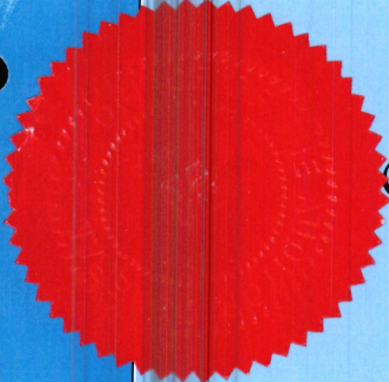


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



THE NATIONAL ASSEMBLY
PAPERS LAID

REPORT

DATE: 31 JUL 2019 Wednesday

TABLED BY: Hon. Benjamin Wachiuri (Majority Whip)

CLERK OF THE TABLE: Hellen Almeda **OF**



THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NATIONAL QUALITY CONTROL
LABORATORY**

**FOR THE YEAR
ENDED 30 JUNE 2018**



NATIONAL QUALITY CONTROL LABORATORY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2018

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

NATIONAL QUALITY CONTROL LABORATORY
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KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The National Quality Control Laboratory (NQCL) was established under section 35D of the Pharmacy and Poisons Amendment Act of 1992 (Cap 244, Laws of Kenya) on the 28th October, 1992 and came into operation on 06th November, 1992.

(b) Principal Activities

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

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

(c) Key Management

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

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

(d) Fiduciary Management

The key management personnel

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

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

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KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

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

(e) Fiduciary Oversight Arrangements

The Statutory fiduciary oversight agencies include;

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

(f) NQCL Headquarters

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

(g) NQCL Contacts

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

(h) NQCL Bankers

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

(i) Independent Auditors







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

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- (j) Principal Legal Adviser**
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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THE BOARD OF MANAGEMENT







	Board Member's photo	Name & Designation	Date of Birth	Profession/ Academic Qualification/ Work Experience	Main Responsibility
1.		William Mwatu (Dr.)	22 nd Nov 1964	Pharmacist - BPharm, MPSK/ 29 Years Work Experience	Chairperson
2.		Irene Thiguku Kamanja (Dr)	13 th Dec 1966	Veterinary Surgeon – PhD, MSc, BVM/ 24 Years Work Experience	Member & Finance, Administration & General Purpose Committee (FAGPC) Member
3.		Paul Munyao Mutua (Mr)	16 th Jan 1974	Advocate – LLM, LLB, MLSK/ 15 Years Work Experience	Member, Technical & Audit Committees Member
4.		John Ronoh Sitienei (Mr)	25 th Nov 1957	Lecturer – PhD, M.Ed, B.Ed/ 33 Years Work Experience	Member & FAGPC Member
5.		Georgina Muchai (CPA)	10 th Apr 1986	Auditor, Accountant – CPA (K), BCom/ 11 Years Work Experience	Chairperson FAGPC Member
6.		Lilian Balusi Makungu Njoroge (Dr.)	14 th Sep 1969	Pharmacist - BPharm, MPSK/ 23 Years Work Experience	Member & Technical Committee Chairperson

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	Board Member's photo	Name & Designation	Date of Birth	Profession/ Academic Qualification/ Work Experience	Main Responsibility
7.		Hellen Bosibori Okioma	03 rd May 1953	Trainer/Management Consultant – B.Ed., MKENAS/ 39 Years Work Experience	Member& Audit Committee Member
8.		Simon Njoroge Muigai (Dr.)	02 nd June 1972	Pharmacist - BPharm, MPSK/ 20 Years Work Experience	Member, Technical & Audit Committees Member
9.		Edith Wambui Tanu Wakori (Dr.)	23 rd Dec 1954	Pharmacist/Lecturer – PhD student, Post Grad., M.Pharm, BPharm, MPSK/ 39 Years Work Experience	Member, Technical & FAGPC Committees Member
10.		Hezekiah Kibet Chepkwony (Dr)	09 th Jan 1962	Director; PhD; MPharm; MSc. Pharm; MPSK/ 27 Years Work Experience	Secretary to the BOM

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MANAGEMENT TEAM

	Key manager's passport-size photo	Name – Designation	Professional/ Academic Qualification	Main Responsibility	Experience (Years)
1.		Dr. H.K. Chepkwony - Snr. Deputy Chief Pharmacist	PhD, MPharm, MSc. Pharm; MPSK	Director	27
2.		Dr. Pius Wanjala - Snr. Deputy Chief Pharmacist	MPharm, LLB; MPSK	Senior Deputy Director	19
3.		Dr. George Wang'ang'a - Deputy Chief Pharmacist	MSc. Intl. Health, MBA, BPharm; MPSK	Deputy Director Finance & Administration	16
4.		Dr. Serah Muteru - Assistant Chief Pharmacist	Msc, BPharm; MPSK	Deputy Director Quality Assurance Manager	16
5.		Dr. Ernest Mbae - Deputy Chief Pharmacist	MPharm, BPharm; MPSK	Deputy Director Technical Services	16
6.		Dr. Nicholas Mwaura - Assistant Chief Pharmacist	PhD, MPharm, BPharm; MPSK	Deputy Director Research & Technological Development	17

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	Key manager's passport-size photo	Name – Designation	Professional/ Academic Qualification	Main Responsibility	Experience (Years)
7.		Dr. Mathayo Kwena– Assistant Chief Pharmacist	Msc, BPharm; MPSK	Head Instrumentation Unit	14
8.		Dr. Sarah Mwangi- Assistant Chief Pharmacist	Msc; BPharm; MPSK	Head Biological Analysis Unit	16
9.		Dr. Rebecca Manani Assistant Chief Pharmacist	Msc; BPharm; BPharm; MPSK	Head Documentation Unit	16
10.		Ms. Anastasia Ngumbi – Pharmaceutical Technologist	Dip. Pharm. Tech; Dip in Law; MKPA	Head Medical Devices Unit	37
11.		Dr. Paul Njaria - Assistant Chief Pharmacist	PhD, MPharm, BPharm; MPSK	Head Wet Chemistry Unit	14
12.		Mr. David K. Yano	B. Com Finance, CPA (K),	Head, Finance and Administration	16
13.		Mr. George Ogeto Nyambane	BA. Econ CPA I, Dip. SCM	Head Supply Chain Management Unit	17

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CHAIRMAN'S STATEMENT

The Board of Management (BOM) presents the NQCL Annual Reports and Financial Statements for the year ended 30th June 2018.

The previous BOM term ended on 01st January 2018. However, it was unable to transact any business for more than a year because it did not have a quorum of five (5). Two (2) members were affected by the Presidential circular barring public servants to sit on Boards of State Corporations, three (3) members resigned from the Board due to personal reasons and one (1) member relocated from Kenya soon after appointment to the Board. This left only 3 members available for meetings. These 3 members have subsequently been re-appointed into the new BOM with a view to ensure smooth transition.

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

The new BOM was in place for the last 2 months of the FY and it held three (3) meetings including the inauguration meeting. I would like to thank the management on their commitment towards achievement of the Laboratory's mandate at a time when the BOM had not been appointed. I look forward to good working relationship between the BOM, management and key stakeholders including PPB and MOH.

