

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

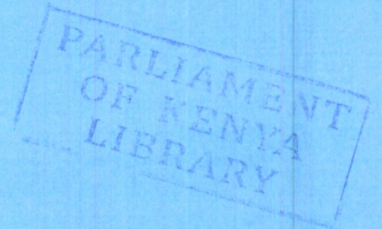
THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 31 JUL 2019 DAY: Wednesday

TABLED BY: Hon. Benjamin Wachiuri (Majority Whip)

BY: Halima Ahmed

REPORT



OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR
ENDED 30 JUNE 2018**

KEMSA

KENYA MEDICAL SUPPLIES AUTHORITY  YOUR PARTNER IN HEALTHCARE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

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

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

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KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

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

(b) Principal Activities

➤ **Core Mandate**

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

➤ **Functions of the Authority**

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

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(c) Key Management

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

- The Chief Executive Officer
- The Executive Directors
- Managers-Head of Departments

(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:

1.	Dr. Jonah Manjari Mwangi	Chief Executive Officer- <i>(Appointed 1st July 2018)</i>
2.	Mr. Fredrick Wanyonyi	Ag. Chief Executive Officer & Director- Legal Services/ Corporation Secretary <i>(Appointed 1st Dec 2017-30th June 2018)</i>
3.	Mr. Philip O. Omondi	Ag. Chief Executive Officer <i>(Retired 30th November 2017)</i>
4.	Mr. Charles Juma Ezekiel	Director- Procurement
5.	Dr. Samuel Okanda	Ag. Director- Operations
6.	Mr. Eliud Mureithi	Commercial Director
7.	Mr. Douglas Onyancha	Head, KEMSA-USAID MCP Program
8.	Ms. Teresa Mute	Internal Audit Manager
9.	Mr. Waiganjo Karanja	Director Corporate Services
10.	Ms. Caroline Wanjiru Ogongi	Ag. Finance Manager

(d) Fiduciary Oversight Arrangements

The Board of Directors of the Authority comprises of the Chairman who is appointed by the President, the CEO is appointed by the Board of Directors in concurrence with the Cabinet Secretary of Health, the Principal Secretary of the Ministry for Health or her representative, the Principal Secretary to the National Treasury or his representative, the Principal Secretary Ministry of Devolution and Planning or his representative, four members who are not public

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officers with diverse medical supply chain management experience appointed by the Minister. All non-executive directors are independent of management of the Authority. The Board has varied and extensive skills in the areas of medical supply chain management and business management.

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

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

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

Finance, Strategy & Development Committee	Human Resources Committee	Audit and Risk Committee	Supply Chain Committee
Composition	Composition	Composition	Composition
Directors and the CEO	Directors and the CEO	Directors and the Internal Audit Manager	Directors and the CEO

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Main Function	Main Function	Main Function	Main Function
Review and monitoring of KEMSA financial position, accounts, financial statements and statutory reports, Consideration of audit matters arising out of KEMSA's financial position and statements. Examine the recommended structural developments including ICT installations and make appropriate recommendations	Consideration of human resources and administration matters that require to be considered by the Board including recruitment, promotions, discipline and welfare of staff.	Consideration of matters relating to audit queries, audit management letters and quality assurance of systems and processes, including review of risk management.	Oversee QA & control systems, warehousing & distribution of medicines, customer services, co-ordinate updates of EMMS list, commodities procurement systems compliance to the law, ICT policy, accuracy of stock
Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum
Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis
Chairman	Chairman	Chairman	Chairman
Mr. Andrew Onyach	Ms Penina Mukabane	Mr. Tom Wambua	Dr. Nelly Kimani

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Members	Members	Members	Members
Mr. Bernard Ndun'gu	Mr. Simeon Ole Kigotty	Dr. Nelly Kimani	Mr. Francis Musyimi
Mr. Simeon Ole Kigotty	Mr. Andrew Onyach	Mr. Francis	Mr. Tom Wambua
Mr. Philip Omondi	Mr. Philip Omondi	Musyimi	Ms Penina Mukabane
Mr. Fredrick Wanyonyi	Mr. Fredrick Wanyonyi	Ms Teresa Mute	Mr. Philip Omondi
			Mr. Fredrick Wanyonyi

(e) Headquarters

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

(f) Contacts

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

(g) Bankers

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

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(h) Auditors

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

(i) Legal Advisers

1. The Attorney General

State law office,
Harambee Avenue
P.o Box 30084
NAIROBI

2. Migos-Ogamba & Co. Advocates

4th Floor , Crawford Park
State House Road
P.o. Box 58387-00200
NAIROBI

3. KTK Advocates

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

4. E.K. Mutua & Co. Advocates

11th Floor, View Park Towers
P.o. Box 60596-00200
NAIROBI

5. Akide & Co Advocates

6th Floor, Blue Violets Plaza
Kamburu Drive, Off Ngong Road
P.O. Box 34004 – 00100
NAIROBI

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THE BOARD OF DIRECTORS

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



Mr. Andrew Onyach
Independent Director

BBA, MBA, MIDK, FMKIM
Work Experience: Group CEO- Creative Consolidated Systems Ltd, Group Strategy and Administration Director- Business Machines (K) Ltd



Dr. Nelly Kimani
Independent Director

B. Pharm, MBA, MPSK
Work Experience: Pharmacist-MP Shah Hospital, Company Pharmacist-Cadilla Pharmaceuticals, Pharmacist-Mater Hospital. Manager-Lemuma Pharmacy, Pharmacist (Nairobi Hospital), Marketing Trainee-Spread Marketing Consulting Agency.



Mr. Benard Ndung'u
Alt. to PS, The National Treasury

B. Com (Finance), CPAK
Work Experience: Accountant General at the National Treasury. He is a member of ICPAK. He is an expert in Public Finance Management



Mr. Francis Musyimi
Alt. to PS, Ministry of Health

BA (Political Science & Sociology), MPSM
Work Experience: Principal Administrative Secretary, Deputy Secretary, under secretary, Senior Assistant Secretary, District Officer.



Mr. Tom Mboya Wambua
Independent Director

MBA (UON), BCOM (UON)
Work Experience: Business Risk and Planning Consultant, Wide experience in Anti Illicit Trade Management, Security Management and Sales Management and Trade Marketing at British American Tobacco. (1994-2007)

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Mr. Simeon Ole Kirgotty
*Alt. to PS, Ministry of Devolution
and Planning.*

B.A. Government and Economics (UON)
Work Experience: Devolution Secretary,
Ministry of devolution and Planning,
CEO-National Hospital Insurance Fund,
Registrar of Motor Vehicles.



Mrs. Penina Mukabane
Independent Director

**M.SC Agric. Econ. (Moi), B.SC Agric. Econ. (Egerton),
PGDE(Kenyatta)**
Work Experience: CEC Health Services –Kakamega
County, Senior Lecturer and Head of Department-
Bukura Agricultural College, Lecturer, Kilifi Institute of
Agriculture, High School Teacher(Various) in
Agriculture, Biology, Physics, Chemistry and Business
Studies.



Dr. Jonah Manjari
Chief Executive Officer
(Effective 1st July 2018)

**(M. Med (ENT, H&N Surgery). (UoN),
MBChB (U.O.N) MBA-GLOBAL (USIU)**
Work Experience: County Executive Committee
Member (Minister of Health Services)-Kiambu
&Nakuru County, Medical Superintendent &
District Medical Services Officer-Ministry of
Medical Services; Thika Level 5 Hospital, ENT
Specialist Surgeon; Ministry of Health – Garissa
& Meru Level 5 Hospitals, Post Graduate Senior
House Officer- Kenyatta National Hospital,
Senior Medical Officer- Thika District Hospital



Mr. Fred Wanyonyi
Ag. Chief Executive Officer
*(Appointed 1st Dec 2017-30th June
2018) & Director- Legal
Services/Corporation Secretary*
Secretary to the Board

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



Mr. Philip Omondi
*Ag. Chief Executive
Officer & Director-
Corporate Services*
Secretary to the Board

BSc, MBA, CPA (K), MKIM
(Retired 30th November 2017)

SENIOR MANAGEMENT TEAM



Dr. Jonah Manjari Mwangi
Chief Executive Officer
(Effective 1st July 2018)



Mr. Fred Wanyonyi
Director- Legal
Services/Corporation
Secretary



Mr. Charles Juma
Director, Procurement



Mr. Eliud Muriithi
Director, Commercial Services



Mr. Douglas Onyancha
Head KEMSA/USAID MCP Program



Mr. Waiganjo Karanja
Director, Finance and Strategy



Ms. Teresa Mute
Internal Audit Manager

**Reports and Financial Statements
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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it is with much honor that I present to you, the Kenya Medical Supplies Authority (KEMSA)'s, Annual Report and Financial Statements for the year ended 30th June 2018.

The financial performance for the year 2017/2018 clearly indicates stability of our business operations in the one-year period. This stability of operations has largely been due to the bold and decisive decisions that were taken in order to realign the priorities of the business and set it in a sustainable growth path in the immediate past and preceding years. The Authority is currently operating in a fully automated environment that has significantly enhanced the business processes and controls, thereby increasing efficiency and improving service delivery in procurement, warehousing and distribution of medical commodities countrywide.

The Board continued supporting endeavours geared to support KEMSA's Partnerships with the National Government, County Governments, and development partners in provision of medical commodities to Kenyans.

