and liabilities</b>		<b>17,982,931,547</b>	<b>16,961,757,105</b>

The financial statements were approved by the Board of Directors on \_\_\_\_\_  
2014 and signed on its behalf by:



Amb. Solomon Karanja

Board Chairman



Dr. John M. Munyu, MBS

Chief Executive Officer

Reports and Financial Statements  
For the year ended June 30, 2014 (Kshs)

**STATEMENT OF CHANGES IN NET ASSETS**  
**For the year ended 30 June 2014**

	Attributable to the owners of the controlling entity					
	Reserves					
	KEMSA Capital	Accumulated Funds	Surplus/Deficit	Revaluation reserve	Total	
Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
Balance as at 30 JUNE 2012	-	256,950,298	526,610,211	31,554,069	815,114,578	
Revaluations - Land	-	-	-	401,472,000	401,472,000	
Revaluations - Buildings	-	-	-	255,294,248	255,294,248	
FA disposals	-	-	(392,500)	-	(392,500)	
Amortization of revaluation reserve (prior period)	-	-	31,554,069	(31,554,069)	-	
Amortization of revaluation reserve (buildings)	-	-	-	(6,382,356)	(6,382,356)	
Surplus/(deficit) for the period	-	-	227,977,024 *	-	227,977,024*	
Transfers to/from accumulated surplus	-	-	-	-	-	
<b>Balance as at 30 JUNE 2013</b>	-	256,950,298	785,748,804	650,383,892	1,693,082,994	
KEMSA Capital	8,776,375,242	-	-	-	-	
Surplus for the period	-	-	605,656,885	-	-	
Transfers to/from accumulated surplus	-	-	-	-	-	
<b>Balance as at 30 JUNE 2014</b>	8,776,375,242	256,950,298	1,391,405,689	650,383,892	1,693,082,994	

\*Balances as at 30<sup>th</sup> June 2013 Restated (Note 32)

**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

**STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2014**

	Note	2013/2014 Kshs	2012/2013 Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Grants from National Government	1	461,495,140	396,795,000
Public contributions and donations	2	12,374,944	17,177,054
Net Sales	4	321,876,980	0
Gains on disposal of Fixed Assets	3	11,771	0
Other Income	5	900,041,317	841,998,964
		<b>1,695,800,152</b>	<b>1,255,971,018</b>
<b>Payments</b>			
Staff Costs	6	305,278,224	283,549,881
Distribution Costs	7	387,358,170	392,682,335
Insurance costs	8	38,797,016	35,923,732
Rental expenses	9	75,368,803	63,237,534
Legal expenses	10	64,672,871	16,679,990
Utilities expenses	11	12,282,641	10,790,038
Staff travel expenses	12	24,098,175	23,188,084
Finance costs	13	766,708	442,102
Audit fees	14	1,044,000	1,188,000
BOD expenses	15	6,267,621	7,555,889
Depreciation & amortization	16	54,063,455	95,776,570
Other Operating Expenses	17	120,145,585	96,979,838
		<b>1,090,143,268</b>	<b>1,027,993,994</b>
<b>Net cash flows from operating activities</b>		<b>605,656,885</b>	<b>227,977,024</b>
Decrease/(Increase) in Current Assets		<b>(1,229,433,145)</b>	<b>(5,355,921,673)</b>
Increase/(Decrease) in Current Liabilities		<b>(8,349,190,328)</b>	<b>4,898,868,755</b>
Decrease/(Increase) in Deferred Income		<b>(11,667,356)</b>	<b>9,811,789</b>
Asset Disposal		2,603,227	0
Depreciation & amortization		54,063,455	95,776,570
		<b>(8,927,967,263)</b>	<b>(123,487,535)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets		(74,285,156)	(52,111,686)
<b>Net cash flows used in investing activities</b>		<b>(74,285,156)</b>	<b>(52,111,686)</b>
<b>Cash flows from financing activities</b>			
KEMSA Capital		8,776,375,242	0
<b>Net cash flows used in financing activities</b>		<b>8,776,375,242</b>	<b>0</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(225,877,177)</b>	<b>(175,599,221)</b>
Cash and cash equivalents at 1 July 2013		5,230,793,668	5,406,392,889
<b>Cash and cash equivalents at 30 June 2014</b>		<b>5,004,916,491</b>	<b>5,230,793,668</b>

