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**REPORT
OF
THE CONTROLLER
AND AUDITOR GENERAL**


ON

**THE FINANCIAL STATEMENTS OF
KENYA MEDICAL SUPPLIES AGENCY
FOR THE YEAR ENDED 30 JUNE 2006**

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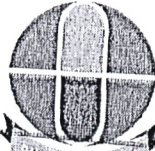
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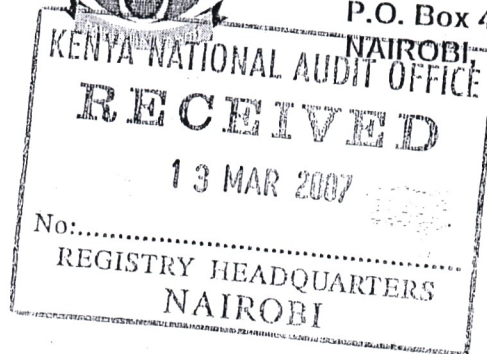


**KENYA MEDICAL SUPPLIES AGENCY
(KEMSA)**

Facsimile: 254-2-558100
Telephone: Nairobi 537670/1/2/3
Email: info@kemsa.co.ke



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



**ANNUAL REPORT & FINANCIAL
STATEMENTS FOR THE
YEAR ENDED 30TH JUNE 2006**

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Institutional information:

Establishment

Kenya Medical Supplies Agency (KEMSA) was established as a Parastatal under Legal Notice No. 17 of 3rd February, 2000.

Functions of the Agency

- To develop and operate a viable commercial service for the procurement and sale of drugs and other medical supplies.
- To provide a secure source of drugs and other medical supplies to Public Health institutions.
- To advise the Health Management Boards and the general public on matters relating to the procurement, cost effectiveness and rational use of drugs and other medical supplies.

Registered office and principle place of business

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

Bankers

1. National Bank of Kenya,
Harambee Avenue,
Nairobi.

2. Commercial Bank of Africa,
Nyerere Road,
Nairobi.

Independent Auditor

Controller & Auditor-General,
Kenya National Audit Office,
Kencom House, City Hall way,
Nairobi.

Board Members

- a) Mr. Peter T. Kanyago -Chairman
- b) The Permanent Secretary, Ministry of Health
- c) The Permanent Secretary, Ministry of Finance
- d) The Director of Medical Services
- e) The Chief Pharmacist
- f) The Registrar of the Nursing Council
- g) Dr. Titus M. Kahiga
- h) Dr. Wilberforce O. Wanyanga
- i) Dr. Samson K. Ndege
- j) Mr. Francis M. Kithae,
- k) Mr. Bert Mbuvi
- l) Ms. Beatrice Sabana - Vice Chairperson
- m) Dr. Charles K. Kandie – Chief Executive Officer

Senior management staff

<u>Name</u>	<u>Designation</u>
a) Dr. Charles K. Kandie	Chief Executive Officer
b) Dr. John M. Munyu	Technical Director
c) Mr. John O. Wamwanga	Finance Manager
d) Mr. Ignatius K. M'Arithi	Logistics Manager
e) Dr. Wanjau Mbuthia	National Liaison Manager
f) Dr. John Aduda	Quality Assurance Manager
g) Mr. Godfrey Kiptum	HR & Adm Manager
h) Mr. Paul K. Koske	ICT Manager
i) Mr. Joseph Gichuru	Public Relations Manager
j) Mr. Edward Buluma	Procurement Manager
k) Mr. Samuel Okanda	Warehouse Manager
l) Mr. Toddy Madahana	Security Manager
m) Mr. Joseph Abok	Internal Audit Manager
n) Mr. Fredrick Wanyonyi	Legal Manager



Statement of Board members' responsibilities

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

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

The Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Agency as at 30th June 2006 and of its deficit for the year then ended. The Board further confirms the accuracy and completeness of the accounting records maintained by the Agency which have been relied upon for the preparation of financial statements as well as the adequacy of the systems of the internal financial controls.

This statement is approved by the Board members and it is signed on their behalf by:



Dr. Charles R. Kandie
Chief Executive Officer



Mr. Peter Kanyago
Board Chairman

Date..... 15/12/06

Date..... 15/12/2006



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA MEDICAL SUPPLIES AGENCY FOR THE YEAR ENDED 30 JUNE 2006

I have audited the financial statements of Kenya Medical Supplies Agency for the year ended 30 June 2006 in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

The Board is responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Agency and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion


The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the Board, as well as an evaluation of the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

Title Deeds

The property, plant and equipment figure of Kshs.284,037,794 as at 30 June 2006 includes pieces of land valued at Kshs.151,528,000 with no title documents. According to information available, these pieces of land are those that were to be transferred from the Central Medical Stores to Kenya Medical Supplies Agency and which include depots situated in Nairobi, Mombasa, Kisumu, Eldoret, Nakuru and Nyeri. Further, the Agency does not maintain a fixed assets register and thus I was unable to confirm the ownership and physical location of the land.

