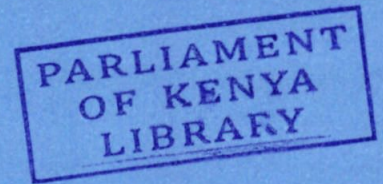



REPUBLIC OF KENYA



*Enhancing Accountability*

# REPORT



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE:	29 APR 2025
DAY:	Tuesday
TABLED BY:	Hon. Julius Mellyimp on behalf of LOM
CLERK-AT THE TABLE:	Benson Inzafu

**THE AUDITOR-GENERAL**

ON

**KENYA MEDICAL SUPPLIES AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE, 2024**



OFFICE OF THE AUDITOR GENERAL  
P. O. BOX 34 - 00100, NAIROBI  
REGISTRY

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**KEMSA**

KENYA MEDICAL SUPPLIES AUTHORITY



YOUR PARTNER IN HEALTHCARE

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**KENYA MEDICAL SUPPLIES AUTHORITY**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2024**

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

**Kenya Medical Supplies Authority**  
**Annual Report and Financial Statements**  
**For the year ended June 30<sup>th</sup> 2024**

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# Kenya Medical Supplies Authority

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### 1. Acronyms and Definition of Key Terms

#### A: Acronyms

BARC	Board Audit and Risk Committee
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
FMCG	Fast-Moving Consumer Goods
HPTs	Health Product and Technologies
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
KEMSA	Kenya Medical Supplies Authority
MCP	Medical Commodity Program
OAG	Office of the Auditor General
OCOB	Office of the Controller of Budget
OSHA	Occupational Safety and Health Act of 2007
OSH	Occupational Safety and Health
PFM	Public Finance Management
PPE	Property Plant & Equipment
PSASB	Public Sector Accounting Standards Board
RDC	Regional Distribution Center
SAGAs	Semi-Autonomous Government Agencies
SC	State Corporations
TNT	The National Treasury
UHC	Universal Health Coverage
USAID	United States Agency of International Development
WB	World Bank

#### B: Definition of Key Terms

**Fiduciary Management-** Members of Management directly entrusted with the responsibility of financial resources of the organisation

**Comparative Year-** Means the prior period.

## **2. Key Authority's Information and Management**

### **(a) Background Information**

The Kenya Medical Supplies Authority (KEMSA), initially known as the Kenya Medical Supplies Agency, was established in 2000 and operationalised in 2005 as a semi-autonomous agency of the Ministry of Health. In 2013, The Kenya Medical Supplies Authority Act was assented by the President, leading to a change from being an Agency to an Authority. Currently, KEMSA is a state corporation that is expected to be a self-financing and sustainable entity.

KEMSA is a state corporation whose mandate is to procure, warehouse and distribute medicines and medical supplies for prescribed public health programmes, the national strategic stock reserve, defined essential health packages and national referral hospitals. KEMSA plays an important and strategic role in the National Agenda, including implementation of Universal Health Coverage (UHC), by ensuring availability of supplies in health facilities across the country.

KEMSA's main supply chain centre is in Nairobi. In addition, the authority has 2 regional distribution centres (Mombasa and Kisumu) and 5 regional warehouses (Kakamega, Eldoret, Nakuru, Nyeri, and Meru) across the country to enhance flexibility and quick response to customers' demand.

### **(b) Principal Activities**

#### **➤ Core Mandate**

The Authority's Core Mandate as defined in the Act is to:

- i. Procure, warehouse, and distribute drugs and medical supplies for prescribed public health programmes, the national strategic stock reserve, prescribed essential health packages and national referral hospitals.
- ii. Establish a network of storage, packaging and distribution facilities for the provision of drugs and medical supplies to health institutions.
- iii. Enter into partnership with or establish frameworks with county Governments for purposes of providing services in procurement, warehousing, distribution of drugs and medical supplies.
- iv. 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 aspects of supply system status and performance which may be required by stakeholders.

## Kenya Medical Supplies Authority

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#### For the year ended June 30<sup>th</sup> 2024

- v. Support county governments to establish and maintain appropriate supply chain systems for drugs and medical supplies.

➤ **Vision**

*" Excellence in the provision of HPTs and supply chain solutions in the East Africa Region".*

➤ **Mission Statement**

*"To provide quality, affordable essential HPTs, and supply chain solutions to save and transform lives".*

➤ **Strategic Objectives of the Authority**

Strategic areas considered in this turnaround strategy;

1. **Financial sustainably:** To address the financial challenges, KEMSA will undertake a thorough financial restructuring. This includes cost optimisation measures, reviewing existing contracts with suppliers to ensure the contracts deliver value for money, recapitalisation through the Government of Kenya and development partners, improved debt management and exploring potential sources of funding or strategic partnerships to improve liquidity and financial stability.
2. **Streamline Supply Chain Processes:** KEMSA will undertake a comprehensive evaluation of its supply chain processes to identify inefficiencies and bottlenecks. Through process re-engineering, implementation of lean principles and technological integration, the organisation aims to achieve a more streamlined and responsive supply chain system that is geared to meet the needs of KEMSA customers.
3. **Customer Satisfaction:** This is critical to the success of the Authority and to achieve it, KEMSA will adopt a customer-centric culture, focusing on understanding customer needs and expectations. Regular feedback mechanisms will be enhanced to continuously improve service levels and build lasting relationships with customers and stakeholders.
4. **Technology and Data Integration:** Embracing technology is fundamental to the turnaround plan. KEMSA will invest in a new ERP and relevant software solutions to integrate processes and data across the supply chain, enabling real-time tracking, demand forecasting and inventory optimisation. This data-driven approach will facilitate informed decision-making and enhance overall operational efficiency.
5. **Talent Development and Training:** The success of the strategic plan heavily relies on a skilled and motivated workforce. KEMSA will prioritise talent development and training initiatives to empower employees with the necessary skills, competencies and knowledge to adapt to the changing landscape and drive organisational renewal and success.
6. **Regulatory Compliance and Quality Assurance:** Ensuring compliance with industry regulations and maintaining product quality is paramount. The Authority will maintain rigorous quality assurance protocols and compliance monitoring mechanisms to meet regulatory requirements and maintain trust with stakeholders.
7. **Governance:** KEMSA will put in place a well-structured governance framework that will form the foundation for a successful and sustainable organisation. By prioritising transparency, compliance, risk management and stakeholder engagement, the Authority will navigate challenges, seize opportunities and deliver essential HPTs efficiently and effectively to all counties. KEMSA will also carry out continuous evaluation and improvement of governance

# Kenya Medical Supplies Authority

## Annual Report and Financial Statements

### For the year ended June 30<sup>th</sup> 2024

practices that will support the organisation in achieving its mission of providing quality, affordable essential HPTs, and supply chain solutions to save and transform lives.

#### (c) Key Management

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

No	Designation	Name
1.	Board Chairperson ( <i>w.e.f.</i> 23 <sup>rd</sup> August 2024)	Mr. Samuel Tunai, EGH
2.	Board Chairperson (15 <sup>th</sup> May 2023 to 23 <sup>rd</sup> August 2024)	Mr. Irungu Nyakera
3.	Non-Executive Director	FCPA Hesbon Omollo
4.	Non-Executive Director	Dr. Jane Masiga
5.	Non-Executive Director ( <i>up to</i> 17 <sup>th</sup> May 2024)	Ms. Jane Mbatia
6.	Non-Executive Director	Hon. Bernard Bett
7.	Non-Executive Director	Ms. Mary Atieno Awino
8.	Non-Executive Director	Dr. Catherine Ngahu
9.	Non-Executive Director	Mr. Stephen Bitok
10.	Chief Executive Officer ( <i>w.e.f.</i> 26 <sup>th</sup> July 2024)	Dr. Waqo Ejersa, OGW
11.	Ag. Chief Executive Officer (15 <sup>th</sup> May 2023- 26 <sup>th</sup> July 2024)	Dr. Andrew Mulwa
12.	Director- Legal/Corporation Secretary	Fredrick Wanyonyi
13.	Ag. Director Legal ( <i>w.e.f.</i> 23 <sup>rd</sup> Sept. 2024)	Evans Cheruiyot
14.	Director, Finance & Strategy	Waiganjo Karanja
15.	Ag. Director, Finance & Strategy ( <i>w.e.f.</i> 23 <sup>rd</sup> Sept. 2024)	Pauline Nyoru
16.	Operations Director	Edward Njoroge
17.	Director Human Resource & Administration	Ebla Mohamed
18.	Director Procurement	Moses Sudi
19.	Director Commercial Services	Eliud Mureithi
20.	Ag. Head, KEMSA-USAID MCP Program	John Kabuchi
21.	Internal Audit & Risk Manager	Teresa Mute
21.	Finance Manager	Caroline W. O. Anunda
22.	Ag. Finance Manager ( <i>w.e.f.</i> 23 <sup>rd</sup> Sept. 2024)	Christine Mwangi

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**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2024 and had direct fiduciary responsibility were.

No.	Designation	Name
1.	Chief Executive Officer	Dr Waqo Ejersa, OGW (w.e.f. 26 <sup>th</sup> July 2024)
2.	Ag. Chief Executive Officer	Dr Andrew Mulwa (15 <sup>th</sup> May 2023- 26 <sup>th</sup> July 2024)
3.	Director- Legal/Corporation Secretary	Fredrick Wanyonyi
4.	Director, Finance & Strategy	Waiganjo Karanja
5.	Operations Director	Edward Njoroge
6.	Director Human Resource & Administration	Ebla Mohamed
7.	Director Procurement	Moses Sudi
8.	Director, Commercial Services	Eliud Mureithi
9.	Ag. Head, KEMSA-USAID MCP Program	John Kabuchi
10.	Internal Audit & Risk Manager	Teresa Mute
11.	Finance Manager	Caroline W. O. Anunda

**(e) Fiduciary Oversight Arrangements**

**Audit & Risk Committee**

The Committee have a critical role in overseeing various aspects of the Authority' activities and performance. These includes the responsibility for overseeing financial reporting and related internal controls, risk management, external and internal auditors, and ethics and compliance.

**Finance Committee**

Review and monitor KEMSA financial position, accounts, financial statements and statutory reports.

Consideration of audit matters arising out of KEMSA's financial position and statements, examine the recommended structural developments including ICT installations and make appropriate recommendations.

**Parliamentary Oversight Committees**

The Parliamentary Oversight Committees ensure that the Authority's activities and performance are held to account, by ensuring participation in hearings and cooperation with parliamentary committees by providing the requested information.

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**Development Partner**

In order to establish transparency and accountability of the various grants, Development Partners engages 3rd party validators who offer fiduciary oversight role in achieving the overall grants objectives. Development Partners such as Global Fund, World Bank and USAID employs services of validators such as PricewaterhouseCoopers (PWC), Office of Inspector General (OIG) etc

The composition of KEMSA standing Committees for the year is detailed below.

<b>Finance, Strategy &amp; Development Committee</b>	<b>Human Resources Committee</b>	<b>Audit and Risk Committee</b>	<b>Supply Chain Committee</b>
<b>Composition</b>	<b>Composition</b>	<b>Composition</b>	<b>Composition</b>
Directors and the CEO	Directors and the CEO	Directors and the Internal Audit Manager	Directors and the CEO
<b>Main Function</b>	<b>Main Function</b>	<b>Main Function</b>	<b>Main Function</b>
<b>Finance, Strategy &amp; Development Committee</b>	<b>Human Resources Committee</b>	<b>Audit and Risk Committee</b>	<b>Supply Chain Committee</b>
Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum
Quarterly and Special Meetings on need basis	Quarterly and Special Meetings on need basis	Quarterly and Special Meetings on need basis	Quarterly and Special Meetings on need basis
<b>Chairperson</b>	<b>Chairperson</b>	<b>Chairperson</b>	<b>Chairperson</b>
FCPA. Hesbon Omollo	Mr. Jane Mbatia (Upto 17 <sup>th</sup> May 2024)/ Dr. Catherine Ngahu	Hon. Bernard Bett	Dr. Jane Masiga
<b>Members</b>	<b>Members</b>	<b>Members</b>	<b>Members</b>
Mr. Stephen Bitok Ms. Mary Awino Dr. Jane Masiga	Hon. Bernard Bett Mr. Stephen Bitok Ms. Mary Awino	Mr. Jane Mbatia (Upto 17 <sup>th</sup> May 2024) /Dr. Catherine Ngahu Ms. Mary Awino Mr. Stephen Bitok	FCPA. Hesbon Omollo Ms. Mary Awino Mr. Stephen Bitok

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**(f) Headquarters**

Embakasi, Off Airport North Road,  
P.O. Box 47715 - 00100,  
NAIROBI, KENYA

**(g) Contacts**

Telephone: +254 20 3922 000  
Email: [info@kemsas.go.ke](mailto:info@kemsas.go.ke)  
Website: [www.kemsas.go.ke](http://www.kemsas.go.ke)  
Facebook: [Kemsashealthcare](#)  
X: [-Kemsas\\_Kenya](#)

**(h) Bankers**

- |   |   |
|---|---|
| 1. National Bank of Kenya<br>Harambee Avenue<br>P. O. Box 72866 - 00200<br>NAIROBI, KENYA   | 2. NCBA<br>Mara Road, Upper Hill<br>P. O. Box 44599 - 00100<br>NAIROBI, KENYA                 |
| 3. Kenya Commercial Bank<br>Industrial Area<br>P. O. Box 18031 - 00500<br>NAIROBI, KENYA    | 4. Co-operative Bank of Kenya<br>Enterprise Road<br>P. O. Box 17928 - 00500<br>NAIROBI, KENYA |
| 5. Equity Bank Ltd<br>Westlands Supreme Centre<br>P. O. Box 75104 - 00200<br>NAIROBI, KENYA |   |

**(i) Independent Auditors**

Auditor General  
Office of the Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084 - 00100  
**NAIROBI, KENYA**



**(j) Principal Legal Advisers**

The Attorney General  
State law office, Harambee Avenue  
P.O. Box 40112 - 00200  
**NAIROBI, KENYA**

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**3. The Board of Directors**

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

Ref	Directors	Details
1	 <p data-bbox="357 965 683 999"><b>Mr Samuel Tunai, EGH.</b></p>	<p data-bbox="770 421 1078 454"><b>DOB: 15<sup>th</sup> October 1968</b></p> <p data-bbox="770 495 1078 528"><i>Non-Executive Director</i></p> <p data-bbox="770 557 1313 591"><i>Chairperson - KEMSA Board of Directors</i></p> <p data-bbox="770 631 1123 665"><b>Effective: 23<sup>rd</sup> August 2024</b></p> <p data-bbox="770 705 1461 987"><b>Profession/Academic Qualifications:</b> Master of Public Policy and Management, (Strathmore University); Post Graduate Diploma in International Relations (University of Nairobi); Bachelor of Arts in History and Government (University of Nairobi); Award for Exceptional Performance - Elder of the Order of Golden Heart (EGH).</p> <p data-bbox="770 996 1007 1030"><b>Work Experience:</b></p> <p data-bbox="770 1059 1299 1093">Chair of the Board of Directors, KEMSA.</p> <p data-bbox="770 1122 1313 1155">Governor, County Government of Narok.</p> <p data-bbox="770 1184 1362 1218">Senior Administrator, Office of the President.</p>
2.	 <p data-bbox="389 1700 660 1733"><b>Mr. Irungu Nyakera</b></p>	<p data-bbox="770 1243 1038 1276"><b>DOB: 13<sup>th</sup> May 1982</b></p> <p data-bbox="770 1305 1083 1339"><i>Non-Executive Director</i></p> <p data-bbox="770 1368 1206 1402"><i>Chairperson - Board of Directors</i></p> <p data-bbox="770 1433 1351 1467"><b>Effective: 15<sup>th</sup> May 2023 to 23<sup>rd</sup> August 2024</b></p> <p data-bbox="770 1496 1466 1861"><b>Profession/Academic Qualifications:</b> MBA (Ongoing)-Oxford University, Oxford UK, BSc Management Science and Engineering at Stanford University, California USA, (Financial Analysis and Decision Engineering) at Stanford University CA, USA; Awarded the Dean's Award for Exceptional Academic Achievement at the university; CPA(K); Post Graduate Program at Deerfield Academy, MA, USA.</p>

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		<p><b>Work Experience;</b> Banker with experiences at Citigroup Investment Bank (New York, London); Regional Director, East and Southern Africa of Guarant Co; (London) Managing Director NIC Capital Limited; Frontier Markets Fund Managers (London); Managing Director Equity Bank Group, Former Principal Secretary Transport &amp; Principal Secretary Planning &amp; Statistics; Chairman, National Tea Steering Task Force.</p>
3.	 <p><b>FCPA Hesbon Omollo</b></p>	<p><b>DOB: 23<sup>rd</sup> February 1975</b></p> <p><i>Non-Executive Director</i></p> <p><b>Profession/Academic Qualifications:</b> BCOM, CPA, CS</p> <p><b>Work Experience:</b> Managing Partner-Bon &amp; Drew Associates (Audit, Tax and Management consulting firm)-2011-2023; Elected ICPAK council Member - 2021-to date. Audit senior, Audit manager in the audit space and prior to that was an Accountant in various organizations in the logistics, manufacturing and FMCG.</p>
4.	 <p><b>Dr. Jane Masiga</b></p>	<p><b>DOB: 12<sup>th</sup> March 1960</b></p> <p><i>Non-Executive Director</i></p> <p><b>Profession/Academic Qualifications:</b> Bachelor of Pharmacy; Member, Pharmaceutical Society of Kenya; Certified ISO 9001:2015 Internal Quality Lead Auditor and Supervisory Board Member of the Access to Medicine Foundation in the Netherlands; Master of Business Administration, Strategic Management from the University of Nairobi; Master of Science in Clinical Pharmacy from the Robert Gordon University in Aberdeen, United Kingdom.</p> <p><b>Work Experience:</b> Managing Director, Head of Operations, Staff Pharmacist - Mission for Essential Drugs.</p>

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<p>5.</p>	 <p><b>Ms Jane Mbatia</b></p>	<p><b>DOB: 12<sup>th</sup> December 1965</b></p> <p><i>Non-Executive Director (up to 17<sup>th</sup> May 2024)</i></p> <p><b>Profession/Academic Qualifications:</b> LLB, LLM, MBA, CPS, LLB (University of Nairobi), LLM (University of the Witwatersrand, Johannesburg) and MBA (Edinburgh Business School, UK).</p> <p>Corporate Commercial lawyer with over 29 years of experience. Managing Partner at KM&amp;M Advocates LLP, a Law Firm specializing in Corporate Commercial Law. Holds a leadership certificate from the Saiid Business School, Oxford University, UK.</p> <p>Currently Vice Chairperson of the Board of Directors of the AMREF Flying Doctors and a Board Member of the Institute of Directors of Kenya.</p>
<p>6.</p>	 <p><b>Hon. Bernard Bett</b></p>	<p><b>DOB: 11<sup>th</sup> May 1981</b></p> <p><i>Non-Executive Director</i></p> <p><b>Profession/Academic Qualifications:(BED)</b>          Bachelor of Education, Master of Philosophy in Economics -Moi University</p> <p><b>Work Experience</b> Member of National Assembly 2013-2017; Part-time lecturer Eldoret Polytechnic-2009-2012; Former Member of Departmental Committee on Lands and Natural Resources.</p>
<p>7.</p>	 <p><b>Ms. Mary Atieno Awino</b></p>	<p><b>DOB: 25<sup>th</sup> December 1964</b></p> <p><i>Non-Executive Director - Alternate to Principal Secretary, The National Treasury</i></p> <p><b>Profession/Academic Qualifications:</b> MBA, BCOM, Dip-Supply Chain Management. Part III</p> <p><b>Professional Experience</b> Currently Senior Deputy Director, Supply Chain Management/Public Procurement Department, National Treasury; Deputy head of procurement unit Ministry of Health (Feb 2004 to Nov 2008); Deputy head of procurement</p>

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		unit Ministry of health (2003-2004); Head of procurement National Assembly (1992-1996).
8.	 <p><b>Dr. Catherine Ngahu</b></p>	<p><b>DOB :7<sup>th</sup> May 1961</b></p> <p><i>Non-Executive Director (From 24<sup>th</sup> May 2024)</i></p> <p><b>Profession/Academic Qualifications:</b></p> <p>PhD in business Administration, MBA and BED from the University of Nairobi.</p> <p><b>Professional Experience</b></p> <p>Senior lecturer at the University of Nairobi</p> <p>Business research fellow at Wharton Business School, University of Pennsylvania, USA. She is the founder and chair of SBO Research Limited, and has served in boards of several organizations under diverse regulatory regimes.</p>
9.	 <p><b>Mr. Stephen Bitok</b></p>	<p><b>DOB: 12<sup>th</sup> October,1969</b></p> <p><b>Effective- 31<sup>st</sup> January 2024</b></p> <p><i>Non-Executive Director - Alternate to Principal Secretary, Ministry of Health: State Department of Medical Services.</i></p> <p><b>Profession/Academic Qualifications:</b></p> <p>Master’s in Business Administration (MBA)</p> <p>Certificate in Advanced Public Administration</p> <p>Certificate in Administrative Officers Paramilitary</p> <p><b>Professional Experience</b></p> <p>Aug 2023- to Date Senior Deputy Secretary Ministry of Health</p> <p>Sept 2019- Aug 2023 Senior Deputy Secretary Ministry for Devolution</p> <p>Aug 2016 - Aug 2019 Undersecretary Projects, Ministry of Health</p>

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10.	 <p><b>Dr. Waqo Ejersa, OGW</b></p>	<p><b>DOB: 1968</b></p> <p><b>Chief Executive Officer</b></p> <p><b>Effective 26<sup>th</sup> July 2024</b></p> <p>Profession/Academic Qualifications: Msc Strategic Planning-University of Edinburg, UK (Ongoing); MPH (University of Melbourne, Australia); Bachelor of Medicine &amp; Bachelor of Surgery (MBChB), University of Nairobi; Post Graduate Certificate in Procurement and Supply Chain Management-UNDP; Certificate in Leadership Development Program (SLDP) - Kenya school of Government; Award for Exceptional Performance-Order of the Grand Warrior (OGW); Member of the Public Health Society of Kenya, Kenya Medical Association and registered with the Kenya Medical and Dentists Practitioners Board.</p> <p><b>Work Experience:</b> Project Co-ordinator, Global Fund-Resilient &amp; Sustainable Systems for Health; Head of Division of Non-communicable Diseases; Head, National Tuberculosis, Leprosy &amp; Lung Diseases; Head of National Malaria Control Program; Provincial Director, Ministry of Public Health and Sanitation; District Medical Officer of Health; Medical Officer Intern.</p>
11.	 <p><b>Dr. Andrew Mulwa</b>  <b>Ag. Chief Executive Officer</b></p>	<p><b>DOB: 22<sup>nd</sup> November 1983</b></p> <p><b>Profession/Academic Qualifications:</b></p> <p>Master of Science (MSC) Strategic Management, Jomo Kenyatta University of Agriculture and Technology (JKUAT) (2019); International Health Systems Programming, quality of Health Care, Harvard School of Public Health. (2019); International Health System Programming making Decentralization work - Harvard School of Public Health (2015); Managing markets for Health (University of Edinburgh/World Bank (2015);</p>

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	<p>(17<sup>th</sup> May 2023-26<sup>th</sup> July 2024)</p>	<p>Bachelor of Medicine and Bachelor of Surgery (MBCHB) University of Nairobi (2008).</p> <p><b>Professional Experience</b></p> <p>Health -Ministry of Health (2021 - May, 2023); Chair, County Executive Committee Member for Health (2015 - 2021); County Executive Committee Member, Health Services, Makueni County (2013 - 2021); District Medical Officer of Health Mbooni East and West Districts (2010 - 2013); Medical Superintendent - Mbooni District Hospital (2010-2013); Medical Officer - Makueni District Hospital - (2010); Director Medical Services, Preventive and Promotive, Medical Doctor - Clinical Medicine, Machakos Level 5 Hospital (2009 - 2010).</p>
<p>12.</p>	 <p><b>Mr. Fred Wanyonyi</b>          Director - Legal Services</p>	<p><b>DOB: 4<sup>th</sup> April 1966</b></p> <p><b>Corporation Secretary</b></p> <p><b>Profession/Academic Qualifications: LLB, DIP. Law</b></p> <p><b>Work Experience:</b> Company Secretary-Nzoia Sugar, Advocate-Wetangula &amp; Co. Advocate-P.L. Nalo &amp; Co. Advocates, Pupil-Simiyu Wetangula &amp; Co Advocates</p>

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**4. Key Management Team**



**Dr. Waqo Ejersa, OGW**  
**MBChB, MSc. MPH**  
Chief Executive Officer  
(Effective from 27<sup>th</sup> July 2024)



**Dr. Andrew Mulwa**  
Ag. Chief Executive Officer  
MBChB, MSc  
(15<sup>th</sup> May 2023-26<sup>th</sup> July 2024)



**Mr. Fred Wanyonyi**  
Director-Legal Services



**Mr. John Kabuchi**  
Ag. Head-MCP-USAID Program



**Mr. Edward Njoroge**  
Director-Operation



**Mr. Waiganjo Karanja CPA, CISA, CS**  
Director Finance & Strategy



**Ms. Pauline Nyoru**  
Ag. Director Finance & Strategy (effective 23<sup>rd</sup> Sept. 2024)  
CPA,MBM,DipIFR



**Mr. Evans Cheruiyot**  
Ag. Director Legal (effective 23<sup>rd</sup> Sept. 2024)

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**Ms. Ebla  
Mohamed**  
Director-Human  
Resource &  
Administration



**Mr. Moses Sudi**  
Director-  
Procurement



**Mr. Eliud  
Mureithi**  
  
Director,  
Commercial  
Services



**Ms. Teresa Mute**  
Internal Audit  
Manager



**Ms. Catherine  
Maingi**  
Planning and  
Continuous  
Improvement  
Manager



**Ms. Caroline W.O  
Anunda (CPA)**  
  
Finance Manager



**Ms. Caroline  
Gichinga**  
  
Procurement  
Manager

## **5. Chairperson's Statement**

I am pleased to present the Integrated Annual Report for the year ending June 30, 2024. This report highlights our performance as a forward-thinking and innovative organization. Despite significant challenges in the global and domestic economic landscape, we have successfully navigated these obstacles and fulfilled our mandate.

**Key Challenges and Strategic Progress;** This past year, we faced numerous challenges, notably flooding that disrupted the delivery of Health Products and Technologies (HPTs) to health facilities in Arid and Semi-Arid Lands (ASAL). Despite these setbacks, we made substantial progress toward our strategic priorities, achieving strong results. KEMSA plays a crucial role in the health sector, aligning with Vision 2030 and the Bottom-Up Economic Transformation Agenda (BETA). Our Strategic Plan is in harmony with the 4th Medium-Term Plan (MTP), focusing on Universal Health Coverage (UHC) and enhancing the delivery of essential medicines. We are also establishing stakeholder-managed national procurement schemes to optimize bulk purchasing and accountability.

**Health Sector Reforms;** The enactment of the Social Health Insurance Fund (SHIF) Act represents a significant advancement in healthcare delivery, reforming the National Health Insurance Fund (NHIF) to provide quality healthcare through mandatory contributions from employers and employees. KEMSA will play a key role in implementing UHC by efficiently procuring and distributing medical supplies. We will enhance coordination with county governments and health facilities to ensure timely delivery of the right products in the right quality and quantity. The Facilities Improvement Act (FIF Act 2023) also improves access to HPTs by allowing health facilities to use their own financial resources for procurement. KEMSA will adjust its distribution model to meet the unique needs, ensuring optimal service delivery.

**Addressing Internal Challenges;** Since the onset of the Covid-19 crisis, KEMSA has faced governance issues, human resource concerns, and declines in financial and operational performance. To address these, we conducted a strategic review and adopted a one-year turnaround strategy focused on customer experience, operational excellence, financial management, culture, and governance. This plan aims to reverse the performance decline of the past three years and position KEMSA for sustainable financing and operational excellence. Several challenges have contributed to performance issues, including inefficient warehouse operations in Nairobi that extended processing times and financial constraints affecting procurement. Despite these hurdles, KEMSA successfully acquired health products and technologies (HPTs) valued at Kshs. 25.692 billion. Consequently, the organization efficiently delivered essential health products and technologies worth Kshs. 28.588 billion to 13,097 healthcare facilities spanning all 47 counties in the country.

## **Kenya Medical Supplies Authority**

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**Milestones Achieved;** The completion of Phases One and Two of the National Commodity Storage Centre is a significant milestone, enhancing our capacity to serve over 11,500 health facilities and strengthening the National Emergency Supply Chain Framework. The launch of the Regional Distribution Center (RDC) in Kisumu and the ongoing development of a second RDC in Mombasa will bring our supply chain solutions closer to communities.

Additionally, the implementation of a new SAP Enterprise Resource Planning (ERP) system is expected to improve operational efficiency by automating finance, warehousing, sales, and last-mile delivery processes, aligning with our commitment to better services.

**Fostering a Positive Culture;** A strong organizational culture is vital for achieving our goals. We prioritize employee engagement and have developed human resource tools to foster a fair and equitable workplace. We successfully recruited **Dr. Waqo Dulacha Ejersa** as CEO, bringing fresh perspectives to drive KEMSA forward.

**Building Partnerships and Sustainability;** KEMSA is forging new partnerships to recapitalize the business and sustain our revolving fund. We hosted a supplier brainstorming conference to identify gaps and assess performance, calling for support in lowering medical supply costs. Despite liquidity challenges from unpaid county supplies, we implemented austerity measures to regularize accounts, crucial for achieving our target Order Fill Rate and supporting UHC.