**Reports and Financial Statements  
For the year ended June 30, 2014 (Kshs)**

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
For the year ended 30 June 2014**

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference
	2013-2014	2013-2014	2013-2014	2013-2014	2013-2014
<b>Revenue</b>					
Grants from National Government	692,100,000	-	692,100,000	461,499,140	-230,600,860
Public contributions and donations	-	-	-	12,374,944	12,374,944
Net Sales	80,000,000	-	80,000,000	323,482,327	243,482,327
Gains on disposal of Fixed Assets	-	-	-	11,771	11,771
Other Income	1,166,166,167	-	1,166,166,167	900,042,317	-266,123,850
<b>TOTAL INCOME</b>	<b>1,938,266,167</b>	<b>-</b>	<b>1,938,266,167</b>	<b>1,697,410,499</b>	<b>-240,855,668</b>
<b>Payments</b>					
Staff Costs	583,350,000	-	583,350,000	305,278,224	-278,071,776
Distribution Costs	585,160,000	-	585,160,000	387,358,170	-197,801,830
Insurance costs	43,680,000	-	43,680,000	38,797,015	-4,882,985
Rental expenses	86,480,000	-	86,480,000	75,368,803	-11,111,197
Legal expenses	82,523,000	-	82,523,000	64,672,871	-17,850,129
Utilities expenses	23,606,900	-	23,606,900	12,282,641	-11,324,259
Staff travel expenses	58,251,992	-	58,251,992	24,098,175	-34,153,817
Finance costs	8,973,000	-	8,973,000	766,708	-8,206,292
Audit fees	1,044,000	-	1,044,000	1,162,320	118,320
BOD expenses	17,360,000	-	17,360,000	6,267,621	-11,092,379
Depreciation & amortization	99,120,000	-	99,120,000	54,063,455	-45,056,545
Other Operating Expenses	276,289,000	-	276,289,000	120,027,265	-156,261,735
<b>TOTAL EXPENSES</b>	<b>1,865,837,892</b>	<b>-</b>	<b>1,865,837,892</b>	<b>1,108,444,311</b>	<b>-775,694,624</b>
<b>SURPLUS FOR THE PERIOD</b>	<b>72,428,278</b>	<b>-</b>	<b>72,428,278</b>	<b>605,656,885</b>	<b>605,656,885</b>

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **1. Statement of compliance and basis of preparation**

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

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Public Sector Accounting Standards (IPSAS).

#### **a) Revenue Recognition**

##### **i) Revenue from non-exchange transactions**

##### **Fees**

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

##### **Transfers from other government entities**

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

##### **ii) Revenue from exchange transactions**

##### ***Rendering of services***

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



**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

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

***Sale of goods***

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

***Finance Income***

Finance income comprises interest receivable from holding current accounts.

**b) Budget Information**

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

**c) In-Kind Contributions**

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

**d) Property, Plant And Equipment**

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

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

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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

**Reports and Financial Statements  
For the year ended June 30, 2014 (Kshs)**

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

Lease hold Land	Amortized over the lease period
Buildings 2.5%	2.5%
Motor vehicles 25%	25%
Fixtures and fittings 12.5%	12.5%
Furniture 12.5%	12.5%
Equipment 12.5%	12.5%
Plant and Machinery 10%	10%
Computers 33.3%	33.3%
Intangible Assets 33.3%	33.3%

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

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

**e). Intangible Assets**

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

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

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

**f). Inventories**

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



**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

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

**g). Trade And Other Receivables**

Trade and other receivables are recognized at fair values.