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

- a. Work plan for the 2018/19 FY;
- b. Budget plan for 2018/19 FY;
- c. Reporting mechanism for the BOM to the appointing authority;

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CHAIRMAN'S STATEMENT (Continued)

- d. Usurpation of the GMP and sample analysis mandate of the Laboratory by the PPB;
- e. Court cases that have affected the Laboratory;
- f. Collaboration of NQCL and other prequalified Laboratories when and if need to do so arises;
- g. The NQCL's engagement with KenTrade, Major Ports of entries and Kenya Revenue Authority on implementation of the GMP compliant certification mandate;
- h. The deployment of staff to NQCL by Ministry of Health;
- i. Formation of the task force for the operationalization of NQCL as a State Corporation by the Ministry of Health;
- j. The construction of the Ultra-Modern Laboratory at the NQCL land in Upper hill Nairobi.
- k. The Laboratory's budgetary allocation from The National Treasury is sent to its account as grants to enhance financial independence, accountability and efficiency.

DR. SIMON MUSAI



Chairperson

Date 02/04/2019

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REPORT OF THE CHIEF EXECUTIVE OFFICER (DIRECTOR).

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

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

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

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

Among the key achievements in the year under review, NQCL managed to secure a comprehensive medical cover for the fifteen (15) contracted staff. This went a long way in improving their welfare. The second key achievement was the appointment of the BOM by the appointing authority during

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REPORT OF THE CHIEF EXECUTIVE OFFICER - DIRECTOR (Continued).

the 3rd quarter of the financial year. Activities that required the BOMs attention had been pending since the previous BOM could not transact any business. This was because it did not have a quorum of five (5). Two (2) members were affected by the presidential circular barring public servants to sit on Boards of State Corporations, three (3) members resigned from the BOM due to personal reasons and one (1) member relocated from Kenya soon after appointment to the BOM.

In the last 3 financial years, the laboratory has not been able to access its allocation for the vote head apart from paying a few pending bills. This has made it very difficult for the NQCL to execute its mandate. The vote head is administered from the Ministry of Health headquarters at Afya house. The Director of NQCL has little or no control over this vote head despite being the authorised Authority to Incur Expenditure (AIE) Officer.

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

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


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

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

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REPORT OF THE CHIEF EXECUTIVE OFFICER - DIRECTOR (Continued).

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



Dr. Hezekiah Kibet Chepkwony, PhD
Director,

Date 2nd APR. 19



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CORPORATE GOVERNANCE STATEMENT

Process of Appointment and Removal of Directors

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

Board Remuneration

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

Roles and Functions of the Board

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

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

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

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NUMBER OF BOARD MEETINGS HELD AND THE ATTENDANCE

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

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

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

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

Succession Plan

The BOM's succession plan is to review the section of the law that authorises another SAGA (PPB) to appoint its BOM. We anticipate that in future the BOM will be appointed by the CS Health and The President of the Republic appointing the Chairperson. All the current members are due for re-appointment. Currently the BOM does not have an existing Board Charter and will embark on

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having a draft ready before the end of quarter two (2). BOMs will be recruited competitively as governed by SCAC. The BOM will embark on training of its members on the Mwongozo Code of Governance, which is anchored in the Constitution of Kenya, 2010.

Board and Member Performance

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

Induction and Training

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

Ethics and Conduct

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

Conflict of Interest

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

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MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

In 2015 the Laboratory achieved ISO 17025 certification which raised the stature. Due to this, a number of qualified staff members moved to other competing Laboratories and institutions on offer of a better remuneration. The technical staff numbers have dwindled affecting greatly the technical output. Plans to recruit and replace them the staffs have already began and with the new BOM n place the process will be completed soon.

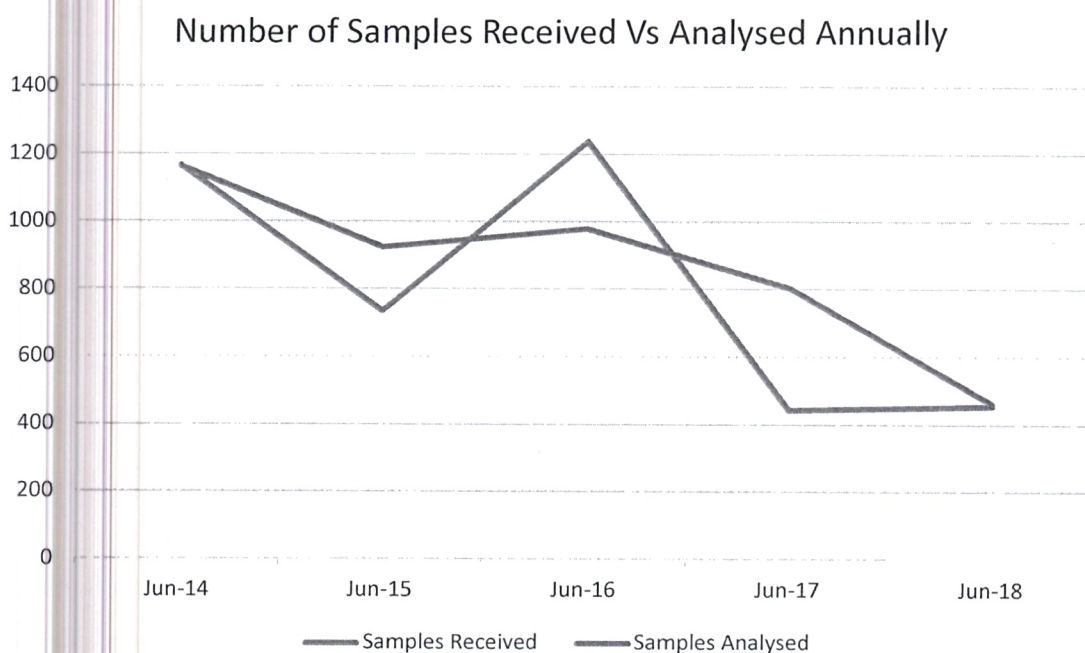
The Laboratory housed in the Kenyatta National Hospital (KNH) complex grounds was initially set-up as an upgrade of the Drug Analysis Research Unit of the School of Pharmacy University of Nairobi. It is therefore a squatter and does not pay any rent only incurring a charge for utilities. Over the years,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

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MANAGEMENT DISCUSSION AND ANALYSIS (Continued).