**Future Outlook;** Looking ahead, KEMSA is committed to enhancing operational efficiency and overcoming barriers to fulfilling our mandate. With 85% of our reform agenda implemented, we maintain a positive outlook on growth. Our new Strategic Plan for 2025-2028 will focus on improving procurement processes, customer experience, and financial stability. Our achievements are a testament to the hard work and dedication of KEMSA's management and staff, along with invaluable support from our stakeholders. We commit to working closely with our partners to build capacity and enhance knowledge sharing, creating a more efficient supply chain that supports Kenya's health goals.

**Acknowledgments;** I extend my gratitude to the Board for their diligence and commitment in providing effective oversight and guidance. Their diverse skills and experience have been crucial to our successes. I also thank the Government of Kenya, particularly the Ministry of Health and The National Treasury, for their continued support.



**Samuel Tunai, EGH**

**Chairperson - Board of Directors**

## **6. Report of the Chief Executive Officer**

I joined KEMSA in July 2024 and would like to thank my predecessor, **Dr. Andrew Mutava**, for his commendable leadership. The achievements of KEMSA are rooted in our strategic priorities, and I'm pleased to report significant progress this Financial Year 2023-2024.

### **Organizational Transformation Strategy**

KEMSA's transformation strategy aims to revitalize our supply chain, enhance service delivery, and support Universal Health Coverage (UHC). Key areas of focus include:

#### **a) Human Resource:**

- Streamlined staff structure with 562 members by June 2024.
- Engaged a consultant to enhance our Human Resource Instruments.

#### **b) Procurement:**

- Introduced measures prioritizing transparency and accountability.
- Implemented e-procurement via our ERP system for better transparency.
- Automation & Technological Enhancement:
- Integrated KEMSA-LMIS with government systems for real-time order monitoring.
- New ERP system streamlines processes from procurement to distribution.

#### **c) Operational Efficiency:**

- Focused on procuring Class A Vital Tracer Commodities.
- Enhanced financial sustainability through cost optimization and improved debt management.
- Consolidated operations in a new Office Complex and launched a Regional Distribution Centre in Kisumu, benefiting 19 counties.

#### **d) Governance:**

- Implemented governance frameworks emphasizing transparency and stakeholder engagement.
- Adopted an e-board system for board meetings minutes capturing and attendance accountability.

### **Health Products and Technologies (HPT) Security**

KEMSA is enhancing its processes for selecting, quantifying, and distributing HPTs, in collaboration with the Ministry of Health. We aim to expand the Essential Medicines and Technologies lists and improve inventory management in counties to prevent stockouts.

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**Financial Performance**

The Authority's total revenue for the period ended 30th June 2024 was **Ksh 4.36 billion**, representing a 52% increase from the FY 2022/23 revenue of **Ksh. 2.88 billion**. Operating expenses for the period amounted to **Ksh. 3.88 billion**, a 29% decrease from the previous financial year's expenditure of **Ksh. 5.47 billion**. Although the Authority has continued to incur losses, the Board and Management have successfully reduced the loss from **Ksh. 3.897 billion** in FY 2022/23 to **Ksh. 779.1 million** in FY 2023/24, indicating that the Authority is on the right path.

**Partnerships and Collaborations**

KEMSA is strengthening partnerships with organizations such as the Global Fund and USAID, onboarding 14 key strategic partnerships to revitalize healthcare supply chains.

**Environmental Sustainability and Corporate Social Responsibility**

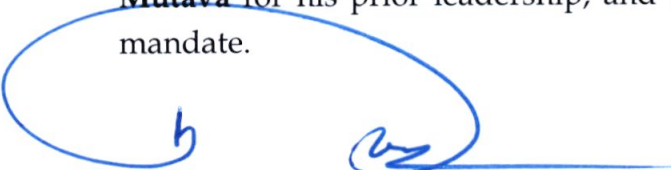
KEMSA engaged in various initiatives, including tree planting in Murang'a and Elgeyo Marakwet Counties, donating medical commodities to fire victims, and participating in grassroots healthcare camps.

**Challenges and Action Points**

In 2023/2024, KEMSA faced challenges due to insufficient capital, impacting stock levels and supplier payments. The average Order Fill Rate fell below target, and revenue was 27% lower than forecasted. To address these issues, we are seeking additional funding and strategic partnerships, and improving operational efficiencies through cost optimization and better inventory management.

**Appreciation**

I extend my heartfelt thanks to the Board of Directors for their guidance, to **Dr. Andrew Mutava** for his prior leadership, and to the KEMSA team for their commitment to our mandate.



**Dr. Waqo Ejersa, OGW**  
**Chief Executive Officer**

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**7. Statement of Performance against Predetermined Objectives for FY 2023/2024**

KEMSA has 5 strategic pillars and 7 objectives within its Strategic Plan for the FY 2019/2020- 2023/2024. These strategic pillars are as follows:

**Pillar 1: Operation Excellence:**

- To Improve Business Processes
- To Ensure compliance with laws, regulations, and standards
- To Deliver value for money

**Pillar 2: Customer Experience**

- To Improve Customer and Stakeholder satisfaction

**Pillar 3: Financial Sustainability**

- To Ensure financial sustainability

**Pillar 4: People and Culture**

- To Align structure and culture to deliver on the KEMSA mandate

**Pillar 5: Governance**

- To Strengthen governance systems

KEMSA develops its annual work plans based on the above 5 pillars. Assessment of the Board's performance against its annual work plan is done every quarter.

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KEMSA achieved its performance targets set for the FY 2023/2024 period for its 5 strategic pillars, as indicated in the diagram below:

Pillar	Strategic Objective	KPI	Target	Actual 2023/24
Operation Excellence	1. To Improve Business Processes	Order fill rate	90%	62%
		Order Turnaround Time (Hosp)	7 days	17 Days
		Order Turnaround Time (PHFs)	10 days	20 Days
	2. To Ensure compliance with laws, regulations, and standards	No. of non-conformities arising from audits	0	0
	3. To Deliver value for money	Market Price Index	1	Survey done Awaiting publishing
Customer Experience	To Improve Customer and Stakeholder satisfaction	Stakeholder Satisfaction Index	85%	In progress
		Customer satisfaction index	85%	73.40%
Financial Sustainability	To Ensure financial sustainability	Value of expiries	< 2%	5.30%
		cost/ income ratio	80%	416%
		% capital budget utilized	100%	76%
		Value of KEMSA debt	< Kshs. 1 billion	Kes. 6.8B
People and Culture	To Align structure and culture to deliver on the KEMSA mandate	Employee Satisfaction Index	80%	In progress
		Work Environment Survey index	100%	In progress
		No. of Approved HR Instruments	5	Awaiting final report to be tabled to KEMSA Board
Governance	To Strengthen governance systems	1. Board and Board members' performance score	80%	91%
		2. % of Board resolutions implemented	90%	80%
		3 % of risks identified & and risks mitigated	85%	0%
		4. % of audit activities completed	80%	66%

To enhance financial efficiency and operational excellence, the Authority has implemented a one-year turnaround strategy. This strategy encompasses a Departmental Performance Management plan detailing Key Performance Indicators (KPIs) - Strategic, Tactical, and Operational. These KPIs are integrated into individual performance contracts within the Authority and with the Ministry of Health.

## **8. Corporate Governance Statement**

Board Appointment and Removal of Directors: The Authority's Board of Directors comprises the Chairperson who is appointed by Excellency the President, three independent Board members who are not public officers with diverse skills and experience in management or in the health sector who are appointed by the Cabinet Secretary, two who are representatives of the Principal Secretary of the Ministry of Health and The National Treasury, and one representative from the Council of Governors and appointed by the Cabinet Secretary for Health.

The appointment of a board member ceases if the member resigns by giving notice, is absent for three consecutive meetings, is convicted of an offense, is incapacitated by physical or mental illness, or conducts himself in a manner deemed by the appointing Authority to be inconsistent with membership of the Board.

Roles and functions of the Board: The Chairperson acts as the link between the Board and the Chief Executive Officer and plays a lead role in consensus-building between the board members, the Chief Executive Officer and senior management. The Board has delegated the authority for day-to-day management to the Chief Executive Officer. It however retains the overall responsibility for decisions with regard to finances and operations of the Authority. In this regard the main roles are;

- a) Strategic management
- b) Corporate governance
- c) Key personnel management
- d) Financial management
- e) Board Membership and Attendance

To effectively discharge its mandate, the Board has established four (4) committees with specific terms of reference. The Board appoints into these committees, members with the requisite skills and competence to discharge allocated responsibilities. The committees report to the Board any actions taken for ratification and any major developments that they become aware of. The Board receives a report of the committee's findings and actions. These Committees include; the Finance, Strategy & Development Committee, Audit & Risk Committee, Supply Chain Committee, and the Human Resource & Governance Committee.

During the Financial Year 2023-2024, there were a total of eleven (11) Full Board Meetings, eight (8) Finance Strategy and Development Committee meetings, eight (8) Human Resource & Governance Committee meetings, six (6) Audit and Risk Committee meetings and five (5) Supply Chain Committee meetings.

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*Board Membership and Attendance for the Current Directors for the FY 2023-2024*

<b>Board Member</b>	<b>Classification</b>	<b>Designation</b>	<b>Committee Meetings</b>	<b>Full Board Meetings</b>
Mr. Irungu Nyakera	Appointed by H.E. the President	Chair		11
Ms. Mary Awino	Representing PS, The National Treasury	Member	27	11
Dr. Peter Chemwile	Representing PS, Ministry of Health	Member	14	3
Bernard Kipkirui Bett	Independent	Member	13	11
Hesbon Oyioko Omollo	Independent	Member	13	11
Dr. Jane Masiga	Independent	Member	13	10
Jane Mbatia	Independent Up to 17 <sup>th</sup> May 2024	Member	10	8
Mr. Stephen Bitok	Representing PS, Ministry of Health w.e.f 31st January, 2024	Member	8	6
Dr. Catherine Ngahu	Independent w.e.f 31st may, 2024	Member		1

**Succession Plan:** The Authority's board members may be appointed for a cumulative term not exceeding six (6) years.

**Ethics and Conduct:** To govern its dealings with stakeholders, the Authority has developed a Code of Conduct and Ethics which the Board, Management and the employees subscribe to in addition to the Principles of Public Service, the provisions of the Public Officers Ethics Act, 2003 and all other statutory regulations issued from time to time.

**Governance Audit:** In order to ensure that the Authority conforms to the highest standards of good governance, governance audits are undertaken annually at the Authority in accordance with guidelines developed and issued by the State Corporations Advisory Committee. For the year under review, a governance Audit was not conducted.

**Board Remuneration:** Board members are remunerated for their services in accordance with the prevailing relevant legislative provisions and/ or guidance from the relevant authority. In line with best practice, board members are entitled to a sitting allowance for every meeting attended, lunch allowance, accommodation allowance and mileage

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reimbursement where applicable. In addition, the Chairperson is paid a monthly honorarium.

**Conflict of Interest:** The Board members are required to disclose real or potential conflict of interest to the Board at the start of every meeting and upon confirmation of conflict of interest they are excluded from voting on such areas. We confirm that there was no business transaction that was transacted by the Board in which any of the board members had disclosed a personal interest in conflict with those of the Authority

**Board Charter:** The Authority has a Board Charter in place which sets out the principles, functions, and responsibilities of the Board in a way that supports the members in carrying out their strategic oversight function. The Charter compliments and does not replace or supersede any statutory laws and regulations that govern the Authority.

**Induction and Training:** The Board provides new Board members with an effective induction program in order to familiarize them with their responsibilities as directors, general principles of corporate governance and Board practices. The induction program also provides the board members with an orientation of the Authority's strategic plans, financial status and policies, risk management, compliance programs, and the Code of Conduct and Ethics. Under the year of review, the management would like to confirm that all new board members appointed were taken through the induction program.

**Board and Member Performance:** The Board undergoes an annual evaluation conducted by the State Corporations Advisory Committee to appraise its performance. The Board evaluation provides an opportunity for board members to identify strengths, collective skill gaps and individual areas of improvement. For the year under review, the Board evaluation was conducted on 4<sup>th</sup> July, 2024.

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## **9. Management Discussion and Analysis**

The Authority generates its revenue from five main sources: the sale of medical commodities, supply chain fees, bank interest, government grants (GoK), and other income. Total revenue for the period ended 30th June 2024 was **Ksh. 4.369 billion**, representing a 52% increase from the FY 2022/23 revenue of **Ksh. 2.878 billion**, which fell 23% short of the budgeted amount of Ksh. 4.45 billion. Operating expenses for the period amounted to **Ksh. 3.875 billion**, a 29% decrease from the previous financial year's operating expenditure of **Ksh. 5.473 billion**.

However, the Authority incurred accounting losses, including a foreign exchange loss of **Ksh. 701 million**, an impairment loss of **Ksh. 481 million**, a loss on the disposal of assets amounting to **Ksh. 18 million**, and corporation tax of **Ksh. 71 million**. This resulted in a cumulative expenditure of **Ksh. 5.157 billion** and a cumulative loss of **Ksh. 779.1 million**, reflecting an 80% improvement compared to the loss of **Ksh. 3.897 billion** incurred during the same period in FY 2022/23. The loss is attributed to accounting entries, including the Forex exchange loss, expiries of health products and technologies (HPTs), and impairment losses.

**Business Operations:** In FY 2023-2024, KEMSA received health products and technologies (HPTs) valued at Kshs. 25.737 billion, comprised of Kshs. 4.324 billion in KEMSA sales items and Kshs. 21.413 billion from various programs and donors.

### **HPT Distribution by Financial Year:**

<b>Financial Year</b>	<b>KEMSA Capital Commodity Value- ( Kshs.)</b>	<b>Programs Commodity Value- ( Kshs.)</b>	<b>Totals Commodity Value - ( Kshs.)</b>
2019-20	11,956,113,932	25,691,698,383	37,647,812,315
2020-21	8,245,609,962	21,444,688,359	29,690,298,321
2021-22	6,636,627,027	20,335,659,587	26,972,286,614
2022-23	8,344,115,966	18,942,301,196	27,286,417,162
2023-24	4,324,181,232	21,413,375,976.26	25,737,557,208

From 2019/20 to 2023/24, KEMSA's capital order fill rates were 69%, 54%, 50%, 51%, and 52% against a 90% target. For programs, fill rates were 90%, 94%, 77%, 80%, and 72%.

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**EMMS Orders and Program Orders**

Category of Order fill rate	FY 2019 - 2020	FY 2020 - 2021	FY 2021 - 2022	FY 2022 - 2023	FY 2023 - 2024
Order fill rate for KEMSA EMMS	69%	54%	50%	51%	52%
Target for KEMSA EMMS	90%	90%	90%	90%	90%
Order fill rate for Programs EMMS (HIV, TB, FP, Malaria)	90%	94%	77%	80%	72%
Target for Programs EMMS (HIV, TB, FP, Malaria)	90%	90%	90%	90%	90%

Order turnaround times increased for hospitals from 12.3 days to 16.9 days, exceeding the target of 7 days. For primary health facilities, turnaround times ranged from 17.5 to 20.1 days against a 10-day target.

**Challenges Impacting Performance** include:

- a) **Financial Constraints:** Limited funding hampered procurement of essential health products, affecting timely payments to suppliers.
- b) **Supplier Delays:** Slow supplier deliveries hindered KEMSA's ability to meet customer commitments
- c) **Insecurity:** Challenges in serving remote areas impacted operations and customer satisfaction.

**National Commodity Storage Centre:** The construction of Phases One and Two of the National Commodity Storage Centre is complete. Phase One focused on the warehouse and flammable goods store, while Phase Two involved the office block and racking installation. Management will now advance to Phase Three, which entails equipping the facility and optimizing its layout.

The new warehouse will support over 11,500 health facilities and enhance the National Emergency Supply Chain Framework. Key features include a heat-reducing roof, durable flooring, adjustable storage racks, and a 1.2 million-litre underground tank. Cold chain amenities consist of four cold rooms and four freezer rooms.

**Compliance:** The Authority continues to manage financial resources in compliance with the Constitution of Kenya and the Public Finance Management Act. Compliance activities include:

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- a) Submission of quarterly financial statements to the National Treasury.
- b) Timely performance contracting evaluation reports to relevant authorities.
- c) Budget submissions to the National Treasury through the Ministry of Health.
- d) Submission of the annual procurement plan by the deadline.

**New SAP ERP Project:** The Authority has adopted a new SAP Enterprise Resource Planning (ERP) system to enhance operational efficiency. This system will automate finance, warehousing, sales, and distribution. Electronic GPS-enabled locks have been implemented for real-time tracking of deliveries. Additionally, a Wide Area Network (WAN) and Local Area Network (LAN) have been established, improving visibility and order processing between the Kisumu Regional Distribution Centre and the Embakasi Supply Chain Centre. Enhanced security measures include CCTV installations and biometric attendance systems.

**Enterprise Risk Management:** The Board oversees risk management and internal controls. Supported by the Board Audit Risk Committee (BARC), the Board reviews the risk management framework, ensuring alignment with strategic objectives. The Authority maintains a comprehensive risk management policy that guides the identification, assessment, prioritization, and reporting of risks, supporting informed decision-making.

**The Authority's top risks are:**

- a. Cyber risks, data management and ICT inadequacies
- b. Slow moving stocks
- c. Negative public perception on KEMSA's brand.
- d. Low customer order fulfillment
- e. Low productivity levels
- f. Liquidity and cash flow challenges

## **10. Environmental and Sustainability Reporting**

In its transformation efforts, KEMSA aims to enhance its operations by prioritizing sustainability and adhering to its strategic plan focused on serving citizens.

### **Sustainability Strategy**

KEMSA's strategy integrates sustainability across its operations, emphasizing the pillars of people, planet, and prosperity. The Authority is committed to delivering affordable, quality health products, while implementing value-driven procurement to reduce healthcare costs in public facilities.

### **Environmental Performance**

KEMSA actively protects and enhances the environment for future generations. The disposal of medical waste adheres to relevant laws, ensuring no expired pharmaceuticals harm ecosystems. In support of Kenya's goal to plant 15 billion trees by 2032, KEMSA exceeded its target by planting over 11,800 trees in financial year 2023 - 2024, collaborating with various stakeholders during these initiatives.

### **Additional Environmental Activities**

- a) **Pollution Control:** A waste segregation structure was completed to improve waste management.
- b) **Climate Adaptation:** An environmental audit was conducted to assess KEMSA's performance and reduce its environmental impact.
- c) **Education and Awareness:** Tree-planting initiatives achieved a survival rate of nearly 95%, demonstrating community engagement.

### **Human Resource Management:**

KEMSA has a robust HR manual guiding recruitment, employee welfare, and training. The Authority promotes equal opportunity hiring, adhering to gender balance policies, and focuses on maintaining a skilled workforce.

### **Key HR Initiatives**

- a) **Health and Safety:** KEMSA prioritizes the health and safety of its employees, regularly reviewing its Occupational Safety and Health (OSH) practices.
- b) **Gender Analysis:** The workforce comprises 40% female and 60% male employees.
- c) **Performance Appraisal:** A bi-annual appraisal framework ensures accountability and alignment with strategic goals.

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d) **Employee Welfare:** Comprehensive medical insurance and wellness programs, including mental health support, are provided to staff.

**Marketplace Practices**

KEMSA maintains fair competition and transparency in procurement, ensuring equitable practices and adherence to national laws. The Authority offers a wide range of products to meet healthcare needs while fostering long-term customer relationships.

**Supplier Relations**

KEMSA employs automated tools to evaluate supplier performance, ensuring compliance with contract terms and addressing performance issues proactively.

**Responsible Marketing**

KEMSA commits to ethical marketing practices, ensuring accurate communications and avoiding practices that could unduly influence healthcare professionals.

**Product Stewardship**

KEMSA focuses on minimizing environmental impacts throughout the product lifecycle. Suppliers are required to manage the end-of-life of products responsibly.

**Corporate Social Responsibility**

KEMSA implements impactful social initiatives, including donations of medical supplies to various community health campaigns, enhancing access to healthcare for underserved populations.

**Recent Initiatives**

Medical Camps: Support for multiple medical camps across counties, providing free check-ups and health advice, addressing health inequalities. Through these actions, KEMSA strives to create a sustainable future while fulfilling its mandate to improve public health in Kenya. Below are the initiatives supported by KEMSA;

- Uasin Gishu County
- Kendu Adventist Hospital
- Chepsaita Cross Country Run and Medical Camp
- Nyandarua Marathon and Medical Camp
- Mwea Medical Camp
- KEMSA joined the Ministry of Health for a medical camp at Kimwondo Primary School Endebe in Trans Nzoia County. The local community got free medical check-ups and referrals.

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**Embakasi Health Centre donations for patients affected by the Mradi fire incident; KEMSA donated medical commodities worth over Kshs. 350,000/- to support treatment of Mradi Area fire victims. The commodities were delivered to Embakasi Health Centre and received by the facility in charge. Overseeing the process was Hon. Babu Owino, Embakasi East MP.**



## **11. Report of the Directors**

The directors submit this report together with the financial statements for the year ended June 30, 2024, which show the state of KEMSA's affairs.

### *i) Principal Activities*

The Authority's principal activities are;

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

### *ii) Results*

The results for the year ended June 30, 2024, are set out on pages 1-160.

### *iii) Directors*

Members of the Board of Directors who served during the year are listed on pages xi - xvii. Throughout the year, one Director resigned, and one new Director was appointed effective from 24<sup>th</sup> May 2024.

### *Surplus remission.*

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In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year.

*The Kenya Medical Supplies Authority made a deficit of Kshs. 779,149,423 during the year and in (FY 2022/2023 deficit of Kshs. 3,897,349,096). There were no surplus funds at the end of the financial year hence no remission to the Consolidated Fund.*

**Auditors**

The Auditor-General is responsible for the statutory audit of the Kenya Medical Supplies Authority (KEMSA) in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of the Kenya Medical Supplies Authority (KEMSA) for the year/period ended June 30, 2024.

By Order of the Board

  
.....

**Evans Cheruiyot**  
**Ag. Director Legal**

## **12. Statement of Directors' Responsibilities**

Section 81 of the Public Finance Management Act (2012) and Section 17 of the Kenya Medical Supplies Authority Act (25th January 2013) mandate the Directors to prepare financial statements for the Kenya Medical Supplies Authority (KEMSA). These statements should provide a true and fair view of KEMSA's financial position at the year's end and its operating results for that year. Additionally, the Directors must ensure that KEMSA maintains accurate accounting records that reasonably reflect its financial position. They are also entrusted with the responsibility of safeguarding the Authority's assets. This responsibility includes:

- i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period.
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of KEMSA.
- (iii) Designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud.
- (iv) Safeguarding KEMSA's assets.
- (v) Selecting and applying appropriate accounting policies
- (vi) Making accounting estimates that are reasonable in the circumstances:

The Directors accept responsibility for KEMSA's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act.

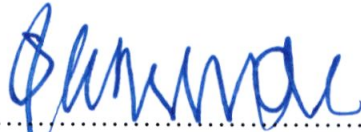
The Directors believe that the financial statements accurately reflect the transactions and financial position of the Kenya Medical Supplies Authority (KEMSA) for the financial year ending June 30, 2024. They also affirm the integrity of the accounting records maintained by KEMSA, which informed the preparation of these statements, and vouch for the robustness of the internal financial control systems.

Based on current information, the Directors have no reason to doubt KEMSA's ability to continue its operations for at least the next twelve months from this statement's date.

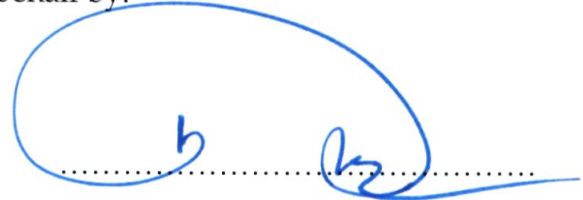
**Kenya Medical Supplies Authority**  
**Annual Report and Financial Statements**  
**For the year ended June 30<sup>th</sup> 2024**

*Approval of the financial statements*

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



.....  
**Samuel Tunai, EGH**  
**Chairperson of the Board**



.....  
**Dr. Waqo Ejersa, OGW**  
**Accounting Officer**

# REPUBLIC OF KENYA



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*Enhancing Accountability*

## REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2024

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### PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Kenya Medical Supplies Authority set out on pages 1 to 137, which comprise of the statement of financial position as at 30 June, 2024 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 Kenya Medical Supplies Authority as at 30 June, 2024 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Medical Supplies Authority Act, 2013 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Receivables from Exchange Transactions (current)**

The statement of financial position and as disclosed in Note 24(a) to the financial statements reflects receivables from exchange transactions (current) balance of Kshs.6,935,870,483. The following unsatisfactory matters were however noted:-

##### **1.1. Long Outstanding Receivables**

The balance includes trade debtors-receivables of Kshs.6,749,349,385 out of which Kshs.2,894,504,826 relates to various customer balances that had been outstanding for more than one year without any agreed-on payment plan. Further, there was no provision for bad and doubtful debts contrary to Paragraph 2.16 of the Authority's Credit Policy, 2014 which requires adequate provision for bad and doubtful debts for any outstanding debt above three hundred and thirty (330) days.

##### **1.2. Receivables from Ministry of Health**

The receivables from exchange transactions balance includes an amount of Kshs.1,258,576,806 owed by the Ministry of Health. However, confirmation from the Ministry of Health indicated a balance of Kshs.48,164,160 resulting to an unexplained and unreconciled variance of Kshs.1,210,412,646.

##### **1.3. Receivables from County Governments**

Included in the balance is Kshs.3,379,558,022 owed by the County Governments which further includes an amount of Kshs.2,666,204,261 owed by forty-three (43) County Governments. However, analysis of the amounts disclosed as owing to the Authority in the individual financial statements for the forty-three (43) County Executive revealed a balance of Kshs.825,701,802 resulting to an unexplained variance of Kshs.1,840,502,459 as detailed out at **Appendix I**.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions ((current) balance of Kshs.6,935,870,483 could not be confirmed.

## **2. Undisclosed Expired and Damaged Medical Commodities**

The statement of financial performance and as disclosed in Note 20 to the financial statements reflects expenses in respect to expiry and damages of Kshs.376,802,655. However, analysis of warehouse management system indicated that Global Fund and other donated medical commodities valued at Kshs.367,413,734 had expired during the year but they were not incorporated in the financial statements.

In the circumstances, the accuracy and completeness of the expiry and damages expense of Kshs.376,802,655 could not be confirmed.

## **3. Inaccuracies in Sale of Medical Commodities**

Note 9 to the financial statements reflects total sales revenue of Kshs.5,799,384,197 generated from sale of various health products and technologies. Included in this amount is Kshs.3,791,887,567 and Kshs.1,907,761,197 from the sale of pharmaceuticals and non-pharmaceuticals respectively. Review of the warehouse issue reports revealed that medical commodities valued at Kshs.161,347,184 were issued to thirty-one (31) County headquarters without providing details of the beneficiary health facilities.

In the circumstances, the accuracy and completeness of sales revenue amounting to Kshs.5,799,384,197 could not be confirmed.

## **4. Unconfirmed Land Ownership**

The statement of financial position and as disclosed in Note 27 to the financial statements reflects net book value of property, plant and equipment of Kshs.9,827,561,267. The balance includes land valued at Kshs.1,745,500,000 in Nairobi whose lease expired on 30 June, 2018 but it had not been renewed as at 30 June, 2024.

In the circumstances, the accuracy and rightful ownership to the parcel of land valued at Kshs.1,745,500,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Medical Supplies Authority Management in accordance with ISSAI 130 on the 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.

## **Emphasis of Matter**

### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final total revenue budget and actual on comparable basis of Kshs.4,452,184,650 and Kshs.4,369,101,668 respectively, resulting to underperformance of Kshs.83,082,982 or 2% of the budget.

The underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## **2. Long Outstanding Trade Payables**

The statement of financial position and as disclosed in Note 28 to the financial statements reflects trade and other payables balance of Kshs.6,907,296,951. The balance includes an amount of Kshs.2,372,561,841 which has been outstanding for more than ninety (90) days with no plan to clear the outstanding amounts. The nonpayment may lead to litigations and withdrawal of services by the suppliers affecting the operations of the Authority.

Failure to settle bills during the year to which they relate adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of these matters.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for 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**

#### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal controls, Risk management and Governance. However, the Management had not resolved the issues as ta 30 June, 2024.

### **Other Information**

The Management is responsible for the other information set out on page v to xxxviii which comprise of Key Authority's Information and Management, The Board of Directors, Key Management Team, Chairperson's Statement, Report of the Chief Executive Officer, Statement of Performance against Predetermined Objectives for the FY 2023/2024, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and the Statement of Directors' Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Authority's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to

report that fact. Based on the audit procedures performed, I confirm that Other Information is not materially inconsistent with the financial statements.

### **Missed Performance Targets**

The Authority had seven (7) strategic objectives including improving business processes, improving customer and stakeholder satisfaction, ensuring financial sustainability, and aligning structure and culture to deliver on the KEMSA mandate, delivering value for money, ensuring compliance with laws, regulations, and standards and strengthening governance systems. However, the Authority did not achieve five (5) of the strategic objectives.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources 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.

### **Basis for Conclusion**

#### **1. Non-Compliance with the Climate Regulations**

Section (5) of the Climate Change Act, 2016 states that each state department and national government public entity shall (a) integrate the climate change action plan into sectoral strategies, action plans and other implementation projections for the assigned legislative and policy functions; and (f) report annually to the Council on the status and progress of performance and implementation of all assigned climate change duties and functions. However, Management did not provide evidence for audit to confirm that the Authority reports annually to the Council on the status and progress of performance and implementation on climate change.