**h). Cash And Cash Equivalents**

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

**i). Trade And Other Payables**

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

**j). Exchange Rate Differences**

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

**k). Comparative figures**

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

**l). Contingent liabilities**

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



**Reports and Financial Statements  
For the year ended June 30, 2014 (Kshs)**

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1). **Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

**NOTES TO THE FINANCIAL STATEMENTS**

**1 Grants from National Government**

GRANTS FROM MOM'S - OPERATIONS	278,055,840	198,700,000
GRANTS FROM MOM'S - DISTRIBUTION	112,164,300	127,820,000
GRANTS FROM MOPHS - DISTRIBUTION	52,275,000	52,275,000
GRANTS FROM MOM'S - DEVELOPMENT	19,000,000	18,000,000
	461,495,140	396,795,000
	=====	=====

**2 Public contributions and donations**

INCOME RECOGNIZED FROM DONATIONS	12,374,944	17,177,054
	12,374,944	17,177,054
	=====	=====

**3 Gains on disposal of Fixed Assets**

Loss of laptop cost	144,411	
Less: Accumulated depreciation on loss	-96,274	
NBV	48,137	
Insurance compensation	59,908	
Gain on disposal	11,771	
	=====	

**4 Net Sales**

SALES REVENUE- PHARMACEUTICALS	1,524,961,863	0
SALES REVENUE- NON-PHARMACEUTICALS	686,873,882	0
TOTAL	2,211,835,744	0
COST OF SALES - CGS (PHARMS)	1,824,733,208	0
COST OF SALES - CGS (NON-PHARMS)	65,225,556	0
TOTAL	1,889,958,764	0
NET SALES	321,876,980	0
	=====	=====

**5 Other Income**

PROCUREMENT	170,441,358	246,601,318
WAREHOUSING	222,874,569	91,588,767
DISTRIBUTION	200,021,458	152,647,945
SALE OF WASTE MATERIALS	1,042,620	6,200,839
SALE OF TENDER DOCUMENTS	1,635,000	7,173,864
BANK INTEREST RECEIVED	290,417,298	337,786,232
FOREX REALIZED GAIN	6,146,800	0
OTHER MISCELLANEOUS INCOME	7,462,215	0
	900,041,317	841,998,964



**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

**6 Staff Costs**

BASIC PAY	168,708,162	161,828,287
OVERTIME	11,498,461	8,959,381
ARREARS	0	0
HOUSE ALLOWANCE	53,992,945	50,784,752
ACTING ALLOWANCE	570,240	536,575
BONUS	0	0
PAY IN LIEU OF LEAVE	0	245,534
LEAVE ALLOWANCE	2,057,000	2,330,000
LUNCH ALLOWANCE	0	0
ENTERTAINMENT ALLOWANCE	1,722,100	1,524,000
NSSF (KEMSA PART)	1,019,600	922,600
GRATUITY AND PENSIONS	17,140,019	15,612,044
FEEES & COMMISSIONS	0	0
HONORARIA	8,212,900	4,457,200
EX-GRATIA PAYMENTS	0	0
TRAVEL ALLOWANCE	0	0
MEDICAL ALLOWANCE	0	0
SPECIAL DUTY ALLOWANCE	0	0
TRANSPORT ALLOWANCE	20,446,250	19,084,718
OTHER TAXABLE BENEFITS	822,935	756,000
CASUAL AND CONTRACT EMPLOYEES	6,988,528	4,440,091
SHIFT ALLOWANCE	623,695	568,238
STAFF SECONDED TO KEMSA	11,475,390	11,500,460
	<hr/>	<hr/>
	305,278,224	283,549,881
	=====	=====

**7 Distribution Costs**

FUEL AND OILS FOR OWN TRUCKS	2,684,315	2,314,404
MAINTENANCE OF OWN TRUCKS	1,084,916	2,632,668
INSURANCE AND GOVT. LEVIES	92,000	600
HIRE OF TRANSPORT	3,000	67,485
OUTSOURCED DISTRIBUTION COSTS	368,920,837	372,934,087
FUEL AND OILS	8,822,012	7,256,298
VEHICLE MAINTENANCE	4,442,195	6,551,405
VEH. INSURANCE & GOVT. LEVIES	215,514	204,700
FORK LIFT MAINTENANCE	941,130	720,688
FORKLIFT FUEL AND OILS	152,250	0
	<hr/>	<hr/>
	387,358,170	392,682,335
	=====	=====