Key Corporate Highlights:

During the financial year, the following are the main events that took place and had material impact the business operations corporate wide:

- i) Retirement of the Ag. Chief Executive Officer, CPA. Philip.O. Odhiambo, after years of invaluable leadership and service to the Organization. The Board ensured that there was smooth transition by appointing the Director-Legal Services, Mr. Fredrick Wanyonyi, to steer the Organization while the process of appointing a Substantive CEO was being concluded. As at 1st July 2018, Dr. Jonah Manjari Mwangi was appointed as the CEO.
- ii) During financial year 2016/17, the Authority purchased the Supply Chain Center at Embakasi from Kenya Airways at a total cost of Kshs 1.98 Billion. In financial year

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- 2017/18, KEMSA management was able to delve into the construction by signing of the contract in March 2018, which will see the beginning of the first phase of construction. This project is divided into two phases, the first being construction of the warehouse block and the second being construction of the office block. A no objection was received from Global Fund for an amount of 312M on July 2018 and the rest of the funds are expected very soon.
- iii) Collaborative meetings with the counties and other strategic development partners were held by USAID/KEMSA Medical Commodities Program (MCP). The meetings involved creation of awareness about the program, sensitization and collection of feedback on the LMIS which is used for ordering of medical commodities and reporting by the facilities for purposes of forecasting and quantification.
 - iv) KEMSA Management has continuously engaged the stakeholders to support capacity building on LMIS activities. During the financial year 2017/18, UNICEF and WFP supported 23 counties out of 26 counties on the nutrition program.
 - v) KEMSA has created awareness in the counties by conducting various trainings on data management. The workshops are in collaboration with KOFIH and are assisting in improving the quality of data that KEMSA is using in decision making and most importantly, enhancing management of medical commodities at the county level.
 - vi) KEMSA Management approved Policies for the various Operational functions with the aim of ensuring there are clear procedures, work instructions, templates and records to guide the business operations according to best practice and sound governance. In addition, the Board has put in place an employee performance and reward mechanism that will focus the Authority's staff towards a high performance-driven culture.
 - vii) During the financial year, there was a review in the Strategic plan which showed that KEMSA achieved more than 80% of the goals and objectives set out in the original Strategic Plan.
-



Reports and Financial Statements
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Appreciation:

I wish to thank the National Government, County governments and our Strategic development partners for their goodwill and invaluable support in making KEMSA a true partner in healthcare. Their support has been instrumental in KEMSA's achievement.

I also acknowledge and thank the entire Management and staff for the professionalism, commitment and drive in executing the Authority's mandate of delivering timely, quality, and effective medical commodities to the people of Kenya.

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CHIEF EXECUTIVE OFFICER'S STATEMENT

In the Financial year 2017/2018, KEMSA delivered a great set of results with stability seen across all key business metrics. This was achieved despite a challenging backdrop of adverse strikes by Doctors and Nurses in Public Health facilities that put a lot of pressure on the business engagements with our Principal Customers- the Public Health facilities.

Previous years' endeavours to integrate and streamline internal systems, identify consumer needs earlier and increase efficiencies across the Organisation means that we now have the building blocks in place to continue to deliver value for our customers in the future. The use of the Logistics Management Information System (LMIS) as a tool for order management continued playing a key role in our operations.

Financial Performance

Key financial highlights for the year under review are summarized as follows: -

- i) Total Income dropped from Kshs **3.275 Billion to Kshs 3.059 Billion**. This was mainly due to the impact of the Interest capping law that impacted adversely on income from short term investment (interest on bank deposits),
- ii) KEMSA Sales to county governments reduced by 633 Million (13%) from 4.872 Billion to Kshs 4.239 Billion. The drop was as a result of industrial strikes and the political instability due to the general elections, delays in sales orders in the counties due to change in governance, inventory stock outs leading to loss in sales.
- iii) Grants from the National Government increased by 7.52 Million, from Kshs 376 Million to Kshs 383.52 Million.
- iv) Total Operating Expenses for the year increased by Ksh 44.4 Million from Kshs 2.178 Billion to Kshs 2.222 Billion.
- v) Surplus for the year reduced by Kshs 259.28 Million from Kshs 1.096 Billion to Kshs 837.29 Billion.

The relative sustainability of the financial performance as compared to the previous year is an indication of the maturity of the new business model adopted in the financial year 2013/2014 in response to devolution of healthcare in Kenya.

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Our People

KEMSA has continued to focus on personnel development and motivation as a key to the achievement of its objectives.

Our employees are continuously trained in order to equip them with the skills required to carry out their responsibilities. We aim to attract, develop and retain the right talent while inculcating a performance based culture.

Continuous improvement is the cornerstone of our high performance culture which drives us to learn, change and improve.

During the year, we continued conducting wellness programs covering staff and their immediate families.

Strategic Partnerships

The strategic partners during the financial year included;

- United States Agency for International Development (USAID)-MCP
- World Bank
- The Global Fund
- United Nations International Children's Emergency Fund (UNICEF)
- World Food Program
- AMREF Health Africa
- JHPIEGO
- CDIC Kenya
- Clinton Health Access Initiative
- Danish International Development Agency (DANIDA)
- Korea Foundation for International Healthcare (KOFIH)

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Future Outlook

KEMSA Management shall position the Supplementary Services Division (SSD) to make it a key business unit to tap on the new markets. In the same tone, KEMSA will strategically optimize its network by building capacity for the Mombasa and Kisumu depots so as to develop the two depots into fully fledged warehouses that will perform at optimum capacity. Our quest to remain a High Performance Organisation shall continue. We will strive towards greater achievement in the coming years.



DR. JONAH MANJARI

CHIEF EXECUTIVE OFFICER

**Reports and Financial Statements
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CORPORATE GOVERNANCE STATEMENT:

KEMSA Board recognises that principles of good corporate governance, together with open, honest and comprehensive business practices, are essential to protect the interests of all stakeholders. These principles are integrated in the organisational culture to ensure that they become a way of life within the Authority. Governance principles are incorporated into all the KEMSA structures, which are continuously reassessed and reviewed to ensure that compliance and best practices are applied and practised.

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

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

BOARD OF DIRECTORS:

The composition of the Board is set out on page 8-9. The Board of Directors of the Authority comprises of the Chairman who is appointed by the President, the Chief Executive Officer is appointed by the Board of Directors in concurrence with the Cabinet Secretary of Health, the Principal Secretary of the Ministry of Health or her representative, the Principal Secretary to the National Treasury or his representative, the Principal Secretary Ministry of Devolution and Planning or her representative, four private sector members who are not public officers with diverse skills and experience in medical supply chain, finance, law and business management appointed by the Cabinet Secretary. All non-executive directors are

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independent of management of the Authority. The directors' responsibilities are set out in the Statement of Directors Responsibilities. The directors are responsible for the development of internal financial controls, which give assurance against material mis-statements.

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

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

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

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

The Board has appointed various standing Committees which have delegated responsibilities - with the respective chairpersons of the Committees reporting to the full Board as set out in page 4-5.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

As we conduct business, we interact with a broad range of stakeholders, including our staff, customers, shareholders, financial partners, suppliers, the environment, government and the local communities. We strive to combine a powerful business sense and a strong sense of social responsibility towards these stakeholders. We have managed to create and sustain long-term relationships, marked by mutual respect and trust.

Quality Assurance

Our Quality Assurance systems ensure that all medicines and commodities conform to the highest standards possible. Over and above the use of in-house quality control systems as outlined in the official “Quality and Procedures Manual”, we use other quality certification bodies such as the National Quality Control Laboratories and the Kenya Bureau of Standards to assure quality of medical commodities.

During the year financial year 2017/2018, KEMSA has been undertaking the ISO surveillance activities that will see the organization transition from ISO/IEC 17025:2005 to ISO/IEC 17025:2017. This is done by carrying out system audits, review of procedures and implementation of audit findings from previous years. This is a confirmation of the stability and efficiency of the quality of our testing and by Extension the Quality Assurance systems.

Health and Safety

KEMSA maintains an unwavering commitment to the health, safety and welfare of its employees, stakeholders and the environment. This core belief is embedded in our corporate culture and integrated into every aspect of KEMSA’s operations. In the course of the year, several initiatives were under taken to enhance the safety and welfare of employees and stakeholders. This included:

- Frequent open health day forums for staff, their families and the neighbouring community where a wide range of services such as screening for HIV, Diabetes, High Blood Pressure, counselling on Nutrition, teaching on prevention of non-communicable diseases, Healthy lifestyles etc. are offered.

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- Holding stakeholder's forums where County Pharmacists and commodity nurses from all the 47 counties were invited for engagement on their views regarding KEMSA's current service delivery and any improvements they may wish to see implemented.
- KEMSA has been working hand in hand with the Ministry of Health by forming Technical Working Groups (TWG) that are able to assist in quantification and demand analysis.

Business Continuity Management

The Authority has commenced efforts to improve its emergency preparedness, response and business continuity. Enterprise Risk Management requires an organization to have a Business Continuity Management program whose overall goal is to ensure and put in place measures that support continuity of business operations despite any disruptions or disasters that may occur. KEMSA has endeavoured to come up with BCM program that will ensure KEMSA operations and governance does not come to a standstill should any business risks occur.

The Authority has an emergency response team comprising First Aiders and Fire Marshals who have been trained and equipped to deal with emergencies. Emergency drills are conducted regularly and the response time of respondents monitored.

Environmental Conservation

In the year 2017/2018, KEMSA once again partnered with the Kenya Forest Service and the local community in planting and maintaining a total of 2400 trees at the Kibiku Area of Ngong Forest.

We have also continuously carried out responsible disposal of damaged/obsolete medical commodities by use of service providers approved by the National Environment Management Authority (NEMA).

Internship Programs and Workplace Mentorship

KEMSA continues to offer several University and middle level college students work integrated learning specific to their areas of interest in all the sections and departments.

