

REPUBLIC OF KENYA



*Paper laid by
Leader of Majority
Party
Tuesday 27/3/18
A.A.*

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OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA MEDICAL SUPPLIES AUTHORITY

FOR THE YEAR ENDED 30 JUNE 2017

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KENYA MEDICAL SUPPLIES AUTHORITY

YOUR PARTNER IN HEALTHCARE

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

**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, 2017 (Kshs)

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1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

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

(b) Principal Activities

Core Mandate

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

Functions of the Authority

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

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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

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

1.	Mr. Philip O. Omondi	- Chief Executive Officer <i>(Appointed 31st Dec 2016, Retired 30th November 2017)</i>
2.	Dr. John M. Munyu, MBS	- Chief Executive Officer <i>(Retired 31st Dec 2016)</i>
3.	Mr. Fred Wanyonyi	- Corporation Secretary/ Legal Director <i>(Appointed Acting CEO 1st Dec 2017)</i>
4.	Mr. Charles Juma Ezekiel	- Director- Procurement
5.	Mr. Joshua Obell	- Director- Operations <i>(Retired 20th Oct. 2016)</i>
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	- 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 Cabinet Secretary for Health on recommendation by the Board, the Principal Secretary of the Ministry for Health or her representative, the Principal Secretary to the National Treasury or his representative, the Principal Secretary Ministry of Devolution and Planning or his representative, four members who are not public officers with diverse medical supply chain management experience appointed by the Minister. All non-executive directors are independent of management of the Authority. The Board has varied and extensive skills in the areas of medical supply chain management and business management.

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

This includes the duty to ensure that the functions of the KEMSA are carried out in an efficient, transparent and ethical manner and that no particular person or body is

**Reports and Financial Statements
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given undue preference or subjected to any undue disadvantage. The Board considers and advises the Minister for Health on the development and maintenance of Medical Supply Chain policy framework and the objectives of KEMSA. It considers and approves general performance targets, both strategic and business, and the annual budgets of the Authority.

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

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
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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Finance, Strategy & Development Committee	Human Resources Committee	Audit and Risk Committee	Supply Chain Committee
Members	Members	Members	Members
Mr. Bernard Ndun'gu Mr. Simeon Ole Kigotty Mr. Titus Muriithi Mr. Philip Omondi	Mr. Simeon Ole Kigotty Mr. Andrew Onyach Mr. Titus Muriithi Mr. Philip Omondi	Dr. Nelly Kimani Mr. Francis Musyimi Mr. Bernard Ndun'gu Mr. Titus Muriithi Ms Teresa Mute	Mr. Francis Musyimi Mr. Tom Wambua Ms Penina Mukabane Mr. Titus Muriithi Mr. Philip Omondi

(e) Headquarters

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

(f) Contacts

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

(g) Bankers

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

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(h) Auditor

Auditor-General
Office of the Auditor General,
Anniversary Towers, University Way,
NAIROBI.

(h) Legal Advisers

- | | |
|---|---|
| <p>1. The Attorney General
State law office,
Harambee Avenue
P.o Box 30084
NAIROBI</p> | <p>2. Migos-Ogamba & Co. Advocates
4th Floor, Crawford Park
State House Road
P.o. Box 58387-00200
NAIROBI</p> |
| <p>3. KTK Advocates
4th Floor, KEMU Towers
University Way
P.O. Box 10176 - 00100
NAIROBI</p> | <p>4. E.K. Mutua & Co. Advocates
11th Floor, View Park Towers
P.o. Box 60596-00200
NAIROBI</p> |
| <p>5. Akide & Co Advocates
6th Floor, Blue Violets Plaza
Kamburu Drive, Off Ngong Road
P.O. Box 34004 - 00100
NAIROBI</p> | |

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.

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**Mr. Tom Mboya
Wambua**
Independent Director

Age: 48 Years

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)



Mrs. Penina Mukabane
Independent Director

Age: 48 Years

**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.



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.



Mr. Fred Wanyonyi
Corporation Secretary/Legal Director

Appointed Ag.CEO on 1st December 2017.

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

Appointed Ag.CEO on 31st December 2016

Retired as Ag.CEO on 30th November 2017

SENIOR MANAGEMENT TEAM



Mr. Philip Omondi
**Ag. Chief Executive Officer & Director-
Corporate Services**
Appointed on 31st December 2016
Retired as Ag.CEO on 30th November 2017



Mr. Fred Wanyonyi
Corporation Secretary/Legal Director
Appointed as Ag.CEO on 1st December 2017



Mr. Eliud Muriithi
Director Commercial Services



Mr. Waiganjo Karanja
Finance Manager



Dr John Munyu, MBS
Chief Executive Officer
Retired on 30th December 2016



Mr. Charles Juma Ezekiel
Director-Procurement



Mr. Douglas Onyancha
Head KEMSA/USAID MCP Program



Ms Teresa Mute
Internal Audit Manager

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it is with much honour that I present to you, the Kenya Medical Supplies Authority (KEMSA)'s, Annual Report and Financial Statements for the year ended 30th June 2017.

The financial performance for the year 2016/2017 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 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 our Long serving Chief Executive Officer Dr. John Munyu, after seven (7) years of invaluable leadership and service to the Organization.
The Board ensured that there was smooth transition by appointing the Director-Corporate Services, CPA Philip Omondi, to steer the Organization as the process of appointing a Substantive Leader went underway.
- ii) Purchase of the Supply Chain Center at Embakasi from Kenya Airways at a total cost of Kshs 1.98 Billion sourced from internally generated resources. This Prime Property consists of KEMSA's Central warehouse, and 6 Go downs sitting on expansive 14.5 acres of land. The Board has plans of building a modern warehouse and an Office Complex on the land. By the end of the year, the procurement process to identify a lead consultant for the project was underway. Being a public institution, the authority also engaged the Ministry of Roads, public works and infrastructure to assist in setting up the specifications to be used in the evaluation criteria for the identifications of a contractor through the laid down procurement process.