**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

<b>8 Insurance costs</b>		
MEDICAL PREMIUMS	25,178,769	23,616,241
INSURANCE EXPENSES-PREMIUMS	13,,661,247	11,960,418
INSURANCE EXP.-POLICY EXCESS	(43,000)	347,073
INSURANCE WRITE OFF	0	0
INSURANCE EXPENSES-RISK ASSESSMENT & EVALUATION	0	0
	38,797,016	35,923,732
	=====	=====
<b>9 Rental expenses</b>		
RENTAL EXPENSES	75,368,803	63,237,534
10(a) LEGAL FEES	46,689,751	16,679,990
	0	
10(b) CONVEYANCING COSTS	16,979,700	
COMPENSATION FOR ECONOMIC INJURY	1,003,420	
	17,983,120	
	=====	
<b>11 Utilities expenses</b>		
WATER & CONSERVANCY EXPENSES	1,135,229	1,332,591
ELECTRICITY & LIGHTING EXP.	10,740,156	8,561,821
GENERATOR FUEL & MAINTENANCE	407,256	895,626
	12,282,641	10,790,038
	=====	=====
<b>12 Staff travel expenses</b>		
STAFF TRAVEL ALLOWANCE-LOCAL	20,655,068	20,910,440
STAFF TRAVEL ALLOWANCE - INT'L	683,799	127,307
AIR TICKETS	2,181,733	1,698,868
HIRE OF TAXI & OTHER TRANSPORT	575,928	314,255
MILEAGE CLAIMS - USE OWN CARS	1,648	137,215
	24,098,175	23,188,084
	=====	=====
<b>13 Finance costs</b>		
BANK CHARGES AND COMMISSION - BANK EXPENSES	766,708	442,102
<b>14 Audit fees</b>		
AUDIT FEES & OTHER	1,044,000	1,188,000



**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

15 BOD expenses

BOD SITTING & LUNCH ALLOWANCES	3,111,000	4,809,296
BOD TRAVEL & ACCOM'N EXP.	2,112,621	1,462,593
KEMSA BOD CONFERENCES	0	240,000
BOD HONORARIA	960,000	960,000
OTHER ALLOWANCES	84,000	84,000
	6,267,621	7,555,889
	=====	=====
	=	

16 Depreciation & amortization

FH BUILDINGS-HISTORIC DEPRC'N	0	0
LONG LH BUILDGS- HIST. DEPRC'N	9,408,100	2,680,144
SHORT LH LAND-HISTORIC DEPRC'N	0	0
SHORT LH BUILDGS- HIST DEPRC'N	0	0
PLANT AND MACHINERY-DEPRC'N	13,047,029	9,649,351
MOTOR VEHICLES-DEPRECIATION	0	0
OFFICE EQUIPMENT-DEPRECIATION	7,509,994	6,298,848
FURNITURE & FITTINGS-DEPRC'N	2,199,442	2,135,564
COMPUTER EQUIPMENT-DEPRC'N	7,125,746	9,721,458
LONG LH BUILDINGS- REV'N DEP'N	0	0
SHORT LH LAND -REV'N DEP'N	0	0
SHORT LH BUILDING -REV'N DEP'N	0	0
INTANGIBLE ASSETST-DEPRC'N	2,345,348	44,696,752
FH BUILDINGS - REV'N DEPRC'N	0	0
MOTOR VEHICLES-DEPRC'N	12,427,795	20,594,453
	54,063,455	95,776,570
	=====	=====
	=	

17 Other Operating Expenses

TRAINING EXPENSES	5,915,358	7,237,588
CONFERENCE EXPENSES	1,771,950	981,925
OFFICIAL ENTERTAINMENT	6,024,987	3,398,973
OFFICE BEVERAGES	4,439,288	3,402,400
END-OF-YEAR STAFF PARTY	3,512,500	2,555,594
OTHER STAFF PARTIES	706,325	233,713
STAFF SUPPORT EXPENSES	970,800	96,000
PURCHASE OF NEW UNIFORMS	220,520	429,071
LAUNDRY AND CLEANING	47,750	49,600
TELEPHONE-SWITCHBOARD LLS	2,780,599	1,287,435
TELEPHONE-DIRECT LANDLINES	91,500	55,400
CELL PHONES	4,005,314	4,100,248
LEASED LINES	1,782,919	1,351,976
E-MAIL/INTERNET	1,236,844	1,533,064
POSTAGE & COURIER	103,479	95,687
COMPUTER MAINTENANCE EXPENSES	2,869,953	10,25,069



