

REPUBLIC OF KENYA



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KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

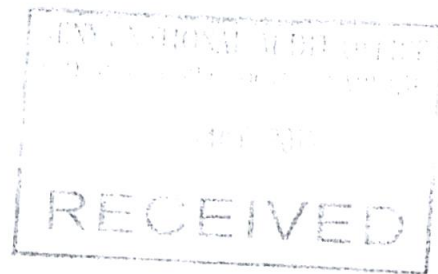
ON

**THE FINANCIAL STATEMENTS OF
KENYA MEDICAL SUPPLIES AUTHORITY
(KEMSA)**

**FOR THE YEAR ENDED
30 JUNE 2013**

KEMSA

KENYA MEDICAL SUPPLIES AUTHORITY



**ANNUAL REPORT AND FINANCIAL
STATEMENTS FOR THE YEAR ENDED
30 JUNE 2013**

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Institutional information:**Establishment**

Kenya Medical Supplies Authority (KEMSA) was established as a State Corporation under the Kenya Medical Supplies Authority Act of 25th January 2013 which was a successor to the Kenya Medical Supplies Agency established as a Corporation under Legal Notice No. 17 of 3rd February 2000.

Core Mandate

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

Functions of the Authority

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

VISION AND MISSION STATEMENT AND OUR CORE VALUES

OUR VISION

To be become the medical logistics service organization of choice

OUR MISSION

KEMSA will provide reliable, effective and sustainable support to health care delivery

OUR CORE VALUES

Core values are the ideals and enduring principles that underpin the organisation's performance and culture. The following have been agreed as forming the fundamentals of KEMSA's core values:

- **Customer focus** - KEMSA will focus on anticipating and meeting the needs of its customers and responding to their queries in a timely manner
- **Innovativeness** - KEMSA will promote and recognise creativity and innovativeness aimed at enhancing value to the institutions operations and the medical supplies supply chain
- **Operational Excellence**- KEMSA will strive to continuously review and enhance value of its operations and providing the most efficient and effective delivery within the medical supplies supply chain
- **Ethical** - KEMSA is committed to sound ethics and ethical business practices and expects that every staff and stakeholder of the organisation will constantly exhibit fairness, honesty, integrity and respect for others in everything they do.
- **Professional**- KEMSA will conduct its dealings and interactions with the utmost professionalism and ensuring that confidentiality is maintained throughout
- **Transparency and accountability**- KEMSA will ensure compliance to all regulatory requirements in its operations and ensure that in all it does, its actions are open and responsible.
- **Respect for diversity**- KEMSA will respect the diversity of its stakeholders (that is, staff, customers, suppliers, stakeholders) and actively to seek to understand their views and opinions and acknowledge their contribution to the institution

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

BANKERS

- | | |
|--|---|
| 1. National Bank of Kenya
Harambee Avenue,
NAIROBI | 2. Commercial Bank of Africa
Nyerere Road,
NAIROBI |
| 3. Kenya Commercial Bank
Industrial Area
NAIROBI | 4. Co-operative Bank of Kenya
Enterprise Road
NAIROBI |

INDEPENDENT AUDITOR

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

BOARD MEMBERS

	NAME	DESIGNATION	DATE OF APPOINTMENT	REPRESENTATION
1	Amb. Solomon W. Karanja	Chairman	9 th October 2012	Non- Executive Chair
2	Mr. Francis K. Musyimi	Alt. Director	19 th November 2012	Principal Secretary, Ministry of Health
3	Mr. Wilson King'athia	Alt. Director	19 th November 2012	Principal Secretary, The National Treasury
4	Mr. Hassan Noor Hassan	Alt. Director	17 th July 2013	Principal Secretary, Ministry of Devolution and Planning
5	Mr. Charles Rigoro	Director	19 th November 2012	Finance Expert
6	Mr. Andrew Onyach	Director	19 th November 2012	Commerce Expert
7	Dr. Nelly Kimani	Director	19 th November 2012	Pharmacist representing Pharmaceutical Society of Kenya Representative
8	Ms. Florence Oile	Director	19 th November 2012	Procurement Specialist representing Kenya Institute of Supplies Management Representative
9	Ms Elizabeth Mwashinga	Director	19 th November 2012	Level 4 Health Management Committee Representative
10	Dr. John Munyu	Director	28 th January 2013	Chief Executive Officer

BOARD COMMITTEES

The Board committees as at the date of this report comprise:

Strategy & Development Committee	Human Resources Committee	Finance Committee	Audit Committee	Technical Committee
Composition	Composition	Composition	Composition	Composition
Directors and the CEO	Directors and the CEO	Directors and the CEO	Directors and the Internal Audit Manager	Directors and the CEO
Main Function	Main Function	Main Function	Main Function	Main Function
Oversee implementation of the Task Force recommendations after Board approvals, examine the recommended structure developments including ICT installations and make appropriate recommendations	Consideration of human resources and administration matters that require to be considered by the Board including recruitment, promotions, discipline and welfare of staff.	Review and monitoring of KEMSA financial position, accounts, financial statements and statutory reports, Consideration of audit matters arising out of KEMSA's financial position and statements.	Consideration of matters relating to audit queries, audit management letters and quality assurance of systems and processes, including review of risk management.	Oversee QA & control systems, warehousing & distribution of medicines, customer services, co-ordinate updates of EMMS list, commodities procurement systems compliance to the law, ICT policy, accuracy of stock
Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum
Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis
Chairman	Chairman	Chairman	Chairman	Chairman
Mr. Andrew Onyach	Ms. Florence Oile	Mr. Charles Rigoro	Ms. Elizabeth Mwashinga	Dr. Nelly Kimani
Members	Members	Members	Members	Members
Dr Nelly Kimani, Ms Florence Oile Ms E. Mwashinga Mr Charles Rigoro MrWilsonKing'athia Dr John Munyu	Ms Florence Oile Mr Charles Rigoro Dr. John Munyu	Mr Andrew Onyach Dr Nelly Kimani, MrWilsonKingathia Prof.Fredrick Segor Dr. John Munyu	Prof.Fredrick Segor MrWilsonKingathia Ms Florence Oile Mr.Pariken Sankei	Ms E. Mwashinga Ms Florence Oile Mr Andrew Onyach Dr. John Munyu

SENIOR MANAGEMENT STAFF

	<u>NAME</u>	<u>DESIGNATION</u>
1	Dr. John Munyu, MBS	Chief Executive Officer
2	Mr. Phillip O. Odhiambo	Director- Finance & Administration
3	Mr. Joshua H. Obell	Director-Operations
4	Mr. Charles Juma Ezekiel	Director-Procurement
5	Mr. Fredrick Wanyonyi	Director-Legal/Corporation Secretary
6	Mr. Pariken Ole Sankei	Internal Audit Manager
7	Mr. Ignatius K. M'Arithi	Distribution Manager
8	Dr. Shamim Kuppuswamy	Ag. Customer Service Manager
9	Dr. John Aduda	Quality Assurance Manager
10	Mr. Enos Namasaka	HR & Admn. Manager
11	Mr. Samuel Wataku	ICT Manager
12	Mr. Waiganjo Karanja	Ag. Finance Manager
13	Mr. John Kabuchi	Procurement Manager
14	Mr. David Muttu	Procurement Manager (Donor Programmes)
15	Mr. Edward Buluma	Procurement Manager
16	Ms. Caroline Gichinga	Procurement Manager (Contracts & Equipment)
17	Mr. Samuel Okanda	Warehouse Manager
18	Mr. Dominic Kabiru	Public Relations and Communications Manager
19	Mr. Geoffrey Mwangi	Ag. Sales and Marketing Manager

CORPORATE GOVERNANCE STATEMENT

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

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

BOARD OF DIRECTORS

The composition of the Board is set out on page 6. The Board of Directors of the Authority comprises of the Chairman who is appointed by the President, the CEO is appointed by the Minister for Health on recommendation by the Board, the Principal Secretary of the Ministry for Health or her representative, the Principal Secretary to the National Treasury or his representative, the Principal Secretary Ministry of Devolution and Planning or his representative, four members who are not public officers with diverse medical supply chain management experience appointed by the Minister. All non-executive directors are independent of management of the Authority. The Board has varied and extensive skills in the areas of medical supply chain management and business management. The directors' responsibilities are set out in the Statement of Directors Responsibilities on page 13. The directors are responsible for the development of internal financial controls, which give reasonable assurance against material mis-statements.

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

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

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

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

The Board has appointed various standing Committees to which it has delegated certain responsibilities with the chairmen of the Committees reporting to it. The composition of the standing Committees is set out on page 7.

CHAIRMAN'S REPORT

It is my great pleasure, on behalf of the Board of Directors, to present the Annual Report and Financial Statements of Kenya Medical Supplies Authority (KEMSA) for the financial year ended 30th June 2013

The current 5th Board was appointed in November 2012 after the expiry of the previous board's term by the then Minister for Medical services.