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For the year ended June 30, 2017 (Kshs)

- iii) The Industrial Strikes by various Medical service providers notably Doctors and Nurses which impacted adversely on our Sales Projections and stock holding.
- iv) Appointment of two (2) independent board members that ensured full constitution of the board membership. The appointment of a Substantive Chairperson is still pending.
- v) Approval of Policies 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.
- vi) Review of the Strategic plan which shows that KEMSA achieved more than 80% of the goals and objectives set out in the original Strategic Plan.

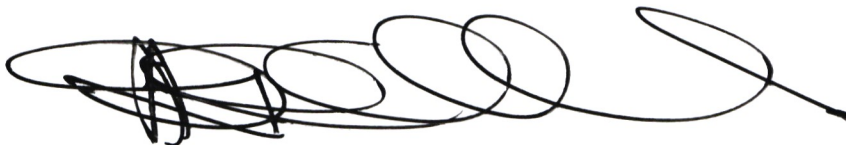
Corporate Governance:

The Board of Management 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.

Appreciation:

I wish to thank the National Government, County governments and 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.



FOR: CHAIRMAN-BOARD OF DIRECTORS

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

CHIEF EXECUTIVE OFFICER'S STATEMENT

In the Financial year 2016/2017, KEMSA delivered a great set of results; with stability seen across all they 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 increased from Kshs 3.223 Billion to Kshs 3.275 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 increased by 78 Million from Kshs 4.763 Billion to Kshs 4.872 Billion.
- iii) Grants from the National Government increased by 12.28 Million from Kshs 363.72 Million to Kshs 376.00 Million.
- iv) Total Operating Expenses for the year increased by Ksh 40.4 Million from Kshs 2.128 Billion to Kshs 2.178 Billion.
- v) Surplus for the year increased by Kshs 1.650 Million from Kshs 1.095 Billion to Kshs 1.097 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.

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.

Reports and Financial Statements **For the year ended June 30, 2017 (Kshs)**

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
- United States Agency for International Development (USAID)-FARA
- World Bank
- The Global Fund
- German Development Bank (KFW)
- United Nations International Children's Emergency Fund (UNICEF)
- Danish International Development Agency (DANIDA)
- Clinton Health Access Initiative

Future Outlook

We Shall Position the Supplementary Services Division (SSD) to make it a key business unit to tap on the new markets.

Our quest to remain a High Performance Organisation shall continue. We will strive towards greater achievement in the coming years.



Fredrick Wanyonyi
Ag. CHIEF EXECUTIVE OFFICER

CORPORATE GOVERNANCE STATEMENT:

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

At Kenya Medical Supplies Authority, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the Authority's activities. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre 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 7-8. The Board of Directors of the Authority comprises of the Chairman who is appointed by the President, the Chief Executive Officer is appointed by the Cabinet Secretary on recommendation by the Board, the Principal Secretary of the Ministry of Health or her representative, the Principal Secretary to the National Treasury or his representative, the Principal Secretary Ministry of Devolution and Planning or her representative, four private sector members who are not public officers with diverse skills and experience in medical supply chain, finance, law and business management appointed by the Cabinet Secretary. All non-executive directors are independent of management of the Authority. The directors' responsibilities are set out in the Statement of Directors Responsibilities. The directors are responsible for the development of internal financial controls, which give assurance against material mis-statements.

The Chairman provides the overall leadership to the Board without limiting the principle of collective responsibility for Board decisions. He acts as the link between the Board and the Chief Executive Officer and plays a lead role in consensus building between the Board 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

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

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.

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 financial year 2016/2017, the received a major boost through accreditation by the Kenya National Accreditation Services. 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:

- Participation in various Medical Camps through provision of free medical supplies in medical camps across the country in collaboration with area representatives.
- 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.
- Holding stakeholder's forums where County Pharmacists from all the 47 counties were invited for engagement on their views regarding KEMSA's

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

current service delivery and any improvements they may wish to see implemented.

Emergency Preparedness

The Authority has commenced efforts to improve its emergency preparedness, response and business continuity. An emergency response team comprising First Aiders and Fire Marshals 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 2016/2017, 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. 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.

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

REPORT OF THE DIRECTORS

The directors submit this report together with the financial statements for the year ended 30 June 2017, in accordance with Section 14 of the State Corporations Act, section 17(2) of the KEMSA Act of 2013.

PRINCIPAL ACTIVITIES

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 programmes, the national strategic stock reserve, prescribed essential health packages and national referral hospitals.

RESULTS

The net surplus for the year is Kshs 1,096,578,465, (2015/2016 Kshs 1,094,928,204).

DIRECTORS

The names of the directors who held office during the year to the date of this report are set out on page 7-8.

AUDITORS

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



**By Order of the Board
Corporation Secretary**

**Nairobi
February 2018**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 68 (2) 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, 2017. 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 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.



**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

Approval of the financial statements

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

**Mr. Fredrick Wanyonyi
Ag. CHIEF EXECUTIVE OFFICER**

Signature.....

**Mr. Andrew Onyach
For: CHAIRMAN OF THE BOARD**

Signature.....



Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Medical Supplies Authority, set out on pages 24 to 62, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects 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 2017, 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.

In addition, as required as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Qualified section of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.3,535,246,933 as at 30 June 2017 includes various parcels of land spread across the country and valued at Kshs.183,000,000 for which the Authority does not possess ownership documents as detailed below.

Location	Letter of Allotment/Parcel Number	Value Kshs.
Eldoret	Block 10/155 & 10/156	25,000,000
Garissa	PDP Ref. No. 326/2003/58	6,500,000

Report of the Auditor-General on the Financial Statements of Kenya Medical Supplies Authority for the year ended 30 June 2017

Kakamega – Green Site	Block 4/168 Part	7,500,000
Kakamega – PGH	Block 4/168 Part	3,000,000
Kisumu	209163/IX of 26/10/2005	25,000,000
Mombasa	R.54/95/10	76,000,000
Nakuru	PDP Ref. No. R7/2006/06	25,000,000
Nyeri	Block 3/173 & 3/174	15,000,000
Total		183,000,000

Further, the property, plant and equipment balance of Kshs.3,535,246,933 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 circumstance, it has not been possible to confirm the validity and accuracy of the property, plant and equipment balance of Kshs.3,535,246,933 included in the statement of financial position as at 30 June, 2017.

