


Enhancing Accountability

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PARLIAMENT
OF KENYA
LIBRARY

THE AUDITOR-GENERAL

ON

**NATIONAL QUALITY CONTROL
LABORATORY**

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



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 THE NATIONAL ARCHIVES
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NATIONAL QUALITY CONTROL LABORATORY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2019

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

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

Table of Contents	Page
KEY ENTITY INFORMATION AND MANAGEMENT	ii
THE BOARD OF MANAGEMENT	iv
MANAGEMENT TEAM	vi
CHAIRMAN’S STATEMENT	viii
REPORT OF THE DIRECTOR.	x
CORPORATE GOVERNANCE STATEMENT	xii
MANAGEMENT DISCUSSION AND ANALYSIS.....	xvi
CORPORATE SOCIAL RESPONSIBILITY STATEMENT-SUSTAINABILITY REPORTING	xix
REPORT OF THE BOARD OF MANAGEMENT	xxi
STATEMENT OF DIRECTORS’ RESPONSIBILITIES	xxiii
REPORT OF THE INDEPENDENT AUDITORS	xxv
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019.....	1
STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2019	2
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2019.....	3
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019.....	4
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019	5
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019	7
APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....	35
APPENDIX III: INTER-ENTITY TRANSFERS	37
APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES .	38

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

The National Quality Control Laboratory (NQCL) was established under section 35D of the Pharmacy and Poisons Amendment Act of 1992 (Cap 244, Laws of Kenya) on the 28th October, 1992 and came into operation on 06th November, 1992. The Laboratory is domiciled in Kenya with no branches currently.

(b) Principal Activities

The Laboratory, under the Pharmacy and Poisons Amendment Act of 1992 (Cap 244, Laws of Kenya), has the following mandate:

1. Examine and test medicines and any material or substance from which or with which and the manner in which medicines may be manufactured, processed or treated and ensure the quality control of medicines and medicinal substances;
2. Perform chemical, biological, biochemical, physiological and pharmacological analysis and other pharmaceutical evaluation;
3. Test, at the request of the Pharmacy and Poisons Board (PPB) and on behalf of the Government, of locally manufactured and imported medicines or medicinal substances with a view to determine whether such medicines or medicinal substances comply with Cap 244;
4. To provide advisory services to the Ministry of Health on medicines quality standard;
5. Carry out Good Manufacturing Practices (GMP) inspections in pharmaceutical manufacturing industry premises and issue certificates of compliance on the same.

(c) Key Management

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

1. Board of Management;
2. Director; and
3. Management Team.

(d) Fiduciary Management

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

	Designation	Name
1.	Director and Secretary to the Board	Dr. Hezekiah K. Chepkwony, PhD
2.	Senior Deputy Director	Dr. Pius M. Wanjala
3.	Deputy Director, Finance and Administration	Dr. George Wang'ang'a
4.	Deputy Director, Technical Services	Dr. Ernest G. Mbae
5.	Deputy Director, Quality Assurance	Dr. Serah M. Muteru
6.	Deputy Director, Research & Technological Development	Dr. Nicholas Mwaura, PhD

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

7.	Head, Wet Chemistry Unit	Dr. Paul Njaria, PhD
8.	Head, Instrumentation Unit	Dr. Mathayo Kwena
9.	Head, Biological Analysis & Medical Devices Units	Dr. Sarah Mwangi
10.	Head, Documentation Unit	Dr. Rebecca Manani
11.	Head, Finance and Administration	CPA David Yano
12.	Head, Supply Chain Management Unit	Mr. George Ogeto Nyambane

(e) Fiduciary Oversight Arrangements

The Statutory fiduciary oversight agencies include;

1. Office of the Auditor-General;
2. Audit and finance committees of the board of management;
3. Parliamentary committees;
4. Development partner oversight; and
5. Other state oversight agencies.

(f) NQCL Headquarters

National Quality Control Laboratory
P. O. Box 29726 - 00202, KNH, Nairobi, KENYA
Kenyatta National Hospital Complex, Hospital Road,
2nd Floor, School of Pharmacy Building,
College of Health Sciences, University of Nairobi.

(g) NQCL Contacts

Telephone: 020-3544525/30
E-mail: info@nqcl.go.ke
Website: www.nqcl.go.ke

(h) NQCL Bankers

National Bank of Kenya Ltd
Hill Plaza Branch, NHIF Building
P. O. Box 45219 – 00100, GPO
Nairobi, KENYA.

(i) Independent Auditors






Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P. O. Box 30084 – 00100, GPO
Nairobi, KENYA.

(j) Principal Legal Adviser

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






NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

THE BOARD OF MANAGEMENT

	Board Member's photo	Name & Designation	Date of Birth	Profession/ Academic Qualification/ Work Experience	Main Responsibility
1.		William Mwatu (Dr.)	22nd Nov 1964	Pharmacist - BPharm, MPSK/ 22 Years Work Experience	Chairperson (DECEASED)
2.		Irene Thiguku Kamanja (Dr)	13th Dec 1966	Veterinary Surgeon – PhD, MSc, BVM/ 22 Years Work Experience	Member & Finance, Administration & General Purpose Committee (FAGPC) Member
3.		Paul Munyao Mutua (Mr)	16th Jan 1974	Advocate – LLM, LLB, MLSK/ 16 Years Work Experience	Member, Technical & Audit Committees Member
4.		John Ronoh Sitienei (Mr)	25th Nov 1957	Lecturer – PhD, M.Ed, B.Ed/ 34 Years Work Experience	Member & FAGPC Member
5.		Georgina Muchai (CPA)	1986	Auditor – CPA (K), BCom/ 12 Years Work Experience	Member, FAGPC Chairperson & Audit Committee Member







NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

THE BOARD OF MANAGEMENT (Continued)

6.		Lilian Balusi Makungu Njoroge (Dr.)	14th Sep 1969	Pharmacist - BPharm, MPSK/ 24 Years Work Experience	Member & Technical Committee Chairperson
7.		Hellen Bosibori Okioma	03rd May 1953	Trainer/Management Consultant – B.Ed., MKENAS/ 40 Years Work Experience	Member & Audit Committee Member
8.		Simon Njoroge Muigai (Dr.)	02nd June 1972	Pharmacist - BPharm, MPSK/ 21 Years Work Experience	Member, Technical & Audit Committees Member
9.		Edith Wambui Tanu Wakori (Dr.)	23rd Dec 1954	Pharmacist/Lecturer – PhD student, Post Grad., M.Pharm, BPharm, MPSK/ 22 Years Work Experience	Member, Technical & FAGPC Committees Member
10.		Hezekiah Kibet Chepkwony (Dr)	09th Jan 1962	Director; PhD; MPharm; MSc. Pharm; MPSK/ 28 Years Work Experience	Board Secretary







NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

MANAGEMENT TEAM

	Key manager's passport-size photo	Name – Designation	Professional/ Academic Qualification	Main Responsibility	Experience (Years)
1.		Dr. H.K. Chepkwony - Snr. Deputy Chief Pharmacist	PhD, MPharm, MSc. Pharm; MPSK	Director	28
2.		Dr. Pius Wanjala - Snr. Deputy Chief Pharmacist	MPharm, LLB; MPSK	Senior Deputy Director	20
3.		Dr. George Wang'ang'a - Deputy Chief Pharmacist	MSc. Intl. Health, MBA, BPharm; MPSK	Deputy Director Finance & Administration	17
4.		Dr. Serah Muteru - Assistant Chief Pharmacist	Msc, BPharm; MPSK	Deputy Director Quality Assurance Manager	17
5.		Dr. Ernest Mbae - Deputy Chief Pharmacist	MPharm, BPharm; MPSK	Deputy Director Technical Services	17
6.		Dr. Nicholas Mwaura - Assistant Chief Pharmacist	PhD, MPharm, BPharm; MPSK	Deputy Director Research & Technological Development	18

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

MANAGEMENT (Continued)

7.		Dr. Mathayo Kwena– Assistant Chief Pharmacist	Msc, BPharm; MPSK	Head Instrumentation Unit	15
8.		Dr. Sarah Mwangi- Assistant Chief Pharmacist	Msc; BPharm; MPSK	Head Biological Analysis & Medical Devices Units	17
9.		Dr. Rebecca Manani Assistant Chief Pharmacist	Msc; BPharm; BPharm; MPSK	Head Documentation Unit	15
10.		Dr. Paul Njaria - Assistant Chief Pharmacist	PhD, MPharm, BPharm; MPSK	Head Wet Chemistry Unit	15
11.		Mr. David K. Yano	B. Com Finance, CPA K,	Head, Finance and Administration	17
12.		Mr. George Ogeto Nyambane	BA. Econ CPA I, Dip. SCM	Head Supply Chain Management Unit	18

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

CHAIRMAN'S STATEMENT

The Board of Management (BOM) presents the NQCL Annual Reports and Financial Statements for the year ended 30th June 2019.

A new BOM was appointed by the Chairman of the Pharmacy and Poisons Board (PPB), Dr. Jackson Kioko, in accordance with Cap 244, Section 35 (F) (1) via a gazette notice No. 1940 dated 02nd March 2018 effective from 12th February, 2018 and will serve for a period of three (3) years. The BOM was inaugurated on 05th April 2018 and has since then applied itself to its functions as enumerated at Section 35(G) of Cap 244 Laws of Kenya. The BOM attended the Mwongozo training, the code of governance for state corporations outlined by the Government of Kenya in February 2019. The training was conducted by the State Corporation Advisory Committee (SCAC).

The BOM has held numerous meetings including the inauguration meeting. I would like to thank the management on their commitment towards achievement of the Laboratory's mandate. I look forward to a continued good working relationship between the BOM, management and key stakeholders including PPB and MOH.

The BOM will continue to work on the following issues, which will be paramount in the operations of the Laboratory:

- a. Work plan for the 2019/20 FY;
- b. Budget plan for 2019/20 FY;
- c. Reporting mechanism for the BOM to the appointing authority;
- d. Usurpation of the GMP and sample analysis mandate of the Laboratory by the PPB;
- e. Court cases that have affected the Laboratory;
- f. Collaboration of NQCL and other prequalified Laboratories when and if need to do so arises;
- g. The NQCL's engagement with KenTrade, Major Ports of entries and Kenya Revenue Authority on implementation of the GMP compliant certification mandate;
- h. The deployment of staff to NQCL by Ministry of Health;
- i. Formation of the task force for the operationalization of NQCL as a State Corporation by the Ministry of Health;
- j. The construction of the Ultra-Modern Laboratory at the NQCL land in Upper hill Nairobi.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

CHAIRMAN'S STATEMENT (Continued)

- k. The Laboratory's budgetary allocation from The National Treasury is sent to its account as grants to enhance financial independence, accountability and efficiency.