In the circumstances, Management was in breach of the law.

#### **2. Irregular Donations of Medical Commodities**

Note 12 to the financial statements reflects an amount of Kshs.214,442,605 in respect of advertising expenses out of which Kshs.37,299,685 relates to donations to health institutions. However, the donations included medical commodities valued at Ksh.5,804,764 with a shelf life exceeding six (6) months. This was contrary to Section 8.2 of the KEMSA Standard Operating Procedures, which requires donated medical

commodities to have a shelf life of less than six months. Further, controls were not in place to ensure the donated medical drugs are not sold to patients or recognized as part of purchases by the recipient institutions.

In the circumstances, Management was in breach of the law.

### **3. Commingling of Supplier Retention Funds**

Note 28 to the financial statements reflects trade and other payables from exchange transactions balance of Kshs.6,907,296,951 which includes supplier's retention funds of Kshs.165,308,683. However, the funds were commingled in the Authority's operational bank accounts instead of depositing them in a separate bank account exposing them to unintended use. This was contrary to Regulation 43(b) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly.

In the circumstances, Management was in breach of the law.

### **4. Staff Earning Less Than One Third of Basic Salary**

Review of the payroll revealed that seventy-three (73) employees earned less than one third of their basic salary during the year under review. This was contrary to Section 19(3) of Employment Act, 2007 which stipulates that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

In the circumstances, Management was in breach of the law.

### **5. Irregular Procurement of Transport Services**

Note 12(b) to the financial statements reflects outsourced distribution expenses of Kshs.721,899,107. The service provider owned eleven (11) against the requisite thirteen (13) 7-10 tonnes vehicles. Further, the provider did not present evidence of Global Positioning System (GPS) for all their listed vehicles as per the evaluation criteria. This was contrary to Regulations 76(1&2) of the Public Procurement and Asset Regulations, 2020 which states that upon completion of the preliminary evaluation under Regulation 74, the evaluation committee shall conduct a technical evaluation by comparing each tender to the technical requirements of the goods, works or services in the tender document.

In the circumstances, Management was in breach of the law.

## **6. Long Outstanding Imprest**

Review of expenditure records and the imprest register revealed imprests issued totalling to Kshs.4,835,244 that were due for surrender but were outstanding as at 30 June, 2024. This was contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station.

Further no action had been taken to recover the long outstanding imprests from the payroll for the affected staff.

In the circumstances, Management was in breach of the law.

## **7. Staff Over Establishment**

During the year under review, the Authority's approved staff establishment was three hundred and forty-one (341) positions. However, the staff in post as per the master roll numbered five hundred and seventy-one (571) resulting to an over establishment two hundred and three (203).

In the circumstances, Management was in breach of the law.

## **8. Non-Adherence to Set Credit Limits**

Note 24(a) to the financial statements reflects trade debtors-receivables balance of Kshs.6,749,349,385 out of which Kshs.3,379,558,022 relates to balances owed by County Governments while Kshs.3,369,791,363 relates to other credit customers. However, the Authority did not adhere to the set credit limit and continued to trade with customers beyond the credit policy period of up to 45 days. This was contrary to Paragraph 2.7 of the Authority's Credit Policy, 2014.

In the circumstances, Management was in breach of policy.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The Standards require 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 comply 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 effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance

section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

## **Basis for Conclusion**

### **1. Unallocated Customer Payments**

The statement of financial position and as disclosed in Note 28 to the financial statements reflects trade and other payables of Kshs.6,907,296,951. The balance includes customer unallocated payments amounting to Kshs.176,458,787 and trade debtor-unidentified receipts of Kshs.7,357,111. The balances relate to amounts in the bank but whose details including facility codes and order numbers on what the payments relate to have not been disclosed. Further, reconciliations to match the funds with the orders paid for have not been carried out. Failure to allocate customer payments in a timely manner poses the risk of irregular allocations.

In the circumstances, the effectiveness of internal controls over allocation of customer payments could not be confirmed.

### **2. Avoidable Tax Arrears and Penalties**

Note 12 to the financial statements reflects an amount of Kshs.190,311,857 in respect to tax arrears and penalties which includes a penalty of Kshs.359,697 that was imposed due to the late filing of the June, 2024 Pay As You Earn tax. Further, tax liabilities of Kshs.187,952,160 emanated from filing Nil tax returns for the financial years 2021/2022 and 2022/2023.

In the circumstances, the effectiveness of internal controls over filing of tax returns could not be confirmed.

### **3. Expiry of Essential Drugs for Lack of Distribution Lists**

The statement of financial performance and as disclosed in Note 20 to the financial statements reflects expired stock of Kshs.376,802,655. The expired stock included third party stocks from Ministry of Health commodities valued at Kshs.23,957,138 which include cancer treatment drugs valued at Kshs.9,257,110. Management attributed the expiry to lack of a distribution list from the Ministry of Health and low demand despite the increase in cancer cases in the country.

In the circumstances, the effectiveness of internal controls over the distribution of medical commodities could not be confirmed.

### **4. Failure to Hedge against Foreign Exchange Losses**

Note 18 to the financial statements reflects loss on foreign exchange transactions of Kshs.701,405,289 which increased by Kshs.205,828,839 compared to prior year period loss of Kshs.495,576,450. Review of procurement records indicated that contracts were entered using foreign currency while payments were made using Kenyan currency.

However, Management had not put in place hedging strategies to safeguard against foreign exchange volatilities.

In the circumstances, the effectiveness of internal controls over foreign exchange transactions could not be confirmed.

## **5. Unfulfilled Customer Orders**

Note 9 to the financial statements reflects total sales revenue of Kshs.5,799,384,197 generated from the sale of Pharmaceuticals and non-pharmaceuticals. The Authority received customer quantity orders of 18,349,024 units from various health facilities out of which only 1,523,207 order units or 8.3 % were fulfilled resulting to unfulfilled customer orders of 16,825,817 units or 92% valued at Kshs.1,587,444,222.

In the circumstances, the effectiveness of internal controls over fulfilment of customer orders could not be confirmed.

## **6. Non-Optimal Utilization of Trucks in Distribution of Medical Commodities**

Note 12(b) to the financial statements reflects outsourced distribution expenses of Kshs.721,899,107. Review of this expenditure revealed that the Authority did not have a mechanism of ensuring commodities are loaded on the vehicles according to the truck capacities. This was evidenced by the dispatch report showing one thousand seven hundred and seventy-six (1,776) vehicles dispatched to various destinations using trucks that carried loads of less than 75% of the vehicle's load capacity. Further, there were instances of multiple trucks dispatched on the same day to the same County carrying small loads each of which could have been consolidated and loaded into fewer trucks.

In addition, review of dispatch report revealed medical commodities worth Kshs.331,248,308 were distributed by vehicles with a capacity of between one (1) and one and point five (1.5) tonnes which were not captured in tender specifications and contract terms.

In the circumstances, the effectiveness of internal controls optimal utilization of trucks in distribution of medical commodities could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The Standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall 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 the Management and Board of Directors**

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 controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to cease operations.

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, financial transactions and information reflected in the financial statements comply with the authorities which govern them and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how Management 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**

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.

  
FCPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

30 December, 2024

**Appendix 1: Variances in Receivables from Exchange Transactions (Current) County Executive Versus KEMSA Financial Statements**

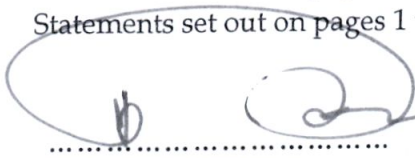
County	Amount as per Financial Statements (Kshs)	Amount Owed as per the County Executive Financial Statements (Kshs)	Variance (Kshs)
1. Mombasa County	7,313,100	-	7,313,100
2. Kwale County	67,859,927	-	67,859,927
3. Tana River County	37,167,354	4,649,498	32,517,856
4. Lamu County	14,282,895	1,305,590	12,977,305
5. Taita Taveta County	12,545,561	-	12,545,561
6. Garissa County	83,228,001	-	83,228,001
7. Wajir County	77,951,293	89,519,092	(11,567,799)
8. Mandera County	82,938,737	-	82,938,737
9. Marsabit County	50,609,108	-	50,609,108
10. Isiolo County	42,057,969	46,090,104	(4,032,135)
11. Meru County	85,344,072	22,951,317	62,392,755
12. Embu County	79,097,721	146,731,275	(67,633,554)
13. Kitui County	14,291,436	-	14,291,436
14. Machakos County	122,002,758	-	122,002,758
15. Makueni County	74,880	-	74,880
16. Nyandarua County	25,653,891	8,228,733	17,425,158
17. Nyeri County	79,160,715	40,384,090	38,776,625
18. Kirinyaga County	50,144,807	-	50,144,807
19. Murang'a County	55,877,470	-	55,877,470
20. Turkana County	63,881,002	-	63,881,002
21. West Pokot County	51,261,165	-	51,261,165
22. Samburu County	50,618,266	-	50,618,266
23. Trans Nzoia County	49,314,859	-	49,314,859
24. Uasin Gishu County	109,964,149	-	109,964,149
25. Elgeyo Marakwet County	50,398,266	-	50,398,266
26. Nandi County	47,183,570	46,720,939	462,631
27. Baringo County	45,947,412	-	45,947,412
28. Laikipia County	62,700,839	-	62,700,839
29. Nakuru County	36,216,966	14,609,868	21,607,098
30. Kajiado County	93,556,175	-	93,556,175
31. Kericho County	6,638,140	6,577,000	61,140
32. Bomet County	65,982,685	33,841,801	32,140,884
33. Kakamega County	182,088,214	84,816,639	97,271,575

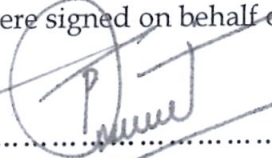
County	Amount as per Financial Statements (Kshs)	Amount Owed as per the County Executive Financial Statements (Kshs)	Variance (Kshs)
34. Vihiga County	94,426,701	34,185,977	60,240,724
35. Bungoma County	38,852,040	29,160,558	9,691,482
36. Busia County	63,344,582	56,959,797	6,384,785
37. Siaya County	61,024,588	46,003,456	15,021,132
38. Kisumu County	11,643,634	-	11,643,634
39. Homa Bay County	104,814,066	-	104,814,066
40. Migori County	58,766,343		58,766,343
41. Kisii County	39,806,268	40,245,760	(439,492)
42. Nyamira County	46,375,206	72,720,308	(26,345,102)
43. Nairobi City County	243,797,433	-	243,797,433
<b>Total</b>	<b>2,666,204,261</b>	<b>825,701,802</b>	<b>1,840,502,459</b>

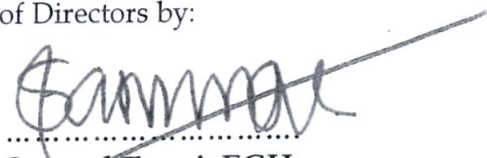
## 14. Statement of Financial Performance for the year ended 30 June 2024

	Note	Period ended 30th June 2024	Comparative Period Ended 30 <sup>th</sup> June 2023
		Kshs	Kshs
<b>Revenue from non-exchange transactions</b>			
Transfers from other government entities	6	1,188,219,571	120,000,000
Public contributions and donations	7	60,086,348	6,383,639
<b>Total Revenue from non-exchange transactions</b>		<b>1,248,305,918</b>	<b>126,383,639</b>
<b>Revenue from exchange transactions</b>			
Rendering of Services	8	1,406,201,614	1,357,355,506
sale of goods	9	1,475,202,965	920,280,802
Rental Revenue	10	1,298,428	1,298,428
Other Income	11	238,092,743	473,033,429
<b>Total Revenue from exchange transactions</b>		<b>3,120,795,750</b>	<b>2,751,968,166</b>
<b>Total revenue</b>		<b>4,369,101,668</b>	<b>2,878,351,805</b>
<b>Expenses</b>			
Use of goods and services	12	1,205,278,899	1,953,604,670
Outsourced Distribution	12b	721,899,107	789,493,976
Employee costs	13	1,018,196,013	1,208,905,403
Board expenses	14	23,511,417	13,902,905
Depreciation and amortization expense	15	176,472,045	111,873,340
Repairs and maintenance	16	26,500,079	20,719,350
Contracted Services	17	326,990,822	161,148,124
Expiry & damages	20	376,802,655	1,213,715,186
<b>Total expenses</b>		<b>3,875,651,037</b>	<b>5,473,362,955</b>
<b>Other gains/(losses)</b>			
Gain/ (Loss) on foreign exchange transactions	18	(701,405,289)	(495,576,450)
Gain / (Loss) on sale of asset	19	(18,027,596)	3,572
Impairment loss	21	(481,385,033)	(756,710,171)
<b>Surplus/(Deficit) before tax</b>		<b>(707,367,286)</b>	<b>(3,847,294,198)</b>
Corporation Taxation	22	(71,782,137)	(50,054,896.96)
<b>Surplus for the period</b>		<b>(779,149,423)</b>	<b>(3,897,349,095)</b>

The notes set out on pages 11 to 54 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 9 were signed on behalf of the Board of Directors by:

  
Dr. Waqo Ejersa, OGW  
Accounting Officer

  
Pauline Nyoru  
Head of Finance

  
Samuel Tunai, EGH  
Chairman of the Board

Date

ICPAK M/No: 12243  
Date 20/12/2024

Date 20/12/2024

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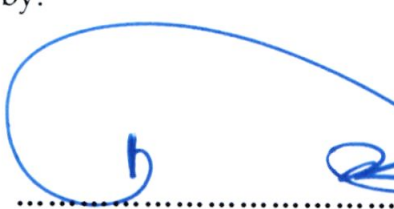
**15. Statement of Financial Position as at 30 June 2024**

	Note	Financial Year 2023/2024 Kshs	Financial Year 2022/2023 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	23	1,729,591,916	4,906,997,098
Receivables from exchange transactions	24a	6,935,870,483	6,008,541,865
Receivables from non-exchange transactions	25	6,216,080	7,060,656
Inventories-KEMSA Capital	26a	3,899,766,139	3,761,500,140
Inventories-Third Party Stocks	26b	8,501,866,791	9,134,630,398
Inventories-Consumable Store	26a	4,139,709	3,784,883
<b>Total current assets</b>		<b>21,077,451,119</b>	<b>23,822,515,041</b>
<b>Non-current assets</b>			
Property, plant and equipment	27	9,827,561,267	8,690,853,547
Intangible assets	27b	(0)	970,283
Receivables from exchange transactions	24b	44,515,683	46,165,683
<b>Total non-current assets</b>		<b>9,872,076,949</b>	<b>8,737,989,513</b>
<b>Total assets</b>		<b>30,949,528,068</b>	<b>32,560,504,553</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	28	6,907,296,951	8,602,982,309
Refundable Deposits and Prepayments from Customers	29	470,029,023	815,345,671
Current Provisions	30	833,915,978	1,111,906,567
Medical Commodity Fund	31	8,501,866,791	9,134,630,398
<b>Total current liabilities</b>		<b>16,713,108,743</b>	<b>19,664,864,946</b>
<b>Non-current liabilities</b>			
Deferred income	32	1,843,020,169	1,430,606,516
<b>Total non-current liabilities</b>		<b>1,843,020,169</b>	<b>1,430,606,516</b>
<b>Total liabilities</b>		<b>18,556,128,912</b>	<b>21,095,471,462</b>

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<b>Net assets</b>		<b>12,393,399,156</b>	<b>11,465,033,091</b>
KEMSA Capital	33	8,461,576,303	8,461,576,303
Accumulated Funds		-	-
Revenue reserves		3,472,063,699	2,219,826,332
Revaluation reserve		459,759,154	783,630,456
<b>Total net assets and liabilities</b>		<b>30,949,528,068</b>	<b>32,560,504,553</b>

The financial statements set out on pages 1 to 9 were signed on behalf of the Board of Directors by:



.....  
**Dr. Waqo Ejersa, OGW**  
**Accounting Officer**



.....  
**Pauline Nyoru**  
**Head of Finance**



.....  
**Samuel Tunai, EGH**  
**Chairman of the Board**

ICPAK M/No: 12243

Date

Date

20/12/2024

Date

20/12/2024

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**16. Statement of Changes in Net Assets for the year ended 30 June 2024**

Attributable to the owners of the controlling Authority					
	Reserves				
	KEMSA Capital Kshs	Revaluation Reserve Kshs	Accumulated Funds Kshs	Retained Earnings Kshs	Total Kshs
<b>As at July 1, 2021</b>	8,461,576,303	783,630,456	256,950,298	8,851,950,562	18,354,107,619
Surplus for the period				(2,991,725,431)	(2,991,725,431)
<b>As at June 30, 2022</b>	8,461,576,303	783,630,456	256,950,298	5,860,225,131	15,362,382,188
Transfer of accumulated Funds to Retained Earnings			(256,950,298)	256,950,298	-
Surplus for the period				(3,897,349,097)	(3,897,349,097)
<b>As at July 1, 2023</b>	8,461,576,303	783,630,456	-	2,219,826,332	11,465,033,091
<b>Prior year adjustment</b>				1,247,756,334	1,247,756,334
Reclassification of Revaluation Reserve for prior period		(783,630,456)		783,630,456	-
Revaluation Reserve for the period		459,759,154			459,759,154
Accounts payable revaluation					
Accounts receivable revaluation					
Surplus for the period				(779,149,423)	(779,149,423)
<b>Balance as at 30th June 2024</b>	8,461,576,303	459,759,154	-	3,472,063,699	12,393,399,156

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**17. Statement of Cash Flows for the year ended 30 June 2024**

	Note	Period ended 30th June 2024	Period ended 30th June 2023
		Kshs	Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Transfers from other government entities		1,188,219,571	120,000,000
Public contributions and donations		60,086,348	6,383,639
Rendering of Services		342,746,747	2,232,140,733
sale of goods		1,475,202,965	920,280,802
Rental Revenue		1,298,428	1,298,428
Other Income		238,092,743	473,033,429
<b>Total Receipts</b>		<b>3,305,646,801</b>	<b>3,753,137,032</b>
<b>Payments</b>			
Use of goods and services		3,111,857,842	2,430,707,258
Outsourced distribution cost		721,899,107	789,493,976
Employee costs		1,018,196,013	1,208,905,403
Board expenses		23,511,417	13,902,905
Repairs and maintenance		26,500,079	20,719,350
Contracted Services		326,990,822	161,148,124
Gain/ (Loss) on foreign exchange transactions		701,405,289	495,576,450
Loss on sale of assets		18,027,596	(3,572)
Expiry and damages		376,802,655	1,213,715,186
Impairment loss			756,710,171
Corporation Taxation		71,782,137	50,054,897
<b>Total Expenses</b>		<b>6,396,972,957</b>	<b>7,140,930,147</b>
<b>Cash flows from operating activities</b>	34	<b>(3,091,326,156)</b>	<b>(3,387,793,115)</b>
<b>Cash flow from investing activities</b>			
<b>Prior year adjustments</b>		1,238,006,334	186,947,924
Asset Disposal (NBV)		29,718,930	64,284
<b>Purchase of property, plant, equipment</b>		<b>(1,353,804,290)</b>	<b>(548,275,231)</b>
<b>Net cash flows used in investing activities</b>		<b>(86,079,026)</b>	<b>(361,263,023)</b>
<b>Cash Flows from Financing activities</b>			
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		(3,177,405,182)	(3,749,056,138)
Cash and cash equivalents at 1 July 2023		4,906,997,098	8,656,053,238
<b>Cash and cash equivalents at 30th June 2024</b>		<b>1,729,591,916</b>	<b>4,906,997,098</b>

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**18. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2024**

	Note	Approved Original Budget Kshs	Adjustments Kshs	Final Budget Kshs	Actual Comparative Basis Kshs	Performance Difference Kshs	% of Utilization Kshs
		a	b	C=(a+b)	d	e=(c-d)	f=d/c%
<b>Revenue from non-exchange transactions</b>							
Transfers from other government entities	6	420,000,000	-	420,000,000	1,188,219,571	(768,219,571) ↑	283%
Public contributions and donations -Deferred income	7	-	-	-	60,086,348	(60,086,348) →	0%
<b>Total Revenue from non-exchange transactions</b>		<b>420,000,000</b>	<b>-</b>	<b>420,000,000</b>	<b>1,248,305,918</b>	<b>(828,305,918) ↑</b>	<b>297%</b>
<b>Revenue from exchange transactions</b>							
Rendering of Services	8	1,863,535,514	-	1,863,535,514	1,406,201,614	457,333,901 ↑	75%
sales of good	9	1,575,758,475	-	1,575,758,475	1,475,202,965	100,555,510 ↑	94%
Rental Revenue	10	-	-	-	1,298,428	(1,298,428) →	0%
Other Income ( Finance Income)	11	592,890,660	-	592,890,660	238,092,743	354,797,918 ↑	40%
<b>Total Revenue from exchange transactions</b>		<b>4,032,184,650</b>	<b>-</b>	<b>4,032,184,650</b>	<b>3,120,795,750</b>	<b>911,388,900 ↑</b>	<b>77%</b>
<b>Total revenue</b>		<b>4,452,184,650</b>	<b>-</b>	<b>4,452,184,650</b>	<b>4,369,101,668</b>	<b>83,082,982 ↑</b>	<b>98%</b>

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	Note	Approved Original Budget	Adjustments	Final Budget	Actual Comparative Basis	Performance Difference	% of Utilization
		Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
		a	b	C=(a+b)	d	e=(c-d)	f=d/c%
<b>Expenses</b>							
Outsource distribution	12b	685,563,400	108,452,853	794,016,253	721,899,107	72,117,146	↑ 91%
Use of goods and services	12 a	1,624,205,618	(89,161,027)	1,535,044,590	1,205,278,899	329,765,692	↑ 79%
Employee costs	13	1,338,879,189	(120,681,077)	1,218,198,112	1,018,196,013	200,002,099	↑ 84%
Board expenses	14	30,000,000	(2,344,586)	27,655,414	23,511,417	4,143,997	↑ 85%
Depreciation and amortization expense	15	275,238,694	(75,620,000)	199,618,694	176,472,045	23,146,649	↑ 88%
Repairs and maintenance	16	37,937,075	37,813,177	75,750,251	26,500,079	49,250,173	↑ 35%
Contracted Services	17	252,565,110	91,540,660	344,105,770	326,990,822	17,114,948	↑ 95%
Expiry& damages	20				376,802,654.89	(376,802,655)	→ 0%
<b>Total expenses</b>		<b>4,244,389,085</b>	<b>(50,000,000)</b>	<b>4,194,389,085</b>	<b>3,875,651,037</b>	<b>318,738,048</b>	↑ 92%
<b>Other gains/(losses)</b>							
Gain/(Loss) on foreign exchange transactions	18	207,795,565	-	207,795,565	(701,405,289)	(493,609,724)	↓ -338%
Gain/(Loss) on sale of assets	19	-	-	-	(18,027,596)	(18,027,596)	→ 0%
Impairment loss	21	-	-	-	(481,385,033)	(481,385,033)	→ 0%
<b>Surplus/(Deficit) before tax</b>			-		<b>(707,367,286)</b>	<b>(1,228,677,419)</b>	→ 0%
Taxation	22		50,000,000	50,000,000	(71,782,137)	(21,782,137)	↓ -144%
<b>Surplus for the period</b>		<b>4,452,184,650</b>	<b>-</b>	<b>4,452,184,650</b>	<b>(779,149,423)</b>	<b>(1,250,459,556)</b>	
<b>Capital Expenditure</b>				<b>2,659,560,566.00</b>	<b>1,306,304,290</b>	<b>1,353,256,276</b>	51%

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**Budget notes**

- i) The differences between the original and final budget result from reallocations made to address unexpected business needs, while ensuring the overall budget ceiling was maintained.
- ii) The Authority's operating expenses for the period amounted to **Ksh. 3.875 billion**, indicating that it remained within the budget allocation of **Ksh. 4.452 billion**. However, the Authority incurred accounting losses, including a foreign exchange loss of **Ksh. 701 million**, an impairment loss of **Ksh. 481 million**, a loss on the disposal of assets amounting to **Ksh. 18 million**, and corporation tax of **Ksh. 71 million**. This resulted in a cumulative expenditure of **Ksh. 5.157 billion**. These are accounting entries that could not have been anticipated in the budget but had to be recorded.
- iii) As of June 30, 2024, the Authority's supply chain fees totalled **Kshs. 1.406 billion**, significantly lower than the budgeted **Kshs. 1.863 billion**, reflecting a 25% shortfall. This shortfall is attributed to the non-return of USAID, which the budget had assumed would generate **Kshs. 552 million** in supply chain fees. The Authority had anticipated USAID's return within FY 2023/2024, however, since this did not occur, the target revenue for the supply chain was not achieved.
- iv) The bank interest performance for the period ending June, 30th 2024 was **Kshs. 237.98 million**. This is a 60% decrease compared to the budgeted amount of **Kshs. 592.890 million** and a 49% decrease compared to the previous year's performance of **Kshs. 467.564 million**. This decline in performance is attributed to a reduction in bank balances. The reduction is due to Low Collections from KEMSA customers.
- v) Most expenses were below budget; Those with significant underutilization (below 90%) in the categories of use of goods and services, employee costs, board expenses, and repairs and maintenance. The shortfall in expenses was due to low revenue performance and delayed payment of debts by customers, prompting the Authority

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to implement cost-cutting measures to operate within its means. Conversely, expenses with overutilization included inventory expiries and impairment losses – being accounting items that could not be budgeted for but must be recorded in the financial performance. In reference to continued forex exchange loss KEMSA has experienced foreign exchange losses due to payments made at the spot rate, while Local Purchase Orders (LPO) and commodities are valued based on a negotiated rate. In response, KEMSA's management decided to implement a new policy. The policy requires that all tenders must include the Kenya Shilling equivalent for foreign currency bids. Contracts and LPOs must have a conversion rate. In addition, bidders must provide a written undertaking that states the applicable exchange rate that will be used for payment. This policy is aimed at reducing exposure to currency fluctuations and minimizing risks associated with forex exchange rate variations.

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**19. Notes to the Financial Statements**

**1. General Information**

Kenya Medical Supplies Authority (KEMSA) is established by and derives its authority and accountability from Kenya Medical Supplies Authority (KEMSA) Act of 2013. Kenya Medical Supplies Authority (KEMSA) is a state corporation wholly owned by the Government of Kenya and is domiciled in Kenya. Kenya Medical Supplies Authority (KEMSA)'s principal activity is Procurement, Warehousing and Distribution of Health Products and Technologies to Public health facilities.

**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 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 Kenya Medical Supplies Authority (KEMSA)'s accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Kenya Medical Supplies Authority (KEMSA).

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act (*include any other applicable legislation*), 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. New and amended standards and interpretations in issue effective in the year ended 30 June 2022.*

**There were no new and amended standards issued in the financial year**

- ii. New and amended standards and interpretation in issue but not yet effective in the year ended 30 June 2024*

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Standard	Effective date and impact:
IPSAS 43	<p><i>Applicable 1<sup>st</sup> January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Authority.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p><b>Management has assessed the changes and anticipates that the adoption of this amendment will not affect the Authority's operations.</b></p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1<sup>st</sup> January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p>

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Standard	Effective date and impact:
	<p><b>Management has assessed the changes and anticipates that the adoption of this amendment will not affect the Authority's operations</b></p>
<p>IPSAS 45- Property Plant and Equipment</p>	<p><i>Applicable 1<sup>st</sup> January 2025</i></p> <p>The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.</p> <p><b>Management has assessed the changes and anticipates that the adoption of this amendment will not affect the Authority's operations.</b></p>
<p>IPSAS 46 Measurement</p>	<p><i>Applicable 1<sup>st</sup> January 2025</i></p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ul style="list-style-type: none"> <li>i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used.</li> </ul>

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Standard	Effective date and impact:
	<ul style="list-style-type: none"> <li>ii. Clarifying transaction costs guidance to enhance consistency across IPSAS;</li> <li>iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures.</li> </ul> <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p> <p><b>Management has assessed the changes and anticipates that the adoption of this amendment will not affect the Authority's operations.</b></p>
IPSAS 47- Revenue	<p><b><i>Applicable 1<sup>st</sup> January 2026</i></b></p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p> <p><b>Management has assessed the changes and anticipates that the adoption of this amendment will not affect the Authority's operations.</b></p>

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Standard	Effective date and impact:
IPSAS 48- Transfer Expenses	<p><i>Applicable 1<sup>st</sup> January 2026</i></p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.</p> <p><b>Management has assessed the changes and anticipates that the adoption of this amendment will not affect the Authority's operations.</b></p>
IPSAS 49- Retirement Benefit Plans	<p><i>Applicable 1<sup>st</sup> January 2026</i></p> <p>The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.</p> <p><i>State the expected impact of the standard to the Entity if relevant</i></p> <p><b>Management has assessed the changes and anticipates that the adoption of this amendment will not affect the Authority's operations.</b></p>

*iii. Early adoption of standards*

The Authority did not early - adopt any new or amended standards in FY 23/24.

#### **4. Summary of Significant Accounting Policies**

*a) Revenue recognition*

**i) Revenue from non-exchange transactions**

**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 Authority and can be measured reliably. Recurrent grants are recognized as revenue in the statement of financial performance. Development/capital grants are recognized as deferred income, as they relate to conditional grants for the construction of a new warehouse that has not yet been capitalized. The income will be recognized over the useful life of the assets acquired using these funds.