2. Receivables from Exchange Transactions

As similarly reported in the previous year, the receivables from exchange transactions balance of Kshs.3,964,035,099 reflected in the statement of financial position as at 30 June 2017 includes long outstanding receivables balance totaling Kshs.3,404,520,984 comprising of Ministry of Health Kshs.1,054,806,083 and Counties Kshs.2,349,714,901 as detailed below whose recovery is doubtful.

<u>County</u>	<u>Kshs.</u>
Baringo County	(6,337,929.22)
Bomet County	63,841,235.45
Bungoma County	39,213,362.00
Busia County	33,722,894.09
Elgeyo Marakwet County	36,220,062.10
Embu County	28,809,719.29
Garissa County	29,435,980.42
Homa Bay County	91,620,619.40
Isiolo County	13,833,202.38
Kajiado County	72,910,137.77
Kakamega County	62,823,047.46
Kericho County	26,210.66
Kiambu County	40,718,540.60
Kilifi County	96,332,760.43
Kirinyaga County	31,781,035.50

Kisii County	82,125,996.55
Kisumu County	35,748,735.98
Kitui County	97,925,471.37
Kwale County	59,002,946.16
Laikipia County	20,477,607.33
Lamu County	15,670,912.32
Machakos County	59,655,732.55
Makueni County	32,164,680.94
Mandera County	22,737,929.75
Marsabit County	37,529,431.85
Meru County	78,779,433.55
Migori County	29,009,389.86
Mombasa County	269,109.00
Murang'a County	61,944,447.50
Nairobi County	285,501,728.28
Nakuru County	147,204,788.57
Nandi County	56,766,202.39
Narok County	98,524,087.18
Nyamira County	28,491,247.68
Nyandarua County	19,945,667.69
Nyeri County	90,593,134.31
Samburu County	21,986,744.62
Siaya County	51,161,954.00
Taita Taveta County	24,231,712.11
Tana River County	38,282,273.86
Tharaka Nithi County	33,907,404.12
Trans Nzoia County	41,407,560.59
Turkana County	1,554,131.45
Uasin Gishu County	9,313,763.78
Vihiga County	47,547,096.22
Wajir County	56,669,456.52
West Pokot County	28,633,244.57
Grand Total	2,349,714,900.98

No explanation has been provided for failing to recover these long outstanding debts. In the circumstance, the accuracy and validity of the exchange transactions balance of Kshs.3,964,035,099 reflected in the statement of financial position as at 30 June 2017 is doubtful.

3. Staff Costs

The staff costs of Kshs.695,779,767 in the statement of financial performance for the year ended 30 June, 2017 includes Kshs.25,891,540 paid to forty seven (47) officers employed during the year and eight (8) promoted during the same period whose supporting recruitment / promotion documents including approval by the Board were not availed for audit review. Further, the Authority has six hundred and ninety-five (695) employees against the approved staff establishment of three hundred and forty one (341) resulting to an unapproved over employment of three hundred and fifty four (354) officers. No explanation has been provided for the excess employment. Consequently, the propriety of the staff cost of Kshs.695,779,767 for the year ended 30 June 2017 could not be confirmed.

4. Expired / Damaged Drugs

As explained in note 3 to the financial statements for the year ended 30 June, 2017, the net sales of Kshs.900,094,880 is arrived at after deducting cost of sales for (pharms) of Kshs.2,693,328,090. The cost of sales figure includes an amount of Kshs.92,392,937 for commodities/expired drugs that were unsaleable due to expiry or damage. In the previous year, the expired drugs amounted to Kshs.259,741,614.

No explanation has been provided for stocking expired/damaged drugs thereby causing unnecessary loss to the Authority when the country's hospitals are short of drugs. In the circumstance, it has not been possible to determine the propriety of the inventory balance of Kshs.11,776,786,528 included in the statement of financial position as at 30 June, 2017 as well as the net sales of Kshs.900,094,880 included in the statement of financial performance for the year ended 30 June, 2017. Further, in the two financial years, public money on purchase of drugs worth Kshs.352,134,551 have not been applied in an effective way.

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 of my report, I have determined that there are no key audit matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

The 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.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements.

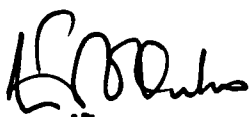
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Authority's 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 as a going concern. 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 as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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

08 March 2018

Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)

STATEMENT OF FINANCIAL PERFORMANCE			
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2017			
	Note	Financial Year 2016-2017 Kshs	Financial Year 2015-2016 Kshs
Revenue from non-exchange transactions			
Grants from National Government	1	376,000,000	363,729,432
Public contributions and donations	2	14,252,533	13,599,195
		390,252,533	377,328,627
Revenue from exchange transactions			
Net Sales	3	900,094,880	688,066,936
Other Income	4	1,984,828,614	2,158,259,624
		2,884,923,494	2,846,326,560
Total revenue		3,275,176,027	3,223,655,187
Expenses			
Staff Costs	5	695,779,767	621,789,439
Distribution Costs	6	690,903,869	735,166,455
Insurance costs	7	93,575,301	50,200,280
Rental expenses	8	100,013,643	133,751,123
Legal expenses	9	89,787,119	51,867,521
Utilities expenses	10	15,135,403	13,684,167
Staff travel expenses	11	100,927,948	63,257,759
Finance costs	12	1,397,041	5,585,704
Audit fees	13	3,116,800	1,832,800
BOD expenses	14	2,542,541	3,888,582
Depreciation & amortization	15	105,460,885	74,383,418
Other Operating Expenses	16	279,957,245	373,319,735
Total expenses		2,178,597,562	2,128,726,983
Surplus before tax		1,096,578,465	1,094,928,204
Taxation		-	-
Surplus for the period		1,096,578,465	1,094,928,204