Ms. Muchai

Ms. Georgina Muchai,
Chairperson,
Finance, Administration and General
Purpose Committee of BOM

Date 05/05/2020



NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

REPORT OF THE DIRECTOR.

Since its inception, the NQCL has operated under the Division of Pharmacy in the Ministry of Health. In September 2014, it was recognized as a Semi – Autonomous Government Agency (SAGA) in the Ministry of Health and on 11th February, 2016, SCAC categorized it at category PC 4B and advised the Ministry of Health to embark on the activity of categorization.

The Laboratory continues to receive its budgetary allocation through Ministry of Health under the Vote Head 1081000900. The NQCL generates income from sample analysis fees of drugs for Government institutions as well as private pharmaceutical firms. The income generated supplements the recurrent and development budget the Government gives to the Laboratory through Ministry of Health.

The funds generated and allocated are utilized for the procurement of chemicals, reagents, glassware, related apparatus and additional equipment and also for remuneration of contracted staff members. These items are vital in ensuring the institution continues to meet the current good practices for pharmaceutical quality control laboratories and the relevant parts of the World Health Organization Good Manufacturing Practice guidelines and the ISO 17025 accreditation status for laboratories under the South African National Accreditation System.

The Laboratory has two types of staff among its personnel. The first group comprises of civil servants seconded to the institution by the Ministry of Health. This group includes pharmacists, pharmaceutical technologists, accounts assistant, supply chain management assistant and a medical engineer technician. The second group consists of staff contracted by the BOM for a renewable three-year contract. These include laboratory technicians, accounts assistant, supply chain management assistants, an executive secretary, laboratory assistants and a documentation clerk. The laboratory also engages interns and students on attachment who gain on the job learning as part of the Government policy on training. Among the key achievements in the year under review, NQCL managed to recruit 15 (Fifteen) technical employees on a one year contract.

In the financial year under review, the laboratory was able to utilise Kshs. 26.149 Million of its allocation for the vote head. However, the vote head is administered from the Ministry of Health headquarters at Afya house. The Director of NQCL has little or no control over this vote head despite being the authorised Authority to Incur Expenditure (AIE) Officer.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

REPORT OF THE DIRECTOR (Continued)

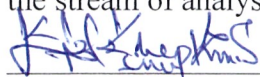
Previous experience has shown that when approved budgetary allocations are channelled through the Vote Head 108 – 0009 at the Ministry of Health, a number of items requested for procurement as per the approved budget and procurement plan remain as pending bills as a result of lack of compliance with the allocated budget lines. The Laboratory requires budgetary support be channelled directly to its account to continue performing its core functions.

Further, there exists no linkage between the PPB (appointing authority) and the NQCL BOM. The role of PPB ends at appointment level of the BOM and subsequently, the BOM operates on its own with no reporting mechanism or responsibility to the appointing authority (PPB), no financial support from the appointing authority and minimal statutory responsibility and consultation with the Ministry of Health. Consequently, NQCL experiences inadequate funding for its operations.

A proposal has been made for an approved organization structure for the two (2) institutions that should be put in-place to serve the interests of the MOH and in particular support the big 4 agenda of Universal Health Coverage (UHC). It proposed that the PPB uses an approved structure and have a line item for the NQCL in its budget, which will appear as subvention or grant.

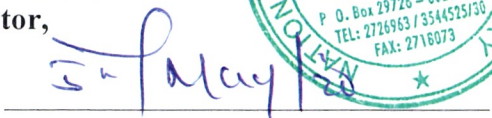
The Laboratory further faces challenges in the course of implementing its mandate. PPB the regulator and created under the same law (Cap 244) has usurped the mandate of the NQCL. Recent

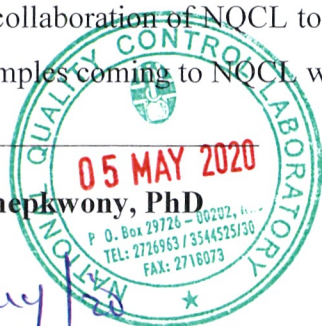
Judicial decision stated that NQCL and PPB have complementary, but distinctive roles; with NQCL having the mandate of ensuring quality control of medicines through issuance of certificates of analysis and GMP compliance certification, while PPB has regulatory enforcement role partly based on the said NQCL certifications to ensure checks and balances. The mandate of keeping a data bank on quality of medicines should be further, enforced by having all quality control laboratories in the country work under the collaboration of NQCL to ensure a single data stream. This will also steady the stream of analysis samples coming to NQCL which is its current source of income.



Dr. Hezekiah Kibet Chepkwony, PhD
Director,

Date





NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

CORPORATE GOVERNANCE STATEMENT

Process of Appointment and Removal of Directors

Cap 244 Laws of Kenya Section 35F allows for the creation of a BOM for the Laboratory, which shall consist of (9) nine members to be appointed by the Pharmacy and Poisons Board (PPB). A member of the BOM appointed shall hold office for three years but shall be eligible for re-appointment, but not for more than 2 terms. A quorum of the BOM shall be five members and the members shall meet not less than four times each calendar year.

Board Remuneration

Each member shall receive a sitting allowance of Kshs. 10,000 less tax for every meeting and a further allowance for lunch of Kshs. 2,000 when required. The Director shall be the secretary of the Board of Management.

Roles and Functions of the Board

Section 35G highlights the functions of the BOM, which include:

- a. Administer the property and funds of the Laboratory in such manner and for such purposes as shall, in their opinion, promote its best interests;
- b. Receive, on behalf of the Laboratory, grants-in-aid, gifts, donations, fees, subscriptions or other moneys and make disbursements therefrom;
- c. Make regulations governing the appointment, conduct and discipline of employees of the Laboratory;
- d. In consultation with the Cabinet Secretary (CS) Health, draw up a scheme of service for employees of the Laboratory;
- e. Administer the approved terms and conditions of service, including appointments, dismissals, remuneration and retiring benefits of employees of the Laboratory; and
- f. Appoint such employees upon terms and conditions to be laid down by them, after consultation with the CS Health, as it considers necessary for the proper and efficient administration of the Laboratory.

Section 35G allows for the BOM to appoint a Director who shall be the chief executive of the Laboratory responsible to the BOM for the day-to-day management of the Laboratory.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

CORPORATE GOVERNANCE STATEMENT (Continued)

NUMBER OF BOARD MEETINGS HELD AND THE ATTENDANCE

The table below shows the number of meetings and attendance held in the financial year under review;

	Board Member	Inauguration Meeting(1)	Normal Meetings (6)	Special Meetings (7)	PPB & NQCL Meetings (3)	Emergency Meeting (1)
1.	William Mwatu (Dr.) - DECEASED	1/1	2/6	3/7	2/3	0/1
2.	Irene Thiguku Kamanja (Dr.)	1/1	5/6	5/7	2/3	1/1
3.	Paul Munyao Mutua (Mr.)	1/1	3/6	4/7	1/3	1/1
4.	John Ronoh Sitienei (Mr.)	1/1	6/6	6/7	3/3	1/1
5.	Georgina Muchai (CPA)	1/1	4/6	4/7	1/3	1/1
6.	Lilian Balusi Makungu Njoroge (Dr.)	1/1	6/6	5/7	2/3	1/1
7.	Hellen Bosibori Okioma (Ms.)	1/1	5/6	3/7	1/3	1/1
8.	Simon Njoroge Muigai (Dr.)	1/1	6/6	4/7	2/3	0/1
9.	Edith Wakori (Dr.)	1/1	4/6	5/7	1/3	1/1
10.	Hezekiah K. Chepkwony (Dr.)	1/1	6/6	7/7	3/3	1/1

The table below shows the number of meetings and attendance held in the financial year under review;

	Board Member	Committees			
		Finance, Admin. & General Purpose Meetings (3)	Technical Meetings (4)	Audit Meeting (1)	Adhoc Meetings (2)
1.	William Mwatu (Dr.)	1/3	1/4	0/1	0/2
2.	Irene Thiguku Kamanja (Dr.)	3/3	-	-	2/2
3.	Paul Munyao Mutua (Mr.)	-	2/4	1/1	0/2
4.	John Ronoh Sitienei (Mr.)	3/3	-	-	1/2
5.	Georgina Muchai (CPA)	2/3	-	-	0/2
6.	Lilian Balusi Makungu Njoroge (Dr.)	-	4/4	-	1/2
7.	Hellen Bosibon Okioma (Ms.)	-	-	1/1	1/2
8.	Simon Njoroge Muigai (Dr.)	-	2/4	-	2/2
9.	Edith Wakori (Dr.)	2/3	3/4	-	0/2
10.	Hezekiah K. Chepkwony (Dr.)	3/3	4/4	1/1	2/2

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

CORPORATE GOVERNANCE STATEMENT (Continued)

Succession Plan

The BOM's succession plan is to lobby for a review of (Cap 244 Sec) the section of the law that authorises another SAGA (PPB) to appoint its BOM. We anticipate that in future the Chairperson and the BOM will be appointed by the President of the Republic of Kenya or the Cabinet Secretary of the Ministry of Health. The plan is to ensure the BoD's appointment is differentiated so as to allow for continuity. Currently the BOM does not have an existing Board Charter and will embark on having a draft ready before the end of quarter two (2). BOMs will be recruited competitively as governed by SCAC. The BOM will embark on training of its members on the Mwongozo Code of Governance, which is anchored in the Constitution of Kenya, 2010.

Board and Member Performance

Each BOM will be evaluated on their performance annually as guided in the Mwongozo code and each member shall be expected to clearly state any conflict of interest that arises in the course of executing their duties as BOMs. The evaluation shall include ethics, conduct as well as governance audit.