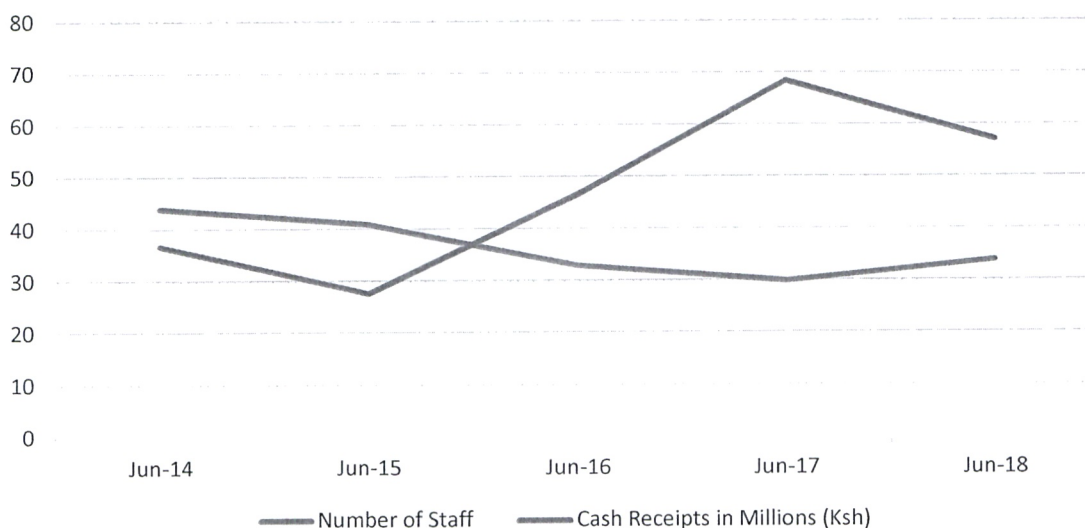
Lands after initial set-up. An extra piece of the allocated land is currently occupied by the KNH and negotiations are already going on for them to cede this land back to the Laboratory.

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



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Number of Staff Vs Cash Receipts Annually



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

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

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

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CORPORATE SOCIAL RESPONSIBILITY STATEMENT-SUSTAINABILITY REPORTING.

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

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

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

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

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

NATIONAL QUALITY CONTROL LABORATORY
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CORPORATE SOCIAL RESPONSIBILITY STATEMENT-SUSTAINABILITY
REPORTING (Continued)

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

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

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

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended 30th June 2018

REPORT OF THE BOARD OF MANAGEMENT

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018, which show the state of the National Quality Control Laboratory affairs.

Principal activities

The Laboratory continues to;

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

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

Results

The results of the entity for the year ended June 30, 2018 are set out on pages 1 to 5.

Directors/Board of Management

The members of the BOM who served during the year are shown on page iv. During the first half of the year, the BOM was unable to transact any business because it did not have a quorum of five (5). Two (2) members were affected by the Presidential circular barring public servants to sit on Boards of State Corporations, three (3) members resigned from the Board due to personal reasons and one (1) member relocated from Kenya soon after appointment to the Board.

A new BOM was appointed by the appointing authority via a gazette notice No. 1940 dated 02nd March 2018 effective from 12th February, 2018 and will serve for a period of three (3) years. The BOM was inaugurated on 05th April 2018.

NATIONAL QUALITY CONTROL LABORATORY
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For the year ended 30th June 2018

Dividends/Surplus remission

The entity made a deficit of ksh. (27,573,409) during the year

Auditors

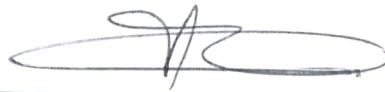
The Auditor General is responsible for the statutory audit of the National Quality Control Laboratory in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Dr. Hezekiah Kibet Chepkwony, PhD
Director, Secretary BOM

Date 2nd APR. 19



DR SIMON MUIGAI
Chairperson, BOM

Date 2nd April 2019

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended 30th June 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Board is responsible for the preparation and presentation of the Laboratory's financial statements, which give a true and fair view of the state of affairs of the Laboratory for and as at the financial year ended on 30 June 2018. This responsibility includes:

1. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
2. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
3. Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
4. Safeguarding the assets of the Laboratory;
5. Selecting and applying appropriate accounting policies; and
6. Making accounting estimates that are reasonable in the circumstances.

The Board accepts responsibility for the Laboratory's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards, and in the manner required by the Public Finance Management Act and the State Corporations Act.

The Board asserts that the financial statements give a true and fair view of the state of the Laboratory's transactions during the financial year ended 30 June 2018 and of its financial position as at that date. The Board further confirms the completeness and accuracy of the accounting records maintained by the Laboratory, which have been relied upon in the preparation of the financial statements as well as the adequacy of the internal control systems.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended 30th June 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

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


Approval of the Financial Statements

The Laboratory's financial statements are approved by the Chairperson of the Board on, 29th September, 2018 and signed on its behalf by:



Dr. Hezekiah Kibet Chepkwony, PhD
Director, Secretary BOM

Date 2nd APR 2019


DR. SIMON MUISAI
Chairperson, BOM

Date 2nd April 2019.

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL QUALITY CONTROL LABORATORY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Quality Control Laboratory set out on pages 1 to 34, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects the financial position of National Quality Control Laboratory as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Public Finance Management Act, 2012 and Section 35D of the Pharmacy and Poisons Amendment Act, 1992.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1 Statement of Cash Flows

The statement of cash flow for the year ended 30 June 2018 reflects increase in payables-staff gratuity of Kshs.4,246,947. However, the movement of Kshs.4,246,947 in payables-staff gratuity was not supported as it could not be traced in the statement of financial position as at 30 June 2018.

In the circumstances, the accuracy of the statement of cash flows for the year ended 30 June 2018 could not be confirmed.

Report of the Auditor-General on the Financial Statements of National Quality Control Laboratory for the year ended 30 June 2018

1.2 Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects total budgeted revenue of Kshs.273,523,000 and total budgeted expenditure of Kshs.531,463,000 resulting in a budget deficit of Kshs.257,940,000. Management did not however explain how they expected to finance the budget deficit of Kshs.257,940,000. Further, the 2016/17-2018/19 medium term budget from where the budget figures were extracted reflect total budgeted expenses of Kshs.318,161,000 which differ with the figure reflected in the statement of comparison of budget and actual amounts of Kshs.531,463,000 resulting in unexplained difference of Kshs.213,302,000.

In the circumstances, the accuracy of the statement of comparison of budget and actual amounts for the year ended 30 June 2018 could not be confirmed.

2. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.68,419,666 in the statement of financial position as at 30 June 2018 excludes an undetermined value of a parcel of land measuring four (4) hectares situated at Upper Hill, Nairobi which was allotted to National Quality Control Laboratory in 1992. The parcel of land was re-allocated to National Quality Control Laboratory in 1995 but was reduced to 2.61 hectares. Available information indicates that out of 2.61 hectares, 1.26 was sold to Kenya- Re by Kenya Media Trust and the remaining 1.35 hectares was taken over by Kenyatta National Hospital. However, a total of 2.35 hectares has since been surrendered back; Kenya-Re 1.0 hectares and Kenyatta National Hospital 1.35 hectares. Further, the National Land Commission has taken part of 1.35 hectares surrendered by Kenyatta National Hospital and donated it to Kenya Urban Road Authority for construction of road without consent of National Quality Control Laboratory. Further information indicates that the 1.35 hectares parcel of land surrendered by Kenyatta National Hospital is under the survey process. In addition, Kenya Re has since surveyed the 1.0 hectare, for purposes of subdivision for the laboratory, and the subdivision process is ongoing at the National Land Commission. The laboratory has not obtained any ownership documents for the remaining 1.65 hectares and no evidence that the processing of the same is on course.