During the year ended 30th June 2013, the Kenya Medical Supplies Authority (KEMSA) came into being after the gazetment of the KEMSA Act 2013, to be the successor to the Kenya Medical Supplies Agency. The act strengthened and expanded KEMSA's core mandate of procurement, warehousing and distribution of medical supplies to include establishment of partnerships with county governments and provision of regular reports to the national and county governments on the cost effectiveness of the Medical supplies chain logistics.

The Authority continued in its established culture of prudent financial management by operating within the approved budgetary provisions and being a secure source of value-for-money drugs and other medical supplies to over 5,000 Public Health Facilities in the country.

During the financial year under review, the Board in collaboration with the parent ministry and its key stakeholders attained the following key milestones intended to enhance the Authority's strategic positioning in fulfilling its mandate of providing logistical support to health care system in Kenya;

- a) Enactment and gazetting of the KEMSA Act of 2013 that made the organization a body corporate and expanded its core mandate.
- b) Launching of KEMSA 2011-2016 Corporate Strategic Plan and Business Plan with a view to realigning it to expectations of the Government's Vision 2030 initiative;
- c) The Operationalization of the Supplementary Services Division (SSD) that will supplement Government's efforts in the provision of medical commodities to Public Health Facilities;
- d) Key Partnerships with International Development Agencies that has seen increased availability of Medical Commodities in the Public Health facilities;
- e) Development of an e-mobile application through a Public Private Partnership to provide patients with information on availability of drugs in public hospitals and to report any irregularities and complaints to the relevant authorities;
- f) The growth in the capitalization fund which currently stands at Kshs 1.4 billion through a joint partnership between DANIDA, The World bank, and the Government of Kenya. This is a commodity fund being built and envisaged to be revolving in future.
- g) Achievement of "Very Good" rating of Performance Contracting;

- h) Increased capacity in Human resources through competitive recruitment of key personnel in Finance and other areas.
- i) ISO 9001 recertification pass

In the year under review, KEMSA continued to offer value for money in its medical commodity pricing as evidenced by independent price surveys by Development Partners.

Let me take this opportunity therefore to reaffirm the commitment of the Board of Directors to provide effective leadership for the growth of Kenya Medical Supplies Authority (KEMSA). In this, we will endeavour to support the Management and also work with the National and County governments, Stakeholders and Partners for continued growth of the health sector.

In conclusion, KEMSA is working hard to ensure it effectively delivers its mandate and attain its vision of being 'the medical logistics support organization of choice'



Amb. Solomon Karanja,
Chairman, Board of Directors

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

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

RESULTS

The Net surplus for the year is Kshs **244,627,721** (2011/2012 Kshs 187,627,203).

DIRECTORS

The names of the directors who held office during the year to the date of this report are set out on page 6. In accordance to the KEMSA Legal Notice No. 17 of 3rd February, 2000 as amended on 15th May 2009, directors who are not public officers retired in October 2012 for the chairman of the Board and in August 2012 for the other non-executive directors. New board members were appointed on 9th October 2012 for the chairman and 19th November 2012 for other directors.

AUDITORS

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



By Order of the Board
Corporation Secretary

Nairobi
September 2013

STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

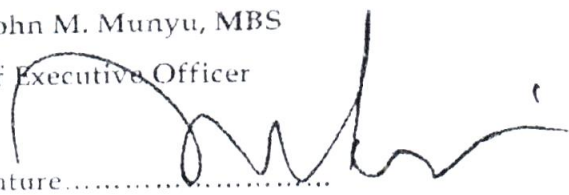
The Board members are required to prepare financial statements which give a true and fair view of the state of affairs of The Kenya Medical Supplies Authority as at the end of the financial year and of its surplus or deficit for that year. The Board is required to ensure that the Authority maintains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

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

The Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority as at 30th June 2013 and of its surplus for the year then ended. The Board further confirms the accuracy and completeness of the accounting records maintained by the Authority which has been relied upon for the preparation of financial statements as well as the adequacy of the systems of the internal financial controls.

This statement is approved and signed on behalf of the Board by:

Dr. John M. Munyu, MBS
Chief Executive Officer

Signature.....

Date.....30/4/2014

Amb. Solomon Karanja
Board Chairman

Signature.....

Date.....30/4/2014

REPUBLIC OF KENYA

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY (KEMSA) FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Medical Supplies Authority set out on pages 16 to 29 which comprise the statement of financial position as at 30 June, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

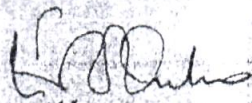
Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.1,033,597,506.00 as at 30 June 2013 includes various parcels of land valued at Kshs.403,000,000.00 for which the Authority does not possess ownership documents. According to information available, the parcels of land are spread across the country and include depots situated at Embakasi- Nairobi, Mombasa, Eldoret, Kisumu, Nakuru, Kakamega, Nyeri and Garissa. Further, the property, plant and equipment balance of Kshs.1,033,597,506.00 excludes the unspecified value of parcel of land in Meru also belonging to the Authority.