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Under this program, the interns are based at a specific business unit for a period of 3-6 months in order to learn on the job and get the appropriate mentorship in the specific areas.

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

REPORT OF THE DIRECTORS

The directors submit this report together with the financial statements for the year ended 30 June 2018, which show the state of affairs of KEMSA

PRINCIPAL ACTIVITIES

The Kenya Medical Supplies Authority ("KEMSA") was established by the Kenya Medical Supplies Act of 25th January 2013, as a successor to the Kenya Medical Supplies Agency to procure, warehouse and distribute medical supplies to prescribed health programs, the national strategic stock reserve, prescribed essential health packages and national referral hospitals.

RESULTS

KEMSA's results for the year ended 30th June 2018 are set out on pages 26-33

DIRECTORS

The names of the directors who held office during the year to the date of this report are set out on page 10.

AUDITORS

The Auditor General audits the accounts of KEMSA, in accordance with Article 229 of the constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

Corporation Secretary

Nairobi

July 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Kenya Medical Supplies Authority (KEMSA), which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results for that year. The Directors are also required to ensure that KEMSA keeps proper accounting records which disclose with reasonable accuracy of its financial position. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of KEMSA's financial statements, which give a true and fair view of the state of affairs as at the end of the financial year ended 30th June, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of KEMSA; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the KEMSA's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of KEMSA'S transactions during the financial year ended 30th June 2017, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained by KEMSA which have been relied upon

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

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

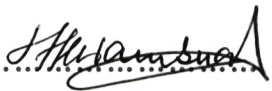
Approval of the financial statements

The Kenya Medical Supplies Authority (KEMSA) financial statements were approved by the Board and signed on its behalf by:

Dr. Jonah Manjari
CHIEF EXECUTIVE OFFICER

Mr. Tom Mboya Wambua
FOR: BOARD CHAIRMAN

Signature.....

Signature.....

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Medical Supplies Authority set out on pages 26 to 67, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statements of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

Basis for Qualified Opinion

1. Staff Costs

The staff costs of Kshs.765,607,575 as disclosed in the statement of financial performance for the year ended 30 June 2018 includes Kshs.9,326,710 paid to forty (40) officers employed during the year and two (2) who were promoted during the year. However, the approved staff establishment for the forty two (42) vacancies filled was not availed for audit review. Further, the Authority had seven hundred and fifty nine (759) employees as at 30 June 2018 against an approved staff establishment of three hundred and forty one (341) resulting in unapproved over employment of four hundred and eighteen (418) officers.

In addition, the staff cost expenditure of Kshs.765,607,575 includes Kshs.8,787,805 paid to twenty six (26) seconded staff who have been working for the Authority for over six (6) years contrary to the Authority's human resource policies and procedures paragraph 7.3 which restricts secondment to a period not exceeding three years and

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

renewable once. Further, the seconded twenty six (26) staff include twelve (12) staff with no special skills contrary to paragraph 7.3 of the human resource policies and procedure which provides for secondment of employees with special skills that are not available within the Authority.

Consequently, the propriety of the staff cost of Kshs.765,607,575 for the year ended 30 June 2018 could not be confirmed.

2. Expired/Damaged Drugs

As previously reported, the net sales balance of Kshs.709,435,073 for the year ended 30 June 2018 is arrived at after deducting cost of sales (pharms) of Kshs.2,441,247,836. The cost of sales figure includes an amount of Kshs.150,423,159 for expired/damaged drugs that were unsaleable due to expiry or damage. No explanation has been provided for stocking expired/damaged drugs. Consequently, the accuracy and validity of the net sales balance of Kshs.709,435,073 for the year ended 30 June 2018 could not be confirmed.

3. Board Expenses

Note 14 to the financial statements reflects board expenses of Kshs.8,379,185 for the year ended 30 June 2018 and which include sitting and lunch allowance of Kshs.6,095,999. Further, the sitting and lunch allowance of Kshs.6,095,999 include an amount of Kshs.1,660,999 paid to four (4) board members whose supporting invitation letters and minutes of meetings held were not availed for audit verification.

Consequently, the validity of sitting and lunch allowance expenses totalling to Kshs.1,660,999 paid to the four board members could not be confirmed for the year ended 30 June 2018.

4. Property, Plant and Equipment

4.1 Land

As previously reported, the property, plant and equipment balance of Kshs.3,968,606,648 as at 30 June 2018 includes land at a cost of Kshs.1,786,967,270 which includes various parcels of land spread across the country and valued at Kshs.158,000,000 for which the Authority does not possess ownership documents as detailed below:

Location	LR No./Allotment No.	Value Kshs.
Eldoret	BLOCK 10/155/6	25,000,000
Garissa	PDP Ref.No.326/2003/58	6,500,000
Kakamega – Green Site	4/168	7,500,000
Kakamega – PGH	4/168	3,000,000
Kisumu	209163/IX	25,000,000

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

Location	LR No./Allotment No.	Value Kshs.
Mombasa	209163/A	76,000,000
Nyeri	3/173/174	15,000,000
Total		158,000,000

Further, the property, plant and equipment balance of Kshs.3,968,606,648 excludes unspecified value of parcel of land in Meru Municipality measuring 0.3 Ha which also belongs to the Authority. No explanation has been provided for failure to obtain the title deeds for these parcels of land and to bring into account the parcel of land in Meru.

In the circumstances, it has not been possible to confirm the ownership of the eight (8) parcels of land and whether the land cost of Kshs.1,786,967,270 is fairly stated as at 30 June 2018.

4.2 Motor Vehicles

The property, plant and equipment balance of Kshs.3,968,606,648 includes motor vehicles net book value of Kshs.62,315,900 which include four (4) vehicles with a net book value of Kshs.2,574,000 that are owned by the National Government as detailed below:

Registration No.	Make & Model	Year of Manufacture	Net Book Value Kshs
GK A538G	Isuzu FVR 23 Lorry	1998	928,125
GK A539G	Isuzu FVR 23 Lorry	1998	945,000
GK A960B	Toyota Landcruiser	1998	391,500
GK U127	Isuzu TX Lorry	1998	309,375
Total			2,574,000

No explanation has been provided for failing to transfer the ownership documents of these vehicles to the Authority.

In the circumstances, it has not been possible to confirm the ownership the four (4) motor vehicles and whether the motor vehicles net book value of Kshs.62,315,900 is fairly stated as at 30 June 2018.

4.3 Work in Progress

The work in progress balance of Kshs.494,320,413 as at 30 June 2018 include Kshs.321,360,535 paid to a consultant engineer for design and supervision of construction of warehouse and office block. However, according to documents availed, the amount payable for the design was Kshs.126,279,953 (being 4.1% cost of works of Kshs.3,079,998,859) resulting in over payment of Kshs.195,080,582 that was not explained or supported. The work in progress also include Kshs.22,466,643 paid to a consultant engineer for supervision of renovations. However, according to documents

availed, the amount payable is Kshs.5,754,638 (12% of cost of work Kshs.47,955,316) again resulting to overpayment of Kshs.16,712,005 as detailed below:

Project Description	Cost of Works Kshs.	Amount Paid Kshs.	Recalculated Amount (12%) Kshs.	Over Payment Kshs.
Caging & Partitioning of Embakasi Depot	11,586,870	3,966,320	1,390,424	2,575,896
Renovation of Quality Assurance Lab	4,839,975	1,716,320	580,797	1,135,523
Renovation of Eldoret Depot	13,528,230	3,662,040	1,623,387	2,038,653
Renovation of Mombasa Depot	7,391,370	3,883,872	886,964	2,996,908
Renovation of Kakamega Depot	10,608,870	9,238,091	1,273,064	7,965,027
Total	47,955,315	22,466,643	5,754,636	16,712,007

Further, the cost price for the consultant engineer for supervision of renovation and construction of the warehouse and office block has not been specified in the contract agreement.

In the circumstance, the propriety of Kshs.211,792,587 charged to work in progress as at 30 June 2018 could not be confirmed.

5. Receivable from Exchange Transactions

As previously reported, the receivables from exchange transactions balance of Kshs.4,122,083,110 reflected in the statement of financial position as at 30 June 2018 includes long outstanding receivables totalling Kshs.3,400,428,351 comprising of counties Kshs.2,345,622,268 and the Ministry of Health Kshs.1,054,806,083 whose recovery is doubtful as detailed below:

S/No	County	2017/2018 Kshs	2016/2017 Kshs
1	Baringo County	48,068,556.43	(6,337,929.22)
2	Bomet County	35,463,332.10	63,841,235.45
3	Bungoma County	25,712,619.50	39,213,362.00
4	Busia County	8,259,252.00	33,722,894.09
5	Eelgeyo Marakwet County	29,942,996.00	36,220,062.10
6	Embu County	10,672,646.59	28,809,712.29
7	Garissa County	20,697,722.42	29,435,980.42
8	Homa Bay County	111,584,756.40	91,620,619.40
9	Isiolo County	20,076,759.38	13,833,202.38
10	Kajiado County	47,641,962.32	72,910,137.77
11	Kakamega County	76,030,623.96	62,823,047.46
12	Kericho County	26,210.66	26,210.66
13	Kiambu County	84,195,731.60	40,718,540.60
14	Kilifi County	78,855,087.48	96,332,760.43
15	Kirinyaga County	43,983,030.50	31,781,035.50
16	Kisii County	68,542,061.55	82,125,996.55