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

STATEMENT OF FINANCIAL POSITION			
AS AT 30TH JUNE 2017			
	Note	Financial Year 2016/2017 Kshs	Financial Year 2015/2016 Kshs
Assets			
Current assets			
Cash and cash equivalents	17	6,517,965,117	7,873,103,994
Receivables from exchange transactions	18	3,964,035,099	3,740,340,113
Receivables from non-exchange transactions	19	36,605,794	29,862,801
Inventories	20	11,776,786,528	13,767,436,443
		22,295,392,538	25,410,743,351
Non-current assets			
Property, plant and equipment	24	3,535,246,933	3,199,737,846
Intangible assets	24(b)	-	199,856
		3,535,246,933	3,199,937,702
Total assets		25,830,639,472	28,610,681,053
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	21	11,273,927,862	15,175,564,777
		11,273,927,862	15,175,564,777
Non-current liabilities			
Deferred income	22	91,961,940	100,379,037
		91,961,940	100,379,037
Total liabilities		11,365,889,802	15,275,943,814
Net assets		14,464,749,670	13,334,737,240
KEMSA Capital	23	8,461,576,303	8,461,576,303
Accumulated Funds		256,950,298	256,950,298
Surplus/Deficit		4,962,592,613	3,866,014,147
Revaluation reserve		783,630,456	750,196,492
Total net assets and liabilities		25,830,639,472	28,610,681,054

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

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

**Mr. Fredrick Wanyonyi
Ag. CHIEF EXECUTIVE OFFICER**

Signature.....

Date..... 26.02.2018

**Mr. Waiganjo Karanja
FINANCE MANAGER**

ICPAK No. 7023

Signature.....

Date..... 26/02/18

**Mr. Andrew Onyach
For: CHAIRMAN OF THE BOARD**

Signature.....

Date..... 26.2.2018

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

	Attributable to the owners of the controlling entity						Total Kshs
	KEMSA Capital		Reserves		Revaluation Reserve	Kshs	
	Kshs	Accumulated Funds	Surplus/Deficit	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 30 June 2017	8,461,576,303	256,950,298	4,962,592,613	783,630,456	14,464,749,670		

**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, 2017 (Kshs)

STATEMENT OF CASH FLOWS			
For the year ended 30 June 2017			
	Note	2016/2017	2015/2016
		Kshs	Kshs
Net Surplus for the Year		1,096,578,475	1,094,928,204
Adjustments for Non Cash Movements			
Depreciation Charge	25	105,460,885	74,383,418
Public contributions and donations	2	(14,252,533)	(13,599,195)
In cash support on Expenditure	30	1,274,312	-
Decrease/(Increase) in Current Assets	24	1,760,211,935	(1,058,192,822)
Increase/(Decrease) in Current Liabilities		(3,901,636,916)	4,290,369,035
Net cash flows from operating activities		(952,363,842)	4,387,888,640
Cash flows used in investing activities			
Purchase of property, plant, equipment and intangible assets	25	(407,336,153)	(2,129,437,380)
Purchase of Donor Funded-Fixed Assets		4,561,126	42,825,310
Net cash flows used in investing activities		(402,775,027)	(2,086,612,070)
Cash Flows from Financing activities			
KEMSA Capital	23	-	(531,197,576)
Net cash flows used in financing activities		-	(531,197,576)
Net increase/(decrease) in cash and cash equivalents		(1,355,138,869)	1,770,078,994
Cash and cash equivalents at 1 July 2016		7,873,103,996	6,103,025,001
Cash and cash equivalents at 30 June 2017		6,517,965,127	7,873,103,996

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

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 by the Board of Management. Below are the explanations for material variances in the budget.

STATEMENT OF BUDGET COMPARISON MATERIAL VARIANCES EXPLANATIONS							
For the year ended 30 June 2017							
	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Variance Percentage	Variance Explanation-IPAS 24.14
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	
INCOME							
Grants from National Government	401,613,926	25,000,000	376,613,926	376,000,000	(613,926)	0%	The variance on grants was unfavourable since the budgeted Development grant was not remitted by MOH
Public contributions and donations	-	-	-	14,252,533	14,252,533	100%	This was recognition of deferred income from Donations of capital Items from astrategic partners.
Net Sales	1,311,116,786	329,525,212	981,591,574	900,094,880	(81,496,694)	-8%	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	2,106,508,760	30,824,825	2,075,683,935	1,984,828,614	(90,855,321)	-4%	The drop in other income was driven by reduced services to the National Programs and strategic partners e.g USAID, UNICEF
TOTAL INCOME	3,819,239,472	385,350,037	3,433,889,435	3,275,176,027	(158,713,408)	-5%	

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

STATEMENT OF BUDGET COMPARISON MATERIAL VARIANCES EXPLANATIONS							
For the year ended 30 June 2017							
	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Variance Percentage	Variance Explanation-IPSAS 24.14
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	
EXPENDITURE							
Staff Costs	1,045,850,000	242,920,000	802,930,000	695,779,767	107,150,233	13%	The Expenditure is Within range
Distribution Costs	780,000,000	158,760,000	621,240,000	690,903,869	(69,663,869)	-11%	The Expenditure is Within range
Insurance costs	79,772,000	(13,803,301)	93,575,301	93,575,301	(0)	0%	The Expenditure is Within range
Rental expenses	144,882,196	44,048,090	100,834,106	100,013,643	820,463	1%	The Expenditure is Within range
Legal expenses	100,692,500	10,905,381	89,787,119	89,787,119	(0)	0%	The Expenditure is Within range
Utilities expenses	56,624,000	32,227,000	24,397,000	15,135,403	9,261,597	38%	The Under expenditure due to savings as a result of continuous 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	130,544,500	29,276,433	101,268,068	100,927,948	340,120	0%	The Expenditure is Within range
Finance costs	840,000	(572,469)	1,412,469	1,397,041	15,428	1%	The Expenditure is Within range
Audit fees	1,794,000	(1,322,800)	3,116,800	3,116,800	-	0%	The Expenditure is Within range
BOD expenses	14,600,000	8,200,000	6,400,000	2,542,541	3,857,459	60%	The Under expenditure is due to savings as a result of reduced Board activities and the fact that the Board was not fully re-constituted with the Financial Year.
Depreciation & amortization	129,944,631	43,314,877	86,629,754	105,460,885	(18,831,131)	-22%	The variance was due to non purchase of movable Assets i.e Motor Vehicles and Material handling equipment within the financial year as budgeted.
Other Operating Expenses	610,648,869	32,975,372	577,673,497	279,957,245	297,716,253	52%	The Under expenditure due to savings as a result of reduced activities within the Financial Year as budgeted.
TOTAL EXPENSES	3,096,192,696	586,928,583	2,509,264,114	2,178,597,562	330,666,552	13%	
SURPLUS FOR THE PERIOD	723,046,775	(201,578,546)	924,625,321	1,096,578,465	(489,379,960)		