**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

COMPUTER MAINT. AGREEMENTS	3,185,956	609,580
COMPUTER SOFTWARE AND LICENSES	2,283,167	15,220
COMPUTER STATIONERY EXP	3,118,151	2,965,246
HIRE OF SERVICES -SECURITY FIRMS	7,951,200	7,468,078
HIRE OF SERVICES FROM POLICE	3,560,338	3,472,700
SECURITY EQUIPMENT	228,005	709,017
CLEANING MATERIALS & IMPLEMENT	1,201,331	194,297
PEST CONTROL EXPENSES	107,150	108,200
OUTSOURCED CLEANING EXPENSES	446,682	139,640
SANITATION EXPENSES	1,002,462	,689,449
PLANT REPAIRS & MAINTENANCE	94,470	38,362
REPAIRS TO BUILDINGS AND ROADS	7,907,974	1,453,500
PURCHASE OF TOOLS & MAINT. EQU	7,750	10,100
RATES PAID TO THE LOCAL GOVT.	0	15,000
REAGENTS	32,364	29,095
THIRD PARTY SERVICES	1,505,400	3,095,448
MAINT. OF QA TOOLS & EQUIPMENT	23,200	27,756
PALLETING COSTS	215,000	30,000
PACKAGING MATERIALS & EXPENSES	5,721,589	2,982,793
PROTECTIVE CLOTHING & GEAR	0	80,690
COST - DISPOSING DAMAGED STOCK	1,980,000	1,616,550
STATIONERY EXPENSES	2,112,570	8,273,209
OFFICE EXPENSES	3,530,504	2,936,257
OTHER	452,390	0
STAFF SUBSCRIPTION EXPENSES	1,118,490	570,877
STATUTORY SUBSCRIPTIONS	275,750	251,850
FIRE FIGHTING & SAFETY EQUIP.	233,446	1,013,265
HIRE OF SAFETY TRAINING SERV.	0	50,000
BANK CHARGES AND COMMISSION - REALIZED LOSS	12,318,105	15,989,603
PENALTIES AND FINES	550	60,774
RISK ASSESSMENT & EVALUATION	250,000	0
CONSULTANCY	3,031,885	2,526,782
PUBLIC RELATIONS EXPENSES	3,273,300	213,570
DONATIONS	75,000	52,500
ADVERTISING EXP.	2,172,808	719,432
CORPORATE & OTHER CALENDARS	1,757,650	1,445,600
ADVERTISING OF TENDERS	7,735,513	8,236,154
PUBLICITY & ADVERTISING EXPENSES	1,603,902	177,900
NEWSPAPER EXPENSES	548,220	735,031
JOURNALS, BOOKS & PERIODICALS	0	43,395
PROVISION FOR BAD & DOUBTFUL DEBTS	1	99,177
ASSET DISPOSAL	2,603,227	
	120,145,585	96,979,838

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**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

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The Authority has a pending claim from Jubilee Insurance as a result of a fire incident that destroyed one of the warehouses in January 2013. The Value of items destroyed was Kshs 1,285, 780, 027. However the Loss Adjuster reviewed and quantified claim the claim figure as Kshs 1,040,299,216. Due to some disagreements on the claim payment between KEMSA and Jubilee Insurance, the matter was referred to the Courts for arbitration and is currently awaiting Judgement. The Financial statements have been revised to reflect the Provision for amount claimable as per the Loss Adjuster's report.

**21 Current portion of long-term receivables from exchange transactions**

SUPPLIER PREPAYMENTS	6,766,404	4,732,652
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**22 Inventories**

PHARMACEUTICAL STOCKS	7,877,320,054	7,811,112,363
STATIONERY	1,847,223	0
BEVERAGES & OTHER'S	1,242,033	0
	7,880,409,310	7,811,112,363
	=====	=====