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

S/No	County	2017/2018 Kshs	2016/2017 Kshs
17	Kisumu County	87,447,971.98	35,748,735.98
18	Kitui County	84,983,062.26	97,925,471.37
19	Kwale County	48,031,472.16	59,002,946.16
20	Laikipia County	1,685,940.33	20,477,607.33
21	Lamu County	18,692,662.32	15,670,912.32
22	Machakos County	70,202,331.55	59,655,732.55
23	Makueni County	38,136,508.15	32,164,680.94
24	Mandera County	(0.25)	22,737,929.75
25	Marsabit County	25,243,360.85	37,529,431.85
26	Meru County	90,164,923.80	78,779,433.55
27	Migori County	77,285,902.86	29,009,389.86
28	Mombasa County	16,828,306.00	269,109.00
29	Murang'a County	46,944,447.50	61,944,447.50
30	Nairobi County	285,663,343.28	285,501,728.28
31	Nakuru County	96,371,414.27	147,204,788.57
32	Nandi County	23,488,911.39	56,766,202.39
33	Narok County	104,584,708.18	98,524,087.18
34	Nyamira County	44,956,895.68	28,491,247.68
35	Nyandarua County	722,767.79	19,945,667.69
36	Nyeri County	4,381,675.81	90,593,134.31
37	Samburu County	30,397,881.62	21,986,744.62
38	Siaya County	28,868,646.40	51,161,954.00
39	Taita Taveta County	49,409,857.11	24,231,712.11
40	Tana River County	38,282,273.86	38,282,273.86
41	Tharaka Nithi County	8,692,559.12	33,907,404.12
42	Trans Nzoia County	41,407,560.59	41,407,560.59
43	Turkana County	87,473,020.45	1,554,131.45
44	Uasin Gishu County	(21,000.02)	9,313,763.78
45	Vihiga County	78,513,730.22	47,547,096.22
46	Wajir County	65,200,386.02	56,669,456.52
47	West Pokot County	41,827,398.03	28,633,244.57
	Sub Total	2,345,622,268.20	2,349,714,900.98
	Ministry of Health	1,054,806,083.00	-
	Grand Total	3,400,428,351.20	2,349,714,900.98

No explanation has been provided for failing to recover these long outstanding debts. In the circumstances, the accuracy and validity of the receivable from exchange transactions balance of Kshs.4,122,083,110 reflected in the statement of financial position as at 30 June 2018 is doubtful.

6. Trade and Other payables

Trade and other payables from exchange transactions balance of Kshs.833,920,091 as at 30 June 2018 includes long outstanding Medical creditors of Kshs.22,888,538.84 and operation creditors of Kshs.35,681,976.80 that have been outstanding for a long period of time. Further, the trade and other payable from exchange transaction balance

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

includes long outstanding customer prepayment of Kshs.3,829,479 termed as direct deposit dated as far back in 2016 and suppliers retained fund of Kshs.9,858,300 which has been outstanding since 30 June 2012.

Consequently, the accuracy and validity of the trade and other payables from exchange transactions balance of Kshs.833,920,091 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am Independent of Kenya Medical Supplies Authority in accordance with ISSAIs 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

Budgetary Performance

During the year under review, the Authority's actual receipts amounted to Kshs.3,059,979,000 against budgeted receipts of Kshs.3,861,226,000 resulting in a revenue shortfall of Kshs.801,247,000 equivalent to 21% of the budget. The bulk of the revenue shortfall was from net sales which had actual collection of Kshs.709,435,000 against budgeted receipts of Kshs.1,162,381,000 resulting in a shortfall 452,946,000. Further, the Authority's actual expenditure for the year amounted to Kshs.2,222,683,000 against budgeted expenditure of Kshs.2,605,105,000 resulting in an overall under absorption of Kshs.382,422,000. It is therefore clear that the Authority did not fully achieve its budget objectives which adversely affected delivery of the intended services to the public. Therefore, there is need for the Authority to review its budget making process with a view to coming up with a realistic budget to support the attainment of the core mandate of procuring, warehousing and distribution of medical commodities to public health activities in the Country.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and

Conclusion on Lawfulness and Effectiveness in use of Public Resources sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Insurance Expenses

The insurance costs of Kshs.97,896,057 for the year ended 30 June 2018 include staff group life assurance of Kshs.4,343,068. However, the staff group insurance service was single sourced as no evidence of competitive bidding was availed for audit verification. This is contrary to Section 96 of the Public Procurement and Assets Disposal Act, 2015 which require the accounting officer to take such steps as are reasonable to bring the invitation to tender to the attention of all those who may wish to submit tenders. Further, although direct procurement method was used, the circumstances did not meet the conditions set for direct procurement as laid down in Section 91 of the Act. Management was therefore in breach of the law and the validity of the staff group life assurance expenses of Kshs.4,343,068 for the year ended 30 June 2018 could not be confirmed.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters discussed in the Basis for Qualified Opinion section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the

activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

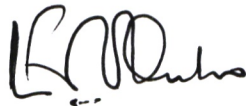
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority'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 Authority to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the revenue statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

24 April 2019

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018			
	Note	Financial year 2017-2018 Kshs	Financial year 2016-2017 Kshs
Revenue from non-exchange transactions			
Grants from National Government	1	383,520,000	376,000,000
Public contributions and donations	2	12,950,033	14,252,533
		396,470,033	390,252,533
Revenue from exchange transactions			
Net Sales	3	709,435,073	900,094,880
Other Income	4	1,954,074,168	1,984,828,614
		2,663,509,241	2,884,923,494
Total revenue		3,059,979,274	3,275,176,027
Expenses			
Staff Costs	5	765,607,575	695,779,767
Distribution Costs	6	535,133,306	690,903,869
Insurance costs	7	97,896,057	93,575,301
Rental expenses	8	141,283,680	100,013,643
Legal expenses	9	146,042,446	89,787,119
Utilities expenses	10	19,124,562	15,135,403
Staff travel expenses	11	131,100,456	100,927,948
Finance costs	12	1,307,836	1,397,041
Audit fees	13	3,167,200	3,116,800
BOD expenses	14	8,379,185	2,542,541
Depreciation & amortization	15	121,371,558	105,460,885
Other Operating Expenses	16	252,268,820	279,957,245
Total expenses		2,222,682,679	2,178,597,562
Other gains/(losses)		-	
Surplus before tax		837,296,594	1,096,578,465
Taxation			-
Surplus for the period		837,296,594	1,096,578,465

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	Financial Year 2017/2018 Kshs	Financial Year 2016/2017 Kshs
Assets			
Current assets			
Cash and cash equivalents	17	7,358,100,956	6,517,965,117
Receivables from exchange transactions	18	4,122,083,110	3,964,035,099
Receivables from non-exchange transactions	19	5,162,465	11,671,619
Inventories	20	13,584,453,672	11,776,786,528
Short-Term Investments	29	177,007,320	
		25,246,807,523	22,270,458,363
Non-current assets			
Property, plant and equipment	26 (a)	3,968,606,648	3,535,246,933
Intangible assets	26 (b)	132,000	
Long Term Deposit	19(b)	25,711,925	24,934,175
		3,994,450,574	3,560,181,108
Total assets		29,241,258,097	25,830,639,471
Liabilities			
Current liabilities			
Trade and other payables from exchange	21	833,920,091	1,212,150,870
Payment Received in Advance	22	29,971,504	28,802,261
Provisions	23	16,453,584.80	108,734,029
Project Fund	24	823,706,498	112,427,058
Medical Commodity Fund	25	12,156,205,749	9,811,813,643
		13,860,257,426	11,273,927,861
Non-current liabilities			
Deferred income	27	78,954,408	91,961,940
		78,954,408	91,961,940
Total liabilities		13,939,211,834	11,365,889,802
Net assets		15,302,046,264	14,464,749,670
KEMSA Capital	28	8,461,576,303	8,461,576,303
Accumulated Funds		256,950,298	256,950,298
Surplus/Deficit		5,799,889,207	4,962,592,613
Revaluation reserve		783,630,456	783,630,456
Total net assets and liabilities		29,241,258,098	25,830,639,471

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

The Financial Statements were approved on behalf of the Board of Directors by:

**Dr. Jonah Manjari
CHIEF EXECUTIVE OFFICER**

**Ms. Caroline Wanjiru Ogongi
Ag. FINANCE MANAGER
ICPAK No. 7024**

Signature.....

Signature.....

Date.....*15th March 2019*

Date.....*15th March 2019*

**Mr. Tom Mboya Wambua
FOR: CHAIRMAN OF THE BOARD**

Signature.....

Date.....*15th March 2019*

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018					
Attributable to the owners of the controlling entity					
	KEMSA Capital	Reserves Accumulated Funds	Surplus/Deficit	Revaluation Reserve	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Balance as at 1st July 2014	8,776,375,242	256,950,298	1,391,405,689	650,383,892	11,075,115,121
Changes in Capital Account	216,398,637	-	-	-	216,398,637
Surplus for the period	-	-	1,379,680,254	-	1,379,680,254
Balance as at 30 June 2015	8,992,773,879	256,950,298	2,771,085,944	650,383,892	12,671,194,013
Changes in Capital Account**	(531,197,576)	-	-	-	(531,197,576)
Revaluation Surplus	-	-	-	99,812,600	99,812,600
Surplus for the period	-	-	1,094,928,204	-	1,094,928,204
Balance as at 30 June 2016	8,461,576,303	256,950,298	3,866,014,148	750,196,492	13,334,737,241
Revaluation Surplus	-	-	-	33,433,964	33,433,964
Surplus for the period	-	-	1,096,578,465	-	1,096,578,465
Balance as at 1st July 2017	8,461,576,303	256,950,298	4,962,592,613	783,630,456	14,464,749,670
Revaluation Surplus	-	-	-	-	-
Surplus for the period	-	-	837,296,594	-	837,296,594
Balance as at 30th June 2018	8,461,576,303	256,950,298	5,799,889,207	783,630,456	15,302,046,264

**The Changes in Capital Account are as a result of financial transactions that increased/decreased KEMSA's Capitalization base established in the financial year 2013/2014 in line with the Authority's business model. This is in line with International Accounting Standard (IAS 15) section 135. Being a state Corporation established under the KEMSA Act of 2013, there are no externally imposed capital requirements.