Consequently, it has not been possible to determine that the property, plant and equipment balance of Kshs.68,419,666 included in the statement of financial position as at 30 June 2018 is fairly stated.

3. Cash and Cash Equivalent

The statement of financial position as at 30 June 2018 reflects cash and cash equivalent balance of Kshs.7,916,853. However, the adjusted cash book balance after casting the entire cash book indicates a cash balance of Kshs.7,986,098 leading to an understatement of Kshs.69,245.

In the circumstance, it has not been possible to confirm the validity and accuracy of the cash and cash equivalent balance of Kshs.7,916,853 included in the statement of financial position as at 30 June 2018.

4. Receivables from Exchange Transactions

As previously reported, the receivables from exchange transactions balance of Kshs.21,748,369 as at 30 June 2018 includes analysis fees totalling Kshs.6,013,120 reflected as owed by Kenya Medical Supplies Authority (KEMSA), which has been outstanding for more than thirteen (13) years. However, this balance is not reflected as a payables under KEMSA financial statements as at the same date. In addition, the receivables balance includes other receivables from United Nations Development Programme and Government of South Sudan amounting to Kshs.1,613,197 which have been outstanding for more than three (3) years and other debtors amounting to Kshs.3,224,016 which have been outstanding for more than a year. A provision for bad and doubtful debts of Kshs.672,630 equivalent to 3% of total outstanding debtors has been made in these accounts in respect of the outstanding receivables but the provision appear inadequate.

Consequently, it has not been possible to confirm the validity and recoverability of the receivables from exchange transactions balance of Kshs.21,748,369 included in the statement of financial position as at 30 June 2018.

5. Unsupported Expenditure

Included in the statement of financial performance for the year ended 30 June 2018 is repairs and maintenance expenses of Kshs.12,719,968 and general expenses of Kshs.26,009,882. However, supporting documents for repairs and maintenance expenses amounting to Kshs.9,437,930 and general expenses amounting to Kshs.1,809,064 were not availed for audit verification.

Consequently it has not been possible to confirm the propriety of expenditure totalling to Kshs.11,246,994 for the year ended 30 June 2018.

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

Key Audit Matters

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

Other Matter

1. Budgetary Performance

During the year under review, National Quality Control Laboratory actual receipts amounted to Kshs.54,045,987 against budgeted receipts of Kshs.273,523,000 resulting in an shortfall of Kshs.219,477,013. Further, the Laboratory actual expenditure for the year amounted to Kshs.82,709,003 against budgeted expenditure of Kshs.531,463,000 resulting in an overall under absorption of Kshs.448,753,997. It is clear that the Laboratory failed to achieve its budget objectives hence failure to deliver the intended services to the public. Therefore, there is need for the Laboratory to review its budget making process with a view to coming up with a realistic budget.

2. Legal Status of National Quality Control Laboratory (NQCL)

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

Responsibilities of Management and Those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

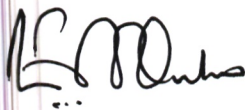
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion,

forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Laboratory ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Laboratory to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the revenue statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Laboratory to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

24 April 2019

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended 30th June 2018

STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2017-2018	2016-2017
		Kshs	Kshs
Revenue from non-exchange transactions			
Public contributions and donations – Deferred income (GTZ)	6	5,736,554	6,562,556
Transfers from other governments – gifts and services-in-kind	7	13,401,670	7,251,408
Revenue from exchange transactions			
Rendering of services – Analysis fees	8	34,907,763	68,535,503
Other income - (GMP certification / CoA -certified copies)		-	1,000
Decrease in provision for bad debt		1,089,607	-
Total revenue		55,135,594	82,350,467
Expenses			
Use of goods and services -Electricity	9	1,341,360	1,082,714
Employee costs - Personnel	10	22,960,691	22,009,862
Remuneration of Directors (BoM)	11	981,414	722,512
Depreciation and amortization expense	12	18,569,605	18,710,901
Repairs and maintenance	13	12,719,968	11,322,439
General expenses (Admin exp)	14	26,009,882	21,964,342
Finance costs	15	126,083	109,556
Total Expenses		82,709,003	75,922,326
(Deficit) / Surplus		(27,573,409)	6,428,141
Net (Deficit/Surplus) for the year		(27,573,409)	6,428,141

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

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended 30th June 2018

STATEMENT OF FINANCIAL POSITION

Assets	Notes	2017-2018	2016-2017
		Kshs	Kshs
Current assets			
Cash and cash equivalents	16	7,916,853	9,768,493
Receivables from exchange transactions	17	21,748,369	56,742,007
Receivables from non-exchange transactions staff advances	18	280,000	237,000
Inventories	19	20,378,487	17,973,254
Non-current assets			
Property, plant and equipment	20A	68,419,666	69,399,127
Total assets		118,743,375	154,119,881
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	21	19,492,611	21,559,154
Deferred income – GTZ Donated Assets	20B	40,132,719	45,869,273
		59,625,330	67,428,427
Non-current liabilities			
Non-current employee benefit obligation - Gratuity		-	-
Total liabilities		59,625,330	67,428,427
Net assets		-	-
Accumulated surplus B/F		86,691,454	80,263,313
(Deficit) / Surplus for the year		(27,573,409)	6,428,141
Accumulated surplus C/F		59,118,045	86,691,454
Total net assets and liabilities		118,743,375	154,119,881

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


Director


Head of Finance

Chairman of the Board


Dr. Hezekiah Kibet Chepkwony, PhD

 P. O. Box 29726 – 00202, N.A.S
 TEL: 2726963 / 3544525/30
 FAX: 2718073


 2nd April 2019


DR. SIMON MUIGAI

Date

2nd APR. 19

Date

2nd April 2019.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended 30th June 2018

STATEMENT OF CHANGES IN NET ASSETS

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

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
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STATEMENT OF CASH FLOWS

		2017-2018	2016-2017
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Rendering of services – A-I-A Income	8	34,907,763	68,536,503
Total Receipts		34,907,763	68,535,503
Payments			
Compensation of employees (Staff)	10	22,960,691	22,009,862
Board Expenses	11	981,414	722,512
Goods and services Repairs & Maintenance	13	12,719,968	11,322,439
Finance cost	15	126,083	109,556
Other payments (General exp)	14	26,009,882	21,964,342
Total Payments		62,798,038	56,128,711
Net cash flows from operating activities ;		(27,890,275)	12,406,792
Cash flows from investing activities;			
Purchase of property, plant, equipment and intangible assets	20	(193,280)	(3,832,000)
Proceeds from sale of property, plant and Equipment		-	-
(Increase) / Decrease in non-current receivables	17 & 18	34,950,638	(22,164,160)
(Increase) / Decrease in inventories	19	(2,405,233)	29,989,171
Increase / (Decrease) in payables	21	(2,066,543)	(17,624,828)
(Increase) / Decrease in Payables – staff Gratuity	22	(4,246,947)	(664,924)
Net cash flows used in investing activities		26,038,635	(13,346,415)
Cash flows from financing activities;			
(Decrease) Increase in deposits - prepayments	21	-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		(1,851,640)	(939,623)
Cash and cash equivalents at 1 JULY	16	9,768,493	10,708,116
Cash and cash equivalents at 30 JUNE	<u>16</u>	<u>7,916,853</u>	<u>9,768,493</u>

Note 22: The two differences of ksh. 4,246,947 results from the omission of staff Gratuity for the period now supported.