In the circumstance, it has not been possible to confirm the validity and accuracy of the property, plant and equipment balance of Kshs. 1,033,597,506.00 as at 30 June 2013.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for the Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June, 2013, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Kenya Medical Supplies Authority Order, 2000.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

8 May 2014

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013**

		2013	2012
	Note	<u>Kshs.</u>	<u>Kshs.</u>
<u>Income from Operations</u>			
Grants from Ministries	2	396,795,000	389,600,000
Other Operating Incomes	3	521,389,786	225,061,515
Total Operating Income		918,184,786	614,661,515
<u>Operating Expenses</u>			
Distribution Costs	5	392,682,335	323,782,850
Administration Expenses	6(a)	283,549,881	239,783,179
Board Expenses	6(b)	7,555,889	7,215,561
Other Operating Expenses	7(a)	325,925,090	287,402,301
Audit Fees	7(b)	1,188,000	900,000
Finance costs	7(c)	442,102	466,927
Total Operating Expenses		1,011,343,297	859,550,818
Deficit from Operations		(93,158,511)	(244,889,303)
<u>Other Incomes</u>			
Non-Operating Income	4(a)	337,786,232	432,516,506
Surplus for the year	4(b)	244,627,721	187,627,203

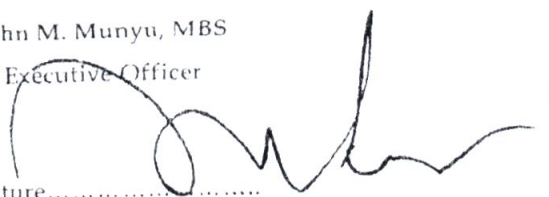
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

ASSETS	NOTE	2013	2012
		<u>Kshs.</u>	<u>Kshs.</u>
Non- Current Assets			
Property, Plant & Equipment	8a	1,033,597,506	386,180,048
Intangible Asset	8b	2,497,055	43,588,005
Total Non-Current Assets		1,036,094,561	429,768,053
Current Assets			
Trade & Other Receivables	13	2,884,417,607	146,569,930
Inventory	10	7,811,112,363	5,192,377,272
Cash and Cash Equivalents	9	5,230,793,669	5,406,392,890
Total Current Assets		15,926,323,639	10,745,340,092
Total Assets		16,962,418,199	11,175,108,145
EQUITY AND LIABILITIES			
Capital and Reserves			
Accumulated fund		256,950,298	256,950,298
Revaluation Reserve	14	650,383,892	31,554,069
Revenue Reserves		802,399,501	526,610,211
Total Equity		1,709,733,691	815,114,578
Non Current Liabilities			
Deferred Income	15	94,712,808	84,901,020
Total Non-Current Liabilities		94,712,808	84,901,020
Current Liabilities			
Trade & Other Payables	16	265,962,377	523,233,575
Project Fund	12	63,305,327	20,277,084
Medical Commodity Fund	11	14,828,669,996	9,731,581,887
Total Current Liabilities		15,157,907,700	10,275,092,546
Total Equity and Liabilities		16,962,418,199	11,175,108,145

The financial statements have been signed on behalf of the Members of the Board by:

Dr. John M. Munyu, MBS
Chief Executive Officer

Signature.....



Amb. Solomon Karanja
Board Chairman

Signature.....



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013**

Notes	Accumulated Funds <u>Kshs.</u>	Surplus/ (Deficit) <u>Kshs.</u>	Revaluation Reserves <u>Kshs.</u>	Total <u>Kshs.</u>
As at 1st July 2011	256,950,298	338,983,008	31,554,069	627,487,376
Surplus/(Deficit)		187,627,203	-	187,627,203
As at 30th June 2012	256,950,298	526,610,211	31,554,069	815,114,578
As at 1st July 2012	256,950,298	526,610,211	31,554,069	815,114,578
Revaluation (Land)	-	-	401,472,000	401,472,000
Revaluation (Buildings)	-	-	255,294,248	255,294,248
Amortization of revaluation reserves (Prior Periods)		31,554,069	(31,554,069)	-
Amortization of revaluation reserves (Buildings)		-	(6,382,356)	(6,382,356)
FA Disposal	-	(392,500)	-	(392,500)
Surplus/(Deficit)	-	244,627,721	-	244,627,721
As at 30th June 2013	256,950,298	802,399,501	650,383,892	1,709,733,691

NB: Amortization of revaluation reserves for the prior periods for Kshs 31,554,069 relates to recognition of assets in FY2007/08 for Kshs 8,404,069 and revaluation of motor vehicles in FY 2009/10 for Kshs 23,150,000.