Induction and Training

The BOM is waiting for training on the Mwongozo Code of Governance, which will be carried out by SCAC. The Laboratory continues to have in place a system of rules, practices and processes based on the same Code of Governance developed by the Government of Kenya, by which it is directed and controlled, which involves balancing the interests of its many stakeholders including but not limited to management, staff, customers, suppliers, donors, government and the community in general. The system in place continues to provide the framework for attaining the Laboratory's objectives and encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosures.

Ethics and Conduct

Taking cognisance of the fact that the Laboratory is in the process of being categorised as a state corporation, it currently is recognized as Semi – Autonomous Government Agency that performs a regulatory duty on medicines and health technologies control under Ministry of Health. As a testing and inspecting facility, the Laboratory continues to uphold its corporate values of Staff, Environment, Integrity & Patriotism, Technology, Standards, Commitment to customer services, Quality Service and Team & Individual Productivity.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

CORPORATE GOVERNANCE STATEMENT (Continued)

Conflict of Interest

To avoid conflicts of interest, pressures and influences, the BOM are bound by the provisions of the Public Officers Ethics Act Cap 183 and the Laboratory's conflict of interest policy. Two core concepts are embodied in these regulations; BOM members shall not use public office for private gain nor act impartially and give preferential treatment to any private organization or individual. A conflict of interest form within the quality management system of the Laboratory is available to document this when necessary.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The Laboratory since its establishment has served a variety of clientele that includes government agencies. These include Kenya Medical Supplies Authority, National AIDS & Sexually Transmitted Infections Control Programme, National Tuberculosis, Leprosy and Lung Disease Program, Malaria Control Unit, Division of Vaccines & Immunization, Disease Surveillance and Response Unit, Government & Private Hospitals, Private Agencies & Non-Governmental Organizations, Prequalified Quality Control Laboratories & ISO Certified Institutions, National Drug Regulatory Authorities among others.

Other than testing medicines, the Laboratory, has also expanded its testing capacity to include the testing of medical devices such as male & female latex condoms, gloves, needles and syringes.

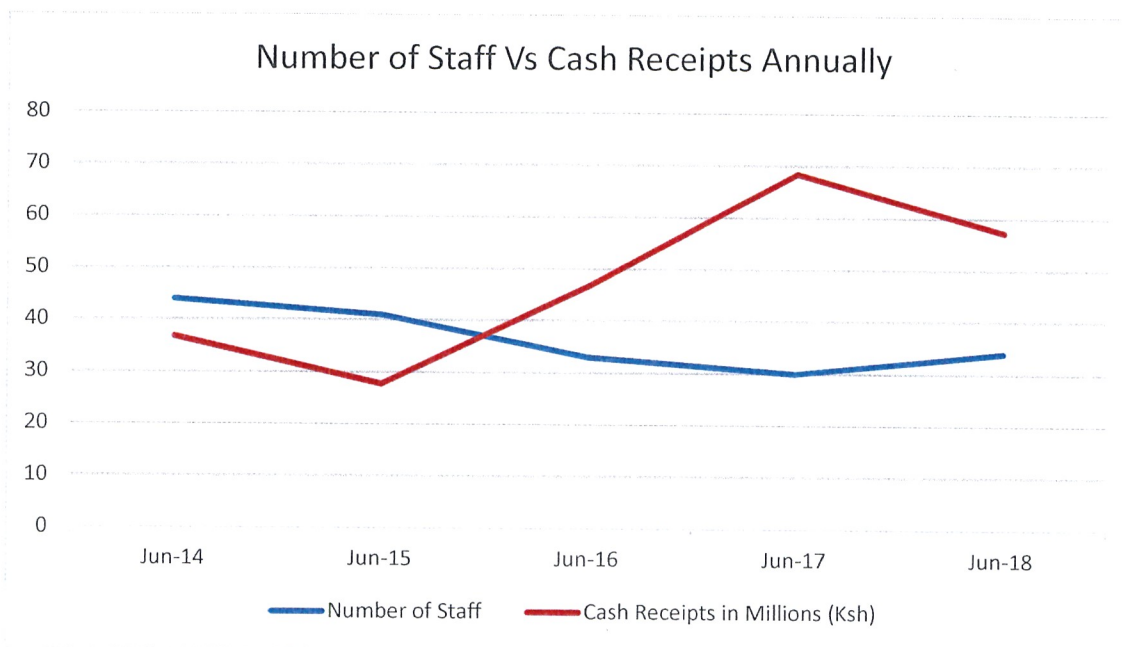
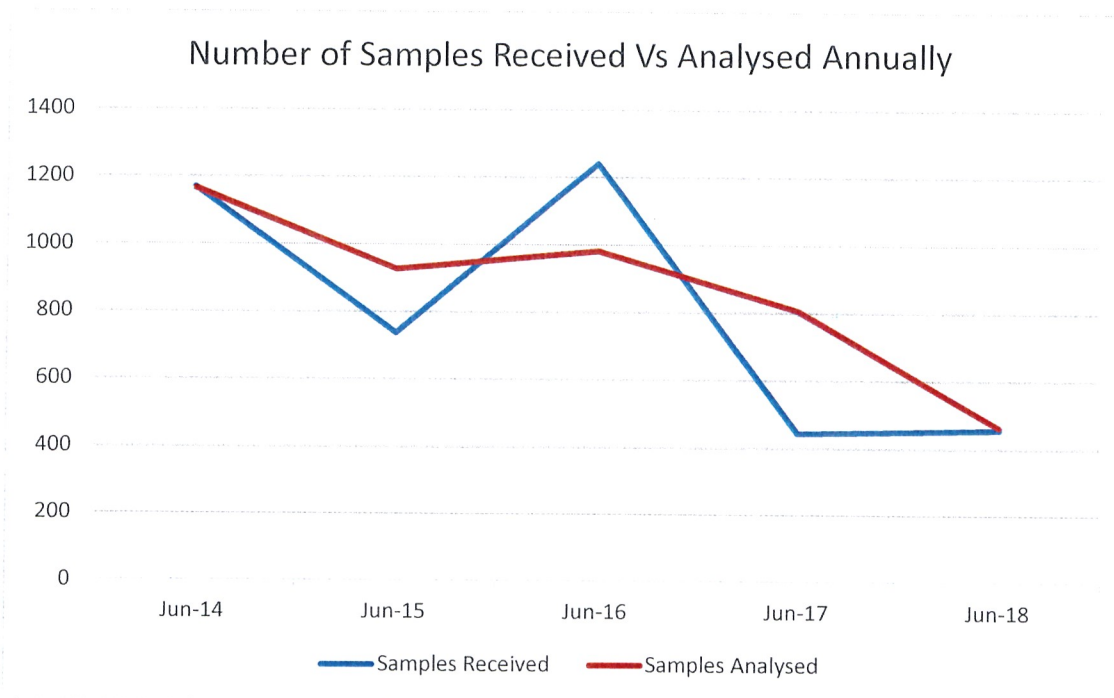
In an effort to improve the services it offers its clients, the Laboratory has achieved and maintained World Health Organization Prequalification Status since 2008 and attained ISO/IEC 17025:2005 accreditation in 2015. These two worlds acclaimed quality standards guarantee that tests carried out by the Laboratory are recognised internationally. Apart from ensuring that the Kenyan population have medicines of the highest quality, the Laboratory is also a benchmarking institution for local and regional pharmaceutical manufacturers and firms.

The Laboratory housed in the Kenyatta National Hospital (KNH) complex grounds was initially set-up as an upgrade of the Drug Analysis Research Unit of the School of Pharmacy University of Nairobi. It is therefore a squatter and does not pay any rent only incurring a charge for utilities. Over the years, the Laboratory has outgrown its capacity due to the nature of increased analytical services and the number of staff it can accommodate. We are in the process of securing funds for the construction of an ultra- modern Laboratory in the piece of land recovered from Kenya Reinsurance Corporation. This land, originally been allocated to the Laboratory by the Ministry of Lands after initial set-up. An extra piece of the allocated land is currently occupied by the KNH and negotiations are already going on for them to cede this land back to the Laboratory.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The financial status of the Laboratory vis a vis other related parameters is shown in the graphs below;



NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

These data shows a declining trend in number of samples analysed, the increase in the amount collected is due to an increase in the analysis fee as approved by the BOM in the FY 2015/16 which had not been changed since inception of the Laboratory in 1992. The increased fee was to cover for the increase in cost of chemicals, reagents, equipment and their maintenance which is a major requirement for the international standards. The Laboratory has had no investments currently.

The Laboratory has continually complied with all statutory provisions in discharging its mandate for the Kenya Revenue Authority, National Social Security Fund, National Hospital Insurance fund and The Higher Educations Loan Board among other deductions as and when required.

The major risk facing the organization is the usurping of its mandate by PPB, which as seen from the financial performance has resulted in decreased incomes particularly those from analysis of medicines and health technologies. We hope that this can be mitigated by the new Health Act 2017, which, has proposed the formation of a single regulatory authority in the health sector.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT-SUSTAINABILITY REPORTING

Corporate Social Responsibility (CSR) is the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

- Contributes to sustainable development, including the health and the welfare of society,
- Takes into account the expectations of stakeholders,
- Is in compliance with applicable law and consistent with international norms of behaviour, and,
- Is integrated throughout the organization and practiced in its relationships.

It can further be elaborated as a form of corporate self-regulation integrated into an organizations business model. It functions as a self-regulatory mechanism whereby the organization monitors and ensures its active compliance with the spirit of the law, ethical standards and national or international norms. For some organizations, it goes beyond compliance and engages in activities that appear to further some social good, beyond the interests of the firm and that which is required by law. The aim is to increase long-term benefits and stakeholder trust through positive public relations and high ethical standards to reduce business and legal risk by taking responsibility for corporate actions. Its strategies encourage the company to make a positive impact on the environment and stakeholders including consumers, employees, investors, communities, and others.

The Laboratory has taken an initiative to assess and take responsibility for the effects on the environment and the kind of impact it has on the society. The Laboratory has made efforts that go beyond what may be required by the Government. The Laboratory has done this by subscribing, to the WHO prequalification guidelines for Good Practices for Pharmaceutical Quality Control Laboratories and the ISO 17025 guidelines all of which clearly define how a quality control Laboratory is meant to dispose of its waste, use of chemicals and reagents and monitoring of environment conditions for sample integrity and staff working conditions.