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended 30th June 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Variance
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	
	Kshs	Kshs	Kshs	Kshs	Kshs	
Public contributions and donations	-	-	-	5,736,554	5,736,554	F* (i)
Government grants and subsidies	213,523,000	-	213,523,000	13,401,670	(200,121,330)	A* (ii)
Rendering of services	60,000,000	-	60,000,000	34,907,763	(25,092,237)	A* (iii)
Total income	273,523,000	-	273,523,000	54,045,987	(219,477,013)	A
Expenses						
Compensation of employees	72,532,000	-	72,532,000	22,960,691	49,571,309	F* (iv)
Remuneration to the Board	3,929,000	-	3,929,000	981,414	2,947,586	F* (v)
Goods and services (Repairs / Maintenance)	94,758,000	-	94,758,000	12,719,968	82,038,032	F* (vi)
Finance cost – Bank charges	566,000	-	566,000	126,083	439,917	F* (vii)
Other payments – General/Admin exp	118,401,000	-	118,401,000	26,009,882	92,391,118	F* (viii)
Depreciation	27,754,000	-	27,754,000	18,569,605	9,184,395	F* (ix)
Grants and subsidies paid	213,523,000	-	213,523,000	1,341,360	212,181,640	F* (x)
Total expenditure	531,463,000	-	531,463,000	82,709,003	448,753,997	

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

Budget notes denoted with the asterisk mark *

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

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SURPLUS RECONCILIATION

Description	2017-2018
	KShs
Surplus/ deficit as per statement of financial performance	(27,573,409)
Donations	5,736,554
MoH (electricity and Imprest)	13,401,670
Total transfers and sponsorships	8,435,185

(i) Public contributions and Donations ksh. 5,736,554 – F variance

This favourable difference resulted from a Grant not budgeted as shown

(ii) Government grants and subsidies; ksh. 212,181,640 (A) total variance

We budgeted for ksh. 213,523,000 but received ksh 13,401,670 as follows; ksh 400,000 was an imprest for office use, electricity paid was ksh. 1,341,360 and finally ksh. 11,660,310 relating to equipment procured by KEMSA which has been long outstanding since 2012-13 being transfers of funds by MoH.

(iii) Rendering Services; ksh (25,092,237) (A) variance

During the year our budget was ksh. 60,000,000 yet in the year under review, we only earned ksh. 34,907,763 hence the variance. This was occasion lack of sample from our major clients namely; Pharmacy and Poison Board - PPB, NASCOP and DoMC.

(iv) Compensation of employee's ksh. (49,571,309) -F variance

This resulted from an anticipated Salary increment and recruitment of more contracted staff.

(v) Remuneration to the Board ksh. 2,947,586– F variance

The number of sittings of the Board members in the year under review was fewer than anticipated

(vi) Goods and services – Repairs ksh 82,038,032 - F variance

This resulted from an anticipated increment in laboratory operations hence repairs and maintenance costs

(vii) Finance cost ksh 439,917 (F) variance

The lab was anticipating for a lot of transactions in the year under review, but it did not happen. This was as a result of decrease in analysis fees which could have been utilized on the anticipated transactions.

(viii) Other payments - General / Administrative expenses ksh. 92,391,118- F

The lad had anticipated for more government grants and analysis fees which did not happen, hence less expenditure on general /administrative expenses.

NATIONAL QUALITY CONTROL LABORATORY
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NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Laboratory's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in the Notes. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the NQCL.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

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

Standard	Impact
IPSAS 39: Employee Benefits	<p>Applicable: 1st January 2018</p> <p>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>

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017-18.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
ADOPTION OF NEW AND REVISED STANDARDS (Continued)

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations. This standard has not been applied.

iii. Early adoption of standards

The entity did not adopt any new or amended standards in year 2018.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i. Revenue from non-exchange transactions

Fees, taxes and fines

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

Transfers from other government entities.

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

ii. Revenue from exchange transactions

Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income

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

b) Budget information

The original budget for FY 2016-2017 was approved by the BOM and forwarded to the MOH. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

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

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 1 of these financial statements.

c) Taxes

Current income tax

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

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

NQCL is exempted from paying corporate tax by virtue of being a state corporation.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sales tax

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

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

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

d) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

e) Research and development costs

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses.

Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Held-to-maturity

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

Impairment of financial assets

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

Evidence of impairment may include the following indicators:

- The debtors or entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults).

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Inventories

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

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

Raw materials: purchase cost using the weighted average cost method

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

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

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

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

Provisions;

Provision are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

NATIONAL QUALITY CONTROL LABORATORY
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For the year ended 30th June 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

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

Contingent assets

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

g) Nature and purpose of reserves

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

h) Changes in accounting policies and estimates

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

i) Employee benefits

Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

The Laboratory is does not maintain a defined contributory plan or a defined benefit plan as it is yet to adopt its scheme of service which provides for the employees retirement benefits as half of the employees are public service commission officers posted through the Ministry of

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Health while the other half are contracted, interns or casuals This is due to challenges on the status of the Laboratory, its financial arrangements with the parent Ministry (Health) and the Board of Managements appointing entity (Pharmacy and Poisons Board).

j) Foreign currency transactions

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

k) Related parties

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

l) Cash and cash equivalents

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

m) Budget information

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

The Laboratory's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xxx of these financial statements.

n) Comparative figures

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

o) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

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

Provisions

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

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

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and assumptions

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

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended 30th June 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

inform potential future use and value from disposal:

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

6. PUBLIC CONTRIBUTIONS AND DONATIONS

Description	2017-2018	2016-2017
	KShs	KShs
GTZ Donations	5,736,554	6,562,556
Total transfers and sponsorships	5,736,554	6,562,556

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

7. TRANSFERS FROM OTHER GOVERNMENTS

TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

Unconditional grants; Operational grant, other

Conditional grants; National housing grants, National infrastructure grants, provincial health grant, social services grant, Basic services subsidy, Transportation fund (international funding), other organizational grants.

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income.	Amount deferred under deferred income.	Amount recognised in capital fund.	Total grant income during the year	2017-2018	2016-2017
			KShs	KShs	KShs	KSh
Health Ministry /State Department	1,741,360	-	-	1,741,360	1,741,360	7,251,408
KEMSA Equipment	13,401,670	-	-	13,401,670	11,660,310	-
Total - KShs	13,401,670	-	-	13,401,670	13,401,670	7,251,408

Note ; The breakdown for the above transfers from KEMSA for equipment are as follows; LAL reader 237,8000, Zone reader 2,186,310, Polarimeter 733,294.84, UV+VIS 1,326,228.8, D. Tester 1,583,400, Ph-conductivity meter 302,516.8, Ultrasonic bath 245,456, digital hygrometer 1,455,104, Bulk filing system 1,450,000.