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. GENERAL INFORMATION

KEMSA is established by and derives its authority and accountability from Kemsas Act of 2013. Kemsas is wholly owned by the Government of Kenya and is domiciled in Kenya. Kemsas 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.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard	Impact
<p>IPSAS 33: First time adoption of Accrual Basis IPSAS</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p> <p>Kemsa adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to Kemsa.</p>

Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)

<p>IPSAS 34: Separate Financial Statements</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. Kemsas does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</p>
<p>IPSAS 35: Consolidated Financial Statements</p>	<p>Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p> <ul style="list-style-type: none"> - Its power over the other entity - Its exposure or rights to variable benefits from involvement with the other entity - Its ability to control the nature, timing and amount of benefits from the other entity. <p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35. Kemsas does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</p>
<p>IPSAS 36: Investments in Associates and Joint Ventures</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest. Kemsas does not have investments in associates or joint ventures/ Kemsas hold investments in associates and joint ventures and the following is the impact of application of the new standard IPSAS 36:</p>

**Reports and Financial Statements
 For the year ended June 30, 2017 (Kshs)**

<p>IPSAS 37: Joint Arrangements</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. Kemsas does not have an interest in a joint arrangement and therefore the standard does not apply/ Kemsas has an interest in arrangements and the following is the impact of application of the new standard IPSAS 37:</p>
<p>IPSAS 38: Disclosure of Interests in Other Entities</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows. Kemsas does not have an interests in other entities and therefore the standard does not apply.</p>

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
<p>IPSAS 39: Employee Benefits</p>	<p>Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.</p>
<p>IPSAS 40: Public Sector Combinations</p>	<p>Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p>

iii. Early adoption of standards

Kemsa did not early - adopt any new or amended standards in year 2017.

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

1. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying Kemsa's accounting policies. The Authority adopted IPSAS in the year 2014 following the gazette of the Public Sector Accounting Standards Board (PSASB), which was established by the Public Financial Management Act (PFM) No. 18 of 24th July 2012. PSASB issued financial reporting standards and guidelines to be adopted by all state organs and public sector entities, which the Authority complies with.

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

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

a) Revenue Recognition

i) Revenue from non-exchange transactions

Fees

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.

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.

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.

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

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 valuers. 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:

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

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

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

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

e). Intangible Assets

Intangible assets comprise purchased computer software licenses, and rebranding activities, which are capitalized on the basis of costs incurred to acquire and bring to use. These costs are amortized

over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

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

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

f). Inventories

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

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.

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

i). Trade And Other Payables

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

j). Exchange Rate Differences

The accounting records are maintained in the functional currency of the primary economic environment in which 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.

k). Comparative figures

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

l). Contingent liabilities

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.

m). 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, 2017.

NOTES TO THE FINANCIAL STATEMENTS

1. Grants from National Government				
Name of the Entity Sending the Grant	Amount recognized to Statement of Comprehensive Income	Amount Deferred	Total Grant Income 2016/2017	Total Grant Income 2015/2016
Ministry of Health	376,000,000	-	376,000,000	363,729,432
Total	376,000,000	-	376,000,000	363,729,432

2. Public Contributions and Donations	2016-2017	2015-2016
	Kshs	Kshs
Income From Donations	14,252,533	13,599,195

3. Net Sales	2016-2017	2015-2016
	Kshs	Kshs
Sale Revenue -Pharmaceutical	3,410,400,290	3,398,474,070
Sale Revenue -Non-Pharmaceuticals	1,461,625,027	1,365,432,177
TOTAL	4,872,025,317	4,763,906,247
Cost of Sales		
Cost of Sales CGS (Pharms)	2,693,328,090	2,937,857,282
Cost of Sales -CGS (Non-Pharms)	1,278,602,347	1,137,982,029
TOTAL	3,971,930,437	4,075,839,310
Net Sales	900,094,880	688,066,936

The Cost of Sales (Pharms) includes a figure of Kshs 92,392,937 for commodities that were unsalable due to either expiry or damage. Previous year the figure was Kshs 259,741,614.25.

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

4. Other Income	2016-2017	2015-2016
	Kshs	Kshs
**Supply Chain Fees: -USAID	750,045,300	410,850,103
-Global Fund	560,203,359	496,999,032
-UNICEF	1,865,972	11,534,580
-Ministry of Health	109,681,912	586,732,800
-Other Strategic Partners	60,536,368	6,154,347
Proceed From Disposal of Fixed Assets	-	3,048,900
Sale of Tender Documents	436,000	1,680,000
Sale of Waste Materials	308,714	-
Bank Interest Received	386,686,017	532,106,654
Forex Realized Gain	6,465,708	93,595,377
Direct Revenue(MCP-Cost Recovery)	46,138,318	-
Other Miscellaneous Income	42,680,064	15,557,831
Rental Income	19,780,881	-
	1,984,828,614	2,158,259,624

**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 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

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

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%.

5. Staff Costs	2016-2017 Kshs	2015-2016 Kshs
Basic Pay	439,025,118	378,821,343
Overtime	7,834,021	9,900,748
Arrears	1,319,021	7,231,681
House Allowance	132,488,000	114,668,620
Acting Allowance	934,801	733,859
Leave Allowance	9,443,827	3,923,553
Entertainment Allowance	2,074,000	1,914,000
NSSF (Kemsa Part)	1,948,600	1,341,800
Gratuity and Pensions	45,046,757	47,596,404
Committee Allowances	8,124,000	10,443,000
Special Duty Allowances	178,996	-
Transport Allowance	36,049,467	31,061,000
Other Taxable Benefits	266,000	456,000
Casual and Contract Employees	1,277,912	1,749,883
Ex-Gratia Payments	146,209	182,182
Shift Allowance	228,572	420,476
Staff Seconded to Kemsa	9,394,466	11,344,890
	695,779,767	621,789,439