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2017/2018 Kshs	2016/2017 Kshs
Net Surplus for the Year		837,296,594	1,096,578,465
Adjustments for Non Cash Movements			
Depreciation Charge	15	121,371,558	105,460,885
Asset Disposal		2,437,610	-
Deferred Income	27	(13,007,532)	(14,252,533)
Decrease/(Increase) in Current Assets		(2,136,213,321)	1,756,750,104
Increase/(Decrease) in Current Liabilities		2,586,329,564	(3,901,636,917)
In cash support on Expenditure		-	1,274,312
Net cash flows from operating activities		1,398,214,473	(955,825,684)
Cash flows used in investing activities			
Purchase of property, plant, equipment and intangible assets	26	(557,300,883)	(407,336,153)
In Kind donations-Fixed Assets		-	4,561,126
Proceeds From Disposal Of Fixed Assets		-	-
Increase/decrease in non current receivable		(777,750)	3,461,831
Net cash flows used in investing activities		(558,078,633)	(399,313,196)
Cash Flows from Financing activities			
KEMSA Capital	28	-	-
Net cash flows used in financing activities			-
Net increase/(decrease) in cash and cash equivalents		840,135,840	(1,355,138,880)
Cash and cash equivalents at 1 July 2017		6,517,965,117	7,873,103,996
Cash and cash equivalents at 30 June 2018	17	7,358,100,956	6,517,965,117

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

STATEMENT OF BUDGET COMPARISON MATERIAL VARIANCES EXPLANATIONS
FOR THE YEAR ENDED 30 JUNE 2018

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Variance Percentage	Variance Explanation- <i>IPSAS 24.14</i>
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	
	Ksh. 000's	Ksh. 000's	Ksh. 000's	Ksh. 000's	Ksh. 000's		
INCOME							
Grants from National Government	395,167	-	395,167	383,520	(11,647)	-3%	The variance on grants was unfavourable since the budgeted Development grant was not remitted by MOH
Public contributions and donations	-	-	-	12,950	12,950	100%	This was recognition of deffered income from Donations of capital Items from astrategic partners.
Net Sales	1,162,381	-	1,162,381	709,435	(452,946)	-39%	This was due to rise in cost of sales as a result of unfavourable exchange rates and the National strike by Doctors and Nurses. KEMSA prices to Counties and facilities remained constant
Other Income	2,303,678	-	2,303,678	1,954,074	(349,604)	-15%	The drop in other income was driven by reduced services to the National Programs and strategic partners e.g USAID, UNICEF
TOTAL INCOME	3,861,226	-	3,861,226	3,059,979	(801,247)	-21%	

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

EXPENDITURE							
					-		
Staff Costs	849,851		849,851	765,608	84,243	10%	The under absorption of budget was as a result of none payment of staff bonus.
Distribution Costs	628,760		628,760	535,133	93,627	15%	The under absorption of budget was as a result of reduced sales activities.
Insurance costs	123,350		123,350	97,896	25,454	21%	The expenditure relates to payment of Insurances for new motor vehicles.
Rental expenses	92,982	50,000	142,982	141,284	1,698	1%	the over absorption was due to increased warehouse space hence increase in rent expenditure
Legal expenses	139,000	10,000	149,000	146,042	2,958	2%	the over absorption was due to settlement of court cases that KEMSA had within the year.
Utilities expenses	61,400		61,400	19,125	42,275	69%	The Under expenditure due to savings as a result of continous sensitization on Electricity conservation, use of borehole water at Commercial street Offices and less usage of Power Generators due to less outages on Power Supplied by Kenya Power.
Staff travel expenses	92,795	40,000	132,795	131,100	1,694	1%	the over absorption was due to increase staff travel as debt collection activities intencified
Finance costs	1,340		1,340	1,308	32	2%	The expenditure is within range.
Audit fees	3,316		3,316	3,167	149	4%	The expenditure is within range.
BOD expenses	14,600		14,600	8,379	6,221	43%	The under-expenditure was due to reduced BOD activities within the period.
Depreciation & amortization	81,700	40,000	121,700	121,372	328	0%	The expense relates to the addition of motor vehicles hence increased depreciation expense.
Other Operating Expenses	516,011	(140,000)	376,011	252,269	123,742	33%	The under absorption was due to increased savings due to austerity measures.
TOTAL EXPENSES	2,605,105	-	2,605,105	2,222,683	382,422	15%	
SURPLUS FOR THE PERIOD	1,256,121	-	1,256,121	837,297	(1,183,669)		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Explanations for Material variances between the Budget and Actual Amounts

The Authority considers material variances as those that are above 15% from the Final budget for both revenue and expenditure. Overall, the Authority's expenditures were within the approved budgets. Any budget reallocations were approved the Board of Management. Below are the explanations for material variances in the budget.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. GENERAL INFORMATION

KEMSA is established by and derives its authority and accountability from KEMSA Act of 2013. KEMSA is wholly owned by the Government of Kenya and is domiciled in Kenya. KEMSA's principal activity is Procurement, Warehousing and Distribution of Medical commodities to Public health facilities.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

KEMSA's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of KEMSA. The accounting policies have been consistently applied to all the years presented.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1 st 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.

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

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1 st 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.

- iii. **Early adoption of standards**

KEMSA did not early – adopt any new or amended standards in year 2018.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition

i) Revenue from non-exchange transactions

• Fees

KEMSA recognizes revenues from fees, when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits

or service potential associated with the asset will flow to KEMSA and the fair value of the asset can be measured reliably.

• Transfers from other government entities

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

ii) Revenue from exchange transactions

• Rendering of services

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

- **Sale of goods**

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

- **Finance Income**

Finance income comprises interest receivable from holding current accounts and short term investments in Government securities.

Rental income

KEMSA recognized income from tenants who inhabited its warehouses in the period ending 30th June 2018. Rental income has been recognized on the accrual basis of accounting.

b) Budget Information

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

c) In-Kind Contributions

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

d) Property, Plant And Equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation. Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through valuations carried out by independent external valuer. If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.

If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease is recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Lease hold Land	No depreciation
Buildings	2.5%
Motor vehicles	25%
Fixtures and fittings	12.5%
Furniture	12.5%
Equipment	12.5%
Plant and Machinery	10%
Computers	33.3%
Intangible Assets	33.3%

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

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

e). Intangible Assets

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

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

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

f). Inventories

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

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

g). Trade And Other Receivables

Trade and other receivables are recognized at fair values.

h). Cash and Cash Equivalents

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

j.) Receivables

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

k) Exchange Rate Differences

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

l). Comparative figures

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

m). Contingent liabilities

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

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

n). 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, 2018.

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2017-2018 Kshs	2016-2017 Kshs
1. Grants from National Government		
GRANTS FROM MOH - OPERATIONS	383,520,000	376,000,000
	383,520,000	376,000,000

	2017-2018 Kshs	2016-2017 Kshs
2. Public Contributions and Donations		
Income From Donations	12,950,033	14,252,533

	2017-2018 Kshs	2016-2017 Kshs
3. Net Sales		
Sale Revenue -Pharmaceutical	2,938,078,514	3,410,400,290
Sale Revenue -Non-Pharmaceuticals	1,301,609,024	1,461,625,027
TOTAL	4,239,687,538	4,872,025,317
Cost of Sales		
Cost of Sales CGS (Pharms)	2,441,247,836	2,693,328,090
Cost of Sales -CGS (Non-Pharms)	1,089,004,629	1,278,602,347
TOTAL	3,530,252,465	3,971,930,437
Net Sales	709,435,073	900,094,880

The Cost of Sales (Pharms) includes a figure of Kshs 150,423,513.4 for commodities that were unsalable due to either expiry or damage. Previous year the figure was Kshs 92,392,937.

	2017-2018 Kshs	2016-2017 Kshs
4. Other Income		
Supply Chain Fees: -USAID	527,512,141	750,045,300
-Global Fund	730,395,614	560,203,359
-UNICEF	20,436,844	1,865,972
-Ministry of Health	32,308,616	109,681,912
-Other Strategic Partners	28,719,668	60,536,368
Proceed From Disposal of Fixed Assets	1,021,486	-
Sale of Tender Documents	365,000	436,000
Sale of Waste Materials	179,900	308,714
Bank Interest Received	425,457,572	386,686,017
Forex Realized Gain	37,887,070	6,465,708
Direct Revenue(MCP-Cost Recovery)	43,294,938	46,138,318
Other Miscellaneous Income	92,197,701	42,680,064
Rental Income	11,568,030	19,780,881
Income From Short term investment	2,729,587	-
	1,954,074,168	1,984,828,614

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

****Supply Chain Fees are charged in line with signed Memorandum of Understanding (MOUs) with each strategic partner supporting healthcare in Kenya through KEMSA. Being a medical logistics service provider, KEMSA offers Procurement, Warehousing and distribution services at a fee to strategic partners. A strategic partner can request for one or more of these services. The fees are based on the value of the commodities handled.**