Amortization of revaluation reserves for buildings relates to revaluation to buildings in FY 2012/13. Buildings have a useful life of 40 years. An amount at the depreciation rate of 2.5% will be amortized each year until the total reserve is exhausted at the end of the 40 year period.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2013**

	2013	2012
	<u>Kshs.</u>	<u>Kshs.</u>
<u>CASHFLOWS FROM OPERATING ACTIVITIES</u>		
Surplus (Deficit)	244,627,721	187,627,203
Adjustments For:		
Depreciation	51,079,818	36,483,291
Amortization	44,696,752	43,494,818
Interest on deposits	(337,786,232)	(432,516,506)
Surplus Before Working Capital Changes	2,618,059	(164,911,194)
(Increase)/Decrease in Receivables	(2,737,847,677)	(111,035,971)
Decrease/(Increase) in inventories	(2,618,735,091)	464,540,851
Increase in project fund	43,028,243	9,960,151
Increase/(Decrease) in payables	(257,271,198)	145,775,949
Cash From Operations	(5,568,207,664)	344,329,785
Increase/(Decrease) in Deferred Income	9,811,789	(7,502,606)
Increase/(Decrease) in Unutilized Drugs Receipts	5,097,058,109	64,422,231
Net Cash Used On Operating Activities	(461,337,767)	401,249,411
<u>CASHFLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Assets	(52,111,686)	(78,006,018)
Interest Received	337,786,232	432,516,506
Net Cash Used On Investing Activities	285,674,546	354,510,488
<u>CASHFLOWS FROM FINANCING ACTIVITIES</u>		
Net (Decrease)/Increase in Cash & Cash Equivalents	(175,663,221)	755,759,899
Cash & Cash Equivalents at start of Year	5,406,392,889	4,650,632,991
Cash & Cash Equivalents end of Period	5,230,729,668	5,406,392,890

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

1 ACCOUNTING POLICIES:

The principal accounting policies adopted in the preparation of the Financial Statements are set out below and are in accordance with International Financial Reporting Standards:

a) Basis of preparation

The Financial statements have been prepared on historical cost accounting basis as modified to include revaluation of certain assets.

b) Income recognition

Grants from the Ministry of Health and other sources are recognised when due and when the receipt is definite respectively. Grant for payment of medical commodities has been accounted for using the capital method as per the IAS 20.

Deferred grant income is as a result of grants related to property, plant and equipment accounted for and recognised in Financial Statements on a systematic basis over the useful life of the assets.

c) Property, Plant and Equipment

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

The assets have been depreciated as follows;

	<u>Rate per annum (%)</u>
* Building	2.5
* Fixtures, fittings & equipments	12.5
* Plant & Machinery	10
* Furniture	12.5
* Motor vehicles	25
* Computer & Equipment	33.33
* Intangible Assets	33.33

d) Inventories

Inventories are stated at cost. KEMSA held the stocks in trust. The stocks were purchased through funding from the Ministry of Health, Ministry of Public Health and other Development Partners. The inventories recognised in the balance sheet are represented by an equivalent medical commodity fund which fluctuates based on the movement of inventory.

e) Cash and Cash equivalents

For the purposes of the cash flow statement, Cash & Cash-equivalents comprise cash in hand and bank, and un-dispatched cheques.

f) Comparatives

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

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

2 GRANTS FROM MINISTRIES	2013 Ksh.	2012 Ksh.
Personnel Emoluments	198,700,000	198,000,000
Distribution MOMS-Voted	127,820,000	164,100,000
Distribution MOPHSVoted	52,275,000	7,500,000
Development	18,000,000	20,000,000
	<u>396,795,000</u>	<u>389,600,000</u>
3 OTHER OPERATING INCOME		
Sale of tender documents	7,173,864	7,589,230
Bank Direct credit	0	5,000
Gain on disposal of FA	0	191,808
Sale of fixed assets	3,580,957	0
Sale of waste materials	69,730	0
Misc. Income	2,550,152	441,199
Parallel programmes	152,530,551	71,022,911
Global Fund	185,542,140	31,164,671
HSSP	152,765,339	94,957,391
USAID	5,579,806	5,579,806
PCMC	932,800	932,800
JSI	2,350,000	990,000
SWAP	4,094,522	12,186,699
KSP	4,219,926	0
	<u>521,389,786</u>	<u>225,061,515</u>
4(a) NON-OPERATING INCOME		
Interest on Deposits	337,786,232	432,516,506
4(b) SURPLUS	244,627,721	187,627,203
5 DISTRIBUTION COSTS		
Fuels & oils	9,570,702	9,095,796
Vehicle maintenance & Levies	10,110,061	6,954,764
Outsourced distribution	373,001,572	307,732,290
	<u>392,682,335</u>	<u>323,782,850</u>