**ii) Revenue from exchange transactions**

**Rendering of services**

The KEMSA recognizes revenue derived from the provision of services related to the procurement, warehousing, and distribution of health products and technologies (HPTs) for various entities. This revenue is calculated based on negotiated rates outlined in memoranda of understanding with the respective entities.

**Sale of goods**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably, and it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority. This revenue is earned from sales of HPTs to Counties, National Referral Hospitals, national state-owned corporations and Faith-based organisations.

**Interest income**

Interest income is accrued using the effective yield method. The authority earns interest from bank balances held in various commercial banks. The method applies this yield to the principal outstanding to determine interest income each period.

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**Rental income**

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

***b) Budget information***

The original budget for the current financial year (FY) was approved by the National Assembly and communicated by the National Treasury on 21st July 2023. 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 Authority upon receiving the respective approvals in order to conclude the final budget. The Authority didn't record additional appropriations.

KEMSA'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.

There is no reconciling amount between 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 in page 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

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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 Authority 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 positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### **Deferred tax**

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates, and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Authority and the same taxation authority.

**Sales tax**

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

- i) 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
- ii) 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) Investment property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model. Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

**e) 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

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acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority 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.

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

<b>Lease hold Land</b>	<b>No depreciation</b>
Buildings	2.5%
Motor vehicles	25%
Fixtures and fittings	12.5%
Furniture	12.5%
Equipment	12.5%
Plant and Machinery	10%
Computers	33.3%
Intangible Assets	33.3%
A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal. Depreciation and impairment of property, plant and equipment	

**f) Leases**

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Authority. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Authority also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated

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over the useful life of the asset. However, if there is no reasonable certainty that the Authority will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**g) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and

expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date.

**h) Research and development costs**

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

- i) The technical feasibility of completing the asset so that the asset will be available for use or sale.
- ii) Its intention to complete and its ability to use or sell the asset.
- iii) How the asset will generate future economic benefits or service potential
- iv) The availability of resources to complete the asset.
- v) 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.

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#### **i) Financial instruments**

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. KEMSA does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements.

A financial instrument is any contract that gives rise to a financial asset of one Authority and a financial liability or equity instrument of another Authority. At initial recognition, the Authority measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

#### **a) Financial assets**

##### **Classification of financial assets**

The Authority classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity or fair value through surplus and deficit on the basis of both the Authority's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless an Authority has made irrevocable election at initial recognition for particular investments in equity instruments.

##### **Subsequent measurement**

Based on the business model and the cash flow characteristics, the Authority classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

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**Amortized cost**

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

**Fair value through net assets/ equity**

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount is taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/ deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

**Trade and other receivables**

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis.

**Fair value through surplus or deficit**

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the Authority manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

**Impairment**

The Authority assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/ equity. The Authority recognizes a loss allowance for such losses at each reporting

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date. Critical estimates and significant judgments made by management in determining the expected credit loss (ECL) are set out in Note 20.

**b) Financial liabilities**  
**Classification**

The Authority classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

**j) 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.

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 Authority.

**k) Provisions**

Provisions are recognized when the Authority 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 KEMSA 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. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

The Authority would like to disclose that on 11th April 2022, KEMSA received KRA assessment/ Demand Notice from KRA for Corporation Tax and Value Added Tax (VAT) of Kshs.3,010,854,284 as total tax obligation. Following this huge tax liability, the organization engaged a tax consultant to work with KRA on tax workings. After several considerations, a revised tax obligation was arrived at **Kshs. 1,265,576,505** which was to

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be paid in instalments of 22 months. As at end of quarter four, **Kshs. 950,000,000** had been paid leaving a balance of **Kshs. 315,576,505** which the Authority through a consultant has contested at tax appeal tribunal and the matter was referred to alternative dispute resolution (ADR) department in KRA where the teams are actively engaging awaiting final verdict.

**l) Social Benefits**

Social benefits are cash transfers provided to i) specific individuals and / or households that meet the eligibility criteria, ii) mitigate the effects of social risks and iii) Address the need of society as a whole. The Authority recognises a social benefit as an expense for the social benefit scheme at the same time that it recognises a liability. The liability for the social benefit scheme is measured at the best estimate of the cost (the social benefit payments) that the Authority will incur in fulfilling the present obligations represented by the liability.

**m) Contingent liabilities**

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

**n) Contingent assets**

KEMSA 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 Authority 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.

**o) Nature and purpose of reserves**

KEMSA creates and maintains reserves in terms of specific requirements. KEMSA maintains four types of reserves: KEMSA Capital, Accumulated funds reserve, revenue reserve and revaluation reserve.

KEMSA Capital- this reserve is made up of the value of inventory, owned by Ministry of Health, as at the time held by KEMSA.

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**p) Changes in accounting policies and estimates**

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

**q) Employee benefits**

**Retirement benefit plans**

KEMSA operates defined contribution benefit plan for its employees. The assets of which are held in a separate trustee scheme managed by a contracted insurance company. KEMSA provides retirement benefits for its employees

Defined contribution plans are post-employment benefit plans under which an Authority pays fixed contributions into a separate Authority (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.

KEMSA provides medical cover to retired employees for a period of five years after retirement.

The Authority also contributes to the National social security funds, the contributions are determined by local statute and the contributions are charged to the statement of performance in the year incurred.

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.

**r) 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

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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.

**s) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**t) Related parties**

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

**u) Service concession arrangements**

KEMSA analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the authority recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price.

In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the authority also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**v) 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

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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 imprests and advances to authorised public officers and/or institutions which were not accounted for at the end of the financial year.

**w) Comparative figures**

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

**x) 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, 2024.

**5. Significant Judgments and Sources of Estimation Uncertainty**

The preparation of the Authority'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:

**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 Authority 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 Authority. Such changes are reflected in the assumptions when they occur. IPSAS 1.140.

**Useful lives and residual value**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- a) The condition of the asset based on the assessment of experts employed by the Authority.

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- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- c) The nature of the processes in which the asset is deployed.
- d) Availability of funding to replace the asset.
- e) 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 40. 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. KEMSA records accruals for revenue earned but not received as at the date of reporting and for expenses when the expense is due but not invoiced as at the date of reporting. The revenue earned and expenses due are estimated based on contracted rates between the Authority and Business Partner.

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**Notes to the Financial Statements (Continued)**

<b>6. Transfers from Ministries, Departments and Agencies (MDAs)</b>					
<b>Name of the Entity Sending the Grant</b>	<b>Amount recognized to Statement of Financial performance Kshs</b>	<b>Amount recognized to Statement of Financial performance Kshs</b>	<b>Amount recognized in capital fund Kshs</b>	<b>Total transfers (Current FY) Kshs</b>	<b>Period ended June 2023 Kshs</b>
Ministry of Health - P&P Grant	390,000,000	390,000,000	-	390,000,000	120,000,000
Ministry of Health	798,219,571	798,219,571	-	-	-
<b>Total Grants from National Government</b>	<b>1,188,219,571</b>	<b>1,188,219,571</b>	<b>-</b>	<b>390,000,000</b>	<b>120,000,000</b>
<i>In the current FY 2023/2024, the Authority received sh. 385 million for the month of July to May 2024 and accrued 5 million, for the month of June 2024 that was received after the end of the reporting period. The revenue under transfers from other governments, amounting to Ksh. 1.188 billion, relates to a recurrent GoK grant of Ksh. 390 million and a recapitalization of Ksh. 798.2 million, which was savings mobilized from various AIEs, originally Ksh. 831 million.</i>					

<b>7. Public Contributions and Donations</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Income From Donations	60,086,348	6,383,639
<b>Total Public Contributions and Donations</b>	<b>60,086,348</b>	<b>6,383,639</b>
<i>The amount of Ksh. 60,086,348 recorded under public contributions and donations represents deferred income that is amortized on an annual basis. This amount reflects the amortization for the current period resulting from deferred income earned from donated assets received from various development sources.</i>		

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**Notes to the Financial Statements (Continued)**

8. Rendering of Services	Period ended June 2024	Period ended June 2023
	Kshs	Kshs
Supply Chain Fees: -USAID	102,434,232	-
-Global Fund	594,340,231	668,795,462
Global Fund -LLINs	127,925,214	
-UNICEF	30,944,283	22,665,499
-Ministry of Health	487,474,872	567,908,142
-Other Strategic Partners	63,082,782	97,986,403
<b>Total rendering of services</b>	<b>1,406,201,614</b>	<b>1,357,355,506</b>

8 (b) Direct cash flow Adjustment		
<b>Total rendering of services as per performance</b>	<b>1,406,201,614</b>	<b>1,357,355,506</b>
Less: Increase in exchange receivables	(927,328,617)	(204,730,676)
:Increase/Decrease in inventory (KEMSA Capital)	(138,266,000)	1,062,981,904
:Increase in inventory (consumables)	(354,826)	
Add: Decrease in receivables from non exchange	844,576	323,156
:Decrease in receivables from exchange (Longterm)	1,650,000	16,210,843
<b>Total rendering of services as per cashflow</b>	<b>342,746,747</b>	<b>2,232,140,733</b>

*This revenue relate to fees earned for Procurement, Warehousing and Distribution services rendered to KEMSA Strategic partners as listed above.*

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**Notes to the Financial Statements (Continued)**

<b>9. Net Sales</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Sale Revenue -Pharmaceutical	3,791,887,567	3,135,547,025
Sale Revenue -Non-Pharmaceuticals	1,907,761,197	2,902,575,710
Sale Revenue -Non-Pharmaceuticals -Covid-19 commodities	97,894,808	1,196,715,776
Sales Revenue -UHC-Pharmaceuticals	1,394,025	784,892,179
Sales Revenue-UHC-Non Pharmaceuticals	446,600	19,412,754
<b>Total sales revenues</b>	<b>5,799,384,197</b>	<b>8,039,143,444</b>
<b>Cost of Sales</b>		
Cost of Sales CGS (Pharms)	2,721,744,880	2,330,666,731
Cost of Sales -CGS (Non-Pharms)	1,489,828,605	2,248,013,590
Cost of Sales -CGS (Non-Pharms)-Covid-19 commodities	110,394,659	1,934,078,201
Cost of Sales-CGS-UHC (Pharms)	1,807,088	594,281,507
Cost of Sales-CGS-UHC (Non-Pharms)	406,000	11,822,612
<b>Total cost of sales</b>	<b>4,324,181,232</b>	<b>7,118,862,641</b>
<b>Net Sales</b>	<b>1,475,202,965</b>	<b>920,280,802</b>
<i>The revenue earned and cost incurred in selling relates to sales of medical commodities to public health facilities, county referral hospital ,government institution and faith based health facilities .</i>		
<b>10. Rental Revenue</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Rental Income	1,298,428	1,298,428
<b>Total other income</b>	<b>1,298,428</b>	<b>1,298,428</b>
<i>Rental Income is from KEMSA tenant (Kenya Airways). Their lease ended in 30th June 2021. Rental income for the period is an accrual for Kenya Airways rent.</i>		
<b>11. Other Income</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Sale of Waste Materials	117,382	-
Bank Interest Received	237,975,361	467,564,741
Other Miscellaneous Income	-	5,468,688
<b>Total other income</b>	<b>238,092,743</b>	<b>473,033,429</b>
<i>These are revenues earned from other sources as including insurance refunds, and recoveries done for cost of damaged stocks on transit.</i>		

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**Notes to the Financial Statements (Continued)**

12. Use of Good and Services	Period ended June 2024 Kshs	Period ended June 2023 Kshs
Electricity	25,701,158	21,850,265
Water	1,758,388	364,963
Professional services		
Subscriptions	2,176,087	1,957,611
Advertising	214,442,605	173,314,659
Admin Expenses	119,833,859	73,393,580
Audit fees	4,836,600	4,153,607
Conferences and delegations	20,344,594	10,326,950
Fuel and oil	57,384,478	47,030,205
Insurance	222,413,553	178,824,643
Licenses and permits	60,709,425	11,178,533
Water purification cost		
Postage	143,944	196,648
Printing and stationery	15,741,320	14,457,041
Hire charges		
Rental	11,105,165	15,484,023
Vehicle Maintenance	17,778,703	10,599,889
Fork Lift Maintenance	834,757	2,368,713
Maintenance of own Trucks	3,072,925	5,635,980
Telecommunication	18,293,616	18,803,072
Training	19,601,741	15,078,493
Travel, accommodation, subsistence and other allowances*	197,153,080	81,376,137
Tax Arrears & Penalties	190,311,857	1,265,576,505
Bank Charges	1,641,044	1,633,153
<b>Total Use of Good and Services</b>	<b>1,205,278,899</b>	<b>1,953,604,670</b>
<b>12: a Direct cash flow Adjustment</b>		
<b>Total Use of Good and Services as per performance</b>	<b>1,205,278,899</b>	<b>1,953,604,670</b>
(Increase) in deferred income	(412,413,652.29)	(21,742,581)
(Increase)/Decrease in payables	1,695,685,358.62	(178,875,109)
(Increase)Refundable Deposits and Prepayments from Customers	345,316,648.16	717,303,050
(Increase) Decrease in current provision	277,990,589.11	(781,188,731)
Decrease in Project Fund		57,344,216
Decrease in Medical Commodity Fund		684,261,743
<b>Total use of goods as per cashflows</b>	<b>3,111,857,842</b>	<b>2,430,707,258</b>

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<b>12 b. Outsourced Distribution Cost</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Distribution Cost	721,899,107	789,493,976
Other use of good	1,205,278,899	1,953,604,670
<b>Total Use of Good and Services</b>	<b>1,927,178,006</b>	<b>2,743,098,646</b>
<b>13. Employee costs</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Basic Pay	621,586,946	719,309,608
Overtime	4,816,893	8,356,220
Arrears	16,922,348	6,143,982
House Allowance	140,350,656	165,025,000
Acting Allowance	3,184,253	2,754,220
Bonus	-	-
Leave Allowance	6,313,881	3,236,000
Entertainment Allowance	2,188,000	2,299,140
NSSF (Kemsa Part)	13,905,862	3,165,887
Gratuity and Pensions	107,953,832	127,897,033
Committee Allowances	-	18,551,000
Housing Levy (Kemsa Part)	10,659,011	-
Special Duty Allowances	-	75,836
Transport Allowance	35,512,297	42,930,367
Other Taxable Benefits	23,453,615	59,334,615
Casual and Contract Employees	934,835	986,008
Ex-Gratia Payments	4,649,948	17,883,538
Shift Allowance	1,847,804	546,306
Staff Seconded to Kemsa	23,915,835	30,410,643
Internship Stipends	-	-
<b>Total employee costs</b>	<b>1,018,196,013</b>	<b>1,208,905,403</b>
<i>These are expenditures incurred by the Authority for compensation of it's employees. They include salaries, wages, social security contributions and allowances.</i>		

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<b>14. Board expenses</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
BOD Sitting & Lunch Allowances	9,181,600	6,598,600
BOD Travel & Accommodation Exp.	10,565,445	5,011,805
BOD Conferences	2,704,651	1,248,500
BOD Honoraria & Other Allowances	1,044,000	1,044,000
Bod Housing Levy (Kemsa Part)	15,720	-
<b>Total BOD expenses</b>	<b>23,511,417</b>	<b>13,902,905</b>
<i>These costs relate to expenses incurred by each Director in connection with attending regular and special meetings of the Board and any committee thereof. They also include Chairman's honoraria as per terms of service.</i>		
<b>15. Depreciation &amp; amortization</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Buildings - Depreciation	70,617,287	32,596,898
Plant & Machinery - Depreciation	11,114,590	22,068,093
Office Equipment - Depreciation	8,330,960	9,112,229
Furniture & Fittings - Depreciation	2,888,425	4,869,255
Computer Equipment - Depreciation	14,737,680	9,955,334
Intangible Assets - Depreciation	970,283	1,293,711
Motor Vehicles - Depreciation	67,812,819	31,977,819
<b>Total depreciation &amp; amortization</b>	<b>176,472,045</b>	<b>111,873,340</b>
<i>These costs relate to depreciation charges for the Financial Year, on a straightline basis.</i>		
<b>16. Repair &amp; Maintenance</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Repairs To Buildings and Roads	5,168,470	5,873,248
Maintenance Of QA Tools & Equipment	1,885,320	896,088
Plant Repairs & Maintenance	1,205,459	735,216
Computer Stationery Expenses	13,201,948	8,144,887
Computer Maintenance Expenses	10,000	2,400,221
Computer Maintenance Agreement	4,285,046	1,782,507
Purchase of Tools & Maintenance	-	-
Generator Fuel & Maintenance	743,836	887,182
<b>Total Repair &amp; Maintenance</b>	<b>26,500,079</b>	<b>20,719,350</b>

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<b>17. Contracted Services</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Legal expenses	223,002,119	56,764,795
Consulting fees	73,619,280	77,126,233
Security costs	18,761,020	15,577,356
Outsourced Cleaning Expenses	11,462,724	11,642,340
Sanitation Expenses	145,679	37,400
<b>Contracted Services</b>	<b>326,990,822</b>	<b>161,148,124</b>
<b>18. Gain/Loss on foreign exchange transactions</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Net Forex Realized Gain	82,303,558	5,724,684
Net Forex Realized Loss	(783,708,846)	(501,301,134)
<b>Total Gain/Loss on foreign exchange transactions</b>	<b>(701,405,289)</b>	<b>(495,576,450)</b>
<i>The foreign exchange net gain of sh. 82.3 million is made up of realized gain of sh. 995,065 and unrealized gain of sh. 81,308,492 and, foreign exchange net loss of sh. 783 million is made up of realized loss of sh. 325,328,528 and unrealized loss of sh. 458,470,317</i>		
<b>19. Other gains/(losses)</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Proceeds from disposal of fixed assets	3,327,000	3,572
Disposal of fixed assets	(21,354,596)	-
	<b>(18,027,596)</b>	<b>3,572</b>
<b>20. EXPIRY DAMAGES</b>	<b>FY 2023-2024 Kshs</b>	<b>FY 2022-2023 Kshs</b>
Expiry	371,435,212	1,213,288,085.74
Damages	1,252,563	427,100.37
Development Partner Reimbursement	4,114,881	
<b>Total</b>	<b>376,802,655</b>	<b>1,213,715,186</b>
<b>21. Impairment loss</b>	<b>FY 2023-2024 Kshs</b>	<b>FY 2022-2023 Kshs</b>
Impairment loss	481,385,033	756,710,171
<b>Total Impairment Loss</b>	<b>481,385,033</b>	<b>756,710,171</b>

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	Period ended June 2024 Kshs	Period ended June 2023 Kshs
<b>22. Corporation Tax</b>		
Corporation Tax	71,782,137	50,054,897
<b>Total Corporation Tax</b>	<b>71,782,137</b>	<b>50,054,897</b>
<b>22.b Taxation</b>		
Description	Insert Current FY Kshs	Insert Comparative FY Kshs
Current income tax charge	-	-
Tax charged on rental income	-	-
Tax charged on interest income	71,392,608	50,054,897
Deferred tax:	-	-
Original and reversal of temporary differences	-	-
<b>Income tax expense reported in the statement of financial performance</b>	<b>71,392,608</b>	<b>50,054,897</b>
<b>23 a. Cash and Cash Equivalents</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
PETTY CASH	0	0
CASH BOOK TRANSIT	(0)	-
NBK - OPERATIONS	319,511,629	3,919,825
WORLD BANK E.A LAB PROJECT	0	0
NBK DISTRIBUTION	720,193	4,642,928
KCB DRUGS	223,581,189	284,664,318
KCB DISTRIBUTION	86	791
CBA	152,961	1,080,812,179
CO-OP - MEDICAL GRANTS	281,046,308	479,891,896
CO-OP BANK GF OPERATIONS (KSH)	12,735,495	32,846,887
CO-OP BANK GF OPERATIONS (USD)	375,062,255	870,207,611
SSD CO-OP BANK	23,874,746	470,438,213
SSD EQUITY BANK	455,535,709	1,665,608,822
KEMSA EQUITY WAREHOUSE CONSTRUCTION PROJECT	34,014,737	2,253,107
KEMSA EQUITY BANK OPERATIONS (KSH)	2,903,652	11,168,373
KEMSA EQUITY BANK OPERATIONS (USD)	452,093	540,328
MPESA BULK PAYMENT	862	1,822
<b>Total cash and cash equivalents</b>	<b>1,729,591,916</b>	<b>4,906,997,098</b>

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23 (b) Cash and Cash Equivalents	Period ended June			
	2024 Kshs	2023 Kshs		
Current accounts	1,729,591,916	4,906,997,098		
Cash on Hand and On Transit	(0)	-		
<b>Total cash and cash equivalents</b>	<b>1,729,591,916</b>	<b>4,906,997,098</b>		
24. Receivables from Exchange Transactions (Current)	Period ended June			
	2024 Kshs	2023 Kshs		
Trade Debtors -Receivable	6,749,349,385	5,900,014,323		
Supplier Prepayments & Other Receivables (Ins...)	186,521,098	108,527,542		
<b>Total receivables from exchange transactions</b>	<b>6,935,870,483</b>	<b>6,008,541,865</b>		
<p><i>The Authority's receivables from exchange transactions amount to Ksh. 6.93 billion. Out of this;</i></p> <ul style="list-style-type: none"> <li>• Ksh. 4.479 billion relates to receivables from the sale of HPTs,</li> <li>• While the Ksh. 2.261 billion relates to supply chain fees and</li> <li>• Other receivables of Ksh. 186 million relating to prepayment.</li> </ul>				
24b. Receivables from Exchange Transactions (Long-term)	Period ended June			
	2024 Kshs	2023 Kshs		
Long-term Deposit	44,515,683	46,165,683		
<b>Total long term receivables from nexchange transactions</b>	<b>44,515,683</b>	<b>46,165,683</b>		
<p><i>These are rental deposits paid for warehouses that the Authority had rented to store medical commodities. Refund of the deposit is in process after termination of leases</i></p>				
<b>Total receivables</b>	<b>6,980,386,165</b>	<b>6,054,707,548</b>		
Ageing Analysis- Trade and Other Receivable	Current FY	% of the total	Comparative FY	% of the total
Less than 1 year	4,704,030,939	68%	4,267,700,971	70%
Between 1-2 years	1,336,280,655	19%	1,645,724,950	27%
Between 2-3 years	(114,075,497)	-2%	174,649	0%
Over 3 years	972,841,576	14%	141,106,978	2%
<b>Total ageing for receivables from exchange transactions</b>	<b>6,899,077,673</b>	<b>100%</b>	<b>6,054,707,548</b>	<b>100%</b>

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<b>25. Receivables from Non-Exchange Transactions</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Other Debtors - Uninvoiced Receivables	-	-
Insurance Receivables	-	-
Travel Imprest Debtors	3,681,787	1,058,157
Staff Salary Advances Debtors	(8)	191,708
Standing Imprest Debtor	189,060	138,590
Staff Petty Cash Debtor	-	-
Board imprest debtor	307,490	288,600
Staff Medical Advances	1,491,543	2,515,957
Staff Accountable Imprest	546,207	1,624,673
Rent Deposit	-	-
Interest Receivable	-	1,242,971
Withheld vat receivable	-	-
Utility Deposit	-	-
<b>Total receivables from non exchange transactions</b>	<b>6,216,080</b>	<b>7,060,656</b>

<b>Ageing Analysis- Receivables from non-exchange transactions</b>	<b>Current FY</b>	<b>% of the total</b>	<b>Comparative FY</b>	<b>% of the total</b>
Less than 1 year	4,521,544,448	67%	4,267,700,950	72%
Between 1-2 years	1,391,912,891	21%	1,538,093,480	26%
Between 2-3 years	-230,323,758	-3%	174,649	0%
Over 3 years	1,066,215,805	16%	94,045,243	2%
<b>Total</b>	<b>6,749,349,386</b>	<b>100%</b>	<b>5,900,014,322</b>	<b>100%</b>

<b>26. Inventories</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Medical Supplies-Pharmaceutical & Non-Pharmaceutical Stocks	12,401,632,931	12,896,130,538
Consumable stores-Stationery	3,497,330	3,536,284
Consumable stores-Beverages & Others	642,379	248,599
<b>Total inventories at the lower of cost and net realizable value</b>	<b>12,405,772,640</b>	<b>12,899,915,421</b>

*Out of stock value of sh. 12.41 Billion the Authority is holding 3rd party stocks valued at sh. 8.5Billion.*

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**Notes to the Financial Statements (Continued)**

<b>26b. Inventories</b>		
	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
KEMSA Capital	3,899,766,139	3,761,500,139.62
Third Party stock	8,501,866,791	9,134,630,398.33
<b>Total inventories at the lower of cost and net realizable value</b>	<b>12,401,632,931</b>	<b>12,896,130,538</b>
<b>Total inventories at the lower of cost and net realizable value</b>	<b>12,405,772,640</b>	<b>12,899,915,421</b>

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**Notes to the Financial Statements (Continued)**

**27(a) Property, Plant and Equipment as at June 2024**

Cost	Land	Buildings	Motor vehicles	Furniture and fittings	Computers	Office equipments	Plant and Machinery	Capital Work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As At 1July (FY22/23)	1,786,967,270	1,451,882,932	242,705,705	37,875,105	72,129,854	70,246,887	217,091,089	5,177,536,340	9,056,435,182
Additions	-	-	-	2,878,000	9,306,142	16,757,089	11,302,304	508,031,697	548,275,231
Disposals	-	-	-	-	(128,568)	-	-	-	(128,568)
Transfers/Adjustments	-	-	696,000	2,000	-	106,038	-	(187,751,963)	(186,947,924)
As at 30th June (FY22/23)	1,786,967,270	1,451,882,932	243,401,705	40,755,105	81,307,428	87,110,014	228,393,393	5,497,816,075	9,417,633,922
Prior Year adjustment	-	-	9,750,000	-	-	-	-	-	9,750,000
Additions	14,500,000	30,000,000	22,980,000	2,249,600	23,100,420	20,279,403	61,034,024	1,179,660,842	<b>1,353,804,290</b>
Disposals	(10,500,000.00)	(14,005,930.00)	(5,213,000)	-	-	-	-	-	(29,718,930)
Revaluation surplus	365,461,998	24,876,187	41,047,999	1,341,511	4,188,560	1,317,249	21,525,650	-	<b>459,759,154</b>
Impairment	(211,429,268)	(257,598,046)	(4,526.09)	(995,297.95)	(700,973.24)	(8,006,650.55)	(2,650,270.93)	-	<b>(481,385,033)</b>
Transfer/Adjustment	-	-	-	-	900,000.00	-	-	(900,000)	-
<b>As at 30th June 2024</b>	<b>1,945,000,000</b>	<b>1,235,155,143</b>	<b>311,962,178</b>	<b>43,350,918</b>	<b>108,795,435</b>	<b>100,700,015</b>	<b>308,302,796</b>	<b>6,676,576,917</b>	<b>10,729,843,403</b>
<b>Depreciation And Impairment</b>									
<b>At 1July 2023(FY22/23)</b>	-	<b>203,824,117</b>	<b>188,869,151</b>	<b>26,822,646</b>	<b>57,611,633</b>	<b>26,697,592</b>	<b>112,439,890</b>	-	<b>616,265,029</b>
Depreciation	-	32,596,898	31,977,819	4,869,255	9,955,334	9,112,229	22,068,093	-	<b>110,579,629</b>
Impairment	-	-	-	-	(64,284)	-	-	-	<b>(64,284)</b>
Transfers/ Adjustments	-	-	-	-	-	-	-	-	-
<b>As At 30th June 2023(FY22/23)</b>	-	<b>236,421,015</b>	<b>220,846,971</b>	<b>31,691,901</b>	<b>67,502,683</b>	<b>35,809,821</b>	<b>134,507,983</b>	-	<b>726,780,374</b>
Depreciation for the year	-	74,183,556.01	73,028,405	3,189,380	15,293,088	9,747,816	11,114,590	-	<b>186,556,835</b>
Disposals	-	(3,566,269)	(5,213,000)	-	-	-	-	-	<b>(8,779,269)</b>
Impairment	-	-	(2,586)	(300,954)	(555,409)	(1,416,856)	-	-	<b>(2,275,805)</b>
Transfer/Adjustment	-	-	-	-	-	-	-	-	-
<b>As at 30thJUNE 2024 (FY23/24)</b>	-	<b>307,038,302</b>	<b>288,659,790</b>	<b>34,580,327</b>	<b>82,240,363</b>	<b>44,140,782</b>	<b>145,622,573</b>	-	<b>902,282,136</b>
<b>Net Book Values</b>									
<b>As at 30th June (FY22/23)</b>	<b>1,786,967,270</b>	<b>1,215,461,917</b>	<b>22,554,734</b>	<b>9,063,204</b>	<b>13,804,745</b>	<b>51,300,193</b>	<b>93,885,410</b>	<b>5,497,816,075</b>	<b>8,690,853,547</b>
<b>As at 30TH JUNE 2024 (FY23/24)</b>	<b>1,945,000,000</b>	<b>928,116,841</b>	<b>23,302,388</b>	<b>8,770,591</b>	<b>26,555,073</b>	<b>56,559,234</b>	<b>162,680,223</b>	<b>6,676,576,917</b>	<b>9,827,561,267</b>

\*The WIP figure of KES 6,676,576,916.68 mainly includes the cost of construction of the Modern warehouse and Office Block, Installation and commissioning of the racking system and purchase of the new ERP.