- **Global Fund fees are made up of 2% Procurement, 3% Warehousing, and 3% Distribution**
- **UNICEF fees are made up of 7% for distribution, and Kshs 16 per cubic Metre per day for warehousing. In addition, there are pre-determined offloading charges per truck capacity.**
- **Ministry of health Programs are made up of 2% Procurement, 3% warehousing, and 5% Distribution. However, for commodities procured by the Ministry and delivered to KEMSA for warehousing and distribution, the fees are 3% warehousing, and 5% for Distribution.**
- **Fees from other strategic partners Programs are made up of 2% Procurement, 3% warehousing, and 5% Distribution.**
- **USAID fees under the KEMSA-USAID MCP Program are reimbursement for actual direct costs which can be attributed to the activities of their specific engagement and a negotiated percentage of the value of commodities handled to**
- **cover for indirect costs. The current negotiated indirect Cost rate for KEMSA-USAID MCP Program is 4.5%.**

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

5. Staff Costs	2017-2018 Kshs	2016-2017 Kshs
Basic Pay	495,375,362	439,025,118
Overtime	6,919,256	7,834,021
Arrears	5,648,801	1,319,021
House Allowance	138,806,400	132,488,000
Acting Allowance	2,689,036	934,801
Leave Allowance	6,120,750	9,443,827
Entertainment Allowance	1,680,000	2,074,000
NSSF (Kemsa Part)	1,763,400	1,948,600
Gratuity and Pensions	58,186,884	45,046,757
Committee Allowances	-	8,124,000
Special Duty Allowances	27,365	178,996
Transport Allowance	38,003,000	36,049,467
Other Taxable Benefits	-	266,000
Casual and Contract Employees	438,859	1,277,912
Ex-Gratia Payments	1,800,690	146,209
Shift Allowance	-	228,572
Staff Seconded to Kemsa	8,147,772	9,394,466
	765,607,575	695,779,767

6. Distribution Costs	2017-2018 Kshs	2016-2017 Kshs
Fuel and Oil for own Trucks	3,469,675	3,716,068
Maintenance of own Trucks	2,037,210	3,986,571
Insurance and Govt. Levies	46,060	-
Hire of Transport	-	100,920
Outsourced Distribution Costs	502,191,924	659,671,059
Fuel and Oils	14,324,247	11,331,735
Vehicle Maintenance	9,251,038	10,292,834
Vehicle Insurance & Govt. Levies	2,325,558	920,838
Fork Lift Maintenance	1,469,034	854,000
Fork Lift Fuel and Oils	18,560	29,844
	535,133,306	690,903,869

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

7. Insurance costs		
	2017-2018	2016-2017
	Kshs	Kshs
Medical Premiums	67,371,098	67,878,202
Insurance Expenses - premiums	29,971,541	25,645,475
Insurance Expenses - Policy Excess	553,418	51,625
	97,896,057	93,575,301

8. Rental expenses		
	2017-2018	2016-2017
	Kshs	Kshs
Warehouse Rent	141,283,680	99,997,643
Hire of Space	-	16,000
	141,283,680	100,013,643

9. Legal Expenses		
	2017-2018	2016-2017
	Kshs	Kshs
Legal Fees	146,042,446	89,787,119
	146,042,446	89,787,119

10. Utilities Expenses		
	2017-2018	2016-2017
	Kshs	Kshs
Water and Conservancy Expenses	1,833,331	1,067,641
Electricity & Lighting Expenses	13,593,991	11,281,120
Generator Fuel & Maintenance	3,697,240	2,786,641
	19,124,562	15,135,403

11. Staff travel expenses		
	2017-2018	2016-2017
	Kshs	Kshs
Staff Travel Allowance - Local	100,249,134	79,792,558
Staff Travel Allowance - International	8,821,072	10,254,435
Air Tickets	7,749,585	8,514,095
Hire of Taxi & Other Transport	5,076,562	2,366,860
Mileage Claims -Use Own Cars	16,682	-
Travel and other Related Expenses-Donor Funded	9,187,420	-
	131,100,456	100,927,948

12. Finance costs		
	2017-2018	2016-2017
	Kshs	Kshs
Bank Charges	1,307,836	1,397,041

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

13. Audit fees	2017-2018 Kshs	2016-2017 Kshs
Audit Fees & Others	3,167,200	3,116,800

14. BOD expenses	2017-2018 Kshs	2016-2017 Kshs
BOD Sitting & Lunch Allowances	6,095,999	2,356,000
BOD Travel & Accommodation Exp.	2,053,986	126,541
BOD Conferences	229,200	60,000
BOD Honoraria & Other Allowances	-	-
	8,379,185	2,542,541

15. Depreciation & amortization	2017-2018 Kshs	2016-2017 Kshs
Buildings - Depreciation	39,259,572	36,293,963
Plant & Machinery - Depreciation	14,825,711	13,899,666
Office Equipment - Depreciation	5,780,725	5,019,371
Furniture & Fittings - Depreciation	5,599,807	4,754,242
Computer Equipment - Depreciation	27,977,387	24,022,622
Intangible Assets - Depreciation	66,000	199,856
Motor Vehicles - Depreciation	27,862,355	21,271,165
	121,371,558	105,460,885

16. Other Operating Expenses	2017-2018 Kshs	2016-2017 Kshs
Training Expenses	32,866,137	29,508,603
Conference Expenses	9,400,723	11,801,632
Change Management Expenses	200,000	-
Recruitment Agency	1,699,864	
Official Entertainment	12,508,655	9,930,536
Office Beverages	7,783,410	6,742,647
End Of -Year Staff Staff Party	5,268,800	4,607,000
Other Staff Parties	-	366,219
Staff Support Expenses	1,160,230	723,400
Purchase Of New Uniforms	1,202,315	317,662
Laundry and Cleaning	352,200	76,613
Telephone - Switchboard LLS	4,266,873	4,761,139
Telephone - Direct Land Lines	19,000	459,474
Cell Phones	6,976,166	7,785,545
E-mail/Internet	5,692,046	3,815,218

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Postage & Courier	1,428,410	1,119,870
Computer Maintenance Expenses	3,654,631	3,802,803
Computer Maintenance Agreement	2,352,785	3,594,949
Computer Software and Licenses	2,716,482	2,062,828
Computer Stationery Expenses	285,493	286,450
Hire of Services - Security Firms	14,577,543	12,654,684
Hire of Services From Police	4,231,000	3,595,392
Security Equipment	145,141	1,146,343
Cleaning Materials & Implement	1,867,745	2,024,508
Pest Control Expenses	3,187,500	2,154,640
Outsourced Clening Expenses	1,419,336	2,485,200
Sanitation Expenses	1,380,010	257,352
Plant Repairs & Maintenance	612,399	459,768
Repairs To Buildings and Roads	3,288,939	4,731,041
Purchase of Tools & Maintenance	23,985	-
Rates Paid To The Local Govt.	891,744	-
Reagents	800,778	966,545
Third Party Services	6,433,322	28,919,935
Maintenance Of QA Tools & Equipment	2,600,456	339,000
Packaging Material and Expenses	15,386,009	15,857,459
Protective Clothing & Gear	2,540,444	2,334,768
Cost -Disposing Damage Stock	7,290,015	6,836,644
Stationery Expenses	15,799,469	9,451,674
Office Expenses	4,951,240	7,345,721
Staff Subsscription Expenses	3,138,599	767,874
Statutory Subscriptions	440,850	412,250
Fire Fighting & Safety Equipment	1,183,910	343,851
Bank Charges And Commission - Realized Loss	16,128,457	41,988,821
Penalties And Fines	-	1,100
Risk Assessment & Evaluation	765,455	526,420
Consultancy	7,279,273	4,498,665
Public Relations Expenses	1,006,083	2,843,573
Sponsorships	50,000	
Shows And Exhibitions	1,975,354	2,879,542
Advertising Expenses	2,731,073	9,134,035
Corporate & Other Calenders	4,161,070	3,241,695
Advertising Of Tenders	10,059,515	10,436,055
Publicity & Advertising Expenses	15,016,370	8,231,383
Newspaper Expenses	1,038,871	1,328,718
Journals, Books & Periodicals	50,440	
	252,268,820	279,957,245

**Reports and Financial Statements
 For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

17 (a). Cash and Cash Equivalents	2017-2018 Kshs	2016-2017 Kshs
PETTY CASH	2,145	48,339
NBK - OPERATIONS	28,044,672	122,390,544
WORLD BANK E.A LAB PROJECT	38,256,456	108,345,670
NBK DISTRIBUTION	7,561,176	338,419
KCB DRUGS	158,176	165,766
KCB DISTRIBUTION	6,013	13,603
CBA	11,980,234	11,981,694
CO-OP - MEDICAL GRANTS	1,112,077,850	1,522,402,192
CO-OP BANK GF OPERATIONS (KSH)	62,068,908	50,449,639
CO-OP BANK GF OPERATIONS (USD)	66,105,797	175,615,999
CO-OP BANK GF ATM R4P1 (USD)	1,851,331	20,313
CO-OP BANK GF ATM R5P1 (USD)	1,857,833	1,913,614
CO-OP BANK GF ATM R6 (USD)	139,484	150,003
CO-OP BANK GF ATM R4P2 (USD)	3,587	10,527
CO-OP BANK GF ATM R5P2 (USD)	42,689	50,658
CO-OP BANK GF ATM R7P1	6,666,889	6,849,343
CO-OP BANK GF ATM R4P1	-	-
CO-OP BANK GF ATM R4P2	1,007	5
CO-OP BANK GF ATM R5P1	6,256,555	6,230,026
CO-OP BANK GF ATM R5P2	-	-
CO-OP BANK GF ATM R6 (KSH)	1,016,839	1,012,528
CO-OP BANK GF ATM R7P1	4,174,157	4,169,627
WORLD BANK HSSP NON POOLED	785,450,042	4,081,388
WORLD BANK HSSP POOLED PROJECT	652,836,642	658,124,010
SSD CO-OP BANK	198,576,414	176,851,551
SSD EQUITY BANK	3,803,799,784	3,537,045,148
KEMSA EQUITY WAREHOUSE CONSTRUCTION PROJECT	142,739,961	
KEMSA EQUITY BANK OPERATIONS (KSH)	884,645	1,753,248
KEMSA EQUITY BANK OPERATIONS (USD)	425,541,668	127,951,264
	7,358,100,956	6,517,965,117