The Laboratory also engages the society in its activities by allowing students to carry out their attachments in the institutions as a way of gaining experience and work practice. It also donates equipment to teaching institution and also performs demonstrations for students in universities and

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

CORPORATE SOCIAL RESPONSIBILITY STATEMENT-SUSTAINABILITY
REPORTING (Continued)

colleges that teach pharmaceutical sciences. We have also engaged interns in an internship programme for 6 months at a time for those who have completed their school and require to gain some on-job training. This is in-line with the Government policy of engaging the youth in productive activities and in also reduce unemployment.

In procurement, we have ensured that the Laboratory has put in place the Access to Government Procurement Opportunities (AGPO) to allow for 30 per cent of contracts to be given to the youth, women and persons with disability without competition from established firms.

Going into the future the Laboratory intends to devote real time system on its activities to enhance environmental sustainability programs, alternative/clean energy, and various social welfare initiatives to benefit staff, customers, and the society at large.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

REPORT OF THE BOARD OF MANAGEMENT

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019, which show the state of the National Quality Control Laboratory affairs.

Principal activities

The Laboratory continues to;

- Examine and test medicines;
- Perform chemical, biological, biochemical, physiological and pharmacological analysis and other pharmaceutical evaluation;
- Test, on behalf of the Government, locally manufactured and imported medicines or medicinal substances;
- Provide advisory services to the Ministry of Health on medicines quality standards; and
- Carry out Good Manufacturing Practices (GMP) inspections in pharmaceutical manufacturing industry premises and issue certificates of compliance on the same.

The Laboratory has also expanded its testing capacity to include the testing of medical devices such as male & female latex condoms, gloves, needles and syringes.

Results

The results of the entity for the year ended June 30, 2019 are set out on pages 1 to 5.

Directors/Board of Management

The current BOM was appointed by the appointing authority via a gazette notice No. 1940 dated 02nd March 2018 effective from 12th February, 2018 and will serve for a period of three (3) years. The BOM was inaugurated on 05th April 2018. There is an on-going matter in court on the membership of the Board of Management. The financial statements are yet to be reviewed and signed by the Board.

Dividends/Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The entity did not make any surplus during the year (FY 2018-19) and hence no remittance to the Consolidated Fund was done.

The entity made a deficit of Kshs. 27,573,409 during the year.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

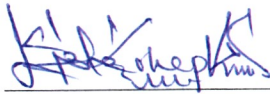
REPORT OF THE BOARD OF MANAGEMENT (Continued)

Auditors

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

The Kenya National Audit Office were nominated by the Auditor General to carry out the audit of the Laboratory for the year/period ended June 30, 2019 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.


By Order of the Board



Dr. Hezekiah Kibet Chepkwony, PhD
Director, Secretary BOM

Date

30 May/20



Ms. Georgina Muchai,
Chairperson, Finance, Administration
and General Purpose Committee of
BOM

Date

5/ May/2020.



NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012; require the Board to prepare financial statements in respect to the Laboratory, which give a true and fair view of the state of affairs and the operating results at the end of the financial year. The Board is also required to ensure that the Laboratory keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Laboratory. The Board is also responsible for safeguarding the assets of the Laboratory.

The Board is responsible for the preparation and presentation of the Laboratory's financial statements, which give a true and fair view of the state of affairs of the Laboratory for and as at the financial year ended on 30 June 2019. This responsibility includes:

1. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
2. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
3. 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;
4. Safeguarding the assets of the Laboratory;
5. Selecting and applying appropriate accounting policies; and
6. Making accounting estimates that are reasonable in the circumstances.

The Board accepts responsibility for the Laboratory'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, and in the manner required by the Public Finance Management Act and the State Corporations Act.

The Board asserts that the financial statements give a true and fair view of the state of the Laboratory's transactions during the financial year ended 30 June 2019 and of its financial position as at that date. The Board further confirms the completeness and accuracy of the accounting records maintained by the Laboratory, which have been relied upon in the preparation of the financial statements as well as the adequacy of the internal control systems.

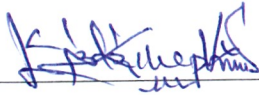
NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

Nothing has come to the attention of the Board of Management indicating that the Laboratory will not remain a going concern for at least the next twelve (12) months from the date of this statement.

Approval of the Financial Statements

The Laboratory's financial statements are approved by the Chairperson of the Board on, 30th September, 2019 and signed on its behalf by:



Dr. Hezekiah Kibet Chepkwony, PhD
Director, Secretary BOM



Ms. Georgina Muchai,
Chairperson, Finance, Administration
and General Purpose Committee of
BOM

Date

30 May 20



Date

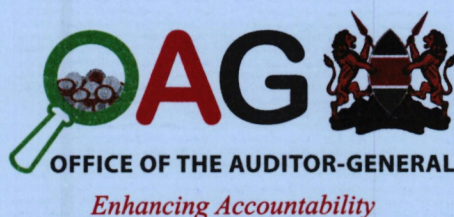
31 May 2020

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

REPORT OF THE INDEPENDENT AUDITORS

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL QUALITY CONTROL LABORATORY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Quality Control Laboratory set out on pages 1 to 36, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the National Quality Control Laboratory 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 do not comply with the Public Finance Management Act, 2012 and Section 35D of the Pharmacy and Poisons Amendment Act, 1992.

Basis for Adverse Opinion

1. Unbalanced Trial Balance

The statement of financial performance reflects a total income of Kshs.92,073,007 and total expenditure of Kshs.102,698,761 resulting to a deficit of Kshs.10,625,754. On the other hand, the statement of financial position reflects total assets amounting to Kshs.113,303,048 against an equivalent total liability balance of Kshs.113,303,048. However, the trial balance reflects total debit balances totalling to Kshs.209,089,265 and total credit balances totaling to Kshs.186,988,499 resulting in an unexplained and an unreconciled variance of Kshs.22,100,766. Being prima facie evidence of accurate posting of transactions and fundamental records from where the financial statements are

drawn, it has not been explained how the financial statements have been made to be in agreement if the Trial Balance was not balanced.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Inaccuracy of the Statement of Cash Flows

The statement of cash flows reflects increase in deposits-prepayments of Kshs.12,299,969. However, a comparison of the previous year's balances has not supported the movement of the deposits-prepayments balances in the statement of financial position.

In the circumstances, the accuracy, completeness and validity of the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

3. Property, Plant and Equipment

As disclosed in Note 20A to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.60,042,741. However, as previously reported, the balance excludes an undetermined value of a parcel of land measuring four (4) hectares situated in Upper Hill, Nairobi which was allotted to the Laboratory in 1992. The parcel of land was re-allocated to National Quality Control Laboratory in 1995 but was reduced from 4 hectares to 2.61 hectares. Available information indicated that out of 2.61 hectares, 1.26 was sold to Kenya-Re by Kenya Media Trust and the remaining 1.35 hectares was taken over by Kenyatta National Hospital. However, a total of 2.35 hectares has since been surrendered back leaving Kenya-Re with 1.0 hectares and Kenyatta National Hospital with 1.35 hectares.

Further, the National Land Commission has repossessed part of 1.35 hectares surrendered by Kenyatta National Hospital and reallocated it to Kenya Urban Roads Authority for the construction of a road without the consent of the National Quality Control Laboratory. Available information indicated that the 1.35 hectares parcel of land surrendered by Kenyatta National Hospital is under survey process while Kenya-Re has since surveyed the 1.0 hectare for purposes of subdivision for the property. The subdivision process is ongoing at the National Land Commission. The laboratory has not obtained any ownership documents for the remaining 1.65 hectares and no evidence was provided that the processing of the same was on course.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.60,042,741 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

4. Long Outstanding Balances - Receivables from Exchange Transactions

As disclosed in Note 17A to the financial statements, the statement of financial position reflects receivables from exchange transactions balance of Kshs.36,604,434. The

balance includes analysis fees totalling Kshs.6,013,120 reflected as owed by Kenya Medical Supplies Authority (KEMSA), which has been outstanding for more than fourteen (14) years. However, this balance has not reflected as a payable in the Authority's financial statements.

Further, the receivables balance includes other receivables from United Nations Development Programme-Southern Sudan of Kshs.1,476,930 and Government of South Sudan of Kshs.136,267 which have been outstanding for more than five (5) years and other debtors amounting to Kshs.7,587,918 which have been outstanding for more than one year. A provision for bad and doubtful debts of Kshs.1,098,133 equivalent to 3% of total outstanding debtors has been made in respect of the outstanding receivables.

Consequently, the accuracy and validity of the receivables from exchange transactions balance of Kshs.36,604,434 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

5. Inaccuracy of the financial statements

5.1 Non-Current Employees Benefits Obligations

As disclosed in Note 21B to the financial statements, the statement of financial position reflects non-current employees' benefits obligations balance of Kshs.2,311,999. However, the supporting schedule reflects Kshs.3,468,031 resulting to unreconciled variance of Kshs.1,156,032.

In the circumstances, the accuracy, completeness and validity of non-current employees' benefits obligations balance of Kshs.2,311,999 as at 30 June, 2019 could not be confirmed.

5.2 Unsupported Balances

Further, the financial statements reflected several balances that were not supported with verifiable audit evidence as outlined below:

No	Component	Total Balance Kshs.	Unsupported Balance Kshs.
1	Trade and other payables from exchange transaction	27,020,912	22,569,171
2	Other income- GMP inspection certification fees	916,234	916,234
3	Employee costs	22,932,132	120,000
4	General expenses	48,635,091	26,549,766
	Total	99,504,369	50,155,171

In the circumstances, the accuracy, completeness and validity of unsupported balance of Kshs.50,155,171 reflected in the financial statements for the year ended 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 National Quality Control Laboratory 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 Adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. 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 receipts budget and actual on comparable basis of Kshs.210,815,900 and Kshs.92,073,007 respectively resulting to an under-funding of Kshs.118,742,893 or 56 % of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.320,542,882 and Kshs.102,538,516 respectively resulting to an under expenditure of Kshs.218,004,366 or 68% of the budget.