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

6. Distribution Costs	2016-2017 Kshs	2015-2016 Kshs
Fuel and Oil for own Trucks	3,716,068	3,104,252
Maintenance of own Trucks	3,986,571	1,173,310
Insurance and Govt. Levies	-	-
Hire of Transport	100,920	630,380
Outsourced Distribution Costs fuel and Oils	659,671,059	708,371,676
Fuel and Oils	11,331,735	10,241,861
Vehicle Maintenance	10,292,834	7,748,138
Vehicle Insurance & Govt. Levies	920,838	1,273,477
Fork Lift Maintenance	854,000	2,623,360
Fork Lift Fuel and Oils	29,844	-
	690,903,869	735,166,455

7. Insurance costs	2016-2017 Kshs	2015-2016 Kshs
Medical Premiums	67,878,202	23,289,008
Insurance Expenses - premiums	25,645,475	26,818,772
Insurance Expenses - Policy Excess	51,625	92,500
	93,575,301	50,200,280

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

8. Rental expenses	2016-2017 Kshs	2015-2016 Kshs
Warehouse Rent	99,997,643	132,948,563
Hire of Space	16,000	802,560
	100,013,643	133,751,123

9. Legal Expenses	2016-2017 Kshs	2015-2016 Kshs
Legal Fees	89,787,119	51,867,521
	89,787,119	51,867,521

10. Utilities Expenses	2016-2017 Kshs	2015-2016 Kshs
Water and Conservancy Expenses	1,067,641	950,725
Electricity & Lighting Expenses	11,281,120	10,267,513
Generator Fuel & Maintenance	2,786,641	2,465,929
	15,135,403	13,684,167

11. Staff travel expenses	2016-2017 Kshs	2015-2016 Kshs
Staff Travel Allowance - Local	79,792,558	48,928,733
Staff Travel Allowance - International	10,254,435	5,547,333
Air Tickets	8,514,095	6,884,745
Hire of Taxi & Other Transport	2,366,860	1,874,173
Mileage Claims -Use Own Cars	=	22,775

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

	100,927,948	63,257,759
12. Finance costs	2016-2017 Kshs	2015-2016 Kshs
Bank Charges	1,397,041	5,585,704
13. Audit fees	2016-2017 Kshs	2015-2016 Kshs
Audit Fees & Others	3,116,800	1,832,800
14. BOD expenses	2016-2017 Kshs	2015-2016 Kshs
BOD Sitting & Lunch Allowances	2,356,000	1,904,000
BOD Travel & Accommodation Exp.	126,541	1,663,582
BOD Conferences	60,000	60,000
BOD Honoraria & Other Allowances	-	261,000
	2,542,541	3,888,582
15. Depreciation & amortization	2016-2017 Kshs	2015-2016 Kshs
Buildings - Depreciation	36,293,963	10,412,655
Plant & Machinery - Depreciation	13,899,666	13,709,253
Office Equipment - Depreciation	5,019,371	5,263,423
Furniture & Fittings - Depreciation	4,754,242	4,098,744
Computer Equipment - Depreciation	24,022,622	16,853,824

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

Intangible Assets - Depreciation	199,856	1,350,084
Motor Vehicles - Depreciation	21,271,165	22,695,435
	105,460,885	74,383,418

16. Other Operating Expenses	2016-2017 Kshs	2015-2016 Kshs
Training Expenses	29,508,603	31,468,881
Conference Expenses	11,801,632	10,819,552
Change Management Expenses	-	424,000
Official Entertainment	9,930,536	8,038,803
Office Beverages	6,742,647	4,901,537
End Of -Year Staff Staff Party	4,607,000	6,216,320
Other Staff Parties	366,219	569,142
Staff Support Expenses	723,400	610,720
Purchase Of New Uniforms	317,662	477,740
Laundry and Cleaning	76,613	134,265
Telephone - Switchboard LLS	4,761,139	3,120,570
Telephone - Direct Land Lines	459,474	589,023
Cell Phones	7,785,545	5,931,010
Leased Lines	-	672,003
E-mail/Internet	3,815,218	3,054,467
Postage & Courier	1,119,870	87,050

**Reports and Financial Statements
 For the year ended June 30, 2017 (Kshs)**

Computer Maintenance Expenses	3,802,803	3,828,077
Computer Maintenance Agreement	3,594,949	2,712,824
Computer Software and Licenses	2,062,828	2,189,528
Computer Stationery Expenses	286,450	3,815,939
Hire of Services - Security Firms	12,654,684	10,998,600
Hire of Services From Police	3,595,392	3,846,342
Security Equipment	1,146,343	359,896
Cleaning Materials & Implement	2,024,508	2,332,059
Pest Control Expenses	2,154,640	400
Outsourced Clening Expenses	2,485,200	3,513,000
Sanitation Expenses	257,352	316,000
Plant Repairs & Maintenance	459,768	339,443
Repairs To Buildings and Roads	4,731,041	4,577,661
Purchase of Tools & Maintenance	-	1,720
Rates Paid To The Local Govt.	-	58,770
Reagents	966,545	1,808,600
Third Party Services	28,919,935	5,819,008
Maintenance Of QA Tools & Equipment	339,000	17,400
Packaging Material and Expenses	15,857,459	8,753,642
Protective Clothing & Gear	2,334,768	827,890
Cost -Disposing Damage Stock	6,836,644	5,682,000
Stationery Expenses	9,451,674	5,868,243

Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)

Office Expenses	7,345,721	3,902,096
General Admin expenses	-	2,095,476
Staff Subsscription Expenses	767,874	434,350
Statutory Subscriptions	412,250	351,750
Fire Fighting & Safety Equipment	343,851	301,982
Bank Charges And Commission - Charge Expense	-	31,913
Bank Charges And Commission - Realized Loss	41,988,821	181,701,081
Penalties And Fines	1,100	6,149
Risk Assessment & Evaluation	526,420	2,722,426
Consultancy	4,498,665	5,208,284
Preparation of Annual Accounts	-	49,250
Public Relations Expenses	2,843,573	12,930,448
Donations	-	260,000
Shows And Exhibitions	2,879,542	-
Advertising Expenses	9,134,035	1,240,826
Corporate & Other Calenders	3,241,695	3,510,139
Advertising Of Tenders	10,436,055	9,496,884
Publicity & Advertising Expenses	8,231,393	3,807,544
Newspaper Expenses	1,328,718	487,010.00
	279,957,245	373,319,735

Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)

17. Cash and Cash Equivalents		
17(a) Banks		
	2016-2017	2015-2016
	Kshs	Kshs
PETTY CASH	48,339	-
NBK - OPERATIONS	122,390,544	120,613,492
WORLD BANK E.A LAB PROJECT	108,345,670	128,132,544
NBK DISTRIBUTION	338,419	10,177,017
KCB DRUGS	165,766	173,146
KCB DISTRIBUTION	13,603	20,983
CBA	11,981,694	11,880,325
CO-OP - MEDICAL GRANTS	1,522,402,192	1,330,848,104
CO-OP BANK GF OPERATIONS	50,449,639	219,323,893
CO-OP BANK GF OPERATIONS	175,615,999	214,939,023
CO-OP BANK GF ATM R4P1	20,313	26,475
CO-OP BANK GF ATM R5P1	1,913,614	1,872,138
CO-OP BANK GF ATM R6	150,003	152,912
CO-OP BANK GF ATM R4P2	10,527	16,935
CO-OP BANK GF ATM R5P2	50,658	56,056
CO-OP BANK GF ATM R7P1	6,849,343	6,683,678
CO-OP BANK GF ATM R4P1	-	-
CO-OP BANK GF ATM R4P2	5	5
CO-OP BANK GF ATM R5P1	6,230,026	6,205,414
CO-OP BANK GF ATM R5P2	-	-
CO-OP BANK GF ATM R6	1,012,528	1,008,528
CO-OP BANK GF ATM R7P1	4,169,627	4,166,328
WORLD BANK HSSP NON POOLED	4,081,388	64,896,649
WORLD BANK HSSP POOLED PROJECT	658,124,010	703,160,385
SSD CO-OP BANK	176,851,551	62,551,622
SSD EQUITY BANK	3,537,045,148	4,784,726,159
KEMSA EQUITY BANK OPERATIONS (KSH)	1,753,248	4,428,611
KEMSA EQUITY BANK OPERATIONS (USD)	<u>127,951,264</u>	<u>197,043,575</u>
	6,517,965,117	7,873,103,994

Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)

17(b) Cash and Cash Equivalents	2016-2017 Kshs	2015-2016 Kshs
Bank	6,517,916,778	7,873,103,994
Cash on Hand and On Transit	48,339	-
Short Term Deposits	=	=
Total Cash And Cash Equivalent	6,517,965,117	7,873,103,994

17 (C) Short Term Deposits				
NAME OF BANK	TYPE AND TENOR DEPOSIT	CURRENCY	2016-2017 Kshs	2015-2016 Kshs
Petty Cash	Petty Cash	Kshs	48,339	-
National Bank	Current	Kshs	231,074,632	188,432,677
Kenya Commercial Bank	Accounts	Kshs	179,369	194,129
Commercial Bank of Africa	Current	Kshs	11,981,694	11,880,325
Co-Operative Bank	Accounts	Kshs	1,949,807,411	2,615,908,144
Equity Bank	Current	Kshs	<u>4,324,873,671</u>	<u>4,986,198,345</u>
TOTAL			6,517,965,116	7,802,613,619

18. Receivables from Exchange Transactions	2016-2017 Kshs	2015-2016 Kshs
Current Receivables		
Trade Debtors -Receivable	3,918,258,604	3,716,318,926
Supplier Prepayments	<u>45,776,495</u>	24,021,187
Total Receivables	3,964,035,099	3,740,340,113

Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)

19. Receivables from Non Exchange Transactions	2016-2017 Kshs	2015-2016 Kshs
Other Debtors - Uninvoiced Receivables	4,186,812	-
Insurance Receivables	6,363,927	-
Travel Imprest Debtors	3	328,501
Staff Salary Advances Debtors	163,105	247,713
Staff Medical Advances	957,772	813,081
Staff Accountable Imprest	0	77,500
Long-term Deposit	24,934,175	28,396,006
	36,605,794	29,862,801

20. Inventories	2016-2017 Kshs	2015-2016 Kshs
Pharmaceutical Stocks	11,772,140,690	13,764,699,096
Stationery	3,865,401	1,880,118
Beverages & Others	780,437	857,229
TOTAL	11,776,786,528	13,767,436,443

21. Trade and other payables from exchange transactions	2016-2017 Kshs	2015-2016 Kshs
Trade Creditors - Medical	699,928,034	779,859,654
Trade Creditors - Operations	55,090,102	62,685,615
Trade Creditors - Distribution	119,959,168	59,829,403
Stale Cheques - Unclaimed Payments	14,486	1,899,792
Customer refunds	-	-
Rent deposit's - tenants	1,211,536	-
Withheld vat	133,111	-
Vat output - due	447,034	-
Vat Output - Liability	316,800,000	-
Withheld Tax- Consultancy	316,800	-
Suppliers Funds Retained	18,250,600	14,294,785
Customer Prepayments	28,802,261	45,630,015
Provision	108,734,029	2,065,899,008
Medical Commodity Fund	9,811,813,643	11,952,437,312
Project Fund	112,427,058	193,029,193
TOTAL	11,273,927,862	15,175,564,777

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

22. Deferred income	2016-2017 Kshs	2015-2016 Kshs
Current Portion recognized from Donated Assets	91,961,940	100,379,037

23. Kemsas Capital	2016-2017 Kshs	2015-2016 Kshs
Balance at the end of the Financial Year	8,461,576,303	8,461,576,303

24. Decrease/Increase in Current Assets	2016-2017 Kshs	2015-2016 Kshs
Total Current Asset	22,295,392,538	25,410,743,351
Less: Cash & Cash equivalents	6,517,965,116.63	7,873,103,994.00
	15,777,427,422	17,537,639,357.00

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

**25(a) Property, Plant and
Equipment**

	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	46,059,696 33,433,964	50,566,529	2,014,362,701	3,405,744,728
REVALUATION SURPLUS 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
ACCUMULATED DEPRECIATION AS AT 1/7/2016	-	54,359,902	2,158,567	13,709,253	4,098,744	114,826,592	16,853,824	-	206,006,882
ACCUMULATED DEPRECIATION REVERSAL ON REVALUATION		-				(114,826,592)		-	(114,826,592)
DEPRECIATION CHARGE FOR THE 12 MONTHS	-	36,293,963	5,019,371	13,899,666	4,754,242	21,271,165	24,022,622	-	105,261,029
ACCUMULATED DEPRECIATION	-	90,653,865	7,177,938	27,608,919	8,852,986	21,271,165	40,876,446	-	196,441,319
NBV AS AT 30/06/17	1,786,967,270	1,415,464,540	32,977,032	111,387,740	29,180,952	63,813,495	31,191,419	64,264,485	3,535,246,933

Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)

25(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
		-	-
130,204,894	12,180,754	142,385,648	348,392,530
-	-	-	(114,826,592)
-	199,856	199,856	105,460,885
130,204,894	12,380,610	142,585,504	339,026,823
		-	-
-	-	-	3,535,246,933

26. 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.