KEMSA

6 ADMINISTRATION EXPENSES

a) Staff Costs

Staff seconded to KEMSA	11,500,460	10,930,919
Casual Employees	4,440,091	178,550
KEMSA Permanent & Contractual	267,609,330	228,673,710
	<u>283,549,881</u>	<u>239,783,179</u>

b) BOD expenses

Sitting Allowances	4,809,296	3,970,000
Lunch Allowances	-	416,000
Accommodation	1,462,593	972,561
Travelling & Mileage	-	663,000
Conferences	240,000	150,000
Honoraria	960,000	960,000
Telephone expenses	84,000	84,000
	<u>7,555,889</u>	<u>7,215,561</u>

7(a) OTHER OPERATING COSTS

Insurance

Group Insurance--BOD	95,367	202,761
Group Insurance--Staff	1,652,786	1,760,811
Medical Insurance	23,616,241	10,672,194
M/ Vehicles Insurace	2,968,391	2,829,626
Inventory-Fire & In transit Insurance	5,350,589	4,951,313
Other Insurance Covers	<u>1,579,264</u>	<u>2,054,290</u>
Sub Total	35,262,638	22,470,995

Other Expenses

Training	8,219,513	7,015,062
Entertainment	9,590,679	11,736,640
Telephone, fax & postage	8,423,810	7,369,085
ICT consumables	4,615,115	10,289,662
Water, electricity, generators	10,790,038	10,554,912
Rent & Rates	63,237,534	55,363,970
Travel & Accommodation	23,188,084	18,707,241
Stationery & Office Expenses	11,209,466	9,844,056
Warehouse Mat'ls, Pallets, and other costs.	3,093,482	4,572,985
Security	11,649,795	7,011,565
Social and external relations	2,609,002	6,870,496
Advertising of tenders	8,236,154	8,330,031
Disposal of Damaged Stocks	1,616,550	-

Consultancy	2,526,782	5,064,633
Legal	16,740,763	13,801,402
Quality assurance	3,152,299	1,368,275
Assets repair & maint	1,501,962	2,356,350
Depreciation expense	51,079,818	36,483,290
Amortization of intangible assets	41,696,752	43,494,818
Other office expenses	<u>4,484,853</u>	<u>4,696,831</u>
Sub Total	290,662,452	264,931,304
TOTAL	<u>325,925,090</u>	<u>287,402,299</u>

7(b) Audit Fees

Audit Fees	1,188,000	900,000
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7(c) Finance costs

Bank charges & commissions	442,102	466,928
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9 CASH & CASH EQUIVALENTS

NBK - OPERATIONS	252,656,651	340,414,971
WORLD BANK E.A LAB PROJECT	13,468,289	23,855,313
KCB DRUGS	188,161	1,776,796
KCB DISTRIBUTION	3,332,295	22,367,000
CBA	10,461,928	10,028,761
CO-OP - MEDICAL GRANTS	3,267,186,705	4,245,043,318
CO-OP BANK GF OPERATIONS (KSH)	78,947,661	19,261,187
CO-OP BANK GF OPERATIONS (USD)	87,811,678	52,045,128
CO-OP BANK GF ATM R4P1 (USD)	32,628	1,971,397
CO-OP BANK GF ATM R5P1 (USD)	1,603,677	1,572,280
CO-OP BANK GF ATM R6 (USD)	140,179	138,972
CO-OP BANK GF ATM R4P2 (USD)	24,985	6,175,581
CO-OP BANK GF ATM R5P2 (USD)	58,739	59,212
CO-OP BANK GF ATM R7P1 (USD)	5,700,632	5,584,722
CO-OP BANK GF ATM R4P2 (KSH)	5	0
CO-OP BANK GF ATM R5P1 (KSH)	7,236,794	10,042,887
CO-OP BANK GF ATM R6 (KSH)	981,721	1,761,780
CO-OP BANK GF ATM R7P1 (KSH)	16,463,154	303,436
WORLD BANK HSSP NON POOLED	49,837,038	11,776,596
WORLD BANK HSSP POOLED PROJECT	1,426,538,943	652,213,554
SSD CO-OP BANK - KES	<u>8,121,807</u>	
	<u>5,230,793,668</u>	<u>5,406,392,890</u>