17(b) Cash and Cash Equivalents	2017-2018 Kshs	2016-2017 Kshs
Bank	7,358,098,811	6,517,916,778
Cash on Hand and On Transit	2,145	48,339
Short Term Deposits	-	-
Total Cash And Cash Equivalent	7,358,100,956	6,517,965,117

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

18. Receivables from Exchange Transactions	2017-2018	2016-2017
	Kshs	Kshs
Current Receivables		
Trade Debtors -Receivable	4,071,225,769	3,918,258,604
Less - Impairment Allowance	-	-
Supplier prepayment	50,857,341	45,776,495
Total Current Receivables from Exchange Transactions	4,122,083,110	3,964,035,099

19 a. Receivables from Non Exchange Transactions	2017-2018	2016-2017
	Kshs	Kshs
Other Debtors – Uninvoiced Receivables	-	4,186,812
Insurance Receivables		6,363,927
Travel Imprest Debtors	149,403	3
Staff Salary Advances Debtors	241,546	163,105
Standing Imprest Debtor	0	-
Staff Petty Cash Debtor	-	-
Board imprest debtor	123,926	-
Staff Medical Advances	1,861,174	957,772
Staff Accountable Imprest	8,000	-
Rent Deposit	-	-
Interest Receivable	2,729,587	-
Withheld vat receivable	48,829	-
	5,162,465	11,671,619

19 b. Long Term Receivables from Non Exchange Transactions	2017-2018	2016-2017
	Kshs	Kshs
Long-term Deposit	25,711,925	24,934,175

20. Inventories	2017-2018	2016-2017
	Kshs	Kshs
Pharmaceutical & Non Pharmaceutical Stocks	13,579,273,497	11,772,140,690
Stationery	4,819,699	3,865,401
Beverages & Others	360,476	780,437
TOTAL	13,584,453,672	11,776,786,528

21. Trade and other payables from exchange transactions	2017-2018	2016-2017
	Kshs	Kshs
Trade Creditors - Medical	613,595,443	699,928,034
Trade Creditors - Operations	114,704,378	55,090,102
Trade Creditors - Distribution	73,122,728	119,959,168
Stale Cheques - Unclaimed Payments	51,009	14,486
Customer refunds	-	-
Rent deposit's - tenants	-	1,211,536
Withheld vat	-	133,111
Vat output – due	12,819,445	447,034
Withheld tax- consultancy	1,346,268	316,800
Withheld Tax - Rental Income	670,123	-
Suppliers Funds Retained	17,610,697	18,250,600
VAT output liability	-	316,800,000
TOTAL	833,920,091	1,212,150,870

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

22. Customer Prepayment		
Customer Prepayment	29,971,504	28,802,261
TOTAL	29,971,504	28,802,261
23 . Provisions		
	2017-2018	2016-2017
	Kshs	Kshs
Balance Brought Forward	108,734,029	2,065,899,009
Additional Provisions	16,453,585	108,734,029
Provision Utilized	(108,734,029)	(2,065,899,009)
TOTAL	16,453,585	108,734,029
24. Project Fund		
Project Fund	823,706,498	112,427,058
TOTAL	823,706,498	112,427,058
25. Medical Commodity Fund		
Medical Commodity Fund	12,156,205,749	9,811,813,643
TOTAL	12,156,205,749	9,811,813,643

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

26(a) Property, Plant and Equipment FY 2017-2018									
	LAND	BUILDINGS	OFFICE EQUIPMENT	PLANT & MACHINERY	FURNITURE	MOTOR VEHICLE	COMPUTER HARDWARE	WIP	TOTALS
COST AS AT 30/06/16	554,538,002	416,506,195	39,002,525	137,092,535	32,789,953	160,886,288	50,566,529	2,014,362,701	3,405,744,728
COST RESTATEMENT AT FAIR VALUES	554,538,002	416,506,194	39,002,525	137,092,535	32,789,953	79,493,660	50,566,529	2,014,362,701	3,324,352,099
ADDITIONS	169,990,244	147,729,863	1,152,445	1,904,124	5,243,985	5,591,000	21,501,336	54,223,156	407,336,153
WIP Transfer	1,062,439,024	941,882,348						(2,004,321,372)	-
COST AS AT 30/06/2017	1,786,967,270	1,506,118,405	40,154,970	138,996,659	38,033,938	85,084,660	72,067,865	64,264,485	3,731,688,252
COST RESTATEMENT AT FAIR									-
DISPOSAL OF FIXED ASSET						(2,437,610)			(2,437,610)
ADDITIONS	-	-	6,090,834	9,260,450	6,764,520	28,802,370	11,864,297	494,320,413	557,102,883
WIP Transfer		64,264,485						(64,264,485)	-
COST AS AT 30/06/2018	1,786,967,270	1,570,382,890	46,245,804	148,257,109	44,798,458	111,449,420	83,932,162	494,320,413	4,286,353,525
ACCUMULATED DEPRECIATION REVERSAL ON SALE OF MOTOR VEHICLE						(181,511)		-	(181,511)
ACCUMULATED DEPRECIATION		90,653,865	7,177,938	27,608,919	8,852,986	21,271,165	40,876,446	-	196,441,319
ACCUMULATED DEPRECIATION REVERSAL ON REVALUATION	-	-				-		-	-
DEPRECIATION CHARGE FOR 12 MONTHS	-	39,259,572	5,780,725	14,825,711	5,599,807	27,862,355	27,977,387	-	121,305,558
ACCUMULATED DEPRECIATION FOR 12 MONTHS	-	129,913,437	12,958,663	42,434,630	14,452,793	49,133,520	68,853,833	-	317,746,877
									-
NBV AS AT 30/6/2018	1,786,967,270	1,440,469,452	33,287,140	105,822,479	30,345,665	62,315,900	15,078,328	494,320,413	3,968,606,648
NBV AS AT 30/6/2017	1,786,967,270.37	1,415,464,540.00	32,977,032.00	111,387,740.00	29,180,952.00	63,813,495.00	31,191,419.00	64,264,485.00	3,535,246,933.37

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

26 (b) Intangible Assets			
COMPUTER SOFTWARE	INTANGIBLE	TOTALS	TOTALS
130,204,894	12,380,610	142,585,504	3,548,330,232
130,204,894	12,380,610	142,585,504	3,466,937,603
-	-	-	407,336,153
			-
130,204,894	12,380,610	142,585,504	3,874,273,756
			(2,437,610)
-	198,000	198,000	557,300,883
			-
130,204,894	12,578,610	142,783,504	4,429,137,029
-	-	-	(181,511)
130,204,894	12,380,610	142,585,504	339,026,823
			-
-	66,000.00	66,000	121,371,558
130,204,894	12,446,610	142,651,504	460,398,381
			-
-	132,000	132,000	3,968,738,648

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

27. Deferred income	2017-2018 Kshs	2016-2017 Kshs
Current Portion recognized from Donated Assets	78,954,408	91,961,940

28. KEMSA Capital	2017-2018 Kshs	2016-2017 Kshs
Balance at the end of the Financial Year	8,461,576,303	8,461,576,303

29. Short Term Investments	2017-2018 Kshs	2016-2017 Kshs
Short-Term Investments	177,007,320	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

30. Reserves

a) Accumulated Funds

These are the realized surpluses over the years when the Authority was fully dependent on the National Government for its operations. The Accumulated funds were specifically meant for cushioning the organization against any shortfall in Grants in the subsequent years.

b) Revaluation Reserves

These arose from past revaluation of different classes of property, plant and equipment. The purpose of the reserve is to cushion the authority against any decrease in the carrying amounts of the assets arising from future revaluations.

c) Surplus/Deficit

These are accumulated surpluses from income and expenditures since the financial year 2010/2011. The reserves are meant to finance future capital expenditures e.g. Construction of Modern warehouses in Nairobi and the Regional Depots.

31. OTHER DISCLOSURES

31(a) Financial Risk Management

The Authority's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Authority's business and the operational risks are an inevitable consequence of being in business. The Authority's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance.

The Authority has exposure to the following risks from its use of financial instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

- i) Market risk – includes currency and interest rate risk.
- ii) Liquidity risk
- iii) Credit risk

The Authority's overall risk management program focuses on the unpredictability of changes in the business environment and seeks to minimize potential adverse effects of such risks on its financial performance within the options available by setting acceptable levels of risks.

i) Market Risk

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 authority'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 optimizing the return. Market risk – includes currency, interest rate and other price risk

a) Foreign Currency risk

The Authority's policy is to record transactions in foreign currencies at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange in effect at the reporting date. All gains or losses on changes in currency exchange rates are accounted for in profit or loss.

Consequently, the Authority's exposure to exchange risk is minimal. In light of this, the directors are of the opinion that any sensitivity analysis with respect to the foreign exchange exposure would be unrepresentative.

b) Interest rate risk

Interest rate risk is the risk that the future profitability and/or cash flows of financial instruments will fluctuate because of changes in the market interest rates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Interest from short term deposits is one of the significant sources of revenue for the authority. The Authority's exposure to the risk of changes in market interest rates relates primarily to probability of reduction in finance income if interest rates were to go down significantly. The average interest rate in the financial year 2017/2018 was 8%.