27. Other Disclosures

26(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.

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

The Authority's overall risk management programme 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 optimising 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.

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 2016/2017 was 9%. A 5% increase/ decrease in interest rates would have increased/decreased the Authority's income by Kshs 214,825,565

ii) 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.

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**i) Liquidity
Risk**

As at 30th June 2017:					
	0-30 Days	31-60 Days	61-90Days	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	21,811,327	-	-	-	21,811,327
Customer Prepayments	28,802,261	-	-	-	28,802,261
Provisions	108,734,029	-	-	-	108,734,029
TOTAL	417,083,766	343,224,047	145,254,898	128,776,699	1,034,339,410
As at 30th June 2016:					
	0-30 Days	31-60 Days	61-90Days	Over 91 Days	TOTAL
Trade Payables	519,555,227	-	295,550,469	76,605,154	891,710,850
Stale Cheque	-	-	-	1,503,698	1,503,698
Retentions	14,294,785	-	-	-	14,294,785
Customer Prepayments	45,630,015	-	-	-	45,630,015
Provisions	2,065,899,009	-	-	-	2,065,899,009
TOTAL	2,645,379,036	-	295,550,469	78,108,852	3,019,038,357

iii) 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.

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Credit Risk

	2017 Kshs	2016 Kshs
Trade Receivables	3,918,258,604	3,740,340,113
Cash and Bank Balances	6,517,965,116	7,873,103,994
Total	10,436,223,720	11,613,444,107

The ageing of accounts receivables that explain the Authority's exposure to credit risk as at 30 June 2017 was made up as follows:

Trade Receivables:

	2017 Kshs	2016 Kshs
-by up to 30 days	686,462,025	1,352,784,968
-by 31-60 days	526,119,872	322,313,230
-by 61-90 days	295,819,837	356,717,281
-Over 91 days	2,416,220,806	1,708,524,635
TOTAL	3,924,622,541	3,740,340,113

iv) Court Case on KEMSA Land

The Property, Plant and Equipment balance includes two parcels of land located at Embakasi area, Off Mombasa Road in Nairobi, valued at Kshs 110,000,000 each whose ownership is in dispute. The matter is pending before the Court of appeal. (Kanji Hirani & Others Vs KEMSA). An adverse judgement against KEMSA's ownership of the two plots may materially impact on the reported balances for Property, Plant and Equipment.

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28. 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.

Related Party Transactions	2017 KShs	2016 KShs
Grants From the National Government	376,000,000	363,729,432
Sale of Medical Commodities To Public Health facilities	4,841,464,316	4,763,906,247
Board Expenses	2,542,541	3,888,582
Key Management Compensation	40,485,161	33,063,445
TOTAL	5,260,492,018	5,164,587,706

29. 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 100,834,106. As at 30th June 2017 the future Minimum lease payments are as detailed below.

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	2017 Kshs	2016 Kshs
Not Later Than 1 year	122,776,221	100,316,915
Later than 1 year and not later than 5 years	218,909,154	-
Later Than 5 Years	-	-
Total	341,685,374	100,316,915

30. In cash support on Expenditure

The in cash support on Expenditure of Ksh 1,274,312 relates to sponsorship payment from several Strategic partners like Novo Nordisk, USAID, UNICEF relating to county forums and capacity building activities held within the Financial year 2016/2017.

31. Events after the Reporting Period

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

32. Currency

The financial statements are presented in Kenya Shillings (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.	Lack of Title deeds for KEMSA parcels of land.	The KEMSA Board Authority has taken up the issue of titles on KEMSA Land and has engaged Priority Management Limited, (Conveyance experts) through KTK Advocates to handle the issue of realization of the titles deeds with a specified time frame.	Director Legal Services/ Corporation Secretary	Not resolved	June 2018
2.	Long Outstanding Accounts Receivable of Kshs 1,708,524,634	Out of the overdue amount of Ksh 1,708,524,364, an amount totaling to Kshs 1,024,800,765.77 was due from National programmes managed by the Ministry of Health. The Ministry has already paid Kshs 556,881,253.50 so far. The remainder been treated as pending bills. We have continuously engaged the Ministry to have the remaining amount cleared. We are also renegotiating the Memoandum of Understandings (MOUs) with the new county Governments that will guide on how payments for past and future medical supplies will be cleared.	Chief Executive Officer, Commercial Director	Partially Resolved	December 2018

**Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)**

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 31,2020		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 16/17		
a. Recurrent Grants		
	Bank Statement Date	Amount (KShs)
	04-08-2016	94,000,000
	19-12-2016	94,000,000
	07-02-2017	94,000,000
	28-04-2017	94,000,000
	Total	376,000,000
		<u>Indicate the FY to which the amounts relate</u>
		2016/2017
		2016/2017
		2016/2017
		2016/2017

Appendix 4: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
Ministry of Health	04-08-2016	Recurrent	94,000,000	94,000,000	-	-	-	-	94,000,000
Ministry of Health	19-12-2016	Recurrent	94,000,000	94,000,000	-	-	-	-	94,000,000
Ministry of Health	07-02-2017	Recurrent	94,000,000	94,000,000	-	-	-	-	94,000,000
Ministry of Health	28-04-2017	Recurrent	94,000,000	94,000,000	-	-	-	-	94,000,000
Total			376,000,000	376,000,000	-	-	-	-	376,000,000