The under funding and under expenditure adversely 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 issues in contravention of the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Reference 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 matter 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

Legal Status of National Quality Control Laboratory (NQCL)

The National Quality Control Laboratory was established under Section 35D of the Pharmacy and Poisons Act, Cap 244 of the Laws of Kenya on 28 October, 1992 and came into operation on 6 November, 1992. Since inception, the Laboratory has operated under the Division of Pharmacy in the Ministry of Health. However, in September, 2014, it was recognized as a Semi-Autonomous Government Agency in the Ministry of Health. Subsequently, in February, 2016, the State Corporation Advisory Committee categorized the Laboratory at category PC 4B and advised the Ministry of Health to proceed to form an Inter-Ministerial Task Force to advise on attainment of full parastatal status. However, as at the time of audit, no progress had been made by the Ministry on formation of the Inter-Ministerial Task Force.

In the circumstances, the 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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 Management

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 Laboratory'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 liquidate the Laboratory 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 Management is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Laboratory 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 review 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 Laboratory'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 Laboratory 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 Laboratory 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

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
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			
Public contributions and donations – Deferred income (GTZ)	6	5,020,257	5,736,554
Transfers from other governments – gifts and services-in-kind	7	26,549,766	13,401,670
Revenue from exchange transactions			
Rendering of services – Analysis fees	8	59,586,750	34,907,763
Other income - (GMP certification / CoA -certified copies)		916,234	-
Provision for Bad debt		-	1,089,607
Total Revenue		92,073,007	55,135,594
Expenses;-			
Use of goods and services –Electricity	9	-	1,341,360
Employee costs - Personnel	10	22,932,132	22,960,691
Remuneration of Directors (BoM)	11	3,329,461	981,414
Depreciation and Amortization expense	12	14,147,170	18,569,605
Provision for Bad debt	17B	1,098,133	1,089,607
Provision for Audit fees		348,000	-
Contracted services - Repairs and Maintenance	13	11,911,815	12,719,968
Grants and subsidies		-	-
General expenses (Admin exp & Chemical / Reagents)	14	48,635,091	26,009,882
Finance costs	15	136,714	126,083
Total Expenses		102,538,516	82,709,003
Surplus/(deficit) for the period/year		(10,465,509)	(27,573,409)
Other gains/(losses)			
Gain on foreign exchange transactions		-	-
Surplus before tax		(10,465,509)	(27,573,409)
Taxation		-	-
Surplus/(deficit) for the period/year		(10,465,509)	(27,573,409)
Remission to National Treasury		-	-
Net Surplus for the year		(10,465,509)	(27,573,409)

The notes set out on pages 7 to 30 form an integral part of these Financial Statements.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2018 - 2019	2017 - 2018
Assets		Kshs	Kshs
Current assets			
Cash and cash equivalents	16	6,061,975	7,916,853
Receivables from exchange transactions	17A	36,604,434	21,748,369
Receivables from non-exchange transactions staff advances	18	232,500	280,000
Inventories	19	10,156,259	20,378,487
Non-current assets			
Property, plant and equipment	20A	60,042,741	68,419,666
Total assets		113,097,909	118,743,375
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	21A	27,020,912	19,492,611
Deferred income – GTZ Donated Assets (PPE)	20B	35,112,462	40,132,719
		62,133,374	59,625,330
Non-current liabilities			
Non-current employee benefit obligation	21B	2,311,999	-
Total liabilities		64,445,373	59,625,330
Net assets			
Accumulated surplus B/F		59,118,045	86,691,454
(Deficit) / Surplus for the year		(10,465,509)	(27,573,409)
Accumulated surplus C/F		48,652,536	59,118,045
Total net assets and liabilities		113,097,909	118,743,375

The Financial Statements set out on pages 1 to 6 were signed on behalf of the Board of Directors by:

Director



Dr. Hezekiah Kibet Chepkwony, PhD

Date

5th May/20

Head of Finance



Mr. David K. Yano (CPA)

Date



Chairman of the Board



Ms. Georgina Muchai (CPA),
 For Chairperson, Board of
 Management

Date

05/ MAY / 2020

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

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

Details	Accumulated Surplus	Totals
	Kshs	Kshs
Balance as at 30 June, 2015	32,224,428	32,224,428
Surplus / Deficit for the Year - Restated	26,712,041	26,712,041
Restatement of property plant and equipment NBV and depreciation	21,326,844	21,326,844
Balance as at 30 June, 2016	80,263,313	80,263,313
Surplus / Deficit for the Year	6,428,141	6,428,141
Balance as at 30 June, 2017	86,691,454	86,691,454
Surplus / Deficit for the Year	(27,573,409)	(27,573,409)
Balance as at 30 June, 2018	<u>59,118,045</u>	<u>59,118,045</u>
Surplus / Deficit for the Year	(10,465,509)	(10,465,509)
Balance as at 30 June, 2019	48,652,536	48,652,536

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

		2018 - 2019	2017 - 2018
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Rendering of services – A-I-A Income	8	59,586,750	34,907,763
Other income - (GMP certification / CoA -certified copies)		916,233	-
Other income - (GoK Grants)		26,549,766	
Total Receipts		87,052,749	34,907,763
Payments			
Compensation of employees (Staff)	10	22,932,132	22,960,691
Board Expenses	11	3,329,461	981,414
Goods and services Repairs & Maintenance	13	11,911,815	12,719,968
Other payments (General / Admin/ office exp)	14	48,635,091	26,009,882
Finance cost	15	136,714	126,083
Total Payments		86,945,213	62,798,038
Net cash flows from operating activities ;		107,536	(27,890,275)
Cash flows from investing activities;			
Purchase of property, plant, equipment and intangible assets	20	(749,988)	(193,280)
Proceeds from sale of property, plant and Equipment		-	-
(Increase) / Decrease in non-current receivables	17 & 18	(14,808,565)	34,950,638
(Increase) / Decrease in inventories	19	10,222,228	(2,405,233)
Increase / (Decrease) in payables	21A	(7,528,301)	(2,066,543)
(Increase) / Decrease in Payables – staff Gratuity	21B	2,311,999	(4,246,947)
Net cash flows used in investing activities		(10,552,627)	26,038,635
Cash flows from financing activities;			
(Decrease) Increase in deposits - prepayments		12,299,969	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		(1,854,878)	(1,851,640)
Cash and cash equivalents at 1 JULY	16	7,916,853	9,768,493
Cash and cash equivalents at 30 JUNE	16	6,061,975	7,916,853

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

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

	Original budget		Adjustments		Final budget, AIE & Approved Estimates		Actual on Comparable basis		Performance difference		Variance
	2018-2019	Kshs	2018-2019	Kshs	2018-2019	Kshs	2018-2019	Kshs	2018-2019	Kshs	
Revenue											
Public contributions and donations	5,736,500		-		5,736,500		5,020,257		716,243		A* (i)
Government grants and subsidies – AIE, Approved estimates	256,228,000		(111,148,600)		145,079,400		26,549,766		118,529,634		A* (ii)
Rendering of services – AIA	60,000,000		-		60,000,000		59,586,750		413,250		A* (iii)
Rendering of services – GMP certification	-		-		-		916,234		(916,234)		
Total income	321,964,500		(111,148,600)		210,815,900		92,073,007		118,742,893		
Expenses											
Electricity	0		806,000		806,000		-		806,000		
Medical Equipment's	0		21,750,000		21,750,000		-		21,750,000		F* (iv)
Compensation of employees	87,039,000		41,527,000		135,551,000		22,932,132		112,618,868		F* (v)
Remuneration to the Board	4,715,000		-		4,715,000		3,329,461		1,385,539		F* (vi)
Goods and services (Repairs / Maintenance)	113,710,000		(113,710,000)		0		11,911,815		(11,911,815)		A* (vii)
Finance cost – Bank charges	680,000		(114,000)		566,000		136,714		429,286		F* (vii)
General/Admin exp - Other payments	142,342,000		(23,941,000)		118,401,000		48,635,091		69,765,909		F* (viii)
Depreciation, Audit, B/D	33,304,000		(5,550,000)		27,754,000		15,593,303		12,160,697		F* (ix)
Grants and subsidies - Other Gok	0		10,999,882		10,999,882		-		10,999,882		F* (x)
Total expenditure	381,790,000		(61,247,118)		320,542,882		102,538,516		218,004,366		
Surplus for the period	(59,825,500)		(49,901,482)		(109,726,982)		(10,465,509)		(99,261,473)		

Note; Source of the data is approved estimates from MoH and NQCL 2018 procurement plan and 2016/2017 – 2018/19 Medium Term Budget

Budget notes denoted with the asterisk mark *

1. Provide explanation of differences between actual and budgeted amounts (if 10% over/ under) IPSAS 24.14
2. Provide an explanation of changes between original and final budget indicating whether the difference is due to reallocations or other causes. (IPSAS 24.29)
3. Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash Basis, statement of financial performance is accrual) provide reconciliation.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

SURPLUS RECONCILIATION

Description	2018-2019 KShs
Surplus/ deficit as per statement of financial performance	(10,465,509)
Donations	5,020,257
MoH (Electricity and Imprest)	26,549,766
Total transfers and sponsorships	21,104,514

- (i) **Public Contributions and Donations Kshs. 5,020,257 – F variance**
This favourable difference resulted from a grant not budgeted as shown
- (ii) **Government Grants and Subsidies; Kshs. (118,529,634) (A) total variance**
We budgeted for Kshs. 145,079,400 but received Kshs. 26,549,766 as follows; Kshs. 400,000 was an imprest for office use, electricity was not paid for and finally Kshs. 26,149,766 relating to items procured by MoH for the Laboratory.
- (iii) **Rendering Services AIA; Kshs. (413,250) (A) variance**
During the year our budgeted target was ksh. 60,000,000 yet in the year under review, we earned ksh. 59,586,750 hence the variance. GMP certification fee received was Kshs. 916,234.
- (iv) **Compensation of Employee’s Kshs.112,618,868 -F variance**
This resulted from an anticipated increment in staff numbers recruited at the end of the period under review and the expected inflows from the projected samples to be analyzed by the newly recruited staff.
- (v) **Remuneration to the Board Kshs. 1,385,539 – F variance**
This is due to the reduced number of sittings of the Board members in the year under review being fewer than anticipated.
- (vi) **Goods and Services – Repairs Kshs. (11,911,815) - A variance**
This resulted from an anticipated increment in the Laboratory operations hence repairs and maintenance costs.
- (vii) **Finance Cost Kshs. 429,286 (F) variance**
The Bank charges increased due to the numerous cash transactions in the year under review compared to the previous years anticipated transactions.
- (viii) **General / Administrative Expenses (Other Payments) - Kshs. 69,765,909- F**
The Management had anticipated for more government grants and analysis fees, hence the variance in expenditure on general /administrative/ office expenses overall.
- (ix) **Government Grants - Kshs. 10,999,882- F**
These are Government grants in the approved estimates for the Laboratory vote for AIE.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

1. GENERAL INFORMATION

The National Quality Control Laboratory is established by and derives its authority and accountability from Section 35D of the Pharmacy and Poisons Act Cap 244 of the Laws of Kenya. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to examine and test medicines for quality and carry out Good Manufacturing Practices inspections in pharmaceutical manufacturing industry premises.