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### Notes to the Financial Statements (Continued)

#### 27(b) Intangible Assets

Description	FY 2023/2024	FY 2022/2023
	Kshs	Comparative FY Kshs
Cost		
At beginning of the year	146,664,637.31	146,664,637.31
Additions	-	-
At end of the year	146,664,637.31	146,664,637.31
Additions-internal development	-	-
At end of the year	146,664,637.31	146,664,637.31
Amortization and impairment		
At beginning of the year	145,694,354.02	144,400,642.90
Amortization	970,283.34	1,293,711.12
At end of the year	146,664,637.36	145,694,354.02
Impairment loss	-	-
At end of the year	146,664,637.36	145,694,354.02
NBV	-	970,283.29

#### Valuation

Land and buildings were valued by professional valuers from The Ministry of Land and Physical Planning in line with the National Assets and Liabilities Management Policy and Guidelines (issued 30th June 2020). The assets were revalued by professional valuers from The Ministry of Land and Physical Planning on May 2023. These amounts were adopted by the Board in the financial year 2023-2024 with concurrence from the National Treasury.

#### 27(c) Property, Plant and Equipment at Cost

The property Plant and Equipment held by the Authority relates to land, buildings, Office Equipment, Plant & Machinery, Furniture & Fittings, Motor Vehicles, Computer Hardware & Intangible Assets (ERP) and WIP for the new warehouse as summarized below;

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Description	Cost	Accumulated Depreciation	NBV
	Kshs.	Kshs.	Kshs.
Land	1,945,000,000.00	0	1,945,000,000.00
Buildings	1,235,155,143.29	307,038,302.10	928,116,841.19
Plant And Machinery	308,302,796.21	145,622,573.00	162,680,223.21
Motor Vehicles, Including Motorcycles	311,962,177.90	288,659,789.78	23,302,388.12
Computers And Related Equipment	108,795,435.43	82,240,362.78	26,555,072.65
Office Equipment, Furniture, And Fittings	144,050,933.09	78,721,108.12	65,329,824.97
<b>Total</b>	<b>4,053,266,485.92</b>	<b>902,282,135.78</b>	<b>3,150,984,350.15</b>

Property plant and Equipment includes the following assets that are fully depreciated:

Description	Cost or valuation	Normal annual depreciation charge
Plant and Machinery	0	29,062,741.50
Motor Vehicles including Motorcycles	116,125,765.00	34,256,484.83
Computers and Related Equipment	71,801,766.29	35,102,616.10
Office Equipment, Furniture and Fittings	42,368,470.58	18,799,265.28
<b>Total</b>	<b>230,296,001.87</b>	<b>117,221,107.71</b>

**Disclosures on Land**

1. The recognized amount of Kshs. 9,958,430.00 under buildings for the Embakasi Green Site includes the construction cost of a wall. However, during verification and valuation, it was discovered that the wall had collapsed, making it impossible for the valuers to accurately quantify its value. As a result, the associated cost has been de-recognized in the financial statements.
2. The KEMSA Mombasa Regional Distribution Center is located in Changamwe, Mombasa, covering approximately 0.63 hectares (1.5 acres). The land is currently developed with a warehouse, toilet block, and flammables store. This Land is currently recognized in our books at a value of KES 110,000,000.00. The conveyancing process for this property is ongoing, with the available documentation including an allotment letter dated August 2010 and a Part Development Plan (PDP) from 1999. KEMSA's Legal

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**Notes to the Financial Statements (Continued)**

Department has engaged Kipkenda & Co. Advocates to oversee and follow up on the conveyancing process.

3. During a previous valuation, Mombasa depot was valued at a KES 76,000,000 which included both the Building and Land value. A separation of costs was not given for the property hence the full amount was recognized under Land. Current valuation done in 2023 gave a separation of costs with a market value of KES 110,000,000 and KES 30,000,000 for Land and Buildings respectively. The recognition of the land has been factored in in the financial statements for the year 2023/2024.
4. The land and building housing the Kakamega depot, previously valued at Kshs 3,000,000.00 and Kshs 4,047,500.00 respectively, were erroneously recognized as assets and need to be derecognized. It is important to note that the depot is situated within the premises of Kakamega PGH, and KEMSA does not hold any allotment or ownership rights over the property. This has since been de-recognized and adjusted in the financial statements.
5. KEMSA had been allocated a parcel of land in Kakamega for the construction of a warehouse by the County Government of Kakamega. This green site was recognized in KEMSA's financial statements at a value of Kshs 7,500,000. However, the land was later re-allocated for other county developments, and KEMSA was allotted a different parcel, which has since been registered under its name. The previously allocated land should now be considered a contingent asset and expunged from the financial statements, while the newly acquired land must be recognized. A valuation of the new land is required, as the location and dimensions differ from those of the originally allocated land. This has since been de-recognized and adjusted in the financial statements
6. KEMSA owns a parcel of land approximately 5 acres in size, located in Garissa Town, adjacent to the Kenya Medical Training Institute (Garissa). This property has been recognized in our financial statements at an estimated value of KES 6,500,000.00, based on a previous valuation. However, it is important to note that the available proof of ownership is an unregistered Part Development Plan (PDP) dated 2005. The conveyancing process is currently being managed by KEMSA's counsel, Kipkenda & Company Advocates, in coordination with our Legal Department. A re-valuation of the property will be necessary to reflect its true and fair value in KEMSA's books of account

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**Notes to the Financial Statements (Continued)**

<b>28. Trade and other payables</b>	<b>Period ended June</b>		<b>Period ended June</b>	
	<b>2024</b>		<b>2023</b>	
	<b>Kshs</b>		<b>Kshs</b>	
Trade Creditors - Medical	3,335,456,885		3,714,809,888	
Trade Creditors - Not Invoiced Receipts	511,644,323		1,726,627,780	
Trade Creditors - Operations	471,748,780		54,106,831	
Trade Creditors - Distribution	291,436,755		31,786,340	
Trade Creditors-Warehouse Construction	91,609,727		-	
Trade Creditors - Development Partner's Grants	1,853,558,036		2,894,257,131	
Customer unallocated Payment	176,458,787		35,928,606	
TRADE DEBTORS - UNIDENTIFIED RECEIPTS	7,357,111		-	
Withheld Vat	225,898		325,342	
Vat Output - Due	51,325		1,883	
Withheld Tax- Consultancy	204,621		-	
Withheld Tax- Contractors	459,414		1	
Withheld Tax - Rental Income	14,700		-	
Suppliers Funds Retained	165,308,683		144,319,956	
Paye Imprest Payable	402,850		-	
Employee Imprest Payable (Refunds)	(1)		818,551	
Board Imprest Payable (Refunds)	10,200		-	
Employee Payables	1,348,180		-	
HOUSING LEVY PAYABLE	600		-	
Payroll Control	(27)		-	
Sacco Deductions	103		-	
<b>Total trade and other payables from exchange transactions</b>	<b>6,907,296,951</b>		<b>8,602,982,309</b>	
<b>Ageing Analysis- Trade and Other Payables</b>	<b>Current FY</b>	<b>% of the total</b>	<b>Comparative FY</b>	<b>% of the total</b>
Less than 1 year	5,217,389,766	76%	3,555,765,826	41%
Between 1-2 years	586,930,303	8%	832,132,329	10%
Between 2-3 years	72,888,646	1%	961,668,110	11%
Over 3 years	1,030,088,236	15%	3,253,416,044	38%
<b>Total</b>	<b>6,907,296,951</b>	<b>100%</b>	<b>8,602,982,309</b>	<b>100%</b>

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**Notes to the Financial Statements (Continued)**

<b>29. Refundable Deposits and Prepayments from Customers</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Customer Prepayment	470,029,023	815,345,671
<b>Total Prepayment</b>	<b>470,029,023</b>	<b>815,345,671</b>

*These are funds received in advance by the Authority from customers like the Ministry of Health for UHC-Scale Up- to procure medical commodities.*

<b>Ageing Analysis- (Refundable deposits)</b>	<b>Current FY</b>	<b>% of the total</b>	<b>Comparative FY</b>	<b>% of the total</b>
Less than 1 year	668,106	0%	57,258,058	7%
Between 1-2 years	57,258,058	12%	232,955,262	29%
Between 2-3 years	232,955,262	50%	350,043,205	43%
Over 3 years	179,147,597	38%	175,089,147	21%
<b>Total</b>	<b>470,029,023</b>	<b>100%</b>	<b>815,345,671</b>	<b>100%</b>

<b>30. Current Provisions</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Balance Brought Forward	1,111,906,567	330,717,836
Additional Provisions	833,915,978	1,111,906,567
Provision Utilized	(1,111,906,567)	(330,717,836)
<b>Total provisions</b>	<b>833,915,978</b>	<b>1,111,906,567</b>

<b>31. Medical Commodity Fund</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Medical Commodity Fund	8,501,866,791	9,134,630,398
<b>Total medical commodity fund</b>	<b>8,501,866,791</b>	<b>9,134,630,398</b>

<b>32 a. Deferred income</b>	<b>Period ended June 2024 Kshs</b>	<b>Period ended June 2023 Kshs</b>
Public Contribution and donations (Current Portion recognized from Donated Assets)	1,843,020,169	1,430,606,516
<b>Total deferred income</b>	<b>1,843,020,169</b>	<b>1,430,606,516</b>

<b>32 b. Deferred income</b>	<b>2023/2024 Kshs</b>	<b>2022/2023 Kshs</b>
National Government	1,182,956,990	766,621,011
International Funders	660,063,179	663,985,505
Public Contributions and Donations		
<b>Total Deferred Income</b>	<b>1,843,020,169</b>	<b>1,430,606,516</b>

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**Notes to the Financial Statements (Continued)**

<b>32 c. Deferred income</b>	<b>National government</b>	<b>International funders</b>	<b>Public contributions and donations</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Balance Brought Forward	766,621,011	663,985,505	-	1,430,606,516
Additions	469,500,000	3,000,000	-	472,500,000
Transfers To Capital Fund	-53,164,021	-6,922,327	-	-60,086,348
Transfers To Income Statement	-	-	-	0
Other Transfers	-	-	-	0
Balance Carried Forward	<b>1,182,956,990</b>	<b>660,063,178</b>	-	<b>1,843,020,169</b>

<b>33. KEMSA Capital</b>	<b>Period ended June 2024</b>	<b>Period ended June 2023</b>
	<b>Kshs</b>	<b>Kshs</b>
Balance at the end of the Financial Year	8,461,576,303	8,461,576,303
<b>Total KEMSA Capital</b>	<b>8,461,576,303</b>	<b>8,461,576,303</b>

<b>34. Cash Generated from Operations</b>	<b>Financial Year Period ended June 2024</b>	<b>Financial Year Period ended June 2023</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Surplus for the year before tax</b>	<b>(770,017,112)</b>	<b>(3,897,352,669)</b>
<b>Adjusted for:</b>		
Depreciation	176,472,045	111,873,340
Impairment	481,385,033	-
Gains and losses on disposal of assets	(18,027,596)	3,572
<b>Working capital adjustments</b>		
Increase in inventory	494,142,781	1,062,981,905
Increase in receivables	(915,938,756)	(188,196,677)
Increase in deferred income	412,413,652	21,742,582
Increase in payables	(1,695,685,359)	178,875,109
Increase in payments received in advance	(345,316,648)	(717,303,050)
Decrease in current provision	(277,990,589)	781,188,731
Decrease in medical commodity	(632,763,607)	(684,261,743)
Project Fund		(57,344,216)
Net cash flow from operating activities	<b>(3,091,326,156)</b>	<b>(3,387,793,115)</b>

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**35 Financial Risk Management**

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority'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 Authority 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 Authority's financial risk management objectives and policies are detailed below:

**i) Credit risk**

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. 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 do not include any provision for doubtful receivables even though **Kshs. 2,206,588,881** is beyond one year. From prior experience and their assessment of the current economic environment.

**Financial Risk Management**

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

Description	Total amount	Fully performing	Past due	Impaired
	Kshs.	Kshs.	Kshs.	Kshs.
<b>As at 30<sup>th</sup> June 2024</b>				
Receivables from exchange transactions	6,749,349,385	2,292,532,319	4,456,817,066	-
Receivables from non-exchange transactions	6,216,080	6,216,080	-	-
Bank balances	1,729,591,916	1,729,591,916	-	-
<b>Total</b>	<b>8,485,157,381</b>	<b>4,028,340,315</b>	<b>4,456,817,066</b>	-
<b>As at 30<sup>th</sup> June 2023</b>				
Receivables from exchange transactions	5,900,014,323	3,927,950,733	1,972,063,590	-
Receivables from non-exchange transactions	7,060,656	7,060,656	-	-
Bank balances	4,906,997,098	4,906,997,098	-	-

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Total	10,814,072,077	10,814,072,077	3,927,950,733	-
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**Notes to the Financial Statements (Continued)**

**Financial Risk Management**

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 Authority has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The Authority has significant concentration of credit risk on amounts due from counties. The board of directors sets the Authority's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**ii.) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Authority's directors, who have built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity management requirements. The Authority manages liquidity risk through continuous monitoring of forecasts and actual cash flows. The table below represents cash flows payable by the Authority under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed 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.

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>As at 30<sup>th</sup> June (Current FY)</b>				
Trade payables	1,204,108,090	559,184,724	2,426,959,334	4,190,252,148
Current portion of borrowings	0.00	0.00	0.00	0.00
Provisions	154,465,561	0.00	679,450,417	833,915,978
Deferred income	0.00	0.00	1,843,020,169	1,843,020,169
Employee benefit obligation	1,751,030	0.00	0.00	1,751,030
<b>Total</b>	<b>1,360,324,680</b>	<b>559,184,724</b>	<b>4,949,429,920</b>	<b>6,868,939,325</b>
<b>As of 30<sup>th</sup> June (Previous FY)</b>				

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Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
Trade payables	1,314,817,332	1,022,774,657	1,463,111,063	3,800,703,051
Current portion of borrowings	0.00	0.00	0.00	-
Provisions	0.00	0.00	1,111,906,567	1,111,906,567
Deferred income	0.00	0.00	1,430,606,516	1,430,606,516
Employee benefit obligation	818,551	0.00	0.00	818,551
<b>Total</b>	<b>1,315,635,883</b>	<b>1,022,774,657</b>	<b>4,005,624,146</b>	<b>6,344,034,686</b>

iii) **Market risk**

The Authority has put in place an internal audit function to assist it in assessing the risk faced by the Authority on an ongoing 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 Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The Authority'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 Authority's exposure to market risks or the manner in which it manages and measures the risk.

iv) **Foreign currency risk**

The Authority has 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 Authority 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.

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**Notes to the Financial Statements (Continued)**  
**Financial Risk Management**

The carrying amount of the *Authority's* foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are recorded in Kenya Shillings equivalent.

Description	In Kshs	Other currencies	Total
	Kshs	Kshs	Kshs
<b>As at 30<sup>th</sup> June 2024</b>			
<b>Financial Assets</b>			
Investments	-	-	-
Cash	1,354,077,567	375,514,349	1,729,591,916
Debtors	6,048,613,285	893,473,278	6,942,086,563
<b>Total Financial Assets</b>	<b>7,402,690,853</b>	<b>1,268,987,626</b>	<b>8,671,678,479</b>
<b>Financial Liabilities</b>			
Trade And Other Payables	4,464,226,756	2,443,450,195	6,907,676,951
Borrowings	-	-	-
<b>Total Financial Liabilities</b>	<b>4,464,226,756</b>	<b>2,443,450,195</b>	<b>6,907,676,951</b>
<b>Net Foreign Currency Asset/(Liability)</b>	<b>2,938,464,097</b>	<b>(1,174,462,569)</b>	<b>1,764,001,528</b>

v) **Interest rate risk**

Interest rate risk is the risk that the Authority's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from bank deposits. This exposes the Authority to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Authority'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.

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**Notes to the Financial Statements (Continued)  
Financial Risk Management**

**Fair value of financial assets and liabilities**

**b) Financial instruments measured at fair value**

**Determination of fair value and fair values hierarchy**

IPSAS 30 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 Authority'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 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 Authority considers relevant and observable market prices in its valuations where possible.

**35. Related Party Disclosures**

**Nature of related party relationships**

Entities and other parties related to the *Authority* 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 *Authority*, holding 100% of the *Authority's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *Authority*, both domestic and external.

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**Notes to the Financial Statements (Continued)**

**Other related parties include:**

- i) The Ministry of Health
- ii) County Governments
- iii) Other State Corporations and Semi-Autonomous Government Agencies
- iv) The National Treasury
- v) Board of directors

Description	Current FY fy 23/24	Comparative FY22/23
	Kshs	Kshs
<b>Transactions with related parties</b>		
<b>a) Sales to related parties</b>		
Sales of HPTs to Counties and GOK Facilities	5,799,384,197.10	8,039,143,443.66
Others (specify) e.g. interest and bank charges		
<b>Total</b>	<b>5,799,384,197.10</b>	<b>8,039,143,443.66</b>
<b>B) purchases from related parties</b>		
Purchases of electricity from KPLC	25,701,158.30	21,850,265.08
Purchase of water from govt service providers	1,758,387.95	364,963.08
Training and conference fees paid to govt. Agencies	2,789,229.00	2,187,560.00
<b>Total</b>	<b>30,248,775.25</b>	<b>24,402,788.16</b>
<b>b) Grants/transfers from the government</b>		
Grants from national govt	1,188,219,570.71	120,000,000.00
Donations in kind		
<b>Total</b>	<b>1,188,219,570.71</b>	<b>120,000,000.00</b>
<b>c) Expenses incurred on behalf of related party</b>		
Payments of salaries and wages	23,915,835.00	30,410,643.00
Payments for goods and services	-	-
<b>Total</b>		
<b>d) Key management compensation</b>		
Directors' emoluments	24,038,158.00	13,902,905.00
Compensation to key management	59,473,895.64	59,473,895.64
<b>Total</b>	<b>83,512,053.64</b>	<b>73,376,800.64</b>

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**Notes to the Financial Statements (Continued)**

**36. Segment Information**

KEMSA does not operate in units hence does not report in segments.

**37. Contingent Assets and Contingent Liabilities**

**Contingent Assets**

The following Assets, which are in Financial Statements, have Ownership disputes

	2023-2024	2022-2023
	Kshs.	Kshs.
<b>CONTINGENT ASSETS</b>		
EMBAKASI GREEN SITE LR Number 28464 and 28465	380,000,000	220,000,000
<b>Total</b>	<b>380,000,000</b>	<b>220,000,000</b>

**(i) EMBAKASI GREEN SITE LR NO Number 28464 and 28465**

1. EMBAKASI GREEN SITE LR NO Number 28464 and 28465. In January 2019, the Kenya Airports Authority filed a complaint with the National Land Commission seeking the revocation of several parcels of land excised from land parcel no. LR 21919, which is registered in favor of the Kenya Airports Authority. Among the parcels in question were LR Nos. 28464 and 28465, which are registered in favor of KEMSA. After hearing the complaint, the National Land Commission recommended the revocation of KEMSA's title to LR Nos. 28464 and 28465 and the issuance of a sublease instead.

KEMSA subsequently instructed its legal counsel to challenge the National Land Commission's recommendations in court. Judicial review proceedings were initiated before the Environment and Land Court, under Judicial Review Application No. 91 of 2019, filed on 28th March 2019. The case is ongoing, and KEMSA is represented by Gathii Irungu & Co. Advocates.

As per the latest update from counsel, the Attorney General, Public Service Commission, and the Kenya Airports Authority are in negotiations through our lawyer to secure the parcel of land. The land is currently valued at KES 380,000,000.00 (Three Hundred and Eighty Million) in our financial records. If the revocation is upheld, KEMSA will be required to expunge the properties from its books of accounts.

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**Notes to the Financial Statements (Continued)**

**38. Surplus Remission**

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into the Consolidated Fund, ninety percent of its surplus funds reported in the audited financial statements after the end of each financial year.

Kenya Medical Supplies Authority made a deficit of **Kshs.779,149,423** during the year, in (FY 2022/2023 a deficit of **Kshs. 3,897,349,096**. The balance of funds of the Authority at the end of the Financial Year, as stated in the KEMSA Act 2013, shall be retained for the purposes for which the Authority was established, hence no remission made to the Consolidated Fund.

**39. Events after the Reporting Period**

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

**40. Ultimate and Holding Authority**

The Authority is a State Corporation under the Ministry of Health. Its ultimate parent is the Government of Kenya.

**41. Currency**

The financial statements are presented in Kenya Shillings ( Kshs.) rounded to the nearest Kshs.

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**Implementation Status of Auditor-General's Recommendations**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor

***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 the implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to the National Treasury

**Dr. Waqo Ejersa, OGW**

**CHIEF EXECUTIVE OFFICER**

 SIGN ..... DATE.....

**CHIEF EXECUTIVE OFFICER**

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**Implementation Status of Auditor-General's Recommendations**

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**For the year ended June 30<sup>th</sup> 2024**

Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE								
1.0	<p>Unsupported Cash and Cash Equivalents</p> <p>The statement of cash flow reflects cash and cash equivalents as at 30 June, 2023 balance of Kshs.4,906,997,098. However, the balance includes prior year adjustment of Kshs.186,947,924 under operating activities which relates to corrections of earlier transactions under assets, work in progress and global fund. However, the corresponding journal vouchers were not provided for audit.</p> <p>In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.4,906,997,098 as at 30 June, 2023 could not be confirmed.</p>	<p><i>Management takes note of the Auditor's observations and responds as follows:</i></p> <p>The prior year adjustments relate to corrections made for Work in Progress related to the New Warehouse Construction, including:</p> <ul style="list-style-type: none"> <li>• Recognition of retention funds payable to contractors previously unrecognized.</li> <li>• Derecognition of VAT amounts recorded in FY 2018/2019 for invoices paid by Global Fund that included VAT.</li> <li>• Reclassification of legal fees previously expensed for warehouse construction recorded in FY 2017/2018.</li> <li>• Refunded funds returned to Global Fund.</li> <li>• Adjustment of reconciled opening balances for asset costs.</li> </ul> <p>These adjustments necessitated prospective corrections to the opening balances, including prior adjustments to the Property, Plant, and Equipment (PPE) movement schedule to accurately restate the Work in Progress for the new warehouse value in accordance with IPSAS 3.</p> <p>This is tabulated as below;</p> <table border="1" data-bbox="907 1027 2007 1359"> <thead> <tr> <th data-bbox="907 1027 1715 1066">DESCRIPTION</th> <th data-bbox="1715 1027 2007 1066">AMOUNT</th> </tr> </thead> <tbody> <tr> <td data-bbox="907 1066 1715 1174">Prior year adjustments -This relates to the contractors' retained amounts from payments made. <b>See appendix 1.0- JV 36-Being derecognition of retention</b></td> <td data-bbox="1715 1066 2007 1174" style="text-align: right;">126,401,776.90</td> </tr> <tr> <td data-bbox="907 1174 1715 1283">Adjustment of previously expensed payment to Akide and Advocates from legal fees expense account to WIP warehouse construction. <b>See appendix 1.0- JV 90-Being reclassification of legal fees</b></td> <td data-bbox="1715 1174 2007 1283" style="text-align: right;">11,575,000.00</td> </tr> <tr> <td data-bbox="907 1283 1715 1359">Adjustments of Global fund invoices previously captured with VAT. Global fund payments are Tax exempt.</td> <td data-bbox="1715 1283 2007 1359" style="text-align: right;">(262,491,713.65)</td> </tr> </tbody> </table>	DESCRIPTION	AMOUNT	Prior year adjustments -This relates to the contractors' retained amounts from payments made. <b>See appendix 1.0- JV 36-Being derecognition of retention</b>	126,401,776.90	Adjustment of previously expensed payment to Akide and Advocates from legal fees expense account to WIP warehouse construction. <b>See appendix 1.0- JV 90-Being reclassification of legal fees</b>	11,575,000.00	Adjustments of Global fund invoices previously captured with VAT. Global fund payments are Tax exempt.	(262,491,713.65)
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Adjustments of Global fund invoices previously captured with VAT. Global fund payments are Tax exempt.	(262,491,713.65)									

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**For the year ended June 30<sup>th</sup> 2024**

Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE	
		See appendix 1.0-List of Credit notes for tax exemption	
		Refund of disputed funds to the Principal Recipients Global Fund.	
		See appendix 1.0-Payment voucher for GF refunds	(63,237,025.90)
		Adjustment of opening balances for asset costs for categories Motor vehicle, Furniture and Office Equipment.	
		See appendix - JV 148-Being reinstatement of Fixed Assets	804,038.00
		<b>Total</b>	<b>(186,947,924.65)</b>
2.0 Property, Plant, and Equipment			
The statement of financial position reflects property, plant and equipment balance of Kshs.8,690,853,547 as dis in Note 25 (a) to the financial statements. The amount includes land balance of Kshs.1,786,967,270 whose analysis revealed the following unsatisfactory matters;			
2.1	<p>Un-Approved Exchange of Parcels of Land</p> <p>As previously reported, the land balance includes a parcel valued at Kshs.151,538,002 situated along commercial street in Nairobi. According to a deed of exchange dated 28 April, 2016 this first parcel of land measuring approximately 0.7676 belongs to a private company while a second parcel of land situated in Nairobi measuring approximately 0.1329 hectares belongs to KEMSA. The parties agreed to exchange these parcels of land without approval from the minister responsible for health and the National Treasury. This was contrary to Section 13 (1) (c) of the State Corporations act 2015 which states that 'The assets of a state corporation may be disposed of—by way of sale or otherwise with the approval of the Minister and the Treasury</p>	<p><i>We acknowledge your observation and recommendation and respond as follows;</i></p> <p>The State corporations Act did not apply to Kenya Meical Supplies Agency (Formerly Central Medical Stores) which was a department at the Ministry of Medical Services.</p> <p>The land exchange was formalized through a Memorandum of Understanding dated 27th July 2009 between the Ministry of Health and Unilever Kenya Ltd. The process had initially begun in 1987, with the land valued according to a valuation report dated 10th July 1987, which referenced the exchange of parcel of land between the Ministry of Health and East African Ltd (now Unilever Kenya). This was subject to a 'no objection' from the Treasury, as indicated in their letter CONF:47/06/132 dated 21st October 1987 addressed to the Ministry of Health.</p> <p><i>See appendix 2.1-Second Schedule-Proposed exchange of Premises letter dated 13<sup>th</sup> November 1987; Ref CONF/MED/100 and Memorandum of Understanding dated 27<sup>th</sup> July, 2009 signed between the Ministry of Medical Services, Kenya Medical Supplies Agency (Formerly Central Medical Stores)</i></p>	

**Kenya Medical Supplies Authority**  
**Annual Report and Financial Statements**  
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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
	<p>where such disposal has not been taken into account in the estimates.</p> <p>In addition, the parcel of land acquired by KEMSA was in relation to a forty-nine (49) year lease from 1 July, 1969. However, as at the time of the audit in the month of December 2023 the lease period had ended but there was no evidence of renewal of the lease agreement by KEMSA.</p>	<p>and Unilever K Ltd, Unilever’s land (L.R. No. 209/7154/2) and Central Medical Store’s land (L.R. No. 209/249/R and L.R. No. 209/1387), Deed of Exchange dated 5<sup>th</sup> of August 2016.</p> <p>The lease period had lapsed, and the Authority is currently following up on its renewal. The digitization of land registration has required KEMSA to open an ARDHI Sasa account, and the process of acquiring the new lease is ongoing with a target to be completed by end of FY 2024/25.</p> <p><b>See appendix 2.1- Un-Approved Exchange of Parcels of Land</b></p>
2.2	<p><b>Undisclosed Assets</b></p> <p>The dis land balance excludes two parcels of land in Meru and Isiolo and a list of three (3) laboratory equipment of unknown value not utilized due to lack of adequate space. Further, the balance also excludes warehouse buildings in Mombasa used for the storage of medical commodities.</p>	<p><i>Management takes note of the Auditor's observations and responds as follows:</i></p> <p><b>Isiolo and Meru Land;</b> The parcels of land in Isiolo and Meru were allocated to KEMSA, however, their title deeds were still being processed at end of the financial year. Subsequently, upon receipt of the title deed in Financial 2023/24, there arose a necessity to value the land for recognition in the financial statements of the Authority. KEMSA engaged the Ministry of Lands, Public Works, Housing, and Urban Development through the Directorate of Surveying and Mapping and the Directorate of Land Valuations to conduct a fixation survey for beaconing the property, a requirement by the Directorate of Land Valuation for determining the land's value. The valuation was completed in December 2023. The same was dis in the financial statements Note 37 FY</p>

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
		<p>2022/23. <i>See Appendix 2.2 - Valuation report by Ministry of Lands, Public Works, Housing, and Urban development</i></p> <p>The two parcels of land have since been recognized in Financial statements for FY 2023/2024. <i>See Appendix 2.2- PPE movement FY 2023/24</i></p> <p><b>Exclusion of Laboratory Equipment;</b> The authority notes that the list of the lab items was compiled using the QA serialization used for their internal records at the departmental level. However, the Authority further seek to clarify that all the 45 laboratory items are recognized in the asset register and accounted for in the reported PPE net book value, as presented under equipment in the financial Statements note 25. Please find attached the fixed asset register for equipment highlighting the list with corresponding asset tags. <i>See Appendix 2.2 - Fixed Asset register for Office Equipment.</i></p> <p>Mombasa Depot was recognized in KEMSA’s books of accounts at a value of KES 76,000,000, which included both the land and building components recorded under land since they were not separated at the point of original valuation.</p> <p>The current valuation conducted in 2023 provided a detailed separation, assigning a market value of KES 110,000,000 to the land and KES 30,000,000 to the buildings. This updated valuation has since been reflected in the financial statements for the year 2023/2024.- <i>See Appendix 2.3 - Valuation report</i></p>
2.3	<p>Land Without Valuation Reports</p> <p>The dis land balance of Kshs.1,786,967,270 is in relation to fourteen (14) parcels of land which have not been supported by valuation reports. The land balance also includes four (4)</p>	<p><i>Management takes note of the Auditor's observations and responds as follows:</i></p> <p>The Authority would like to clarify that the Four (4) parcels of land totaling to KSh. 115 million, include; parcels in Garissa (Ksh. 6.5 million), Kakamega (Ksh. 7.5 million), Kisumu (Ksh. 25 million), and Mombasa (Ksh. 76 million), which had not been surveyed as of the end of the financial</p>