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

NATIONAL QUALITY CONTROL LABORATORY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. RENDERING OF SERVICES

Description	2017-2018	2016-2017
	KShs	KShs
Analysis fees	34,907,763	68,535,503
Total revenue from rendering of service	34,907,763	68,535,503

This reflects testing services – analysis fees, for pharmaceuticals products where a certificate of analysis is issued against samples submitted by clients

9. USE OF GOODS AND SERVICES

Description	2017-2018	2016-2017
	KShs	KShs
Electricity	1,341,360	1,082,714
Total good and services	1,341,360	1,082,714

NQCL consumed electricity paid by MOH

10. EMPLOYEE COSTS

Description	2017-2018	2016-2017
	KShs	KShs
Salaries and wages	11,011,602	15,780,485
Employee related costs – NHIF & NSSF	268,800	268,800
Leave pay 2016-17	80,000	-
Travel allowances	900,000	900,000
Housing benefits and allowances	3,105,000	3,105,000
Risk allow	955,500	955,500
Sub -Total Employee costs	16,320,902	21,009,785
Employee related costs – NSSF (employer-paid)	36,000	51,000
Employee related costs – Medical scheme (551221+297358)	848,579	684,870
Gratuity	5,755,210	264,207
Total Employee costs	22,960,691	22,009,862

11. REMUNERATION THE BOARD OF DIRECTORS

Description	2017-2018	2016-2017
	KShs	KShs
Chairman's Honoraria	-	-
Directors emoluments	-	-
Board's allowances (Sitting, Travel, Meal)	981,414	722,512
Total Board of Director's emoluments 873414+108000	981,414	722,512

NATIONAL QUALITY CONTROL LABORATORY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. DEPRECIATION AND AMORTIZATION EXPENSE

Description	2017-2018	2016-2017
	KShs	KShs
Property, plant and equipment – GoK	12,833,051	12,148,345
Property, plant and equipment - Donation	5,736,554	6,562,556
Total depreciation and amortization	18,569,605	18,710,901

13. REPAIRS AND MAINTENANCE

Description	2017-2018	2016-2017
	KShs	KShs
Equipment and machinery	12,719,968	11,322,439
Total repairs and maintenance	12,719,968	11,322,439

14. GENERAL / ADMIN EXPENSES

Description	2017-2018	2016-2017
	KShs	KShs
Admin fees - Office expenses	1,720,933	1,388,210
Audit fees	150,000	150,000
Consulting fees - Strathmore	3,850,743	935,828
Consumables - Miscellaneous	1,043,295	2,451,150
Electricity	1,341,360	1,082,714
Fuel and oil - Motor vehicle exp.	343,200	740,240
Chemicals & Reagents	9,927,478	7,525,558
Printing and stationery	2,212,429	2,131,355
Telecommunication (Telephone, internet & Postage)	1,155,048	1,166,963
Training	500,242	1,572,983
Others - Travelling costs	3,765,154	2,819,341
Total general expenses	26,009,882	21,964,342

Note: 2016-2017 Repairs & Maintenance amounting to ksh. 11,322,439 and electricity ksh.1,082,714 are deducted in note 09 and 13 while chemicals & reagents note 11 ksh.7,525,558 and provisions (for Bad debts & Audit fees ksh1,762,237 & 150,000) are added to comply with the new template.

15. FINANCE COSTS

Description	2017-2018	2016-2017
	KShs	KShs
Bank charges	126,083	109,556
Total finance costs	126,083	109,556

NATIONAL QUALITY CONTROL LABORATORY
Annual Reports and Financial Statements
For the year ended 30th June 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. CASH AND CASH EQUIVALENTS

Description	2017-2018	2016-2017
	KShs	KShs
Current account	7,916,853	9,768,493
Total cash and cash equivalents	7,916,853	9,768,493

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

Financial institution		2017-2018	2016-2017
11711	Account number	KShs	KShs
a) Current account			
National Bank of Kenya Ltd	01001031744600	9,534,852.27	9,746,904
Sub- total		9,534,852.27	9,746,904
b) Others (....)		-	-
Cash in transit – Unpresented Cheques		(1,629,710)	-
Cash in hand		406	-
Payments in bank statements not in cashbook		11,304.59	21,589
Sub- total		-	-
Grand total		7,916,853	9,768,493

17. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Description	2017-2018	2016-2017
	KShs	KShs - Restated
Current receivables		
Other exchange debtors – Analysis fees	14,794,682	50,877,927
Less: impairment allowance	-	-
Total current receivables	14,794,682	50,877,927
Non-current receivables		
Non-current receivables – Uncollectable	7,626,317	7,626,317
Total non-current receivables	-	-
Sub -Total receivables	22,420,999	58,504,244
Less: impairment allowance	(672,630)	(1,762,237)
Total receivables	21,748,369	56,742,007

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS.

Description	2017-2018	2016-2017
	KShs	KShs
Current receivables		
Other debtors - staff advances	280,000	237,000
Less: impairment allowance	(-)	(-)
Total current receivables	280,000	237,000

19. INVENTORIES.

Description	2017-2018	2016-2017
	KShs	KShs
Consumable stores	3,574,484	3,574,484
Medical supplies	16,804,003	14,398,770
Spare parts and meters	-	-
Total inventories at the lower of cost and net realizable value	20,378,487	17,973,254

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20A).PROPERTY, PLANT AND EQUIPMENT.