2. 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, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. 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 Laboratory's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in the notes. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the NQCL.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and IPSAS. The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. This has been effected through.
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations. This standard has not been applied.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018-19.

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2022: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p>(State the impact of the standard to the entity if relevant)</p>
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2022 The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ol style="list-style-type: none"> (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows. <p>(State the impact of the standard to the entity if relevant)</p>

iii. Early adoption of standards

The entity has to the extent possible adopted some of the effectively maturing new or amended standards in year 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i. Revenue from non-exchange transactions

Fees, taxes and fines

The entity recognizes revenues from fees, taxes and fines 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 (cash, goods, services and property) 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. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

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. 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.

Interest income

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

b) Budget information

The original budget for FY 2016-2017 was approved by the BOM and forwarded to the MOH. 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 the entity upon receiving the respective approvals in order to conclude the final budget.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Budget information (Continued)

There were recorded additional appropriations on the 2016-2017 budgets following the governing body's approvals. The Laboratory did not consume the funding as proposed in the budget since the funds were being discharge under the MOH.

The entity'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 section 1 of these financial statements.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates a position taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NQCL is exempted from paying corporate tax by virtue of being a SAGAs

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Taxes (Continued)

- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Property, plant and equipment

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 entity 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.

e) Research and development costs

The Laboratory's research costs/ expenses as incurred. Development costs on an individual project are recognized as intangible assets when the Laboratory 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.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated.

Evidence of impairment may include the following indicators:

- The debtors or entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Financial instruments (Continued)

- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

Raw materials: purchase cost using the weighted average cost method.

Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

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

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Laboratory.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Financial instruments (Continued)

Provisions;

Provision are recognized when the Laboratory 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 Laboratory 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 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.

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

g) Nature and purpose of reserves

The laboratory maintains retained earnings (Surplus / deficits) as its reserves in general.

h) Changes in accounting policies and estimates

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

i) Employee benefits

Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Employee benefits (Continued)

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.

The Laboratory does not maintain a defined contributory plan or a defined benefit plan as it is yet to adopt its scheme of service which provides for the employees retirement benefits as half of the employees are public service commission officers posted through the Ministry of Health while the other half are contracted, interns or casuals This is due to challenges on the status of the Laboratory, its financial arrangements with the parent Ministry (Health) and the Board of Managements appointing entity (Pharmacy and Poisons Board).

j) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

k) Related parties

The Laboratory regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the Directors, the CEO and senior managers.

l) Cash and cash equivalents

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

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Budget information

The original budget for FY 2017-2018 covering 2018-19 as per the procurement plan was approved by the Board of Management. Subsequent revisions or additional adjustments were made to the approved budget in accordance with specific approvals from the appropriate Managements. The additional adjustments are effected to the original budget by the Laboratory upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity did not record additional adjustments on the 2017-2018 budgets following the Board's approval.

The Laboratory'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 section xxx of these financial statements.

n) Comparative figures

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

o) 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, 2019.

- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 22.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. State all judgements, estimates and assumptions made as shown below;

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed

6. PUBLIC CONTRIBUTIONS AND DONATIONS

Description	2018 - 2019	2017-2018
	KShs	KShs
GTZ Donations	5,020,257	5,736,554
Total transfers and sponsorships	5,020,257	5,736,554

The charge for the year is derived from computations of depreciating GTZ Assets left when the donor left the Laboratory to the Kenyan Government in 1994.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income.	Amount recognis ed in capital fund.	Total grant income during the year	2018 - 2019	2017-2018
			KShs	KShs	KShs	KSh
Ministry of Health	26,149,766	-	-	26,149,766	26,149,766	1,741,360
KEMSA Equipment	0	-	-	0	0	11,660,310
MoH Imprest	400,000			400,000	400,000	0
Total KShs	26,549,766	-	-	26,549,766	26,549,766	13,401,670

Note;

Total for 2017-18 FY is ksh. 7,251,408. The breakdown for the above transfers from KEMSA for equipment are as follows; LAL reader 237,800 Zone reader 2,186,310 Polarimeter 733,294.84 UV+VIS 1,326,228.8 D. Tester 1,583,400 Ph-conductivity meter 302,516.8 Ultrasonic bath 245,456 digital hygrometer 1,455,104 Bulk filing system 1,450,000.

The Laboratory does not receive transfers directly from the Treasury or the Ministry of Health but conducts procurement processes then forwards the documents to the Ministry of Health for payments. This has led to pending bills as the payment process mostly concludes by the year end.

8. RENDERING OF SERVICES

Description	2018 - 2019	2017-2018
	KShs	KShs
Analysis fees	59,586,750	34,907,763
GMP Inspection Certification - fees	916,234	-
Total revenue from rendering of service	60,502,984	34,907,763

This reflects pharmaceutical testing services (analysis fees) for pharmaceuticals products where a certificate of analysis is issued against samples submitted by clients and the GMP inspection certifications.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. USE OF GOODS AND SERVICES

Description	2018 - 2019	2017-2018
	KShs	KShs
Electricity	-	1,341,360
Total good and services	-	1,341,360

NQCL consumed electricity paid by MOH

10. EMPLOYEE COSTS

Description	2018 - 2019	2017-2018
	KShs	KShs
Basic Salaries and wages	2,891,625	11,011,602
Extraneous allowance-MOH Staff	4,180,000	
Employee related costs – NHIF & NSSF	279,800	
Employee related costs – PAYE	4,610,484	268,800
Travel allowances	960,000	900,000
Housing benefits and allowances	3,273,900	3,105,000
Risk allow	960,000	955,500
Sub -Total Employee costs	17,155,809	16,320,902
Leave pay 2017-18	66,000	80,000
Employee related costs – NSSF (employer-paid)	33,000	36,000
Employee related costs – Medical scheme	848,579	848,579
Gratuity	4,828,744	5,755,210
Sub -Total Employee costs	5,776,323	6,639,789
Total Employee costs	22,932,132	22,960,691

11. REMUNERATION THE BOARD OF DIRECTORS

Description	2018 - 2019	2017-2018
	KShs	KShs
Lunch	286,000	-
Sitting Allowance	917,000	-
Accommodation	270,849	981,414
Travel	1,480,612	
Chairman's Honoraria	375,000	
Total Board of Director's emoluments	3,329,461	981,414

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. DEPRECIATION AND AMORTIZATION EXPENSES

Description	2018 - 2019	2017-2018
	KShs	KShs
Property, plant and equipment – GoK	9,126,913	12,833,051
Property, plant and equipment - Donation	5,020,257	5,736,554
Total depreciation and amortization	14,147,170	18,569,605

13. REPAIRS AND MAINTENANCE

Description	2018 - 2019	2017-2018
	KShs	KShs
Equipment and Machinery	11,911,815	12,719,968
General	-	-
Total repairs and maintenance	11,911,815	12,719,968

14. GENERAL/ADMINISTRATIVE + CHEMICAL/REAGENT EXPENSES

Description	2018 - 2019	2017-2018
	KShs	KShs
Admin fees - Office expenses	3,390,139	1,720,933
Audit fees	150,000	150,000
Consulting fees – Strathmore	2,268,145	3,850,743
Legal costs	-	-
Consumables – (Lunches / snacks)	1,527,612	1,043,295
Electricity	-	1,341,360
Fuel and oil - Generator.	93,826	343,200
Chemicals & Reagents	27,430,480	9,927,478
Printing and stationery	8,385,019	2,212,429
Telecommunication (Telephone, internet & Postage)	1,438,297	1,155,048
Training	854,600	500,242
Others - Travelling / Motor vehicle costs	3,096,973	3,765,154
Total general expenses	48,635,091	26,009,882

15. FINANCE COSTS

Description	2018 - 2019	2017-2018
	KShs	KShs
Bank charges	136,714	126,083
Total finance costs	136,714	126,083

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. CASH AND CASH EQUIVALENTS

Description	2018 – 2019	2017-2018
	KShs	KShs
Current account	6,061,975	7,916,853
Total cash and cash equivalents	6,061,975	7,916,853

16 B). DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS

Financial institution	Account number	2018 – 2019	2017-2018
11711		KShs	KShs
a) Current account			
National Bank of Kenya Ltd	01001031744600	6,137,074	9,534,852.27
Sub- total		6,137,074	9,534,852.27
b) Others (...)			-
Cash in transit – Unpresented Cheques		(90,140)	(1,629,710)
Cash in hand			406
Payments in bank statements not in cashbook		15,040	11,304.59
Sub- total		0	-
Grand total		6,061,975	7,916,853

17. A) RECEIVABLES FROM EXCHANGE TRANSACTIONS

Description	2018 - 2019	2017-2018
	KShs	KShs - Restated
Current receivables		
Other exchange debtors- AIA fees	30,591,314	14,794,682
Less: impairment allowance	-	-
Total current receivables		14,794,682
Non-current receivables		
Non-current receivables – Uncollectable	6,013,120	7,626,317
Total non-current receivables		-
Sub -Total receivables	36,604,434	22,420,999
Less: impairment allowance	-	(672,630)
Total receivables	36,604,434	21,748,369

17. B) PROVISION FOR BAD & DOUBTFUL DEBTS OF 3%

3% of Kshs.36,604,434 equals to Kshs.1,098,133

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS.