**Kenya Medical Supplies Authority**  
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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE																
	<p>parcels of land amounting to Kshs.115,000,000 which have not been surveyed. Management has not explained how the values for un-surveyed land were determined.</p>	<p>year 2022/2023. The Authority confirms that all four pieces of land have since been surveyed, and beacon certificates have been issued in FY 2023/24 - <i>See Appendix 2.3 - Valuation report</i></p> <p>The original valuation was conducted by a private valuer; however, due diligence in conveyance was not performed at that time. KEMSA has since undertaken a comprehensive land valuation exercise for all its properties in collaboration with the Ministry of Lands and Physical Planning, specifically through the Directorate of Valuation. The report was submitted to KEMSA in 2023, and twelve (12) out of thirteen (13) parcels of land have now been valued.</p> <p>For the Kakamega land, valuation has not been conducted yet since the title was still being processed. The valuation for the Kakamega land will take place in FY 24/25.</p> <p><b>See Appendix 2.3- Valuation report, Kakamega Lease Title, Beacon certificate.</b></p>																
2.4	<p>Land Without Ownership Documents</p> <p>The dis land balance of Kshs.1,786,967,270 includes Kshs.269,538,002 in relation to six (6) parcels of land. However, original title documents were not provided for audit verification to confirm ownership details.</p>	<p>We acknowledge your observation and recommendation and respond as follows;</p> <p>a) The table below highlights the status in relation to the six (6) parcels of land <i>-(see attached appendix 2.4 - Ownership Documents);</i></p> <table border="1" data-bbox="909 981 1993 1378"> <thead> <tr> <th data-bbox="909 981 1099 1043">LAND LOCALITY</th> <th data-bbox="1099 981 1397 1043">DETAILS</th> <th data-bbox="1397 981 1563 1043">VALUATION</th> <th data-bbox="1563 981 1993 1043">DOCUMENTATION AVAILABLE/ STATUS</th> </tr> </thead> <tbody> <tr> <td data-bbox="909 1043 1099 1145">Commercial street</td> <td data-bbox="1099 1043 1397 1145">LR Number 209/7154/2</td> <td data-bbox="1397 1043 1563 1145">151,538,001.98</td> <td data-bbox="1563 1043 1993 1145">The lease period had lapsed, and the Authority is currently following up on its renewal. <i>See appendix 2.1</i></td> </tr> <tr> <td data-bbox="909 1145 1099 1208">Eldoret Depot</td> <td data-bbox="1099 1145 1397 1208">Block 10/ 156</td> <td data-bbox="1397 1145 1563 1208">25,000,000.00</td> <td data-bbox="1563 1145 1993 1208">The conveyancing is in progress - copy of lease attached</td> </tr> <tr> <td data-bbox="909 1208 1099 1378">Garissa</td> <td data-bbox="1099 1208 1397 1378">Surveyed awaiting final technical file from the Ministry of Lands, Public Works, Housing and Urban</td> <td data-bbox="1397 1208 1563 1378">6,500,000.00</td> <td data-bbox="1563 1208 1993 1378">Documentation available is a Part development plan dated 2005, 326/2005/58.KEMSA engaged the Ministry of Lands and Physical Planning through the Directorate of Survey on</td> </tr> </tbody> </table>	LAND LOCALITY	DETAILS	VALUATION	DOCUMENTATION AVAILABLE/ STATUS	Commercial street	LR Number 209/7154/2	151,538,001.98	The lease period had lapsed, and the Authority is currently following up on its renewal. <i>See appendix 2.1</i>	Eldoret Depot	Block 10/ 156	25,000,000.00	The conveyancing is in progress - copy of lease attached	Garissa	Surveyed awaiting final technical file from the Ministry of Lands, Public Works, Housing and Urban	6,500,000.00	Documentation available is a Part development plan dated 2005, 326/2005/58.KEMSA engaged the Ministry of Lands and Physical Planning through the Directorate of Survey on
LAND LOCALITY	DETAILS	VALUATION	DOCUMENTATION AVAILABLE/ STATUS															
Commercial street	LR Number 209/7154/2	151,538,001.98	The lease period had lapsed, and the Authority is currently following up on its renewal. <i>See appendix 2.1</i>															
Eldoret Depot	Block 10/ 156	25,000,000.00	The conveyancing is in progress - copy of lease attached															
Garissa	Surveyed awaiting final technical file from the Ministry of Lands, Public Works, Housing and Urban	6,500,000.00	Documentation available is a Part development plan dated 2005, 326/2005/58.KEMSA engaged the Ministry of Lands and Physical Planning through the Directorate of Survey on															

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE			
			Development, Survey department		March 2023 to conduct a cadastral survey for KEMSA's Garissa land. The survey was done to establish the boundaries and installation of beacons. A beacon certificate was issued upon successful installation of beacon markers. The preparation of the final survey report and technical file is ongoing. The survey report and technical file are requirements for the conveyance of the property that is being handled by KEMSA's counsel KTK Advocates.
		Kakamega Green site	KAKAMEGAMUNICIPALITY BLOCKIV/873	7,500,000.00	This land has been derecognized since it is not Authority's land
		Kakamega depot PGH	Kakamega Depot	3,000,000.00	Documentation available is a Lease title registered to Kakamega County. This land has been derecognized as part of Authority land in Financial statement.
		Mombasa	Surveyed awaiting final technical file from the Ministry of Lands, Public Works, Housing and Urban Development, Survey department	76,000,000.00	The Authority conducted a cadastral survey through Survey of Kenya in March 2023 on the Mombasa land with the aim of re-establishing the boundaries and interpretation of the status, interests and restrictions of the parcel of land. The cadastral survey report and preparation of a technical file form part of the requirements by the registrar of lands to complete the conveyance of the

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE			
					land. Beacons were established and installed as part of the survey. The Ministry of Lands and Physical Planning through the Directorate of Survey are yet to submit the report. KEMSA had engaged Ong'anda and Co. advocates to follow-up on the conveyance of Mombasa, however, the same is yet to be completed.
				269,538,001.98	<p>The parcels without titles are ongoing conveyancing through Legal directorate.</p> <p>A disclosure on this was provided in the financial statements.</p> <p>b) The Authority wish to confirm that the matter was resolved and KEMSA is both in possession of the land and the tittle to the property. <i>See Appendix 2.4b- KISUMU MUNICIPALITY BLOCK 2/128.</i></p> <p>c) The Authority would like to clarify that the Kakamega green site land valued at Kshs.7,500,000 was not exchanged for a parcel of land valued at Kshs.3,000,000. The County Government of Kakamega allocated KEMSA a parcel of land referred to as Kakamega Green Site for the construction of a warehouse and consequently recognized the same in KEMSA's financial statements at a value of <b>Kshs 7,500,000</b>. However, the land was later re-allocated for other county developments, KEMSA has since de-recognized this parcel of land in its Financial Statements. The County government did allocate KEMSA a different parcel, which has since been registered under its name. The allocated land has a title deed and is awaiting valuation.</p>

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
	<p>Further, information obtained during the audit revealed that a parcel of land in Kisumu municipality valued at Kshs.25,000,000 has been encroached by a private developer, and acquired ownership rights but the matter is under investigation by Directorate of Criminal Investigation pending determination.</p> <p>In addition, a parcel of land in Kakamega municipality measuring 0.9852 hectares valued at Kshs.7,500,000 was exchanged for a parcel of land valued at Kshs.3,000,000. However, details of the exchange were not provided for audit review and both parcels have been dis in the financial statements.</p>	<p>It was disclosed as a contingent asset in FY 2023/2024 Financial Statement. The parcel of land valued at Kshs.3,000,000 is housing the KEMSA Kakamega depot which is situated within the premises of Kakamega PGH. Since KEMSA does not hold any allotment or ownership rights over the property. This has since been de-recognized and adjusted in the FY 2023/2024 Financial Statement.</p> <p>d) For the two parcels of land in Embakasi valued at Kshs.220,000,000 whose lease title were revoked by the National Land Commission, KEMSA is pursuing a sub-lease for a period of 99 years from KAA. The KAA Airport planning committee has requested for architectural drawing and proposed development plans from KEMSA in line with their policies on lease and allocation of spaces subject to the JKIA masterplan for review. Recognition of these two parcels in the financial statements was based on the original ownership title document. Upon revocation of title deed, the Authority disclosed the same in the note to the Financial Statements.</p>

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
	<p>The land value also includes two parcels of land in Embakasi valued at Kshs.220,000,000 whose lease title were revoked by the National Land Commission. Although management challenged the decision in court, the matter is pending determination.</p> <p>In the circumstances, the accuracy, completeness, ownership and valuation of land balance of Kshs.1,786,967,270 could not be confirmed.</p>	
<p>3.0 Inaccuracies in Inventories</p>		
<p>The statement of financial position reflects an inventory balance of Kshs.12,899,915,421 as dis in Note 24 to the financial statements whose analysis revealed the following observations;</p>		
3.1	<p><b>Misstated Inventory Values</b></p> <p>The inventories balance includes units received from Global Fund and other program commodities valued at Kshs.303,514,749. However, the commodities were erroneously issued to health facilities at a unit price of one shilling instead of the carrying amount resulting to overstatement of inventory by Kshs.303,509,260. This was contrary to Paragraph 16 of IPSAS 12 which states that where inventories are acquired at a non-exchange transaction, their cost shall be measured at their fair value at the date of acquisition.</p>	<p>Management takes note of the Auditor's observations and responds as follows:</p> <p>Management confirms that the error did not affect the valuation. However, the issue report in the system did not reflect the correct value of the issued commodities due to an erroneous calculation of the cost price.</p> <p><i>See Appendix 3.1 reconciliation report of the Misstated values of Ksh 303,509,260.</i></p>

**Kenya Medical Supplies Authority**  
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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE																																																							
3.2	<p>Overstatement of Stock Balances</p> <p>The inventory balance includes Kshs.6,664,823,360 relating to two hundred and forty-seven (247) medical commodities. However, review of opening inventory, receipts, issues, expiries and damages from these products indicated a closing balance of Kshs.6,361,251,822 resulting to unreconciled and unexplained variance of Kshs.303,571,538.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The amount of Kshs.303,571,538 is as a result of stock adjustments, QA sampling and customer returns which were not considered in the Auditor's reconciliation data as detailed below;</p> <table border="1" data-bbox="902 568 1980 1185"> <thead> <tr> <th data-bbox="902 568 1176 671">Details</th> <th data-bbox="1176 568 1391 671">OAG Reconciliation (Value)</th> <th data-bbox="1391 568 1592 671">KEMSA Reconciliation Value</th> <th data-bbox="1592 568 1758 671">Variance OAG VS KEMSA</th> <th data-bbox="1758 568 1980 671">Comment</th> </tr> </thead> <tbody> <tr> <td data-bbox="902 671 1176 746">Opening Balance 30/06/2022</td> <td data-bbox="1176 671 1391 746">4,918,902,993</td> <td data-bbox="1391 671 1592 746">4,918,902,993</td> <td data-bbox="1592 671 1758 746">-</td> <td data-bbox="1758 671 1980 746"></td> </tr> <tr> <td data-bbox="902 746 1176 821">Total Receipts</td> <td data-bbox="1176 746 1391 821">13,721,916,413</td> <td data-bbox="1391 746 1592 821">13,721,916,413</td> <td data-bbox="1592 746 1758 821">-</td> <td data-bbox="1758 746 1980 821"></td> </tr> <tr> <td data-bbox="902 821 1176 863">Qty Issued</td> <td data-bbox="1176 821 1391 863">11,414,075,863</td> <td data-bbox="1391 821 1592 863">11,414,075,863</td> <td data-bbox="1592 821 1758 863">-</td> <td data-bbox="1758 821 1980 863"></td> </tr> <tr> <td data-bbox="902 863 1176 904">Damages</td> <td data-bbox="1176 863 1391 904">119,569</td> <td data-bbox="1391 863 1592 904">119,569</td> <td data-bbox="1592 863 1758 904">-</td> <td data-bbox="1758 863 1980 904"></td> </tr> <tr> <td data-bbox="902 904 1176 946">Expiries</td> <td data-bbox="1176 904 1391 946">865,372,153</td> <td data-bbox="1391 904 1592 946">865,372,153</td> <td data-bbox="1592 904 1758 946">-</td> <td data-bbox="1758 904 1980 946"></td> </tr> <tr> <td data-bbox="902 946 1176 987">Stock Adjustments</td> <td data-bbox="1176 946 1391 987">Not considered</td> <td data-bbox="1391 946 1592 987">9,304,976</td> <td data-bbox="1592 946 1758 987">9,304,976</td> <td data-bbox="1758 946 1980 987"></td> </tr> <tr> <td data-bbox="902 987 1176 1029">QA Sampling</td> <td data-bbox="1176 987 1391 1029">Not considered</td> <td data-bbox="1391 987 1592 1029">(335,073)</td> <td data-bbox="1592 987 1758 1029">(335,073)</td> <td data-bbox="1758 987 1980 1029"></td> </tr> <tr> <td data-bbox="902 1029 1176 1070">Customer Returns</td> <td data-bbox="1176 1029 1391 1070">Not considered</td> <td data-bbox="1391 1029 1592 1070">294,423,966</td> <td data-bbox="1592 1029 1758 1070">294,423,966</td> <td data-bbox="1758 1029 1980 1070"></td> </tr> <tr> <td data-bbox="902 1070 1176 1128">Physical count variance</td> <td data-bbox="1176 1070 1391 1128">-</td> <td data-bbox="1391 1070 1592 1128">177,669</td> <td data-bbox="1592 1070 1758 1128">177,669</td> <td data-bbox="1758 1070 1980 1128">Adjusted as per physical count</td> </tr> <tr> <td data-bbox="902 1128 1176 1185">Closing Balance 30/06/2023</td> <td data-bbox="1176 1128 1391 1185">6,361,251,822</td> <td data-bbox="1391 1128 1592 1185">6,664,823,360</td> <td data-bbox="1592 1128 1758 1185">303,571,538</td> <td data-bbox="1758 1128 1980 1185"></td> </tr> </tbody> </table> <p data-bbox="902 1241 1980 1307">Upon considering the above in the reconciliation data, the two hundred and forty-seven (247) medical commodities were not overstated.</p>	Details	OAG Reconciliation (Value)	KEMSA Reconciliation Value	Variance OAG VS KEMSA	Comment	Opening Balance 30/06/2022	4,918,902,993	4,918,902,993	-		Total Receipts	13,721,916,413	13,721,916,413	-		Qty Issued	11,414,075,863	11,414,075,863	-		Damages	119,569	119,569	-		Expiries	865,372,153	865,372,153	-		Stock Adjustments	Not considered	9,304,976	9,304,976		QA Sampling	Not considered	(335,073)	(335,073)		Customer Returns	Not considered	294,423,966	294,423,966		Physical count variance	-	177,669	177,669	Adjusted as per physical count	Closing Balance 30/06/2023	6,361,251,822	6,664,823,360	303,571,538	
Details	OAG Reconciliation (Value)	KEMSA Reconciliation Value	Variance OAG VS KEMSA	Comment																																																					
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Expiries	865,372,153	865,372,153	-																																																						
Stock Adjustments	Not considered	9,304,976	9,304,976																																																						
QA Sampling	Not considered	(335,073)	(335,073)																																																						
Customer Returns	Not considered	294,423,966	294,423,966																																																						
Physical count variance	-	177,669	177,669	Adjusted as per physical count																																																					
Closing Balance 30/06/2023	6,361,251,822	6,664,823,360	303,571,538																																																						

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE										
		Refer to Appendix 3.2 Reconciliation of amount deemed as overstated stock balances.										
3.3	<p>Unreconciled Stock Issuance</p> <p>The inventory balance includes one hundred and ninety-one (191) medical commodities whose available stock for issue was 13,988,323 units valued at Kshs.2,228,938,380 but the warehouse issue report indicated issuance of 14,601,300 units valued at Kshs.2,661,049,865 resulting to unexplained and unreconciled variance (over issuance) of 612,977 units valued at Kshs.432,111,485.</p> <p>In addition, the over issuance includes 287,284 units for eight three (83) commodities valued at Kshs.264,465,919 whose available stock balance was nil as reflected in warehouse management system.</p>	<p>Management takes note of the Auditor's observations and responds as follows:</p> <p>The management did an analysis of the 191 items in regards to the reported unreconciled variance of Kshs.432,111,485, however it was determined that the actual variance was Kshs. 91,388,633.25 which has since been explained;</p> <table border="1" data-bbox="907 683 1993 1018"> <thead> <tr> <th data-bbox="907 683 1727 751">Reason for Variance</th> <th data-bbox="1727 683 1993 751">Sum of Variance Value</th> </tr> </thead> <tbody> <tr> <td data-bbox="907 751 1727 826">Number of units captured wrongly during AST 2022 thereby indicating an opening balance quantity of 312 instead of 39</td> <td data-bbox="1727 751 1993 826">(8,190,000.00)</td> </tr> <tr> <td data-bbox="907 826 1727 868">Amount was quarantined and hence not counted in AST 2022</td> <td data-bbox="1727 826 1993 868">122,479,494.59</td> </tr> <tr> <td data-bbox="907 868 1727 975">Covid 19 Response commodities procured retrospectively, received and issued manually. The stocks transactions done during the FY 2022/2023 were to regularize the procurement, receipt and issuance process</td> <td data-bbox="1727 868 1993 975">(22,900,861.35)</td> </tr> <tr> <td data-bbox="907 975 1727 1018"><b>Grand Total</b></td> <td data-bbox="1727 975 1993 1018"><b>91,388,633.25</b></td> </tr> </tbody> </table> <p>See attached detailed Appendix 3.3</p> <p>The variance of Kshs.264,465,919 relates to customer returns and Covid 19 HPTs not considered in the reconciliation/comparison. The Authority has therefore done a reconciliation as follows;</p> <p>-An amount of Kshs. 111,905,103.88 is as a result of customer returns which were not considered in the reconciliation.</p>	Reason for Variance	Sum of Variance Value	Number of units captured wrongly during AST 2022 thereby indicating an opening balance quantity of 312 instead of 39	(8,190,000.00)	Amount was quarantined and hence not counted in AST 2022	122,479,494.59	Covid 19 Response commodities procured retrospectively, received and issued manually. The stocks transactions done during the FY 2022/2023 were to regularize the procurement, receipt and issuance process	(22,900,861.35)	<b>Grand Total</b>	<b>91,388,633.25</b>
Reason for Variance	Sum of Variance Value											
Number of units captured wrongly during AST 2022 thereby indicating an opening balance quantity of 312 instead of 39	(8,190,000.00)											
Amount was quarantined and hence not counted in AST 2022	122,479,494.59											
Covid 19 Response commodities procured retrospectively, received and issued manually. The stocks transactions done during the FY 2022/2023 were to regularize the procurement, receipt and issuance process	(22,900,861.35)											
<b>Grand Total</b>	<b>91,388,633.25</b>											

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE								
		<p>-An amount of Kshs. 152,560,815.01 is as a result as a result of Covid 19 Response commodities which were retrospectively procured, received and issued off the system through S11s.</p> <table border="1" data-bbox="907 571 1975 756"> <thead> <tr> <th data-bbox="907 571 1765 608">Details</th> <th data-bbox="1771 571 1975 608">Value (KES)</th> </tr> </thead> <tbody> <tr> <td data-bbox="907 612 1765 679">Covid 19 Response Commodities procured retrospectively, received and issued manually</td> <td data-bbox="1771 612 1975 679">152,560,815.01</td> </tr> <tr> <td data-bbox="907 684 1765 719">Customer returns</td> <td data-bbox="1771 684 1975 719">111,905,103.88</td> </tr> <tr> <td data-bbox="907 724 1765 756"><b>Grand Total</b></td> <td data-bbox="1771 724 1975 756"><b>264,465,918.89</b></td> </tr> </tbody> </table> <p>Upon taking the above into consideration, there is no unreconciled stock over-issuance. See attached detailed Appendix 3.3</p>	Details	Value (KES)	Covid 19 Response Commodities procured retrospectively, received and issued manually	152,560,815.01	Customer returns	111,905,103.88	<b>Grand Total</b>	<b>264,465,918.89</b>
Details	Value (KES)									
Covid 19 Response Commodities procured retrospectively, received and issued manually	152,560,815.01									
Customer returns	111,905,103.88									
<b>Grand Total</b>	<b>264,465,918.89</b>									
3.4	<p><b>Improper Valuation of Inventories</b></p> <p>The inventories balance includes Kshs.19,524,611 for items valued at cost contrary to Paragraph 15 and 16 of IPSAS 12 which requires inventories to be measured at the lower of cost and net realizable. In addition, re-computation of these inventories using the lower of cost and net realizable value revealed a balance of Kshs.4,483,403 resulting to an overstatement of Kshs.15,041,208.</p>	<p>Management takes note of the Auditor's observations and responds as follows:</p> <p>The Authority seeks to clarify that inventories were measured at the lower of cost and net realizable value. The sampled items, valued at Kshs. 19,524,611, included program items whose sale prices were not updated in the system. As these items are not for sale, they did not have a sale price in the shared report. The Authority has since recomputed the schedule and confirms that for KEMSA capital items, were measured at the lower of cost and net realizable value.</p>								

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE									
	<p>Further, the inventory schedule includes 718,097 units of various medical commodities whose fair values as at the date of acquisition was not indicated.</p>	<p>On the other hand, the Management recognizes that there was a systems error resulting in erroneous stock valuation of 718,097 units which were undervalued by Ksh. 66,985,045.18. The system has been corrected and now accurately reflect the correct value.</p> <p><b>See attached Appendix 3.4 Reconciliation of Improper Valuation of Inventories</b></p>									
3.5	<p><b>Improper Stock Adjustments</b></p> <p>The inventories balance was arrived at after adjusting commodities worth Kshs.81,732,145 explained to have historical issues and batch switch among other reasons. However, these products could not be traced in the warehouse.</p> <p>In addition, inventory schedules reflect adjustments for expiries of Kshs. 1,331,441,264 while Note 9 reflects inventory adjustment variance (expiries and damages) amount of Kshs.1,213,715,186 resulting to the unexplained variance of Kshs.117,726,078.</p>	<p><i>Management takes note of the Auditor's observations and responds as follows:</i></p> <p>The Authority has carried out a comprehensive reconciliation and hereby provides all the reasons for variance adjustments. The historical cases arose due to disruptions caused when staff were working from home and untimely staff exits, wherein many instances lacked proper handovers. Consequently, these variances were classified as historical cases requiring progressive rectification. A detailed report providing reasons for adjustment is as below;</p> <table border="1" data-bbox="913 1077 1989 1372"> <thead> <tr> <th data-bbox="913 1077 1099 1189">Adjustment Reasons</th> <th data-bbox="1099 1077 1317 1189">Sum of Total Value</th> <th data-bbox="1317 1077 1989 1189">Explanation</th> </tr> </thead> <tbody> <tr> <td data-bbox="913 1189 1099 1300">Approvals</td> <td data-bbox="1099 1189 1317 1300">568,361.81</td> <td data-bbox="1317 1189 1989 1300">The unaccounted-for variances were approved for adjustment vide memo dated</td> </tr> <tr> <td data-bbox="913 1300 1099 1372">Batch Switch</td> <td data-bbox="1099 1300 1317 1372">20,152,035.49</td> <td data-bbox="1317 1300 1989 1372">No Variance. Appendix 9.5(i)</td> </tr> </tbody> </table>	Adjustment Reasons	Sum of Total Value	Explanation	Approvals	568,361.81	The unaccounted-for variances were approved for adjustment vide memo dated	Batch Switch	20,152,035.49	No Variance. Appendix 9.5(i)
Adjustment Reasons	Sum of Total Value	Explanation									
Approvals	568,361.81	The unaccounted-for variances were approved for adjustment vide memo dated									
Batch Switch	20,152,035.49	No Variance. Appendix 9.5(i)									

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE		
	Further, the stock count sheets of one hundred and twenty-seven (127) commodities reflected a physical stock balance of Kshs.370,859,027 while the system balance was Kshs.518,549,421 resulting to an unaccounted for variance of Kshs.147,690,394.	Damages	7,789,879.54	Approved for adjustment Ksh.7,780,837.54. The difference of Ksh.9,042 is yet to be adjusted. Refer to Damages memo attached
		Double Customer return	28,020.67	Correction of entry which were entered into the system twice
		Expiry	103,831.05	This is part of the Approved MEMO for adjustment Amounting to Ksh.926,296,240. Refer to the Expiries memo attached.
		Product switch	368,713.87	No Variance. Appendix 9.5(ii)
		Quality Issue	33,784.00	This is part of the Approved MEMO for adjustment Amounting to Ksh.926,296,240. Refer to the Expiries memo attached.
		Receipt Error	44,133,112.04	Correction of receipt entries which were entered into the system twice

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		Unaccounted Stock	3,522,761.61	This is part of the Approved MEMO for adjustment amounting Ksh.156, 501246.Refer to attached MEMO REF: KEMSA/VT/002/001
		Under issue	308.88	Adjustment for stocks which were not physically issued to facilities
		Wrong Adjustments	5,031,336.00	Correction of stock adjustments which had errors
		<b>Grand Total</b>	<b>81,732,144.96</b>	
		<p>The authority reported expiries valued at Ksh.1,213,715,186 for KEMSA CAPITAL commodities. The adjusted expiries in the WMS were Kshs. 1,331,441,264 which included commodities both for KEMSA Capital and Third-Party stock, as outlined below.</p>		
		<b>KEMSA CAPITAL</b>		<b>AMOUNT</b>
		FY 2021/2022		201,148,458.68
		FY 2022/2023		274,418,383.29
		<b>TOTAL</b>		<b>475,566,841.98</b>
		<b>3RD PARTY STOCKS</b>		

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE				
		FY 2021/2022	203,989,884.33			
		FY 2022/2023	651,884,537.26			
		<b>TOTAL</b>	<b>855,874,421.60</b>			
		<b>GRAND TOTAL</b>	<b>1,331,441,263.58</b>			
		<p>The process of adjustment for expiries are effected the following quarter after approval by the CEO. The value of Ksh.1,213,715,186 relates to the FY 2022/2023 while, Ksh. 1,331,441,264 relates to FY 2021/2022 and FY 2022/2023. Hence, there is no variance of Kshs.117,726,078.</p> <p>Further to note; from the expiries recorded in the FY 2022/2023 of Kshs. 1,213,715,186 out of this, Ksh. 475,566,841.98 was adjusted in the system, leaving a balance of Ksh. 738,148,344.02 that was adjusted in FY 2023/2024.</p> <p>The Authority has carried out a comprehensive reconciliation and hereby provides all the reasons for the variance amounting to Kshs. 147,690,394 as shown below;</p>				
		Adjustment Reasons	Sum of System Amount	Sum of Counted Amount	Sum of Variance Amount	Explanation
		Approvals by CEO	7,959,945.26	7,945,791.99	14,153.27	The unaccounted-for variances were approved by CEO for adjustment vide memo dated; 15th Feb 23&12th April 2023

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE				
		BATCH SWITCH	138,498,462.13	122,723,682.40	15,774,779.73	No Variance. See Attached Appendix 9.5(iii)
		Double Customer return	127,033.37	11,046.38	115,986.99	Correction of entry which were entered into the system twice
		Product Switch	4,264,453.40	3,288,432.48	976,020.92	No Variance. See Attached Appendix 9.5(iii)
		Receipt Error	297,114,412.87	183,012,128.68	114,102,284.18	Correction of receipt entry which were entered into the system with errors
		Replacement of program stocks	3,649,270.00	22,630.00	3,626,640.00	Adjustments to correct program items issued as KEMSA capital items
		Short pack from supplier	3,645,645.44	3,637,141.70	8,503.74	Adjustment to cater for supplier short packs
		Unaccounted Stock	37,210,127.64	36,485,793.74	724,333.90	The unaccounted-for variances were approved by CEO for adjustment vide memo
		Wrong Adjustments	26,080,071.07	13,732,380.01	12,347,691.06	Correction of stock adjustments which had errors
		<b>Grand Total</b>	<b>518,549,421.18</b>	<b>370,859,027.38</b>	<b>147,690,393.80</b>	
		<b>See attached Appendix 3.5</b>				
		i) Reconciliation of Kshs.81,732,145				
		ii) Adjustment of expired stocks of Ksh. 1,331,441,263.58				
		iii) Batch switch and product switch report of Ksh. 147,690,393.80				
3.6	Unaccounted for Inventory of Medical Commodities	<i>Management takes note of the Auditor's observations and responds as follows:</i>				