Liquidity Risk

Liquidity risk is the risk that the authority will not be able to meet its financial obligations as they fall due. The authority' approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

Typically, the authority ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political violence. The authority monitors its risk to shortage of funds using a monthly cash flow planning and projection tool and a daily cash monitor.

The following are the contractual maturities of financial liabilities at the reporting date.

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

i) Liquidity Risk					
As at 30 th June 2018:					
	0-30 Days	31-60 Days	61-90 Days	Over 91 Days	TOTAL
Trade Payables	654,425,883	76,738,253	11,069,904	59,188,965	801,423,006
Stale Cheque				51,009	51,009
Retentions	17,610,697				17,610,697
Customer Prepayments	29,971,504				29,971,504
Provisions	16,453,585				16,453,585
TOTAL	718,461,669	76,738,253	11,069,904	59,239,974	865,509,800
As at 30 th June 2017:					
	0-30 Days	31-60 Days		Over 91 Days	TOTAL
Trade Payables	257,736,149	343,224,047	145,254,898	128,762,213	874,977,307
Stale Cheque	-	-	-	14,486	14,486
Retentions	18,250,600	-	-	-	18,250,600
Customer Prepayments	28,802,261	-	-	-	28,802,261
Provisions	108,734,029	-	-	-	108,734,029
TOTAL	413,523,039	343,224,047	145,254,898	128,776,699	1,030,778,683

ii) Credit Risk

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

The largest concentration of credit exposure within the Authority arises principally from the Authority's receivables from exchange transactions. The Authority has an established credit policy which stipulates the standard payment terms and conditions. However, in specific cases especially when transacting with Development partners, the Memorandum of Understandings (MOUs) signed by both parties are used to define applicable credit terms. The credit risk is low since the customers are primarily public institutions, development partners and faith based organizations. The Management has the responsibility of managing the Authority's credit risk.

The carrying amount of financial assets represents the maximum exposure to credit risk.

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Credit Risk

	2018	2017
Trade Receivables	4,071,225,769	3,964,035,099
Cash and Bank Balances	7,358,100,956	6,517,965,116
Total	11,429,326,726	10,482,000,215

The ageing of accounts receivables that explain the Authority's exposure to credit risk as at 30 June 18 was made up as follows:

Trade Receivables:		
	2017/2018	2016/2017
	Kshs	Kshs
-by up to 30 days	521,184,693.81	686,462,025
-by 31-60 days	544,997,143	526,119,872
-by 61-90 days	329,471,108	295,819,837
-Over 91 days	2,675,572,832	2,416,220,806
TOTAL	4,071,225,777	3,924,622,541

32. Related Party Transactions

The Authority is 100% owned by the Government of Kenya. The Authority's main related parties are the Government of Kenya - Ministry of Health and the County Governments. KEMSA's core business is procurement, warehousing and distribution of medical supplies to public health facilities.

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party in making financial or operational decisions. During the year the following transactions were carried out with related parties.

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Related Party Transactions	2018	2017
	KShs	KShs
Grants From the National	383,520,000	376,000,000
Sale of Medical Commodities To Public Health facilities	4,239,687,538	4,872,025,317
Board Expenses	8,379,185	2,542,541
Key Management	43,032,071	40,485,161
TOTAL	4,674,618,793	5,291,053,019

33. Operating Lease Commitments

The Authority's prepaid operating lease rentals paid are recognized as assets and are subsequently amortized over the lease period. Operating lease payments are recognized as an operating expense in profit or loss on a straight-line basis over the lease term.

The Authority has entered into operating lease agreements for leasing of warehouses in two locations (Nairobi-Mombasa Road, and Garissa) for warehousing of medical commodities. The leases are issued under non-cancellable terms for a period of five years with rental escalation after every two years.

The operating lease payments recognized in the year amounted to Kshs 141,353,623. As at 30th June 2018 the future Minimum lease payments are as detailed below.

	2018	2017
Not Later Than 1 year	118,141,003	122,776,221
Later than 1 year and not later than 5 years	134,956,329	218,909,154
Later Than 5 Years		-
Total	253,097,332	341,685,374

34. Events after the Reporting Period

No material subsequent events have taken place post financial reporting date.

35. Currency

The financial statements are presented in Kenya Shillings (Kshs)

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

Appendix 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	The Property, plant and equipment balance of Kshs 3,538,917,177 as at 30 June 2017 includes various pieces of land valued at Kshs 183,000,000 for which the Authority does not possess ownership documents.	The Authority has however embarked on the process of realization of the titles and has engaged Conveyance experts to assist in the process. There have been continuous engagements with both the National Land Commission and the Lands Ministries in the respective counties and this has borne fruits with the realization of the title deed for the Property at Nakuru.	Mr. Fred Wanyonyi, Director Legal Services	Partially Resolved	June 2019
2	The Receivables from exchange Transactions	Out of the overdue amount of Kshs 3,918,258,604, an amount totaling to Kshs 1,054,806,083 was due from National	Mr. Eliud Muriithi,	Partially Resolved	June 2019

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	balance of Kshs 3,918,258,604 as at 30 June 2017 included long outstanding debtors of Kshs 1,054,806,083 from the Ministry of Health and Kshs 2,349,714,901 from the Counties.	programmes managed by the Ministry of Health. We have an assurance from the office of the Principal Secretary that they have been captured as pending bills and factored for settlement during the financial year 2018/2019. We are also renegotiating the Memorandum of Understandings (MOUs) with the new county Governments that will guide on how payments for past and future medical supplies will be cleared.	Commercial Director		
3	The staff costs of Kshs 695,779,767 in the statement of financial performance for the year ended 30 th June 2017 includes Kshs 25,891,540 paid to forty-seven (47) officers employed during the year about eight (8) promoted during the same	There was no irregular employment of staff as observed. The staff establishment of 341 was approved by the Board of Directors meeting held on the 15th October 2013- <i>BOD minutes MIN 44/B/2013 IX</i>) and has not been surpassed. Also, the initial establishment of 329 was approved vide the letter from the Permanent Secretary Ministry of Health (Ref: MMS/ADM/1/17) dated 13th May 2010 as recommended by the Joint Ministerial Committee. The establishment at the time of the audit had not been surpassed.	Waiganjo Karanja Ag. Director Corporate Services Enos Namasaka Human Resource Manager	Partially Resolved	June 2019

**Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>period whose supporting recruitment /promotion documents including approval by the board were not availed.</p> <p>The Authority has six hundred and ninety-five (695) employees against the approved establishment of three hundred and forty-one (341) resulting to an unapproved over employment of three hundred and fifty-four officers.</p>				
4	Net sale of 900,094,880 include expired/damaged commodities	<p>The expiries were mainly driven by:</p> <ul style="list-style-type: none"> • KEMSA'S adoption of a new business model in the Financial Year 2012/2013 where many of the commodities 	Dr. John Aduda	Partially Resolved	

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>worth Kshs 92,392,937 and Disposal cost of Kshs 12,518,644.</p>	<p>inherited as capital stocks were under the "PUSH" system and thus quantification of health commodity needed to be determined by the National Government and commodities pushed to the public health facilities.</p> <ul style="list-style-type: none"> • Change of treatment regimen. • Strikes by the Medical Service Providers -Doctors, Nurses and Clinical Officers in the Public Health Facilities. • Decreased demand of commodities from the county governments as a result of leadership transitions occasioned by the General Elections. <p>The KEMSA management has also been engaging in proactive efforts to ensure that commodities do not expire by: -</p> <ul style="list-style-type: none"> ✓ Donating Commodities that are less than six (6) Months to expiry to Counties. ✓ Participation in various health camps across the country through donation 	<p>Quality Assurance Manager.</p> <p>Dr. Samuel Okanda Ag. Operation Director.</p> <p>Mr. Eliud Muriithi, Director Commercial Services</p>		

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>of short expiry commodities that are good for human use.</p> <p>✓ Adoption of a First Expiry First Out strategy in commodities management at the warehouse.</p>			

Appendix 2: PROJECTS

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
HEALTH SECTOR SUPPORT PROJECT	KE-4771	WORLD BANK	Start: July 05 2010 End: March 31,2018		YES	NO
EAST AFRICA PUBLIC HEALTH NETWORKING PROJECT	KE-4732	WORLD BANK	Start: July 05 2010 End: March 31,2010		YES	NO
USAID KEMSA MCP PROGRAM	AID-615-C- 15-00003	USAID	Start: October 1 st 2015 End : 30 th September 2020		NO	NO

Appendix 3: INTER-ENTITY TRANSFERS

ENTITY NAME:		MINISTRY OF HEALTH		
Break down of Transfers from the Ministry of Health				
FY 17/18				
a.	Recurrent Grants			
		<u>Bank Statement</u> <u>Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which</u> <u>the amounts relate</u>
		07/11/2017	95,880,000	2017/2018
		07/12/2017	95,880,000	2017/2018
		06/03/2018	95,880,000	2017/2018
		26/04/2018	95,880,000	2017/2018
		Total	383,520,000	

Appendix 4: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

Name of the MDA/Donor Transferring the funds	Date received	Nature: Recurrent/ Development/Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
	as per bank statement			Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
Ministry of Health	07/11/2017	Recurrent	95,880,000	95,880,000	-	-	-	-	95,880,000
Ministry of Health	07/12/2017	Recurrent	95,880,000	95,880,000	-	-	-	-	95,880,000
Ministry of Health	06/03/2018	Recurrent	95,880,000	95,880,000	-	-	-	-	95,880,000
Ministry of Health	26/04/2018	Recurrent	95,880,000	95,880,000	-	-	-	-	95,880,000
Total			383,520,000	383,520,000	-	-	-	-	383,520,000