10	INVENTORIES		
	GOK/MOMs	2,094,522,488	1,571,966,595
	GOK/MOPHs	759,516,681	1,175,885,797
	SSD	175,120,836	-
	Development Partners	4,781,952,358	2,444,524,880
		<u>7,811,112,363</u>	<u>5,192,377,272</u>
11	MEDICAL COMMODITY FUND		
	Inventories	7,811,112,363	5,192,377,272
	TRADE DEBTORS-INSURANCE RECEIVABLES	1,285,780,027	-
	TRADE DEBTORS - RECEIVABLES	1,282,455,577	-
	TRADE DEBTORS - RECEIVABLES (SSD)	5,301,940	-
	GF Medical fund	32,242,513	27,610,267
	Unutilized medical receipts	4,411,747,575	4,511,594,348
		<u>14,828,639,996</u>	<u>9,731,581,887</u>
12	PROJECT FUND		
	IISSP	49,837,038	5,804,724
	EAPHL	13,468,289	14,472,360
		<u>63,305,327</u>	<u>20,277,084</u>
13	TRADE AND OTHER RECEIVABLES		
	Staff-Travel Imprest / Advances	1,213,092	181,864
	Prepayments & Deposits	24,034,107	16,677,111
	Receivables	270,403,034	129,710,955
	Provision for Insurance Receivable.	1,285,780,027	-
	TRADE DEBTORS - RECEIVABLES	1,297,685,407	-
	TRADE DEBTORS - RECEIVABLES (SSD)	5,301,940	-
		<u>2,884,417,607</u>	<u>146,569,930</u>
14	REVALUATION RESERVES		
		<u>650,383,892</u>	<u>31,554,069</u>
		<u>650,383,892</u>	<u>31,554,069</u>
15	DEFERRED INCOME		

a) USAID - Material Handling Equipment

	2012/13	Recognised	Deferred
	17,082,164	2,440,309	14,641,855
	17,082,164	2,440,309	14,641,855

b) USAID - Metallic Racking

	25,115,974	3,139,497	21,976,477
	25,115,974	3,139,497	21,976,477

c) Millenium Challenge Account (MCA)

	38,664,021		38,664,021
	38,664,021		38,664,021

d) Procurement Supply Chain Management Consortium (PSCMC)

	2,058,861	932,800	1,126,061
	2,058,861	932,800	1,126,061

e) JSI Motor Vehicles

	1,980,000	990,000	990,000
	5,440,000	1,360,000	4,080,000
	7,420,000	2,350,000	5,070,000

f) KEMSA Support Program (KSP)

	17,454,321	4,219,926	13,234,395
	17,454,321	4,219,926	13,234,395

GRAND TOTALS

	107,795,341	13,082,532	94,712,809
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16 TRADE AND OTHER PAYABLES

Transporters & other payables	86,558,528		89,772,446
Fees payable to GF partners	40,720,941		39,887,274
Supplier Funds Retained	11,254,698		10,977,838
Staff Payables	23,948		-
Drug Payables	126,360,262		361,229,820
Accruals for the period	1,044,000		21,366,198
	265,962,377		523,233,576