Opinion

Except for the foregoing reservation, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the Agency as at 30 June 2006 and of its deficit and cash flows for the year then ended in accordance with Kenya Medical Supplies Agency Order, 2000.


P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

21 February 2007



KENYA MEDICAL SUPPLIES AGENCY
INCOME & EXPENDITURE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

INCOME	NOTE	2005/2006 KShs.	2004/2005 KShs.
Grants from MOH			
Sale of Equipment	2	169,800,000	119,800,000
Sale of tender documents		2,902,258	1,100,373
Gains on disposal of M/V		-	859,500
USAID		-	271,986
Global Fund	3	3,881,037	10,525,373
World Bank		10,532,290	-
E-Sokoni Project	3	6,343,675	-
Interest on deposits	4	136,202,964	-
	5	1,019,720	-
Total Income		330,681,944	132,557,232
EXPENDITURE			
Administration expenses	6	26,783,266	4,741,234
Transport Operating	7	66,764,537	13,564,687
Travelling & Accommodation		14,123,516	5,048,025
Board and Conferences		14,590,948	5,145,765
Insurance		6,396,368	162,077
General office expenses	8	14,950,594	1,701,369
Maintenance of Building & Machinery	9	421,084	1,376,218
Audit Fees	10	148,720	135,200
Salaries & Wages	11	94,009,236	-
E-Sokoni Project		136,202,964	-
Depreciation	12	20,963,362	7,426,444
Total Expenditure		395,354,595	39,301,019
Surplus/(Deficit)	13	(64,672,651)	93,256,213



KENYA MEDICAL SUPPLIES AGENCY
BALANCE SHEET AS AT 30 JUNE 2006

		2005/2006	2004/2005
	NOTE	KShs.	KShs.
NON CURRENT ASSETS			
Property, Plant & Equipment	12	275,426,725	
Property, Plant & Equip-WIP	12	8,611,070	241,510,714
		<u>284,037,794</u>	<u>241,510,714</u>
CURRENT ASSETS			
Cash and Cash-equivalents	14	3,834,975	82,902,547
Receivables	15	7,337,451	10,821,509
		<u>11,172,426</u>	<u>93,724,057</u>
CURRENT LIABILITIES			
Payables	16	382,172	492,087
		<u>10,790,254</u>	<u>93,231,970</u>
NET CURRENT ASSETS			
		<u>294,828,049</u>	<u>334,742,683</u>
NET ASSETS			
FINANCED BY:			
Accumulated fund		<u>270,070,033</u>	<u>334,742,683</u>
NON CURRENT LIABILITIES			
Deferred Income	17	24,758,016	
		<u>294,828,049</u>	<u>334,742,683</u>

SIGNED BY:

Dr. Charles K Kandie
Chief Executive Officer

Date 15/12/06

SIGNED BY:

Mr. Peter Kanyago
Board Chairman

Date 15/12/2006



KENYA MEDICAL SUPPLIES AGENCY
STATEMENT OF CHANGES IN ACCUMULATED FUNDS
FOR THE TWELVE MONTHS ENDED 30 JUNE 2006

	NOTE	2005/2006 Kshs.	2004/2005 Kshs.
Balance at the start of the year		334,742,683	241,486,471
Surplus/(Deficit) for the Period		(64,672,651)	93,256,213
<u>Prior Period Adj:</u>	17		
Income			5,916,122
Plant , Property & Equip			5,916,122
Depreciation			(5,916,122)
Deferred Income			(5,916,122)
Balance at end of 12 months		<u>270,070,032</u>	<u>334,742,683</u>