**Reports and Financial Statements  
For the year ended June 30, 2014 (Kshs)**

23 (a)	Property, plant and equipment	LAND	BUILDINGS	OFFICE EQUIPM ENT	PLANT & MACHINERY	FURNITUR E	MOTOR VEHICLE	COMPUTER HARDWARE	WIP	TOTALS
	COST/VALUATION AS AT 1/7/2013	553,000,000	362,500,000	54,681,922	100,757,224	20,138,736	112,885,397	52,679,920	8,279,230	1,264,922,430
	ADDITIONS		13,644,605	9,690,077	33,976,781	513,402	-	2,525,831	10,783,780	71,134,476
	WIP Transfer	1,538,002	457,283						(1,995,285)	-
	REVALUATION						(5,110,179)	(144,411)		(5,254,590)
	DISPOSALS									
		<u>554,538,002</u>	<u>376,601,888</u>	<u>64,371,999</u>	<u>134,734,005</u>	<u>20,652,137</u>	<u>107,775,218</u>	<u>55,061,341</u>	<u>17,067,726</u>	<u>1,330,802,315</u>
	DEPRECIATION AS AT 1/7/2013	-	24,077,890	30,327,976	42,834,329	13,109,513	78,684,515	42,290,701	-	231,324,924
	ACC DEPR ON DISPOSAL						(2,555,090)	(96,274)		(2,651,364)
	DEPRECIATION CHARGE FOR THE 12 MONTHS		9,408,100	7,509,994	13,047,029	2,199,442	12,427,795	7,140,731	-	51,683,210
	ACCUMULATED DEPRECIATION	-	33,485,990	37,837,970	55,881,359	15,308,955	88,557,221	49,320,173	-	280,391,668
	NBV AS AT 30/06/14	<u>554,538,002</u>	<u>343,115,897.55</u>	<u>26,534,029</u>	<u>78,852,646</u>	<u>5,343,183</u>	<u>19,217,997</u>	<u>5,741,167</u>	<u>17,067,726</u>	<u>1,050,410,648</u>

**Reports and Financial Statements  
For the year ended June 30, 2014 (Kshs)**

	LAND	BUILDINGS	OFFICE EQUIPMENT	PLANT & MACHINERY	FURNITURE	MOTOR VEHICLE	COMPUTER HARDWARE	WIP	TOTALS
<b>COST/VALUATION AS AT 1/7/2012</b>	151,528,000	81,334,766	36,999,499	95,280,028	19,176,351	91,495,169	40,681,617	51,441,040	567,936,470
WIP Transfer to Intangible Assets								(3,190,801)	(3,190,801)
<b>ADDITIONS</b>									
WIP Transfer		115,866	10,062,068	5,477,196	962,385	15,053,800	11,998,303	7,453,880	51,123,498
REVALUATION	401,472,000	25,181,933	7,620,355			14,622,600		(47,424,888)	-
DISPOSALS		255,867,435				(8,286,172)			657,339,435
	<u>553,000,000</u>	<u>362,500,000</u>	<u>54,681,922</u>	<u>100,757,224</u>	<u>20,138,736</u>	<u>112,885,397</u>	<u>52,679,920</u>	<u>8,279,230</u>	<u>1,264,922,430</u>
<b>DEPRECIATION AS AT 1/7/2012</b>	-	15,015,390	24,029,128	33,184,978	10,973,949	65,983,735	32,569,243	8,279,230	1,264,922,430
ACC DEPR ON DISPOSAL ARMOTIZATION		6,382,356				(7,893,672)			(7,893,672)
DEPRECIATION CHARGE FOR THE 12 MONTHS		2,680,144	6,298,848	9,649,351	2,135,564	20,594,453	9,721,458	-	51,079,818
ACCUMULATED DEPRECIATION	-	<u>24,077,890</u>	<u>30,327,976</u>	<u>42,834,329</u>	<u>13,109,513</u>	<u>78,684,515</u>	<u>42,290,701</u>	-	<u>231,324,924</u>
<b>NBV AS AT 30/06/13</b>	<u>553,000,000</u>	<u>338,422,110</u>	<u>24,353,946</u>	<u>57,922,895</u>	<u>7,029,223</u>	<u>34,200,882</u>	<u>10,389,219</u>	<u>8,279,230</u>	<u>1,033,597,506</u>