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE										
	<p>The inventory balance of Kshs.12,899,915,421 includes Kshs.5,294,325,070 in relation to four hundred and forty-two (442) medical commodities. However, review of these four hundred and forty-two (442) medical commodities' opening inventory, receipts, issues, expiries and damages indicated a closing balance of Kshs8,800,283,288 resulting to unreconciled variance of Kshs.3,505,958,218. These discrepancies represent unaccounted for medical commodities.</p>	<p>The Authority has carried out a comprehensive reconciliation taking to consideration; customer returns, supplier returns, Supplier replacement, QA samples &amp; stock adjustment, resulting to a variance of Kes. 330,272,736.92. and not Kes. 3,505,958,218 as indicated. The reason for variance is fully explained below and in the attached appendix.</p> <table border="1" data-bbox="902 587 1984 775"> <thead> <tr> <th data-bbox="902 587 1659 616">Reasons for Variance</th> <th data-bbox="1664 587 1984 616">Variance Value</th> </tr> </thead> <tbody> <tr> <td data-bbox="902 619 1659 647">Confirm billing partner. Authority to procure</td> <td data-bbox="1664 619 1984 647">(37,539,154.06)</td> </tr> <tr> <td data-bbox="902 651 1659 708">Historical issues that could not be traced. Approved for adjustment by CEO on 11th June 2024</td> <td data-bbox="1664 651 1984 708">(287,299,830.51)</td> </tr> <tr> <td data-bbox="902 711 1659 740">Orders were generated and process completed</td> <td data-bbox="1664 711 1984 740">(5,433,752.36)</td> </tr> <tr> <td data-bbox="902 743 1659 772"><b>Grand Total</b></td> <td data-bbox="1664 743 1984 772"><b>(330,272,736.92)</b></td> </tr> </tbody> </table> <p><i>See Appendix 3.6; Unaccounted for Inventory of Medical Commodities.</i></p>	Reasons for Variance	Variance Value	Confirm billing partner. Authority to procure	(37,539,154.06)	Historical issues that could not be traced. Approved for adjustment by CEO on 11th June 2024	(287,299,830.51)	Orders were generated and process completed	(5,433,752.36)	<b>Grand Total</b>	<b>(330,272,736.92)</b>
Reasons for Variance	Variance Value											
Confirm billing partner. Authority to procure	(37,539,154.06)											
Historical issues that could not be traced. Approved for adjustment by CEO on 11th June 2024	(287,299,830.51)											
Orders were generated and process completed	(5,433,752.36)											
<b>Grand Total</b>	<b>(330,272,736.92)</b>											
3.7	<p><b>Retrospective Receipts and Issuance of Commodities</b></p> <p>The inventory ledger indicates system receipt of medical commodities amounting to Kshs.83,826,000 whose physical delivery were indicated to have been made during the year 2020. However, the inventory ledger did not indicate a corresponding issuance of these commodities despite the items not being included in the inventory closing balance.</p>	<p>Management takes note of the Auditor's observations and responds as follows:</p> <p>The receipt recorded in the system for medical commodities totaling Kshs. 83,826,000, are items that were COVID-19 Emergency commodities that were physically delivered during the year 2020 for Covid-19 response. These commodities were procured and received off the system without LPOs in 2020. The procurement process was formalized later, and LPOs were subsequently created. The commodities were entered into the system between 2021 and 2022 to regularize the procurement process for COVID-19 Emergency commodities. This regularization was as a result of retrospective procurement of the COVID-19 emergency commodities via the Direct Procurement (DP) procedure.</p> <p><i>See Appendix 3.7; Retrospective Receipts and Issuance of Commodities.</i></p>										

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE																																																								
3.8	<p><b>Incorrect Inventory Transactions Due to Poor Information Technology Environment</b></p> <p>Note 24(b) to the financial statements reflects inventory balance of Kshs.12,899,915,421 out of which Kshs.165,212,441 relates to commodities not reflected in the inventory system while two hundred and seventy-nine (279) products with a physical stock balance of Kshs.318,193,727 were reflected in the inventory system at Kshs.213,182,346 resulting to a variance of Kshs.105,011,381. In addition, the system allowed for excess returns of Kshs.59,856,200.</p> <p>In the circumstances, the accuracy, validity and completeness of inventory balance of Kshs 12,899,915,421 could not be confirmed.</p>	<p><i>Management takes note of the Auditor's observations and responds as follows:</i></p> <p>For the commodities valued Kshs.165,212,441 and Kshs.105,011,382, the Authority has carried out a comprehensive reconciliation and hereby provides all the reasons for variance adjustments. The variances arose due to disruptions caused when staff were working from home and untimely staff exits, wherein many instances lacked proper handovers. Consequently, these variances were classified as indicated in the report requiring progressive rectification.</p> <p>For the amount of Kshs.59,856,200, the Authority has reconciled the issued quantity &amp; value and the returned quantity &amp; value and hereby clarify that there were no excess returns. The summary is shown below;</p> <p><b>See Appendix 3.8 - Incorrect Inventory Transactions Due to Poor Information Technology Environment</b></p> <table border="1" data-bbox="907 885 1991 1220"> <thead> <tr> <th>LPO No.</th> <th>OAG Value of Qty Issued</th> <th>OAG Value of Qty Returned</th> <th>OAG Over return</th> <th>KEMSA Actual Value of Qty Issued</th> <th>KEMSA Actual Value of Qty Returned</th> <th>Actual Over return</th> </tr> </thead> <tbody> <tr> <td>831888</td> <td>43,700</td> <td>87,400</td> <td>(43,700)</td> <td>170,400</td> <td>37,600</td> <td>-</td> </tr> <tr> <td>832200</td> <td>16,417,500</td> <td>28,611,000</td> <td>(12,193,500)</td> <td>12,428,000</td> <td>52,020,000</td> <td>-</td> </tr> <tr> <td>832201</td> <td>16,417,500</td> <td>18,661,500</td> <td>(2,244,000)</td> <td>70,572,000</td> <td>33,930,000</td> <td>-</td> </tr> <tr> <td>832202</td> <td>16,417,500</td> <td>30,855,000</td> <td>(14,437,500)</td> <td>86,100,000</td> <td>56,100,000</td> <td>-</td> </tr> <tr> <td>832203</td> <td>16,417,500</td> <td>30,855,000</td> <td>(14,437,500)</td> <td>86,100,000</td> <td>56,100,000</td> <td>-</td> </tr> <tr> <td>825997</td> <td>16,500,000</td> <td>33,000,000</td> <td>(16,500,000)</td> <td>138,407,710</td> <td>90,950,000</td> <td>-</td> </tr> <tr> <td><b>Total Value</b></td> <td><b>82,213,700</b></td> <td><b>142,069,900</b></td> <td><b>(59,856,200)</b></td> <td><b>493,778,110</b></td> <td><b>289,137,600</b></td> <td><b>-</b></td> </tr> </tbody> </table>	LPO No.	OAG Value of Qty Issued	OAG Value of Qty Returned	OAG Over return	KEMSA Actual Value of Qty Issued	KEMSA Actual Value of Qty Returned	Actual Over return	831888	43,700	87,400	(43,700)	170,400	37,600	-	832200	16,417,500	28,611,000	(12,193,500)	12,428,000	52,020,000	-	832201	16,417,500	18,661,500	(2,244,000)	70,572,000	33,930,000	-	832202	16,417,500	30,855,000	(14,437,500)	86,100,000	56,100,000	-	832203	16,417,500	30,855,000	(14,437,500)	86,100,000	56,100,000	-	825997	16,500,000	33,000,000	(16,500,000)	138,407,710	90,950,000	-	<b>Total Value</b>	<b>82,213,700</b>	<b>142,069,900</b>	<b>(59,856,200)</b>	<b>493,778,110</b>	<b>289,137,600</b>	<b>-</b>
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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
4.0	<p>Receivables from Exchange Transactions</p> <p>The statement of financial position reflects receivables from exchange transactions balance of Kshs.6,008,541,865 as dis in Note 22(a) to the financial statements. The following observations were made;</p>	
4.1	<p>Receivables from Other Government Entities</p> <p>The balance includes trade debtors' receivables of Kshs.5,900,014,323 out of which Kshs.998,988,694 is owed by the Ministry of Health but has not been dis in the ministry books. The trade debtors' receivables also include Kshs.3,079,326,856 due from the County Government balances representing 52%. Confirmations received from the 47 counties reflects pending bills balance of Kshs.1,854,753,676 resulting into a variance of Kshs.1,224,573,179 between the Authority and The County Governments.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>The Authority acknowledges that Kshs.998,988,694 is owed by the Ministry of Health. However, the Authority has maintained continuous communication between the Authority and the Ministry of Health regarding the outstanding debt.</p> <p>The Authority conducted a joint debt validation exercise with the Ministry of Health in July 2022 and the Ministry paid <b>Ksh 802 Million</b>, and in FY 2023/2024 another joint debt validation exercise was conducted in July 2024 and <b>Ksh 1.13 Billion</b> is expected from the Ministry of Health. At the end of the financial year, the Authority sent a debt circularization to the Ministry of Health.</p> <p><b>See Appendix 4.1(a) correspondence to Ministry of Health &amp; Debt Circularization letter.</b></p> <p><b>See Appendix 4.1(d) joint debt validation report</b></p> <p>The Authority takes note that only six (6) counties responded to the debt circularization correspondence resulting to the Audit observation. Management seeks to confirm that the circularization was done in August 2022 and May 2023.</p> <p><b>See Appendix 4.1(b) Copies of circularization and correspondence letters to counties.</b></p> <p><b>See Appendix 4.1(c) Current collection status against the outstanding receivables of Kshs.3,079,326,856</b></p>

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4.2	<p>Prepayments</p> <p>The balance includes prepayments of Kshs.108,527,542 out of which Kshs.1,782,853 relates to prepayments paid to suppliers in advance for which goods and services had not been delivered for between six (6) months and five (5) years.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>The Authority has analyzed the prepayments of Kshs.1,782,853 as per the attached Appendix. These prepayments relate to supplies from supermarket, training institutions (Kenya school of Govt) and motor vehicle repair services. The Authority has since expensed the historical prepaid amounts after receipt of relevant documentation in FY 2023-24.</p> <p><b>See Appendix 4.2 - Prepayment Reconciliation report June 2023 &amp;Prepayment Reconciliation Report June 2024</b></p>
4.3	<p>Long Outstanding Receivables</p> <p>The balance includes trade debtors' receivables of Kshs.5,900,014,323 out of which Kshs.1,653,753,790 has been outstanding for more than three hundred and sixty (360) days with no agreed payment plan. In addition, there was no provision for bad and doubtful debts contrary to Paragraph 2.16 of the Kenya Medical Supplies Authority Credit Policy 2014 which requires adequate provision for bad and doubtful debts for any outstanding debt above three hundred and thirty (330) days.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The Authority acknowledges that Kshs. 1,653,753,790 in receivables from various customers have been outstanding for over 360 days and were part of the receivables balance at the close of the 2022-23 financial year. However, due to consistent engagement with the respective counties, payments totaling <b>Ksh. 2,191,861,318.11</b> had been made as of <b>June 2024</b>. Consequently, the debt has not been classified as doubtful, given the significant payments received after the year-end. Additionally, these sales are between government entities, providing further assurance of payment. An analysis of the progress made is attached in <i>Appendix 4.3 -Sales receipts for July 2023-June 2024</i>.</p> <p>The engagement between the Authority and the counties is ongoing, and there is no doubt regarding the existence of outstanding debts from the counties. As a result, these debts have not been classified as doubtful.</p>
4.4	<p><b>Inaccuracies in Receivables.</b></p> <p>The balance includes trade debtors' receivables of Kshs.5,900,014,323 out of which Kshs.1,030,430,783 relates to</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The authority would like to confirm that movement variances arose from reconciliations of the customer accounts. The closing balances of the customers captured in the financial statement are</p>

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	<p>twenty three customers. However, a review of opening balances, invoices, receipts and credit notes from these customers revealed a closing balance of Kshs.915,151,135 resulting to an unexplained variance of Kshs.115,279,648. In addition, the receivables balance from thirty-four customers was understated by Kshs.104,796,818.</p>	<p>the correct reconciled balances as per the attached schedules. The detailed reconciliation for the respective customers is attached in <b>Appendix 4.4 a &amp; b- Customer opening balances reconciliation.</b></p>
4.5	<p><b>Non-Adherence to Credit Limits</b></p> <p>Note 22 (a) to the financial statements reflects receivables from exchange transactions balance of Kshs.6,008,541,865 out of which Kshs.3,079,326,856 relates to county governments while the balance of Kshs.2,892,174,856 relates to other credit customers. However, it was noted that trading with customers beyond the 30 to 45 days credit limit continued contrary to Paragraph 2.7 of the Kenya Medical Supplies Authority Credit Policy 2014.</p> <p>In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.6,008,541 865 could not be confirmed.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The LMIS ordering platform has been structured such that County/customer accounts are automatically de-activated once the county debts exceed the credit terms, and reactivated only after the outstanding debt has been settled or the customer provides a payment commitment for the outstanding debt which is approved by the CEO. The credit policy is undergoing review to align it to the changing business environment and review of payment terms to a realistic timeline of within 90 days from date of invoice. Additionally, the Authority is implementing a new ERP where the credit limit process will be automated to ensure and facilitate compliance with the policy.</p>
5.0	<p><b>Unallocated Customer Account</b></p> <p>The statement of financial position reflects the trade and other payables balance of Kshs.8,602,982,309 as dis in Note 26 to the financial statements. The balance includes customer</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The Authority confirms that the unallocated amount of Kshs.35,928,606 has been dis as a liability under <b>Note 26</b> of the reviewed financial statements. This amount relates to both the direct deposits of Ksh. 27,861,163 from unknown customers and prepayments of Ksh. 8,067,443 from various</p>

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	<p>unallocated payment of Kshs.35,928,606 received through direct bank deposit. An amount of Kshs.27,861,163 is yet to be identified and allocated while the balance of Kshs.8,067,443 in relation to customers whose details were identified but yet to be allocated to respective customer accounts.</p> <p>In the circumstances, the accuracy and completeness of customer unallocated payment balance of Kshs.35,928,606 could not be confirmed.</p>	<p>customers. Some of these amounts are receipts from customers whose payment advice had been provided, while others relate to overpayment by customers after allocating all the due invoices. The authority hereby confirms that after year end, some of the customers have been identified and the receipts matched to the respective customer accounts. The reconciliation will be an ongoing exercise and the report to be updated continuously</p> <p><b>See Appendix 5.0- Copies of customer invoices and allocated receipts</b></p>
<p>6.0 Sales Revenue; Note 9 to the financial statements reflects sales revenue totaling Kshs.8,039,143,444, whose analysis revealed the following observations:</p>		
6.1	<p><b>Incorrect Credit Notes</b></p> <p>Analysis of sales schedules revealed that the amount was arrived at after deducting credit notes worth Kshs.184,379,680. It was noted that the credit notes include returns from Kenyatta National Hospital of Kshs.142,069,900 while the issued commodities to the Hospital were valued at Kshs.82,213,700 resulting to an unexplained variance of Kshs.59,856,200.</p> <p>In addition, the credit notes include Kshs.22,552,384 for commodities returned due to damages, wrong order or quality issues which were reflected in warehouse issue</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The Authority seeks to clarify that the return quantities from KNH do not amount to Kshs. 142,069,900 and does not exceed the issued value of Kshs. 82,213,700. The earlier issue report used by the auditor had erroneously recorded both the issuances and returns as debit entries, thus resulting in a double recognition of the returns and failure to reflect the corresponding credit entries. The issue report for Kenyatta National Hospital has since been reconciled. Please find the attached report for reference.</p> <p>The difference between the warehouse issue report and the raised credit notes relates to reconciling items caused by timing differences between when returns are made in the Warehouse Management System (WMS) and the issuance of credit notes in the ERP. The Authority acknowledges that the WMS is not designed as a financial accounting system capable of recognizing real-time debit and credit entries in the returns inward ledger. Currently, credit notes are recorded in the ERP system once supporting documentation and approvals are granted. The Authority is in the process of</p>

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	report at Kshs.59,079,436 resulting to unreconciled variance of Kshs.36,527,052.	<p>implementing a comprehensive ERP solution in FY 2024/2025, which will enable real-time posting of returns to the returns inward ledger. In the meantime, dedicated staff have been assigned to monitor returns.</p> <p><b>See Appendix 6.1-Return inwards reconciliation report and KNH Issues &amp; Returns reconciliation.</b></p>
6.2	<p>Medical Commodities Sold Below the Set Price</p> <p>Note 9 to the financial statement reflects total sales revenue of Kshs.8,039,143,44 generated from sale of various health products and technologies. The Authority bills customers based on the price list captured in the Logistics Management Information System (LMIS) ordering tool. However, warehouse issue report indicates a list of three hundred and sixty-two (362) medical commodities with a sales revenue of Kshs.3,608,334,804 billed to various customers at Kshs.3,022,990,656 which was below the set selling prices resulting to revenue loss of Kshs.585,344,148.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>A comprehensive price review was conducted in March 2023, leading to the implementation of a new price list in April 2023. While the Auditor General referenced this updated price list, it was not applicable to the 362 products in question, which were billed between July 2022 and February 2023 at the prevailing prices during that period. Prices for HPTs are reviewed at least twice a year or when a new procurement occurs.</p> <p><i>See Appendix 6.2 Price lists for period 2022 and 2024.</i></p>
6.3	<p>Medical Commodities to Undisclosed Health Facilities</p> <p>Note 9 to the financial statements reflects total sales revenue of Kshs.8,039,143,44 out of which Kshs.321,171 362 relates to medical supplies procured by the Ministry of Health and issued to twenty-three (23) county headquarters without</p>	<p><b>Management takes note of the Auditor's observations and responds as follows</b></p> <p>KEMSA delivers Ministry of Health program and donated items as per the distribution list given by the respective program. The 23 counties and 275 sub counties in question have centralized stores</p>

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	<p>providing details of the beneficiary health facilities. In addition, donated medical supplies of Kshs.572,492,393 were issued to non-existing two hundred and seventy-five (275) sub counties which have been created in the system as health facilities but do not exist physically.</p> <p>In the circumstances, the accuracy and completeness of the sales revenue value of Kshs.8,039,143,444 could not be confirmed.</p>	<p>where KEMSA delivered the program/ donated HPTs as specified in the distribution lists. This therefore created a need for KEMSA to create those centralized stores as delivery points even though they are not actual health facilities. Many of these were created during the Covid-19 pandemic when counties wanted to consolidate HPTs from various sources and donors for further distribution to the facilities under their jurisdiction.</p> <p><i>See Appendix 6.3 - Medical Commodities to Undisclosed Health Facilities</i></p>
7.0	<p><b>Impairment Loss on Covid-19 Commodities</b></p> <p>The statement of financial performance reflects an impairment loss of Kshs.756,710,171 as dis in Note 20 to the financial statements. The loss relates to Covid-19 commodities purchased at a cost of Kshs.1,086,736,552 and valued at Kshs.330,026,381 resulting into a loss of Kshs.756,710,171 but were not supported by market survey reports. Further, there was no justification for bulky purchases at high prices resulting into losses.</p> <p>In the circumstances, the impairment loss of Kshs.756,710,171 could not be confirmed.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The Authority confirms that a market survey was conducted through the Commercial Services Directorate, which informed the determination of the lower of cost or net realizable value, resulting in the impairment loss computation. This impairment loss is consistent with IPSAS 12, which requires inventories to be measured at the lower of cost and net realizable value.</p> <p>The sale of certain COVID-19 commodities below cost price was approved by the Board, as indicated in an internal memo from the Acting CEO dated 24th November 2021. Further approval for selling these commodities below cost was granted, as per the attached memo and the market price survey dated 25th October 2021, covering the following COVID-19 commodities:</p> <ul style="list-style-type: none"> <li>• KN95 masks</li> <li>• PPE kits</li> </ul>

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		<ul style="list-style-type: none"> <li>• 3-ply surgical masks</li> <li>• Infrared thermometers</li> <li>• Eye protection goggles</li> <li>• Instant hand sanitizers</li> </ul> <p>As a result, effective 25th October 2021, orders for these COVID-19 commodities were sold at the approved prevailing market prices, leading to the incurred loss.</p> <p><i>See Appendix 7.0 Market survey report, Pricing survey, Internal memo and minutes approving sale of covid-19</i></p>
8.0	<p>Lack of Fuel Register</p> <p>The statement of financial performance reflects the use of goods and services amounting to Kshs.2,003,659,568 which as dis in Note 12(b) to the financial statements includes Kshs.47,030,205 in respect of fuel and oil. However, management did not maintain a fuel register and no reconciliation was performed for the expenditure reflected in the supplier fuel statement.</p> <p>In the circumstances, the accuracy and completeness of expenditure on fuel and oil amounting to Kshs.47,030,205 could not be confirmed.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The Authority did not maintain a fuel register during the financial year under review. However, as a process improvement in FY 2023/2024, a monthly Fuel and Oil expenditure reconciliation process was implemented. This process involves reconciling the supplier statement with invoices and work tickets for each motor vehicle before payment is made. Additionally, the Authority introduced hard copy fuel registers for each vehicle in FY 2023/2024, which are filled out and signed at each refill. are attached for reference</p> <p><i>See Appendix 8.0; Sampled fuel registers from 2023 and 2024</i></p>
1.	<p>Emphasis of Matter</p> <p>Poor Financial Performance</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The Board and management of KEMSA have adopted a turnaround strategy to address the financial limitation that the Authority is currently facing. The Board and Management have</p>

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	<p>The statement for financial performance reflects a deficit of Kshs.3,897,349,097 being an increase of Kshs.905,623,666 from a deficit of Kshs.2,991,725,431 reported in the previous year leading to a decrease in the accumulated reserves from Kshs.6,117,175,429 in the previous year (2021-2022) to Kshs.2,219,826,332. If the authority does not put strategies in place to reverse the trend, the authority may experience financial challenges in the future.</p>	<p>instituted robust credit controls, debt management, and collection strategies and are very committed to regaining donor support to improve it cash flow through the provision of agency services. Equally, the Board and management is undertaking rigorous and robust resource mobilization strategies and pursuing the government to recapitalize the Authority.</p> <p><i>See Appendix 1.0; KEMSA Turnaround Strategy</i></p>
2.	<p>Long Outstanding Trade Payables</p> <p>Note 26 to the financial statements reflects trade and other payables balance of Kshs.8,602,982,309 out of which Kshs.3,989,600,611 had been outstanding for a duration of more than one (1) year without a plan to clear the outstanding amounts. The nonpayment may lead to litigations and withdrawal of services by the suppliers affecting the operations of the Authority.</p> <p>Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The delay in payment is due to cash constraints that the Authority is currently facing. The Board and management of KEMSA have adopted a turnaround strategy to address the financial limitation that the Authority is currently facing. The Board and Management have instituted robust credit controls, debt management and collection strategies and are very committed to regaining donor support to improve it cashflow.</p> <p><i>See Appendix 1.0; KEMSA Turnaround Strategy</i></p>
3.	Budgetary Control and Performance	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p>

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	<p>The statement of comparison of budget and actual amounts reflects revenue budget of Kshs.4,768,862,843 and actual revenue on comparable basis of Kshs.1,664,636,619 resulting to an under-funding of Kshs.3,104,226,224 or 65% of the budget.</p> <p>Similarly, the Authority spent Kshs.4,309,702,667 against approved budget of Kshs.3,558,586,587 resulting to an unapproved over expenditure of Kshs.751,116,080 or 21% of the budget.</p> <p>The under-funding affected the planned activities and may have impacted negatively on service delivery to the public whereas the over expenditure means there may have been expenditure on unbudgeted items.</p>	<p>The Authority's revenue for the financial year 2022/2023, amounted to Kshs 1.66 billion, which when compared to the budget, the revenue performance was 65% below the forecasted budget of Kshs 4.769 billion. This deviation is attributed to write-off for expired and damaged HPTs amounting to Kshs 1.21 billion (as noted in Note 9), which increased the cost of sales, subsequently reducing the net sales revenue. Additionally, the Authority had anticipated a return from USAID within FY 22/23, which did not materialize, leading to the Authority's failure to meet its revenue target in the supply chain. The excess expenditure pertains to forex exchange losses and non-cash items such as impairment losses and accruals that have been recognized:</p> <ul style="list-style-type: none"> <li>• Tax arrears amounted to Kshs 1.316 billion incurred during the year out of which the Authority paid Ksh 550 million and accrued Ksh 765.63 million.</li> <li>• Impairment Loss of Kshs 756.71 million.</li> <li>• Forex Exchange Loss of Kshs 495.57 million</li> </ul>
	<p><b>Key Audit Matter</b></p> <p>Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.</p> <p><b>Other Matters;</b></p>	
1.	<p><b>Delayed Implementation of Proposed KEMSA Reforms</b></p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The KRIC reforms which had outlined the reform activities was transitioned into a 1-year KEMSA turnaround strategy.</p>

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	<p>The chairperson's statement in the financial statements indicates 85% completion of the Kenya Medical Supplies Authority reforms as at 30 June, 2023. However, the implementation matrix indicated 73% completion with a total of fifty-eight (58) activities still in progress despite the Authority having received Kshs.300,000,000 from the Ministry of Health to undertake reforms which remained unutilized as at 30 June, 2023.</p> <p>In the circumstances, it has not been possible to confirm the completion period of the outstanding activities since no minutes of the reform committee on progress of implementation were provided for audit.</p>	<p>The Authority would like to clarify that Kshs.300,000,000 from the Ministry of Health was ringfenced for procurement of a new ERP.</p> <p>The current Board has undertaken the following reforms;</p> <ul style="list-style-type: none"> <li>I. Implementation of a new ERP set to go live on 18<sup>th</sup> December 2024</li> <li>II. Human Resource reforms through the development of HR instruments.</li> <li>III. Mobilization of support for operationalization of the National Commodities' Supply Chain Centre.</li> <li>IV. Commissioning of regional supply centre at Kisumu and ongoing elevation of Mombasa depot</li> </ul>
<p>2.</p> <p><b>Inefficiencies in KEMSA Operations</b></p> <p>Note 24 (b) to the financial statements reflects the inventory balance of Kshs.12,899,915,421. However, the following unsatisfactory matters were noted;</p> <p>In view of the observations made above, the Authority may not optimally achieve the mandate of procurement, warehousing and distribution of drugs and medical supplies for the prescribed public health programs, the national strategic stock reserve, prescribed essential health packages and national referral hospitals.</p>		

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No	Issue	Amount Kshs.	Section Breached	Observation	Management takes note of the Auditor's observations and responds as follows:
1	Distribution of Noncompliant Health Products	10,139,335	Paragraph 8.2 of the KEMSA Standard Operating procedures for Quality Assurance	Products which did not meet the required health standards but were distributed to various health facilities	<p><b>1. The following actions were taken regarding Health Products with Quality Assurance issues;</b></p> <p><b>a) Condoms;</b> the condom batch no. X48011 was tested as part of pre-shipment testing by KEBS and the tests complied with specifications. Based on the pre-shipment test results from KEBS, the batch was released to the warehouse for distribution. However, while in the warehouse, additional routine sampling and testing at NQCL was done. The test results from NQCL indicated that the batch did not comply with the freedom of holes test. A recall was promptly initiated and the supplier collected the quantities that were still at the facilities and issued a credit note.</p> <p><b>b) Albendazole;</b> This product had some tablets that were showing signs of discoloring. A comprehensive sampling and verification of all the batches for this product was done and the batches that had discolored tablets were returned to the supplier for replacement. The supplier provided a CAPA report on the root cause and the action plan which included recall and replacement of the affected batches.</p> <p><b>c) Clofazimine;</b> During routine inspection of products in the warehouse, it was noted that Clofazimine was clumping. The quantities in the warehouse were quarantined and the program was informed to follow up on what had been distributed (Clofazimine is a program item). Unfortunately, what was distributed had been consumed but what was in the warehouse was listed for disposal. However, from the communication</p>

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					<p>received from the program, there is no health risk posed by the product since it was clinically bioavailable for use.</p> <p><b>d) Cotrimoxazole tablets;</b> Cotrimoxazole was analyzed in Sept 2022 and failed the disintegration test. An out of specification (OOS) investigation was conducted and results attributed to an analyst error (Disc was not used in the disintegration test). A repeat analysis was done in October 2022 and the product, complied with specifications.</p> <p><b>e) Methylated spirit;</b> The pre-delivery sample for Methylated spirit was report as failing because the calculation did not factor relative density. Upon factoring the relative density, the batch complied and was accepted.</p>	

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2	Delays in testing medical products	979,492,850	Paragraph 8.2 of the Kenya Medical Supplies Authority Standard Operating procedures for Quality Assurance	Delays ranging from six (6) to nine hundred and eighty-six (986) days from the product delivery date to the date the laboratory tests were released.	<p><b>Delayed Release of Tested and untested Laboratory Results</b>  Third party testing turnaround time for NQCL is long due to the workload at the National Quality Laboratory. Considering that the GF commodities are procured from WHO-prequalified sites, the commodities are released based on the preliminary tests conducted by the KEMSA internal lab whose testing TAT is shorter for the preliminary results. NQCL testing TAT in 2022 and 2023 was: Min days:16days Max days:244  KEMSA lab testing TAT IN 2022 and 2023 was: Min days: 0day Max days:16  The Authority would like clarify that the product testing turnaround time is between the date the sample is received in the lab and the date the certificate of analysis is issued and not the date the health products are received in the warehouse and the date the certificate of analysis is issued.  Additionally, no commodities were issued to health facilities before the laboratory tests were concluded as all products received go through physical/ visual inspection and/or testing in the Lab depending on the nature of the product. The Quality Assurance department carries out a routine sampling of health products in the warehouse and Post Market surveillance from Health Facilities.</p>
3	Untested Products	639,663,163	Paragraph 8.2 of the Kenya Medical Supplies Authority Standard Operating	Health products were issued to health facilities before the laboratory tests	