KENYA MEDICAL SUPPLIES AGENCY
CASHFLOW STATEMENT FOR THE TWELVE MONTHS ENDED 30 JUNE 2006

<u>CASHFLOWS FROM OPERATING ACTIVITIES</u>	2005/2006	2004/2005
	Kshs.	Kshs.
Surplus (Deficit) Before Tax & Extra Ordinary Items	(64,672,651)	93,256,213
Adjustments For:		
Depreciation	20,963,362	7,426,444
Assets Income Grant	(10,224,713)	
Interest on deposits	(1,019,720)	
Loss/(Profit) on Disposal Of Fixed Assets		(1,372,359)
Surplus/(Deficit) Before Working Capital Changes	(54,953,721)	99,310,298
Decrease/(Increase) in Receivables	(5,127,011)	(10,821,509)
Increase/(Decrease) in payables	(109,915)	132,241
Cash Generated From Operations	(60,190,647)	88,621,029
Cashflows Before Extra ordinary Items	(60,190,647)	88,621,029
Net Cash From Operating Activities	(60,190,647)	88,621,029
<u>CASHFLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Tangible Assets	(19,896,644)	(15,243,185)
Interest Received	1,019,720	1,424,159
Disposal of fixed assets		
Net Cash Used On Investing Activities	(18,876,925)	(13,819,026)
<u>CASHFLOWS FROM FINANCING ACTIVITIES</u>		
Net (Decrease)/Increase in Cash & Cash Equivalents	(79,067,572)	74,802,003
Cash & Cash Equivalents at start of Year	82,902,547	8,100,544
Cash & Cash Equivalents end of Period	3,834,975	82,902,547



KENYA MEDICAL SUPPLIES AGENCY
ACCOUNTING POLICIES:

The principal accounting policies adopted in the preparation of the Financial Statements are set out below:

a) Basis of preparation

The Financial statements have been prepared on historical cost accounting basis.

b) Income recognition

Grants from the Ministry of Health and other sources are recognised when received.

c) Property, Plant and Equipment

Property, Plant and Equipment is stated at historical cost adjusted for any revaluations less accumulated depreciation. The depreciation charge is based on reducing balance method.

The assets have been depreciated as follows;

	<u>Rate per annum (%)</u>
* Building	2.5
* Fixtures, fittings & equipments	10
* Plant & Machinery	10
* Furniture	10
* Motor vehicles	20
* Computer & Equipment	33.33

d) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimate of the selling price in the ordinary course of business less the selling expense. Cost is determined by the average cost method. For the year in question, the value of inventory does not appear in the Financial Statements because the stocks belong to the Ministry of Health.

e) Cash and Cash equivalents

For the purposes of the cashflow statement, Cash & Cash-equivalents comprise cash in hand and bank, un-dispatched cheques and deposits held at call with banks.

f) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS:**Principle activities**

The principle activities were to Procure, Warehouse and Distribute medical commodities to the Public Health Institutions.

1 Grants from MOH

All the monthly Recurrent Grants of Kshs. 119,799,999 were received plus the Annual Development Grant of Kshs. 50 million.

3 USAID/World Bank

This was a grant from USAID & World Bank in form of Plant, Property and Equipment as per attached schedule 1.

4 E-SOKONI Project

E-Sokoni are consultants under USAID and this figure represents what they have spent and have been re-imbursed by USAID for their services to KEMSA as presented by E-Sokoni to KEMSA.

5 Interest on Deposits

Kshs. 50,000,000 was deposited in fixed deposit accounts in tranches and an interest of Kshs. 1,019,719 was earned on maturity.

6 Administration expenses

	2005/2006 Kshs.	2004/2005 Kshs.
Passage & Leave		109,261
Telephone ,fax & postage	3,687,516	1,412,138
Office Entertainment	3,973,780	1,487,414
Water,Electricity,generators & Conservancy	1,009,967	77,419
Stationery	2,981,951	1,212,923
Miscellaneous		442,079
Training&conferences	5,859,279	
ICT Consumables	3,452,266	
Rent & Rates	5,818,506	
Totals	26,783,266	4,741,234

7 Transport

	2005/2006 Kshs.	2004/2005 Kshs.
Fuels & oils	10,238,679	8,566,327
Vehicle maintenance	5,026,020	4,150,160
Outsourced distribution	51,499,839	848,200
Totals	66,764,537	13,564,687

8 General office expenses

	2005/2006 Kshs.	2004/2005 Kshs.
Uniform Expenses		3,636
Advertising & Publicity	3,701,778	658,822
Plant & Equipment		32,100
Obsolete stock Disposal	1,827,110	786,811
Contracted/Professional services	2,941,356	220,000
Other Office Expenses	1,301,073	
Security	1,155,586	
Warehouse Packaging Materials	3,119,479	
Quality Assurance	904,211	
Totals	14,950,594	1,701,369

9 Maintenance of Building & Machinery

	2005/2006 Kshs.	2004/2005 Kshs.
Maintenance of Machinery		856,117
Maintenance of Building	421,084	520,101
Asset Repair & Maintenance	421,084	
Totals	421,084	1,376,218



NOTES TO THE FINANCIAL STATEMENTS:

10 Audit Fees

Audit Fees of Kshs. 148,720 has been accrued for and is part of the payables account in the balance sheet.