ASSETS/ ITEMS HEAD	Buildings - Renovation	Lab. (Electronic) Equipment	Furniture & Fittings	Office Electronic Equipment	Auto motives	Totals recomputed / Adjusted for F.Y 2016 – 2017 (Kshs)	Total computation reported for 2015 – 2016 (Kshs)
DEP. METHOD & RATE/ POLICY	Straight Line - 2.5%	Reducing Balance - 12.5%	Straight Line - 12.5%	Straight Line – 30%	Straight Line - 12.5%		
Cost / NBV as at 30 June 2015	16,035,646	89,913,589	7,115,554	3,201,700	7,741,974	124,008,463	124,008,463
Depreciation and or Impairment							
As at July 2013	2,890,233	41,874,975	2,817,712	-11,725,187	-	35,857,733	35,857,733
Depreciation 2013/14	181,242	11,239,199	396,882	-382,335	967,747	12,402,735	12,402,735
Accumulated Depreciation at 2014	3,071,475	53,114,174	3,214,594	-12,107,522	967,747	48,260,468	48,260,468
Depreciation for the year	400,891	4,599,927	889,444	960,510	967,747	7,818,519	7,818,519
Disposals / Impairment	-	-	-	-	-	-	-
Accumm. Depreciation as at June, 2015	3,472,366	57,714,101	4,104,038	-11,147,012	1,935,494	57,078,987	57,078,987
Net Book Values As at 30 June, 2015	12,563,280	32,199,488	3,011,516	2,241,190	5,806,480	55,821,954	55,821,954
Additions 2015-16	3,287,315	25,652,235	1,825,375	6,406,274	1,601,803	38,773,002	38,773,002
Cost / NBV as at 01 July 2015	15,850,595	57,851,723	4,836,891	8,647,464	7,408,283	94,594,956	94,594,956
Accumm Depreciation (as at 1st July 2015)	3,472,366	57,714,101	4,104,038	960,510	1,935,494	68,186,509	21,711,607
Depreciation for the year, 2015 - 16	301,831.98	7,231,465	1,117,616	2,882,392	1,167,972	12,701,278	11,076,729
Accumm Depreciation (as at 1st July 2016)	3,774,198	64,945,566	5,221,654	3,842,902	3,103,466	80,887,787	32,788,336
Less – GTZ Donations, Adjustment NBV B/D	(4,178,207)	-	-	-	-	(4,178,207)	-3793,445
Net Book Values as at 30 June 2016	11,370,556	50,620,258	3,719,275	5,765,072	6,240,311	77,715,471	58,013,176
Additions 2016- June,17	1,280,000	2,552,000	-	-	-	3,832,000	
Totals Cost / NBV as at 30 June,2017	12,650,556	53,172,257	3,719,275	5,765,072	6,240,311	81,547,471	
Accumm Depreciation (as at 1st July 2016)	3,774,198	64,945,566	5,221,654	3,842,902	3,103,466	80,887,786	
Depreciation charge for the year, 2016 - 17	333,832	6,646,532	1,117,616	2,882,392	1,167,972	12,148,345	
Accumm Depreciation (as at 30 June 2017)	4,108,030	71,592,099	6,339,271	6,725,294	4,271,439	93,036,132	
Net Book Values as at 30 June 2017	12,316,724	46,525,726	2,601,659	2,882,679	5,072,339	69,399,127	
Additions 2016- June,17	-	11,660,310	-	193,280	-	11,853,590	
Totals Cost / NBV as at 30 June,2018	12,316,724	58,186,036	2,601,659	3,075,959	5,072,339	81,252,717	
Depreciation charge for the year, 2017 - 18	333,832	7,273,255	1,117,616	2,940,376	1,167,972	12,833,051	
Accumm Depreciation (as at 30 June 2018)	4,441,862	78,865,354	7,456,887	9,665,670	5,439,411	105,869,182	
Net Book Values as at 30 June 2018	11,982,892	50,912,781	1,484,043	135,583	3,904,367	68,419,666	

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

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

	Furniture & fittings 2008/09 Straight line 2.5%	Office equipment 2012/13 Straight line 30.0%	Plant and Equipment - B/D2012/13 Reducing Balance 12.5%	Plant and Equipment - HPLC 2013/14 Reducing Balance 12.5%	Plant and Equipment - Isolator 2014/15 Reducing Balance 12.5%	Total
	Shs	Shs	Shs	Shs	Shs	Shs
COST AS AT DATE STATED;	635,998	73,767	10,419,395	33,008,867	38,633,848	82,771,875
Balance B/D 2012/13	49,409	73,767	5,170,446	22,882,759	-	28,176,381
Depreciation Charge for 2013-14	6,176	22,130	646,306	3,610,345	-	4,284,957
Balance B/D 2013/14	43,233	51,637	4,524,140	25,272,414	-	29,891,424
Depreciation Charge for 2014-15	6,176	22,130	565,518	3,159,052	4,829,231	8,582,107
Balance B/D 2014/15	38,601	29,507	3,958,623	22,113,362	33,804,617	59,944,710
Depreciation Charge for 2015-16	6,176	22,130	494,829	2,764,170	4,225,577	7,512,882
Balance B/D 2015/16	32,425	7,377	3,463,795	19,349,192	29,579,040	52,431,829
Depreciation Charge for 2016-17	6,176	7,377	432,974	2,418,649	3,697,380	6,562,556
Balance B/D 2016-17	26,249	-	3,030,821	16,930,543	25,881,660	45,869,273
Depreciation Charge for 2017-18	6,176	-	378,852.6	2,116,317	3,235,207.5	5,736,554
Balance B/D 2017-18	20,073	-	2,651,968.4	14,814,225.1	22,646,452.5	40,132,719

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DEFERRED INCOME – 1994 GTZ Donation

Description	2017-2018	2016-2017
	KShs	KShs
International funders	-	-
Public contributions and donations	5,736,554	6,562,556
Total deferred income	5,736,554	6,562,556

the deferred income movement is as follows:

	National government	International funders – GTZ	Public contributions and donations	Total
Balance brought forward	-	45,869,273	-	45,869,273
Additions / Transfers to Capital fund	- (-)	- (-)	- (-)	- (-)
Transfers to income statement	(-)	(5,736,554)	(-)	(5,736,554)
Other transfers	(-)	(-)	(-)	(-)
Balance carried forward	-	40,132,719	-	40,132,719

21. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Description	2017-2018	2016-2017
	KShs	KShs
Trade payables	4,827,389	3,515,111
Payments received in advance – Analysis fees	8,203,295	10,408,442
Employee costs (Contracted staff gratuity) 4801789+460656+492765	5,755,210	5,418,994
Other payables	706,717	2,216,607
Total trade and other payables	19,492,611	21,559,154

21-EMPLOYEE BENEFIT OBLIGATIONS

Description	Defined benefit plan	Post-employment medical benefits	Other Provisions	TOTAL 2017-2018	TOTAL 2016-2017
	KShs	KShs	KShs	KShs	KShs
Current benefit obligation	-	-	-	-	-
Non-current benefit obligation	-	-	-	5,755,210	3,836,806
Total employee benefits obligation gratuity	-	-	-	-	-

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

	2017-2018	2016-2017
	Kshs	Kshs
Valuation at the beginning of the year	3,836,807	1,918,403
Changes in valuation during the year	1,918,403	1,918,403
Valuation at end of the year	5,755,210	3,836,807

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

22. NON-CURRENT PROVISIONS

Description	Long service leave	Gratuity	Other Provisions	Total
	KShs	KShs	KShs	KShs
Balance at the beginning of the year	-	1,762,237	-	1,762,237
Additional Provisions gratuity	-	(5,755,210)	-	(5,755,210)
Provision utilised – Audit fees		(300,000)		(300,000)
Change due to discount and time value for money (effects)	-	46,026	(-)	46,026
Less: Current portion	(-)	(-)	(-)	(-)
Total income (Decrease) / increase in provision		(4,246,947)	-	(4,246,947)

23. SERVICE CONCESSION ARRANGEMENTS

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

24. CASH GENERATED FROM OPERATIONS

	2017-2018	2016-2017
	KShs	KShs
Surplus for the year before tax		
Adjusted for:		
Depreciation	18,569,605	(20,214,160)
Finance cost	(126,083)	(109,556)
Working Capital adjustments		
Increase in inventory	(2,452,207)	(30,002,512)
Increase in receivables	34,993,638	(22,401,160)
Increase in deferred income	(826,002)	(950,326)
Increase in payables	(2,066,543)	(17,624,828)
Increase in provision	(4,246,947)	(6,701,280)
Net cash flow from operating activities	25,942,609	(57,356,390)