8(a) PROPERTY PLANT AND EQUIPMENT AS AT 30TH JUNE 2013

	LAND	BUILDINGS	OFFICE EQUIPMENT	PLANT & MACHINERY	FURNITURE	MOTOR VEHICLE	COMPUTER HARDWARE	WIP	TOTALS
COST/VALUATION AS AT 1/7/2011	151,528,000	81,334,766	33,599,910	94,952,928	17,227,951	77,144,509	33,881,283	7,791,272	497,460,618
ADDITIONS			3,599,589	327,100	1,948,400	21,184,960	7,215,641	43,649,768	77,726,458
DISPOSALS						(6,834,300)	(416,306)		(7,250,606)
	<u>151,528,000</u>	<u>81,334,766</u>	<u>36,999,499</u>	<u>95,280,028</u>	<u>19,176,351</u>	<u>91,495,169</u>	<u>40,681,617</u>	<u>52,441,040</u>	<u>567,936,470</u>
DEPRECIATION AS AT 1/7/2011		13,027,419	19,949,583	24,083,346	8,958,683	59,467,142	27,046,565	-	152,523,737
ACC DEPR ON DISPOSAL						(6,834,300)	(416,306)		(7,250,606)
DEPRECIATION CHARGE FOR THE 12 MONTHS		1,987,972	4,038,545	9,202,632	2,015,266	13,567,853	5,722,024	-	36,483,291
ACCUMULATED DEPRECIATION		15,015,390	24,029,128	33,184,978	10,973,949	65,983,736	32,569,242	-	181,756,423
NBV AS AT 30/06/12	<u>151,528,000</u>	<u>66,319,375</u>	<u>12,970,371</u>	<u>62,095,050</u>	<u>8,202,402</u>	<u>25,511,434</u>	<u>8,112,375</u>	<u>51,441,040</u>	<u>386,180,477</u>
COST/VALUATION AS AT 1/7/2012	151,528,000	81,334,766	36,999,499	95,280,028	19,176,351	91,495,169	40,681,617	51,441,040	567,936,470
WIP TRANSFERRED TO INTANGIBLE ASSETS								(3,190,801)	(3,190,801)
ADDITIONS		689,053	10,062,068	5,477,196	962,385	15,053,800	11,998,303	7,453,880	51,696,685
WIP Transfer		25,181,933	7,620,355			14,622,600		(47,424,888)	
REVALUATION	401,472,000	255,294,248							656,766,248
DISPOSALS						(8,286,172)			(8,286,172)
	<u>553,600,000</u>	<u>362,500,000</u>	<u>54,681,922</u>	<u>100,757,224</u>	<u>20,138,736</u>	<u>112,885,397</u>	<u>52,679,920</u>	<u>8,279,230</u>	<u>1,264,922,430</u>
DEPRECIATION AS AT 1/7/2012		15,015,390	24,029,128	33,184,978	10,973,949	65,983,735	32,569,243		181,756,422
ACC DEPR ON DISPOSAL						(7,893,672)			(7,893,672)
ARMOTIZATION OF REVALUATION		6,382,356							6,382,356

DEPRECIATION CHARGE FOR THE 12 MONTHS		2,680,144	6,298,848	9,649,351	2,135,564	20,594,453	9,721,458		51,079,818
ACCUMULATED DEPRECIATION/ARMOTIZATION		24,077,890	30,327,976	42,834,329	13,109,513	78,684,515	42,290,701		231,324,924
NBV AS AT 30/06/13	<u>553,000,000</u>	<u>338,422,110</u>	<u>24,353,946</u>	<u>57,922,895</u>	<u>7,029,223</u>	<u>34,200,882</u>	<u>10,389,219</u>	<u>8,279,230</u>	<u>1,033,597,506</u>
NBV AS AT 30/06/12	<u>151,528,000</u>	<u>66,319,375</u>	<u>12,970,371</u>	<u>62,095,050</u>	<u>8,202,402</u>	<u>25,294,475</u>	<u>8,329,334</u>	<u>51,441,040</u>	<u>386,180,047</u>

8(b) INTANGIBLE ASSETS DEPRECIATION SCHEDULE AS AT 30 JUNE 2013

	COMPUTER SOFTWARE	INTANGIBLE	WIP	TOTALS
COST/VALUATION AS AT 1/7/2011	130,204,894	4,744,996		134,949,890
ADDITIONS		279,560	-	279,560
	<u>130,204,894</u>	<u>5,024,556</u>	-	<u>135,229,450</u>
ARMOTIZATION AS AT 1/7/2011	43,401,631	4,744,996	-	48,146,627
ARMOTIZATION CHARGE FOR THE 12 MONTHS	43,401,631	93,187	-	43,494,818
ACCUMULATED AMORTIZATION	86,803,262	4,838,183	-	91,641,445
NBV AS AT 30/06/12	43,401,631	186,373	-	43,588,005
COST/VALUATION AS AT 1/7/2012	130,204,894.20	5,024,556.40		135,229,450.60
WIP Transfer from P,P & E			3,190,801.00	
ADDITIONS	-	415,001.60	-	415,001.60
WIP Transfer	-	3,190,801.00	(3,190,801.00)	-
REVALUATION	-	-	-	-

DISPOSALS			
	130,204,894.20	8,630,359.00	138,835,253.20
ARMOTIZATION AS AT 1/7/2012	86,803,262.80	4,838,183.07	91,641,445.87
DEPRECIATION CHARGE FOR THE 12 MONTHS	43,401,631.40	1,295,120.87	44,696,752.27
ACCUMULATED ARMOTIZATION	130,204,894.20	6,133,303.94	136,336,198.14
NBV AS AT 30/06/13	-	2,497,055.06	2,497,055.06
NBV AS AT 30/06/12	43,401,632	186,373	43,588,004.73

9(a) POST BALANCE SHEET EVENT

A motor vehicle KBR 368U, a Toyota Hilux Pickup was stolen while in use by an employee of the Authority. The value of the vehicle was included in the financial statements in the total value of motor vehicles. The matter was reported to the Police for followup and an insurance claim has been lodged.