Description	2018 - 2019	2017-2018
	KShs	KShs
Current receivables		
Other debtors - staff advances	232,500	280,000
Less: impairment allowance		-
Total current receivables	232,500	280,000

19. INVENTORIES.

Description	2018 - 2019	2017-2018
	KShs	KShs
Consumable stores	3,124,232	3,574,484
Medical supplies	7,032,027	16,804,003
Spare parts and meters - Consumables	-	-
Total inventories at the lower of cost and net realizable value	10,156,259	20,378,487

Note; Impairment – 5% CA, stock for the year 151,868

20. PROPERTIES, PLANT AND EQUIPMENT.

Tabulated below;

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)
20. A) PROPERTIES, PLANT AND EQUIPMENT

ASSETS/ ITEMS HEAD	Buildings - Renovation	Lab. (Electronic) Equipment	Furniture & Fittings	Office Electronic/ Equipment		Auto motives		Totals recomputed / Adjusted for F.Y 2016 – 2017 (Kshs)	Total computation reported for 2015 – 2016 (Kshs)
				Straight Line - 2.5%	Reducing Balance - 12.5%	Straight Line - 12.5%	Straight Line - 12.5%		
Net Book Values As at 30 June, 2015	12,563,280	32,199,488	3,011,516	2,241,190	5,806,480	55,821,954	55,821,954	55,821,954	
Additions 2015-16	3,287,315	25,652,235	1,825,375	6,406,274	1,601,803	38,773,002	38,773,002	38,773,002	
Cost / NBV as at 01 July 2015	15,850,595	57,851,723	4,836,891	8,647,464	7,408,283	94,594,956	94,594,956	94,594,956	
Accumm Depreciation (as at 1st July 2015)	3,472,366	57,714,101	4,104,038	960,510	1,935,494	68,186,509	68,186,509	21,711,607	
Depreciation for the year, 2015 - 16	301,831.98	7,231,465	1,117,616	2,882,392	1,167,972	12,701,278	12,701,278	11,076,729	
Accumm Depreciation (as at 1st July 2016)	3,774,198	64,945,566	5,221,654	3,842,902	3,103,466	80,887,787	80,887,787	32,788,336	
Less – GTZ Donations, Adjustment NBV B/D (4,178,207)						(4,178,207)	(4,178,207)	-3793,445	
Net Book Values as at 30 June 2016	11,370,556	50,620,258	3,719,275	5,765,072	6,240,311	77,715,471	77,715,471	58,013,176	
Additions 2016- June,17	1,280,000	2,552,000	-	-	-	3,832,000	3,832,000		
Totals Cost / NBV as at 30 June,2017	12,650,556	53,172,257	3,719,275	5,765,072	6,240,311	81,547,471	81,547,471		
Accumm Depreciation (as at 1st July 2016)	3,774,198	64,945,566	5,221,654	3,842,902	3,103,466	80,887,786	80,887,786		
Depreciation charge for the year, 2016 - 17	333,832	6,646,532	1,117,616	2,882,392	1,167,972	12,148,345	12,148,345		
Accumm Depreciation (as at 30 June 2017)	4,108,030	71,592,099	6,339,271	6,725,294	4,271,439	93,036,132	93,036,132		
Net Book Values as at 30 June 2017	12,316,724	46,525,726	2,601,659	2,882,679	5,072,339	69,399,127	69,399,127		
Additions (Disposal) 2017- June, 18	-	11,660,310	-	193,280	-	11,853,590	11,853,590		
Totals Cost / NBV as at 30 June,2018	12,316,724	58,186,036	2,601,659	3,075,959	5,072,339	81,252,717	81,252,717		
Depreciation charge for the year, 2017 - 18	333,832	7,273,255	1,117,616	2,940,376	1,167,972	12,833,051	12,833,051		
Accumm Depreciation (as at 30 June 2018)	4,441,862	78,865,354	7,456,887	9,665,670	5,439,411	105,869,182	105,869,182		
Net Book Values as at 30 June 2018	11,982,892	50,912,781	1,484,043	1,35,583	3,904,367	68,419,667	68,419,667		
Additions (Disposal) 2018- June,19	-	-	-	-	-	-	-		
Net Book Values as at 30 June 2019	11,982,892	50,912,782	1,484,043	1,35,583	3,904,367	68,419,667	68,419,667		
Additions 2018-19		749,988				749,988	749,988		
Totals Cost / NBV as at 30 June, 2019	11,982,892	51,662,769	1,484,043	1,35,583	3,904,367	69,169,654	69,169,654		
Accumm Depreciation (as at 1st July 2019)	4,108,030	71,592,099	6,339,271	6,725,294	4,271,438	93,036,132	93,036,132		
Depreciation charge for the year, 2018 -19	333,832	6,371,910	1,117,616	135,583	1,167,972	9,126,913	9,126,913		
Accumm Depreciation (as at 30 June 2019)	4,441,862	77,964,009	7,456,887	9,607,687	5,439,410	104,909,855	104,909,855		
Net Book Values as at 30 June 2019	11,649,060	45,290,859	366,427	0	2,736,395	60,042,741	60,042,741		

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note: The 2015-16 figures have been recomputed and restated in 2016-17 due to errors as shown. In 2015-16 the NBV relating to renovations by GTZ in 1994, which was erroneously treated as an asset (always attracting audit query) has now been reconciled from the assets register and an income (donation) recognized and duly expensed in compliance with the double entry concept and auditor general's advice, ref, NQCL/2015-2016/(9). The furniture and fittings computation 2015-16 gives a discarded negative net book value computations figure of (384,762) while the accumulated depreciation for equipment of 57,714,101 which had been derived at by including ksh. 38,633,848 donated assets now transferred to note 04 where it should be adjusted. Going forward the management will seek the help of Government valuators to ascertain the Assets' Net Realisable Values for purposes of correcting and re-stating the assets register.

20 B) PROPERTY, PLANT AND EQUIPMENT - DONATED ASSETS, GTZ (Deferred income computation / tabulation)

	Furniture & fittings 2008/09 Straight line 2.5%	Office equipment 2012/13 Straight line 30.0%	Plant and Equipment – B/D 2012/13 Reducing Balance 12.5%	Plant and Equipment – HPLC 2013/14 Reducing Balance 12.5%	Plant and Equipment – Isolator 2014/15 Reducing Balance 12.5%	Total Shs
COST AS AT DATE STATED;						
Balance B/D 2012/13	635,998	73,767	10,419,395	33,008,867	38,633,848	82,771,875
Depreciation Charge for 2013-14	49,409	73,767	5,170,446	22,882,759	-	28,176,381
Balance B/D 2013/14	6,176	22,130	646,306	3,610,345	-	4,284,957
Depreciation Charge for 2014-15	43,233	51,637	4,524,140	25,272,414	-	29,891,424
	6,176	22,130	565,518	3,159,052	4,829,231	8,582,107
Balance B/D 2014/15	38,601	29,507	3,958,623	22,113,362	33,804,617	59,944,710
Depreciation Charge for 2015-16	6,176	22,130	494,829	2,764,170	4,225,577	7,512,882
Balance B/D 2015/16	32,425	7,377	3,463,795	19,349,192	29,579,040	52,431,829
Depreciation Charge for 2016-17	6,176	7,377	432,974	2,418,649	3,697,380	6,562,556
Balance B/D 2016-17	26,249	-	3,030,821	16,930,543	25,881,660	45,869,273
Depreciation Charge for 2017-18	6,176	-	378,852.6	2,116,317	3,235,207.5	5,736,554
Balance B/D 2017-18	20,073	-	2,651,968.4	14,814,225.1	22,646,452.5	40,132,719
Charge for the year 2018-2019	6,176.00		331,496.10	1,851,778.10	2,830,806.60	5,020,256.80
NBV B/D 2018 -19	13,897.00	0.00	2,320,472.40	12,962,447.00	19,815,645.90	35,112,462.30

Note: the Autoclave equipment valued at Kshs. 749,998 will be depreciated in the Financial Year 2019/20 after undergoing operational and performance qualifications which is our practice at the Laboratory

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

DEFERRED INCOME – 1994 GTZ Donation

Description	2018 - 2019	2017-2018
	KShs	KShs
International funders		-
Public contributions and donations	5,020,257	5,736,554
Total deferred income	5,020,257	5,736,554

The deferred income movement is as follows:

	National government	International funders – GTZ	Public contributions and donations	Total
Balance brought forward	-	40,132,719	-	40,132,719
Additions / Transfers to Capital fund	- (-)	- (-)	- (-)	- (-)
Transfers to income statement	(-)	(5,020,257)	(-)	(5,020,257)
Other transfers	(-)	(-)	(-)	(-)
Balance carried forward	-	35,112,462	-	35,112,462

21. A) TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Description	2018 - 2019	2017-2018
	KShs	KShs
Trade payables	3,313,093	4,827,389
Payments received in advance – Analysis fees	22,569,171	8,203,295
<u>Employee costs</u>		
Board expenses - Outstanding	227,255	
Gratuity – Outstanding	492,765	
PAYE- Gratuity Outstanding	59,828	
NSSF- Outstanding	10,800	5,755,210
Other payables,	348,000	706,717
Total trade and other payables	27,020,912	19,492,611

21 B. EMPLOYEE BENEFIT OBLIGATIONS

Description	Defined benefit plan	Post-employment medical benefits	Other Provisions	TOTAL 2018-2019	TOTAL 2017-2018
	KShs	KShs	KShs	KShs	KShs
Current benefit obligation –	-	-	-	2,311,999	-
Non-current benefit obligation	-	-	-	-	5,755,210
Total employee benefits obligation gratuity	-	-	-	2,311,999	5,755,210

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The entity operates a defined benefit scheme for all full-time employees from July 1, 2015. The scheme is based on **31% percentage** of basic salary of an employee at the time of retirement. During the year, No actuarial valuers were engaged to value the scheme. The liability at the end of the year is as follows:

	2018 - 2019	2017-2018
	Kshs	Kshs
Valuation at the beginning of the year	1,764,851	0
Changes in valuation during the year	2,311,999	2,311,999
Valuation at end of the year	4,076,850	2,311,999

The company also contributes to the statutory - National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

22. NON-CURRENT PROVISIONS

Description	Long service leave	Gratuity	Other Provisions	Total
	KShs	KShs	KShs	KShs
Balance at the beginning of the year (5294554/3)	-	1,764,851	-	1,764,851
Additional Provisions gratuity	-	2,311,999	-	2,311,999
Provision utilised – Audit fees		348,000		348,000
Change due to discount and time value for money (effects)	-	-	(-)	-
Less: Current portion	(-)	(-)	(-)	(-)
Total income (Decrease) / increase in provision		4,424,850	-	4,424,850

23. SERVICE CONCESSION ARRANGEMENTS

Fair value of service concession assets recognized under PPE, Accumulated depreciation to date, Net carrying amount, Service concession liability at beginning of the year, Service concession revenue recognized, Service concession liability at end of the year.