25. FINANCIAL RISK MANAGEMENT

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk

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

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

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

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2018				
Receivables from exchange transactions	14,794,682	14,794,682	7,626,317	-
Receivables from non-exchange transactions	280,000	280,000	-	-
Bank balances	7,916,853	7,916,853	-	-
Total	22,991,535	22,991,535	7,626,317	-
At 30 June 2017				
Receivables from exchange transactions	58,504,244	56,742,007	7,626,317	-
Receivables from non-exchange transactions	237,000	237,000	-	-
Bank balances	9,768,493	9,768,493	-	-
Total	68,509,737	66,747,500	7,626,317	-

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

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

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

(ii) Liquidity risk management (Continued)

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

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FINANCIAL RISK MANAGEMENT (Continued)

in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2018				
Trade payables	-	5,680,649	7,542,499	13,223,148
Provisions	-	-	916,691	916,691
Employee benefit obligation - Gratuity	-	1,754,148	3,508,297	5,262,445
Total	-	7,434,797	11,967,487	19,402,284
At 30 June 2017				
Trade payables	15,810,111	15,810,111	-	15,810,111
Provisions	-	-	1,754,148	1,754,148
Employee benefit obligation - Gratuity	-	-	3,508,297	3,508,297
Total	15,810,111	15,810,111	5,262,445	21,072,556

(iii) Market risk

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

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

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

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

(iv) Foreign currency risk

The entity has no transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FINANCIAL RISK MANAGEMENT (Continued)

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

Market risk (Continued)

Foreign currency risk (Continued)

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

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

a) Foreign currency sensitivity analysis

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

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

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FINANCIAL RISK MANAGEMENT (Continued)

deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

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

Sensitivity analysis

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs - (2016: KShs -). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs - (2012 – KShs -)

Fair value of financial assets and liabilities

Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The entity considers relevant and observable market prices in its valuations where possible.

	Level 1 Kshs	Level 2 Kshs	Level 3 Kshs	Total Kshs
Non- financial Assets				
Land and buildings	-	-	-	-
Property, plant and equipment	-	-	-	-
Non- financial Assets				
Land and buildings	-	-	-	-
Property, plant and equipment	-	-	-	-
At 30 June 2017				

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Fair value of financial assets and liabilities

Financial instruments measured at fair value (Continued).

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

Fair value of financial assets and liabilities

Market risk (Continued)

Financial instruments not measured at fair value (Continued)

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

Capital Risk Management

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

	2017-2018	2016-2017
	Kshs	Kshs
Revaluation reserve	(27,578,388)	-
Retained earnings	-	6,428,141
Capital reserve	86,691,454	80,263,313
Total funds	59,113,066	86,691,454
Total borrowings	-	-
Less: cash and bank balances	(-)	(0)
Net debt/(excess cash and cash equivalents)	-	-
Gearing	0%	0%

26. RELATED PARTY BALANCES

Nature of related party relationships

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

Government of Kenya.

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018	2017
	Kshs	Kshs
Transactions with related parties;		
a) Sales to related parties		
Sales of goods / services to a related MDA's (KEMSA, PPB, NASCOP, MoH)	25,937,763	49,481,699
Total	25,937,763	49,481,699
b) Grants from the Government		
Grants from National Gov't – Through KEMSA	13,401,670	7,251,408
Donations in kind	-	-
Total	13,401,670	7,251,408
c) Expenses incurred on behalf of the laboratory by related party		
Payments of salaries and wages for - employees	-	-
Payments for goods and services for a related party	-	-
Total		
d) Key management compensation		
Directors' emoluments	981,414	722,512
Compensation to the CEO	600,000	600,000
Compensation to key management (Directors)	2,400,000	2,400,000
Total	3,981,414	3,722,512

27. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities	2017-2018	2016-2017
	Kshs	Kshs
Court case against the company	-	-
Bank guarantees in favour of subsidiary	-	-
Total	-	-

28. CAPITAL COMMITMENTS

Capital commitments	2017-2018	2016-2017
	Kshs	Kshs
Authorised for	-	-
Authorised and contracted for	-	-
Total	-	-

29. EVENTS AFTER THE REPORTING PERIOD

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

30. ULTIMATE AND HOLDING ENTITY

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

31. CURRENCY

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

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APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0	Undetermined value of Land included in Property plant & Equipment	The laboratory was allocated 4.0 hectares in 1992 vide Ref; 62432/IV/188. Kenya-Re has ceded back 1.0Ha and KNH has promised to cede 1.35 Ha of which NLC has donated part of it to KURA for road construction without our consent. We're following up the matter with NLC to value the land and acquire a title deed.	Dr. Pius Wanjala	Not Resolved	June, 2019
2.0	Understatement of ksh. 507,896 in Cash & cash Equivalent	Cash book balance reflects ksh. 10,276,389 while cash and cash equivalent shows ksh.9,768,493 The ksh. 507,896 differences being reconciliation oversights resulting from previous years balances brought forward, due to lack of effective internal audit function, has been corrected.	Mr. Naphtaly Ogolah	Resolved	June, 2018
3.0	In adequate provision of Bad & doubtful debts. Validity and recoverability of ksh. 7,626,317 for Trade & Other receivables	Once the BoM is inaugurated and Finance / accounts will be proposing an enhance rate of 10% Since KEMSA has not responded to our requests and efforts to recover the ksh.6013120 from them, UNDP – ksh 1476930 and Gov't of S. Sudan ksh.136267. We'll be recommending a write off as bad debt	Board of Management	Not Resolved	June, 2019
4.0	Operating without a Board and failure to comply with PPB Act Cap 244 and ISSAI 30 on code of ethics	A BoM has since been appointed vide The Kenya Gazette notice (no. 1940) Vol. CXX- No 29 dated 02 nd March, 2018. Inaugurated on April, 2018 to execute their mandate.	Pharmacy and Poisons Board	Resolved	March, 2018

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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

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)
1	None					
2	None					

Status of Projects completion

(Summarise the status of project completion at the end of each quarter, ie total costs incurred, stage which the project is etc)

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1							

APPENDIX III: INTER-ENTITY TRANSFERS


ENTITY NAME:		National Quality Control Laboratory		
Break down of Transfers from the State Department of Health				
FY 17/18				
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		June, 2018	1,741,360	
		Total	-	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		June, 2018	-	
		Total	-	
c.	Direct Payments			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		June, 2018	17,999,438	2016/17
		June, 2018	28,296,559	2017/18
		June, 2018	3,380,690	2017/18
		Total	49,676,687	

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

Finance Manager

NQCL

Sign



Head of Accounting Unit
Health Ministry

Sign-----

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Other Matters	70% Under absorption Budgetary Control and performance. Budgeted ksh. 255, 057, 000 while Actual for the year is ksh. 75,922,326	30% absorption indicates we could not implement plans hence service delivery suffered due to diversion of our allocations to other departments and Agencies by the parent Ministry We request treasury to directly send allocated funds to our account to avoid reallocations.	The National Treasury	Not Resolved	June, 2019
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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.

Guidance Notes:

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

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Dr. Hezekiah Kibet Chepkwony, PhD
Director, Secretary BOM
 Date: 2nd APR 2019



[Handwritten signature]

DR. SIMON MUGAL
Chairperson, BOM.
 Date: 2nd April 2019

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APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

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