11 Salaries & Wages

	2005/2006 Kshs.	2004/2005 Kshs.
Staff seconded to KEMSA	30,026,183	
Wages	6,412,600	
Kemsa Salaries	57,570,453	
Totals	94,009,236	

12 Plant, Property & Equipment (Schedule 1)

The WIP includes alterations to buildings whereby certificates of completion had not been issued as at Year end. KEMSA still does not have all the title deeds to the fixed assets. However there is a committee in place composed of Legal officer (KEMSA), Officers from The Ministries of Lands, Public Works, Health and The Attorney General's office working on it.

13 Deficit

The income and expenditure account shows a deficit of Ksh. 64,672,651. This deficit is as a result of loss in operations and wear and tear provisions.

14 Cash & Cash-equivalents

	2005/2006 Kshs.	2004/2005 Kshs.
Cash at hand	86,489	50,418
National Bank Of Kenya	3,728,486	82,852,129
CBA Bank	20,000	
Totals	3,834,975	82,902,547

15 Receivables

	2005/2006 Kshs.	2004/2005 Kshs.
KEMSA/E-SOKONI project	237,310	838,176
Distribution/Travel Imprest/Advances	314,014	
Final tranche of the MOH grant		9,983,333
Prepaid Rent-Jul-Aug	2,200,000	
Rent Deposit	3,300,000	
Prepaid Insurance	1,286,128	
Totals	7,337,451	10,821,509

16 Payables

	2005/2006 Kshs.	2004/2005 Kshs.
Audit Fees	148,720	267,200
Retention Fees	211,452	156,301
Sundry Creditors		22,586
Deposits for Boarded Motor vehicles	22,000	46,000
Totals	382,172	492,087

17 Deferred Income

This is as a result grants in form of Property, Plant & Equipment from USAID and World bank with a useful life of four (4) Years as follows;

Development Partner

	2003/04	2005/06	Recognised	Deferred
USAID	11,832,244	3,691,905	9,797,159	5,726,990
World Bank		25,374,701	6,343,675	19,031,026
Totals	11,832,244	29,066,606	16,140,835	24,758,016

The grant for the FY 2003/04 was recognised in the FY 2005/06 as a prior period adjustment.

Inventory

The stocks held at KEMSA as at 30th June 2006 were valued at Kshs. 4,269,794,629. However this was not reflected in the financial statements as the stocks are owned by the Ministry of Health. The stocks are however not insured by the Agency.

These financial statements are presented in Kenya Shillings (KShs.)



KENYA MEDICAL SUPPLIES AGENCY

PROPERTY, PLANT & EQUIPMENT DEPRECIATION SCHEDULE FOR THE TWELVE MONTHS ENDED 30 JUNE 2006

	LAND	BUILDINGS	FIXTURES, FITTINGS & EQUIPMENT	PLANT & MACHINERY	FURNITURE	MOTOR VEHICLE	COMPUTER HARD & SOFT WARE	TOTALS
COST/VALUATION AS AT 1/7/2005	151,528,000	67,416,019	11,054,643	11,473,359	9,662,810	65,256,102	13,619,423	330,010,356
ADDITIONS	-	67,416,019	10,258,755	10,346,732	8,331,138	14,724,600	6,609,618	269,214,862
US AID	-	-	795,888	1,126,627	1,331,672	9,632,652	7,009,805	19,896,644
WORLD BANK	-	-	-	-	-	-	-	15,524,149
DISPOSALS	-	-	-	-	-	-	-	25,374,701
DEPRECIATION AS AT 1/7/2005	151,528,000	67,416,019	11,054,643	11,473,359	9,662,810	65,256,102	13,619,423	330,010,356
ACC DEPR ON ASSETS AS GRANTS OMITTED	Nil	7,270,301	3,649,015	3,746,811	2,462,141	8,378,674	2,203,206	5,916,122
DEPR ON GRANT ASSETS	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
ACC DEPR ON DISPOSAL	Nil	1,503,643	741,163	772,635	720,067	3,195,716	3,805,406	20,963,362
DEPRECIATION CHARGE FOR THE 12 MONTHS	Nil	8,773,944	4,384,178	4,519,466	3,182,208	27,715,224	6,008,512	54,583,632
BY AS AT 30/06/2006	151,528,000	58,642,075	6,670,465	6,953,893	6,480,602	37,540,878	7,510,812	275,426,725
BY AS AT 30/6/2005	151,528,000	60,145,718	6,615,740	6,599,921	5,868,996	6,345,926	4,406,412	241,510,714