24. CASH GENERATED FROM OPERATIONS

	2018 - 2019	2017-2018
Surplus for the year before tax	KShs	KShs
Adjusted for:		
Depreciation	14,147,170	18,569,605
Finance cost	136,714	(126,083)
Working Capital adjustments		
Increase in inventory	10,222,228	(2,452,207)
Increase in receivables	(14,808,565)	34,993,638
Increase in deferred income	(716,297)	(826,002)
Increase in payables	7,528,301	(2,066,543)
Increase in provision	3,009,510	(4,246,947)
Net cash flow from operating activities	19,519,061	25,942,609

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history. The entity's financial risk management objectives and policies are detailed below:

i) Credit Risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount	Fully performing	Past due	Impaired
At 30 June 2019	Kshs	Kshs	Kshs	Kshs
Receivables from exchange transactions	36,604,434	36,604,434	6,013,120	-
Receivables from non-exchange transactions	232,500	232,500	-	-
Bank balances	6,137,074	6,137,074	-	-
Total	42,974,008	42,974,008	-	-
At 30 June 2018				
Receivables from exchange transactions	14,794,682	14,794,682	6,013,120	-
Receivables from non-exchange transactions	280,000	280,000	-	-
Bank balances	7,916,853	7,916,853	-	-
Total	22,991,535	22,991,535	6,013,120	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

The entity has significant concentration of credit risk on amounts due from receivables

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the Management of the Laboratory's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2019				
Trade payables	-	-	3,313,093	3,313,093
Provisions - KENAO	-	-	348,000	348,000
Employee benefit obligation	-	-	2,311,999	2,311,999
Total	-	-	59,973,092	59,973,092
At 30 June 2018				
Trade payables	-	5,680,649	7,542,499	13,223,148
Provisions	-	-	916,691	916,691
Employee benefit obligation - Gratuity	-	1,754,148	3,508,297	5,262,445
Total	-	7,434,797	11,967,487	19,402,284

iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an on-going basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

iii) Market risk (Continued)

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The entity has no transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:-

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2018			
Financial assets(cash ,debtors)	-	-	-
Liabilities			
Trade and other payables	-	-	-
Net foreign currency asset/(liability)	-	-	-

The entity manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2019			
Financial assets (investments, cash ,debtors)			
Liabilities			
Trade and other payables			
Net foreign currency asset/(liability)			

Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

iii) Market risk (Continued)

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
2018			
Euro	10%	-	-
USD	10%	-	-
2017			
Euro	10%	-	-
USD	10%	-	-

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs - (2018: KShs -). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs - (2018 - KShs -)

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the entity's market assumptions. These two types of inputs have created the following fair value hierarchy:

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

iii) Market risk (Continued)

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The entity considers relevant and observable market prices in its valuations where possible.

	Level 1 Kshs	Level 2 Kshs	Level 3 Kshs	Total Kshs
Non- financial Assets				
Land and buildings	-	-	-	-
Property, plant and equipment	-	-	-	60,042,741
At 30 June 2019				60,042,741
Non- financial Assets				
Land and buildings	-	-	-	-
Property, plant and equipment	-	-	-	-
At 30 June 2018				68,419,667

Fair value of financial assets and liabilities

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

Fair value of financial assets and liabilities

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

iv) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

iv) Capital Risk Management (Continued)

	2018 - 2019	2017-2018
	Kshs	Kshs
Revaluation reserve	(12,222,294)	(27,573,409)
Retained earnings		-
Capital reserve	59,118,045	86,691,454
Total funds	46,895,751	59,118,045
Total borrowings	-	-
Less: cash and bank balances	6,137,074	(-)
Net debt/(excess cash and cash equivalents)		-
Gearing	26.2%	0%

26. RELATED PARTY BALANCES

Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya.

The Government of Kenya is the principal shareholder of the Laboratory, holding 100% of the Laboratory's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include:

- i) The National Government;
- ii) The Parent Ministry;
- iii) Key management;
- iv) Board of directors;

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

RELATED PARTY BALANCES (Continued)

	2018 - 2019	2017-2018
	Kshs	Kshs
Transactions with related parties;		
a) Sales to related parties		
Sales of goods / services to a related MDA's	26,427,529	25,937,763
Total	26,427,529	25,937,763
b) Grants from the Government		
Grants from National Gov't – Through KEMSA	26,549,766	13,401,670
Donations in kind - gtz	5,020,257	-
Total	31,570,023	13,401,670
c) Expenses incurred on behalf of the laboratory by related party		
Payments of salaries and wages for - employees	-	-
Payments for goods and services for a related party	-	-
Total	-	-
d) Key management compensation		
Directors' emoluments	375,000	981,414
Compensation to the CEO		
Compensation to key management (Directors)	2,954,461	
Total	3,329,461	981,414

27. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities	2018 - 2019	2017-2018
	Kshs	Kshs
Court case no against the company	-	-
Bank guarantees in favour of subsidiary	-	-
Total	-	-

28. CAPITAL COMMITMENTS

Capital commitments	2018 - 2019	2017-2018
	Kshs	Kshs
Authorised for	-	-
Authorised and contracted for	-	-
Total	-	-

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. DIVIDENDS/SURPLUS REMISSION

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. Or: the entity remitted Kshs xxxxx (FY 2018-19 Kshs xxx. The entity did not make any surplus during the year (FY 2019 Nil) and hence no remittance to the Consolidated Fund

30. TAXATION

	2018-2019	2017-2018
	Kshs	Kshs
At beginning of the year	?	?
Income tax charge for the year (note 27)	0	0
Under/(over) provision in prior year/s (note 27)	0	0
Income tax paid during the year	(0)	(0)
At end of the year	0	0

[Provide short appropriate explanations as necessary]

31. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

32. ULTIMATE AND HOLDING ENTITY

The entity is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Health. Its ultimate parent is the Government of Kenya.

33. CURRENCY

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

NATIONAL QUALITY CONTROL LABORATORY

Annual Reports and Financial Statements

For the year ended June 30, 2019

APPENDIX I: 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. 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)
1.0	Undetermined value of Land included in Property plant & Equipment	The laboratory was allocated 4.0 hectares in 1992 vide Ref; 62432/IV/188. Kenya-Re has ceded back 1.0Ha and KNH has promised to cede 1.35 Ha of which the National Land Commission has donated part of it to KURA for road construction without our consent. We are following up the matter with NLC to value the land and acquire a title deed for the whole parcel.	Dr. Pius Wanjala	Not Resolved	June, 2019
2.0	Understatement of ksh. 507,896 in Cash & Cash Equivalent	Cash book balance reflects Kshs. 10,276,389 while cash and cash equivalent shows ksh.9,768,493 The Kshs . 507,896 differences being reconciliation oversights resulting from previous years balances brought forward, due to lack of effective internal audit function. This has since been corrected.	Mr. Naphtaly Ogolah	Resolved	June, 2018
3.0	In adequate provision of Bad & doubtful debts. Validity and recoverability of ksh. 7,626,317 for Trade & Other receivables	KEMSA is yet to responded to our requests and efforts to recover the Kshs .6,013,120 from them and neither have UNDP (Kshs 1,476,930) and Govt of South Sudan (Kshs .136,267). We shall be recommending a write off as bad debt using the laid down policy once approved by the BOM	Board of Management	Not Resolved	June, 2019

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019


4.0	Operating without a Board and failure to comply with PPB Act Cap 244 and ISSAI 30 on code of ethics	The BOM has since been appointed vide The Kenya Gazette notice (no. 1940) Vol. CXX- No 29 dated 02 nd March, 2018 and inaugurated on April, 2018 to execute their mandate.	Pharmacy and Poisons Board	Resolved	March, 2018
Other Matters	70% Under absorption Budgetary Control and performance. Budgeted ksh. 255, 057, 000 while Actual for the year is ksh. 75,922,326	30% absorption indicates we could not implement plans hence service delivery suffered due to diversion of our allocations to other departments and Agencies by the parent Ministry We request treasury to directly send allocated funds to our account to avoid reallocations.	The National Treasury	Not Resolved	June, 2019

Guidance Notes:


- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.


Dr. Hezekiah Kibet Chepkwony, PhD
Director, Secretary BOM

Date 5th May/20


Ms. Georgina Muchai (CPA),
Chairperson, Finance, Administration and
General Purpose Committee of BOM

Date 5/5/2020




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 FAX: 2718073

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

APPENDIX III: INTER-ENTITY TRANSFERS

	ENTITY NAME:	National Quality Control Laboratory		
	Break down of Transfers from the State Department of Health			
	FY 18/9			
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		June, 2019	26,549,766	
		Total	26,549,766	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		June, 2019	-	
		Total	-	
c.	Direct Payments			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	NASCOP	June, 2019	17,999,438	2018/19
	KEMSA	June, 2019	8,707,385	2018/19
	PPB	June, 2019	3,380,690	2017/18
		Total	49,676,687	

The above amounts have been communicated to and reconciled with the parent Ministry

 Dr. David Kemoi Yano (CPA), Finance Manager NQCL		 <p>05 MAY 2020</p> <p>P. O. Box 29726 - 00202, N.A.S TEL: 2726943 / 3544525130 FAX: 2718073</p>
Date	05/05/2020	

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended June 30, 2019

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/ Development /Others	Total Amount - KES	Where Recorded/recognized				Total Transfers during the Year	
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables		Others - must be specific
Ministry of Health	2017-18	Direct Payment	1,741,360	1,741,360	-	-	-	0	1,741,360
MoH - KEMSA	2017-18	Recurrent - Equipment	11,660,310	11,660,310	-	-	-	-	11,660,310
Pharmacy & Poisons Board - PPB	2017-18	Direct Payment - Analysis	3,380,690	3,380,690	-	-	1,323,120	-	3,380,690
NASCOP	2017-18	Direct Payment - Analysis	23,097,778	23,097,778	-	-	106,600	-	23,097,778
KEMSA	2017-18	Direct Payment - Analysis	24,182,001	24,182,001	-	-	6,013,120	-	24,182,001
Total			64,062,139	64,062,139	-	-	1,528,170	-	64,062,139



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