**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

23(b) **Intangible assets**

	COMPUTER SOFTWARE	INTANGIBLE	TOTALS
COST/VALUATION AS AT 1/7/2013	130,204,894	8,630,359	138,835,253
WIP b/f			-
WIP C/F			-
ADDITIONS		3,150,680	3,150,680
WIP Transfer			-
REVALUATION			-
DISPOSALS			-
	<b>130,204,894</b>	<b>11,781,039</b>	<b>141,985,933</b>
DEPRECIATION AS AT 1/7/2013	130,204,894	6,133,304	136,338,198
ACC DEPR ON DISPOSAL			-
DEPRECIATION CHARGE FOR THE 12 MONTHS	-	2,345,348	2,345,348
ACCUMULATED DEPRECIATION	130,204,894	8,478,652	138,683,546
NBV AS AT 30/06/14	-	3,302,387	3,302,387



**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

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	COMPUTER SOFTWARE	INTANGIBLE	TOTALS
COST/VALUATION AS AT 1/7/2012	130,204,894.20	5,024,556.40	135,229,450.60
WIP Transfer to Intangible Assets			0.00
ADDITIONS		415,001.60	415,001.60
WIP Transfer		3,190,801.00	3,190,801.00
REVALUATION			0.00
DISPOSALS			0.00
			0.00
	<b>130,204,894.20</b>	<b>8,630,359.00</b>	<b>138,835,253.20</b>
DEPRECIATION AS AT 1/7/2012	86,803,262.80	4,838,183.07	91,641,445.87
ACC DEPR ON DISPOSAL			0.00
			0.00
DEPRECIATION CHARGE FOR THE 12 MONTHS	43,401,631.40	1,295,120.87	44,696,752
ACCUMULATED DEPRECIATION	130,204,894.20	6,133,303.94	136,336,198.14
			0.00
NBV AS AT 30/06/13	<u>0.00</u>	<u>2,497,055.06</u>	<u>2,497,055.06</u>

## Reports and Financial Statements For the year ended June 30, 2014 (Kshs)

### 24 Trade and other payables from exchange transactions

TRADE CREDITORS - MEDICAL	253,377,568	126,360,262
TRADE CREDITORS - OPERATIONS	50,392,012	50,851,823
TRADE CREDITORS - DISTRIBUTION	131,100,334	76,451,594
STALE CHEQUES - UNCLAIMED PAYMENTS	9,015,117	0
SUPPLIERS' FUNDS RETAINED	11,481,490	11,254,698
	<u>455,366,521</u>	<u>264,918,377</u>
	=====	=====

### 25 Payments received in advance

CUSTOMER PREPAYMENTS	4,662,861	
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### 26 Provisions

Accrual for Garissa Rent	70,000	-
Accrual for audit fees	1,044,000	1,044,000
TOTAL	<u>1,114,000</u>	<u>1,044,000</u>
	=====	=====

### 27 Medical Commodity Fund

Third Party stocks	4,298,859,853	7,811,112,363
Provision for Insurance receivable	1,040,299,216	1,285,780,027
Trade debtors - EMMS/SSD Invoicing	-	1,303,997,199
Bank Balances in GF accounts	31,628,774	32,254,254
Bank Balance in COOP drugs account	982,318,471	4,411,525,807
TOTAL	<u>6,353,106,314</u>	<u>14,844,669,650</u>
	=====	=====

### 28 Deferred income

Opening Balance	94,712,809	84,901,020
Additions	707,587	26,988,843
Transfers to income recognized	(12,374,944)	(17,177,054)
Closing Balance	<u>83,045,452</u>	<u>94,712,809</u>
	=====	=====

### 29 Project Fund

HSSP Account Balance	6,722,420	49,837,038
EAPHL Account Balance	3,793,059	13,468,289
TOTAL	<u>10,515,479</u>	<u>63,305,327</u>
	=====	=====

### 30 Staff Payables

STAFF PAYABLES	5,798	23,948
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**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs)**

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31 KEMSA Capital

STOCKS	5,450,344,064
REIMBURSEMENTS FROM MOH/DANIDA	1,884,395,319
MOH/DANIDA ACCOUNTS RECEIVABLE	1,441,635,859
	=====
	8,776,375,242

32. Restatement of Surplus for the year ending 30<sup>th</sup> June 2013

The Surplus for the year ending 30<sup>th</sup> June 2013 has been restated to include foreign exchange losses amounting to Kshs 15,989,602.59 and insurance expenses amounting to Kshs 661,094 that related to the year 2012/2013 but were omitted during the preparation of the financial statements