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			procedures for Quality Assurance	were concluded	
4	Unconfirmed Testing of Health Products	12,667,785,690	Paragraph 1 and 2 of the KEMSA Standard Operating Procedures for Quality Assurance	Commodities distributed without evidence of testing	<p><b>Unconfirmed Testing of Health Products</b></p> <p>All products procured by KEMSA are sampled and inspected and/or tested as per the Quality Assurance sampling procedures. The testing criteria depend on the nature product with some products requiring Pharmacopeia analysis, while others may require visual inspection.</p>
5	Lack of Capacity to Test Products		Paragraph 1 and 2 of the Kenya Medical Supplies Authority Standard Operating Procedures for Quality Assurance	Laboratory used to test health products is understaffed with only four employees and three (3) Laboratory equipment have not been put into use since they were purchased in the year 2021 due to lack of adequate space. In addition, the laboratory does Not have equipment for testing non-pharmaceutical products	<p><b>Lack of Capacity to Test Products</b></p> <p>The Authority would like to confirm that plans are underway to renovate the lab and create a spacious laboratory and equip it with more equipment necessary to ensure that all commodities that are procured by KEMSA are tested. Global Fund will fund this renovation and has since approved the C19RM Wave 2 funding for temperature mapping and monitoring devices and HPTs Laboratory Testing Lab amounting to Ksh. 53 Million. The laboratory equipment (Balances) that were not in use are spare Balances that are used when the others are taken to KEBS for calibration. The current staffing is adequate however additional staff will be required when the expansion of the laboratory is completed.</p>

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6	Universal Health Coverage (UHC) Products Issued at a Loss	98,866,817	Paragraph 17.5.1 of the KEMSA Standard Operating Procedures 2018	Distribution of UHC products of Kshs.149,215,539 which were procured at Ksh 248,082,356 resulting to a loss of Kshs.98,866,817	The Authority would like to clarify that no medical commodities were sold at a loss. The ERP system picks in error, the highest cost price for any commodity and applies it to all the batched in stock including the ones procured at a lower cost price. E.g Surgical Gloves procured for Covid-19 at a cost price of Kshs. 2,100 vs those procured before Covid-19 at a cost of Kshs. 850 and sold at Kshs. 980. The system pick Kshs. 2,100 even for the stock procured at a cost price of Kshs. 850
7	Underutilization of Regional Warehouses	8,021,304	Section 2 of the Public Finance Management Act 2012	Regional warehouses in Mombasa, Nakuru, Nyeri and Uasin Gishu counties were underutilized receiving only Medical commodities worthy Kshs.8,021,304	The operationalization of depots has begun with Kisumu and Mombasa, while other depots are currently serving as holding warehouses. Full operationalization of these depots will be phased in gradually, depending on the availability of funds, to ensure optimal utilization and effective coverage across all regions

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8	Medical Commodities for Maritime Personnel	308,084,587	Authority to Incur Expenditure	<p>Relates to medical medical commodities meant for maritime personnel but they were distributed to six thousand eight hundred and thirty-four (6,834) health facilities across the country</p>	<p>The Ministry of Health Instruction, referenced as MOH/FIN/1/A VOL III(734) under AIE No. A738037, allocated funds amounting to Ksh. 560 million for the procurement of ARVs and Reagents designated for public facilities. Additionally, funds totaling Ksh. 74 million were earmarked solely for the procurement of vaccines for Maritime Personnel (Seafarers). In addition;</p> <p>i) The AIE in question No. A738037 was provided for the procurement of ARVs, Lab reagents and vaccines worth Kes 634M. The MOH via letter, MOH/NASCOP/CLM/1/A vol.1 (08) dated 26th July 2022, revised the HIV commodity list to ARVs and RTKs totaling Kshs 560M inclusive of PSM costs and taxes. The HIV commodities are meant for the general population of patients and clients distributed countrywide.</p> <p>ii) The balance of Kshs 74M was earmarked for procurement of 7 vaccines meant for Seafarers (maritime personnel). Of the 7 vaccines only 3 were delivered i.e. Hepatitis A, Hepatitis B and MMR vaccines.</p> <p>iii) The 1,500 vials of Hepatitis B vaccine were distributed in October 2023 based on a distribution list from the NASCOP Program. The vaccines were distributed to 219 facilities (see attached Condom and STI distribution DICES October 2023)</p> <p>iv) Hepatitis A vaccine -2990 vials and Measles Mumps and Rubella vaccine -3,500 vials are still in stock in the warehouse (see attached stock reports)</p>	
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					<p>v) From the Foregoing it is noted that Kes 74 M was set aside for procurement and supply chain costs for vaccines for Maritime personnel (Seafarers). Hepatitis B vaccines worth Kes 433,054 were distributed to 219 facilities based on an allocation/ distribution list from MOH NASCOP.</p> <p>vi) The 6,834 health facilities are inclusive of facilities that received HIV commodities that were meant for those relevant facilities serving HIV patients and clients around the country and not seafarers.</p> <p><b>See Appendix 8; Medical commodities for maritime personnel</b></p>
9	Issuance of Universal Health Coverage (UHC) Products to Private Hospitals	107,327,346	Contrary to a letter from the Principal Secretary Ministry of Health Ref: M0H/ADM/1/2/16 V01-1 (70) dated 24 January, 2020	Universal Health Coverage (UHC) distribution schedule indicated products were issued to three hundred and twenty-five (325) private health facilities	Under the UHC program, counties were allocated drawing rights, which they used to place orders with KEMSA. Some counties have arrangements to support faith-based healthcare facilities, and any orders for these facilities under UHC were placed through the respective counties. Only the county's authorized officer has the authority to determine which facilities, including faith-based ones, can submit orders on the county's behalf through the KEMSA LMIS ordering platform for processing.

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
<p><b>3.Unresolved Prior Year Matters</b></p> <p>In the audit report of the previous year, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the implementation status of the Auditor General's recommendations on page 62 to 205 of financial statements indicates prior year issues have not been resolved.</p> <p>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</p>		
1.	<p><b>Budget Imbalance</b></p> <p>The statement of comparison of budget and actual amounts reflects final revenue budget of Kshs.4,768,862,843 and final expenses budget of Kshs.3,558,586,587 resulting to unbalanced budget by Kshs.1,210,276,256. This was contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015 which states that budget shall be balanced.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The Authority's revenue for the financial year 2022/2023, amounted to Kshs 1.66 billion, which when compared to the budget, the revenue performance was 65% below the forecasted budget of Kshs 4.769 billion. This deviation is attributed to write-off for expired and damaged HPTs amounting to Kshs 1.21 billion (as noted in Note 9), which increased the cost of sales, subsequently reducing the net sales revenue. Additionally, the Authority had anticipated a return from USAID within FY 22/23, which did not materialize, leading to the Authority's failure to meet its revenue.</p>
2.	<p><b>Cancelation of Tender Resulting to Loss of Revenue</b></p> <p>Note 8 to the financial statements reflects income from rendering of services amount of Kshs.1,357,355,506 out of which</p>	<p>We concur with your observation and respond as follows;</p>

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	<p>Kshs.668,795,462 was income earned from Global Fund. It was noted that in November, 2022, The National Treasury gave authority to procure long-lasting Insecticidal nets (LLINs) for the mass net campaign targeting twenty-two (22) counties using the Global Fund Malaria Grant at an amount of Kshs.3,545,103,120 inclusive of rendering fee of Kshs.168,813,868. Review of procurement records revealed five (5) suppliers were qualified and proceeded to the technical evaluation stage. However, Global Fund review revealed that the two bids assessed as responsive for polyethylene nets and for polyester nets failed to meet the mandatory documentation requirements in the preliminary phase, and should not have proceeded to the technical, financial and post-qualification phase. Therefore, the evaluation was done contrary to Sections 80 and 86 of the Public Procurement and Asset Disposal Act, 2015 which states that; (1) The evaluation committee appointed by the accounting officer pursuant to section 46 of this Act, shall evaluate and compare the responsive tenders other than tenders rejected under section 82(3). Subsequently Global Fund decided to move the procurement to <a href="http://wambo.org">wambo.org</a> resulting to KEMSA losing rendering of services fee of Kshs.168,813,868.</p> <p>In the circumstances, Management was in breach of the law which resulted to loss of revenue.</p>	<p>In relation to the procurement of LLINs the management agrees with the auditors observation and strive to ensure future engagements is compliant.</p>

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Ref. No	AUDIT OBSERVATION					MANAGEMENT RESPONSE															
3.	<p><b>Irregular Procurement of commodities</b></p> <p>Review of procurement processes revealed the following irregularities.</p> <table border="1" data-bbox="219 624 808 1198"> <thead> <tr> <th>No</th> <th>Issue</th> <th>Amount</th> <th>Law</th> <th>Observation</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>Irregular Extension of Contracts</td> <td>330,094,358</td> <td>Section 88(2) and (3) of PRAD 2015</td> <td>Management engaged suppliers for a fixed contract period but later extended their contracts and continued to trade with them without competitive bidding</td> </tr> <tr> <td>2</td> <td>Irregular Use of Framework Contracting</td> <td>13,909,558,488</td> <td>Section 114(3)(b) of PPAD, 2015</td> <td>There was no list of vendors undertaking these contracts neither was there evidence of mini competition among suppliers</td> </tr> </tbody> </table>					No	Issue	Amount	Law	Observation	1.	Irregular Extension of Contracts	330,094,358	Section 88(2) and (3) of PRAD 2015	Management engaged suppliers for a fixed contract period but later extended their contracts and continued to trade with them without competitive bidding	2	Irregular Use of Framework Contracting	13,909,558,488	Section 114(3)(b) of PPAD, 2015	There was no list of vendors undertaking these contracts neither was there evidence of mini competition among suppliers	<p>We note your observation and respond as follows;</p> <p><i>Attached herewith please find Appendix - 3; Irregular Procurement of commodities</i></p>
No	Issue	Amount	Law	Observation																	
1.	Irregular Extension of Contracts	330,094,358	Section 88(2) and (3) of PRAD 2015	Management engaged suppliers for a fixed contract period but later extended their contracts and continued to trade with them without competitive bidding																	
2	Irregular Use of Framework Contracting	13,909,558,488	Section 114(3)(b) of PPAD, 2015	There was no list of vendors undertaking these contracts neither was there evidence of mini competition among suppliers																	

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3	Framework Contracting		Section 114 (2) of PPAD, 2015	There was no evidence of conducting a value for money assessment to determine whether the terms designated in the framework agreement were still competitive	
4	Use of direct procurement and restricted tendering methods	1,133,867,796	Section 114 (1) and (2) of PPAD, 2015	Suppliers engaged through direct procurement of Kshs988,022,916 and restricted tendering method of Kshs.145,844,880 were irregularly engaged for a continuous period of two (2) years under framework Agreements	

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	5	Commodities received after the scheduled delivery dates	1,074,450,699	Section 114 (4) of PPAD, 2015	Commodities of Kshs.657,169,529 were received after the scheduled delivery dates while the balance of Kshs417,281,170 had not been received as at 30 June 2023 over three months after the call off orders were made
	6	Expired Framework Contracts	119,204,300	Section 114 (4) of PPAD, 2015	Commodities procured through call off orders include Kshs. 119,204,300 whose framework contracts had expired at the time the call off orders were made

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7	Unlawful use of Direct Procurement	3,505,492,525	Section 114 (4) of PPAD, 2015 and Regulation 90 of PPADR, 2020	Direct procurements of goods and services and there was no evidence whether the prices were fair and reasonable and compares well with known prices. Also, no evidence of reporting to the Public Procurement Regulatory Authority within fourteen days after the notification of the award	
9	Irregular Use of Restricted Tendering	851,902,455	Section 102 of PPI\D, 2015	There was no evidence that the commodities were only available from few known suppliers neither was there evidence of at least ten persons invited from an approved list of prequalified restricted tenderers.	
10	Uncapped Contract for Consultancy Services	594,489,223	Section 129 (2) of PPAD, 2015	The consultancy contract did not indicate the amount payable or the maximum amount of time that can be the contract.	

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	11	Failure to Use e-procurement	Kshs.13,909,558,488	Executive Order No. 2 of 2018	There was no evidence to show that e-procurement platform was used to procure these commodities	
	12	Pricing	Kshs.6,953,003,588	Section 54(2) of PPAD, 2015	There was no mechanism of verifying the reasonability of the prices quoted by suppliers neither were there price benchmarks, price estimates or at least a list of prevailing local and international prices for medical supplies	
	13	Over Procurement	Kshs.3,535,003,667	Regulation 140(1) of PFM(NG) Regulations, 2015	Four hundred and forty-three (443) medical commodities were procured against the approximate annual demand of Kshs.3,469,735,864 resulting to over procurement of Kshs.3,535,003,667	

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	14	Irregular Procurement of Assorted blood Bags	47,850,000	Section 75 (3) of PPAD, 2015	<p>Failure by winning bidders to adhere to the technical specifications</p> <p>Delay in process for an average of 270 days from the date requests were made to the date the goods were ordered. For instance, it took 266 days to approve the procurement request of HIV test kits and a further 112 days for the contract to be signed.</p> <p>In the Circumstances, Management was in breach of the law.</p>
	15	Delay in processing Orders	5,540,145,763	Section 72(1) of the Public Management Finance Act 2012	
4.	<p><b>Delayed Deliveries</b></p> <p>Note 9 to the financial statements reflects cost of sales (Non-pharms) amount of Kshs.2,248,013,590. An analysis of items procured under this expenditure item revealed frequent delays in delivery of items costing Kshs.145,209,398 ranging from 53 to 247 days. This was contrary to Section 140 of Public procurement and Disposal Act, 2015 which stipulates that "The contractor shall be liable to liquidation damages for delayed performance and Section 142(2) which states that "in case the contract is not fully or well executed, the</p>				<p><b>Management Response:</b></p> <p><b>We note your observation and respond as follows;</b></p> <p>Liquidated damages clause could not be applied due to cash flow challenges affecting supplier payments. Liquidated damages apply both to the procuring entity and the supplier in the event of delayed payments or delayed contract performance respectively.</p>

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	<p>performance security shall unconditionally be fully seized by the procuring entity as compensation without prejudice to other penalties provided by the Act."</p> <p>In the circumstances, Management was in breach of the law.</p>	
5.	<p><b>Late Delivery of Commodities</b></p> <p>Note 30 to the financial statements reflects Medical Commodity Fund amounting to Kshs.9,134,630,398 which includes a total of Kshs.375,591,320 used to procure Global Fund medical commodities from five different suppliers. However, the commodities were delivered three (3) months to nine (9) months later after the delivery date stipulated in the contract. This was contrary to Section 140 of Public procurement and Asset Disposal Act, 2015 which stipulates that "The contractor shall be liable to liquidation damages for delayed performance." And Section 72(1) of the Public Management Finance Act, 2012 which states that, "The accounting officer for a National Government entity shall – (a) be responsible for the management of the entity's assets and liabilities; and (b) manage those assets in a way which ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets."</p> <p>In the circumstances, Management was in breach of the law.</p>	<p><b>Management Response:</b></p> <p><b>We note your observation and respond as follows;</b></p> <p>Liquidated damages clause could not be applied due to cash flow challenges affecting supplier payments. Liquidated damages apply both to the procuring entity and the supplier in the event of delayed payments or delayed contract performance respectively.</p>

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
<p><b>6. Donated Cancer Drugs</b></p> <p>Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. A Memorandum of Understanding between the Ministry of Health and donor was entered on June, 2021 to provide free cancer drugs through KEMSA for a period of five (5) years. It was noted that drugs worthy Kshs.13,427,611,538 had been received and drugs worth Kshs.10,870,377,799 had been issued to five (5) hospitals. However, the following observations were made.</p>		
<p><b>6.1</b></p>	<p><b>Donated Cancer Drugs Issued to a Private Hospital</b></p> <p>Included in the issued cancer drugs of Kshs.10,870,377,799 is Kshs.8,906,757,973 issued to a private hospital while the balance of Kshs.1,963,619,826 was issued to four (4) public hospitals. There was no justification of issuing Kshs.8,906,757,973 or 82% of cancer drugs to one private hospital despite there being a national cancer treatment centre at Kenyatta National Hospital which was earmarked to receive these drugs. In addition, it has not been possible to confirm whether the drugs issued to the private hospital were dispensed to patients for free.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>The donation of the anticancer drug from Glivec, began at Nairobi Hospital in 2003 through a partnership between the MAX Foundation, doctors, and hospital management to ensure that patients with Chronic Myeloid Leukemia (CML), among other cancers, could receive the drug free of charge.</p> <p>Oncologists at Nairobi Hospital, along with those from public hospitals, have played a key role in diagnosing and treating these patients, referring suspected CML cases from across the country to scheduled clinics at Nairobi Hospital. Over the past 20 years, many patients nationwide have benefitted from this free treatment. The donor has established systems to ensure that recipient hospitals do not charge for the drug.</p> <p>In 2021, the MAX Foundation agreed to decentralize the service to four public facilities: Moi Teaching and Referral Hospital (Eldoret), Coast General Hospital, Nakuru Provincial Hospital, and Jaramogi Oginga Odinga Hospital (Kisumu). The Ministry of Health, through the National Cancer Program, identified these centers as the most suitable due to their available human resources, systems, and regional distribution, enabling patients to access treatment closer to home and avoid long travel distances. Patients were informed of the decentralization, and those willing were transferred from Nairobi Hospital to these four centers.</p>

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		<p>The centers received training on diagnosis, patient enrollment, and proper drug management. While most patients chose to remain at Nairobi Hospital, approximately 150 patients were transferred and enrolled at the public centers. It is important to note that Nairobi West Hospital is not part of this program, and an erroneous issue to Nairobi West was reversed back to the warehouse.</p> <p><i>Appendix - 6.1; Donated Cancer Drugs Issued to a Private Hospital</i></p>
6.2	<p><b>Failure to Factor KEMSA Costs in the Free Cancer Drugs Distribution Program</b></p> <p>Included in the issued cancer drugs of Kshs.10,870,377,799 is Kshs.8,906,757,973 issued to a private hospital. Under article 4.5 of the Memorandum, KEMSA is responsible for facilitating importation of the drugs out of which Kshs.11,560,599 was incurred as clearing charges. However, KEMSA has not been included as a party to the Memorandum of Understanding between the donor and the Ministry of Health. In addition, the Ministry of Health through a letter Ref: MOH/DNCD/CC/GEN/VOL.II (29) dated 23 June, 2021 was to provide a dedicated annual budget to cater for the clearing charges but this item was not included in the approved budget resulting to the Authority incurring unbudgeted costs. In addition, the Program indicated a total of 1,597 cancer patients enrolled in the program out of which 1,443 or 90% are from one</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b> The said oncology medicines donated under the Glivec® International Patient Assistance Program (GIPAP) to the country by the MAX Foundation were high value, low volume items. The medicines to be delivered every six months were estimated to be worth Kshs. 6.32B.</p> <p>The PS-MOH via a letter (Ref MOH/DNCD/CC/GEN/VOL.II (29) dated 23<sup>rd</sup> June 2021) requested KEMSA to consider a review of the supply chain fees downwards to be based on the estimated costs of managing the six pallets of medicines rather than on the value of the consignment. A supply chain fee that covers warehousing and distributing the medicines at 8% would be Kshs. 505.6M which would have been extremely expensive yet these were donations benefiting the country. KEMSA has invoiced the Ministry of Health an amount of <b>Kes. 295,436,630</b> for supply chain services offered in relation to the commodities from MAX Foundation. In light of this, the Ministry of Health (MOH) and KEMSA negotiated a management fee of 1.6% of the total value, which was</p>

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	<p>private hospital while the balance of 154 or 10% are from four public hospitals. However, details on how the patients were identified and enrolled into the program were not provided since there was no evidence of any sensitization</p> <p>In the circumstances, the value for money on cancer drugs totaling Kshs.8,906,757,973 issued to a private hospital could not be confirmed.</p>	<p>agreed upon by both parties, as referenced in KEMSA/CEO/FM/21/22/05/20 (1) dated 16th November 2022.</p> <p><b>Appendix - 6.2; Failure to Factor KEMSA Costs in the Free Cancer Drugs Distribution Program</b></p>
7.	<p><b>Work in Progress - Irregular Sub-Contracting</b></p> <p>Note 25 (a) reflects capital work in progress balance of Kshs.5,497,816,075 in respect to construction of the modern warehouse and office block which included a provision for sub-contracting. Kenya Medical Supplies Authority awarded the subcontracted works to five (5) firms on 22 December, 2017 and directed the main contractor to enter into subcontract with the firms. However, there was no evidence that the main contractor entered into subcontracts despite Kenya Medical Supplies Authority having awarded the subcontracts and paid Kshs.919,416,885. In addition, the contract was for a duration of one hundred and eight two weeks (182) ending 25 September, 2020 but as at December, 2023 about thirty-nine (39) months later the project was incomplete. Further, the amount paid of Kshs.3,799,274,276 exceeded the sum of Kshs.3,079,998,860</p>	<p>We acknowledge your observation and respond as follows;</p> <p>This was a complex project that required KEMSA to ascertain that subcontractor had the technical and financial capability to execute the project. It was therefore prudent for KEMSA to advertise tenders for all subcontract works spelling out requirements that had to be met before award of tenders. The awarded subcontractors were then required to enter into sub-contracts with the main contractor.</p> <p>The requirement that the subcontractors would enter into contracts with the main contractor was embedded in the tender document and therefore all the parties were aware of the requirement before award of contracts.</p> <p>The contracts between the main contractor and sub-contractor were entered into after KEMSA signed a contract with the main contractor. The contracts between the main contractor and the subcontractors are available for review by the audit team.</p> <p>The delay in completing the construction of the new warehouse emanated from challenges in the acquisition of the Tax waiver to the project on the Global Fund component. It should be noted that</p>

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	<p>resulting to a price variation of Kshs.719,275,419 or 23.35% with a likelihood of increasing since the project is still incomplete.</p> <p>In the circumstances, Management was in breach of the law and the Authority did not get value for money.</p>	<p>the Tax Waiver was to be issued at the onset of the project, before contract signing, but the general waiver was released on 28th March 2019 (1 year after the commencement of the project). The project initially experienced delays beyond the timelines stipulated in the contract due to ground Conditions like an increased quantum of sub-structure works which was significantly more than the initial estimated works like high water table in the area. The Main Contractor experienced flooding between the months of April - June 2019, requiring excessive pumping to the existing foundation pits. Other reasons and challenges are as per the attached report</p> <p>The Authority would like to confirm that the amount of <b>Kshs. 5,422,461,628.07</b> comprised of payments for Phase I &amp; II for the construction of the main warehouse, Racking and Operationalization of the Warehouse for activities funded by Global Fund as follows;</p> <table border="1" data-bbox="913 868 1980 1099"> <thead> <tr> <th>Classification</th> <th>Amount (Ksh)</th> </tr> </thead> <tbody> <tr> <td>Phase I &amp; II Main Warehouse</td> <td>3,427,317,935.65</td> </tr> <tr> <td>Project Management Fees</td> <td>970,864,022.22</td> </tr> <tr> <td>Warehouse Racking</td> <td>815,842,476.76</td> </tr> <tr> <td>Warehouse Operationalization</td> <td>208,437,193.44</td> </tr> <tr> <td><b>Total</b></td> <td><b>5,422,461,628.07</b></td> </tr> </tbody> </table> <p>Further, KEMSA would like to confirm that the contract sums of the Main Warehouse amounting to <b>Kshs.3,079,998,860</b> was varied by <b>Kshs. 719,275,416</b> to <b>Ksh 3,799,274,276</b>. This variation was to cater for priority items, changes in scope of works and price fluctuations</p>	Classification	Amount (Ksh)	Phase I & II Main Warehouse	3,427,317,935.65	Project Management Fees	970,864,022.22	Warehouse Racking	815,842,476.76	Warehouse Operationalization	208,437,193.44	<b>Total</b>	<b>5,422,461,628.07</b>
Classification	Amount (Ksh)													
Phase I & II Main Warehouse	3,427,317,935.65													
Project Management Fees	970,864,022.22													
Warehouse Racking	815,842,476.76													
Warehouse Operationalization	208,437,193.44													
<b>Total</b>	<b>5,422,461,628.07</b>													

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
		<p><i>See appendix 7.0- Work in Progress - Irregular Sub-Contracting</i></p> <p>The management would like to thus confirm that the cumulative value of all contract variations has not exceeded the total contract value by 25% of the original contract price as stipulated in the PPAD ACT 2015 section 139(4.e). This threshold has not been surpassed. The contracts between the main contractor and the subcontractors are available for review by the audit team.</p>
8.	<p><b>Payment of Provisional Sums</b></p> <p>Included in the capital work in progress under Note 25 (a) is a provisional sum of Kshs.18,084,000 for profit and attendance paid to the contractor without evidence of the actual cost incurred. In addition, general preliminaries also include insurance of Kshs.20,000,000 for materials and people on site which was also paid but not supported by insurance policies. This was contrary to Clause 30.3 of the general conditions to the contract which requires insurance covers be taken in the joint names of Kenya Medical Supplies Authority and the contractor. Further, particular preliminaries to the bill of quantities provided for liquidated damages of Kshs.20,000,000 which was also paid by KEMSA. However, the amount was meant to be provided by the contractor where Kenya Medical Supplies Authority was to deduct liquidated damages from payment due to the contractor for delayed project completion.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>As per the contract the insurance is the responsibility of the contractor. This remains the case until a certificate of practical completion is issued to the client, KEMSA.</p> <p>The amounts were paid to Main Contractor was to provide for profit and attendance to racking contractor as provided in the racking contract and work site engagement agreement.</p>

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	In the circumstances, Management was in breach of the law.	
9.	<p><b>Unapproved Fees for Services Rendered</b></p> <p>Note 9 to the financial statements reflects total sales revenue of Kshs.8,039,143,444 generated from sale of various health products and technologies. However, the products were priced and reviewed by a pricing committee appointed by the chief executive officer but were not presented to the board for approval before implementation. This was contrary to Section 6 (2) (d) of the Kenya Medical Supplies Authority Act, 2013 which gives the board powers to levy fees rendered by the Authority. In addition, sales revenue includes Kshs.184,786,272 for various health products and technologies whose prices were not contained in the price list contrary to paragraph 17.5.1 of the KEMSA Standard Operating Procedures 2018 which requires the sales price list be uploaded in the ERP for implementation.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>The Pricing Committee determines the pricing of commodities for sale in accordance with the approved Pricing Policy, which has been formally approved by the Board. The policy outlines the entire pricing procedure, with the final step being the submission of proposed prices by the Chair of the Pricing Committee to the CEO for approval. Once approved, the prices are uploaded into the Ordering Tool, Price List, and ERP system for customer use. The Pricing Committee has fully adhered to the procedure outlined in the Pricing Policy, as approved by the Board.</p> <p><b>See appendix 9.0 - Unapproved Fees for Services Rendered</b></p>
10.	<p><b>Unapproved Review of Fees</b></p> <p>Note 24 (b) to the financial statements reflects inventory balance of Kshs. 12,899,915,421 Warehouse issue report indicated</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p>

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	<p>distributed cancer drugs of Kshs.10,870,377,799. The Authority charges warehousing and distribution fee of 8% for donated cancer commodities but the fees were reviewed downwards to 1.6% due to the high value low volume nature of the commodities. However, this review was not approved by the board contrary to Section 6 (2) (d) of the Kenya Medical Supplies Authority Act, 2013 which gives the board powers to levy fees rendered.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>The oncology medicines donated under the Glivec® International Patient Assistance Program (GIPAP) to the country by the MAX Foundation were high value, low volume items. The medicines to be delivered every six months were estimated to be worth Kshs. 6.32B.</p> <p>The PS-MOH via a letter (Ref MOH/DNCD/CC/GEN/VOL.II (29) dated 23<sup>rd</sup> June 2021) requested KEMSA to consider a review of the supply chain fees downwards to be based on the estimated costs of managing the six pallets of medicines rather than on the value of the consignment. A supply chain fee of 8%, amounting to Kshs. 505.6 million, would have been prohibitively expensive, especially given that these were donations benefiting the country. In light of this, the Ministry of Health (MOH) and KEMSA negotiated a management fee of 1.6% of the total value, which was agreed upon by both parties, as referenced in KEMSA/CEO/FM/21/22/05/20 (1) dated 16th November 2022.</p> <p>KEMSA has invoiced the Ministry of Health an amount of <b>Kes. 295,436,630</b> for supply chain services offered in relation to the commodities from MAX Foundation.</p> <p><i>See appendix 10. - Unapproved Fees for Services Rendered</i></p>
11.	<p>Receipts of Medical Commodities Beyond the Accepted Shelf Life</p> <p><b>Note 24</b> (b) to the financial statements reflects inventory balance of Kshs.1 2,899,915,421. Warehouse management system indicated that health products and technologies of</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The current Standard Operating Procedures on receipt (KEMSA/SOP/QA/1002/08, clause 8.2.6) state that; Vital and Tracer A or B commodities that are out of stock can be consumed before their short expiry period (within 6 months of expiry). Commodities with a remaining shelf life of above 66% is acceptable. For commodities with a total shelf life of less than one year, a minimum</p>

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	<p>Kshs.6,249,151 ,129 were received during the year with a short shelf life of less than 75%. This was contrary to Paragraph 40 of the Kenya Medical Supplies Authority Standard Operating Procedures for Quality Assurance 2020 which requires medical products to have a shelf life of at least 75% at the time of receipt. The commodities includes ARVs of Kshs.1,275,914 delivered with only a shelf-life of 21%.</p> <p>In the circumstances, the receipt of medical commodities below the shelf life increases the rate of expiries leading to loss of public funds and is contrary to established policy.</p>	<p>remaining shelf life of 50% is required. Any deviations from this must be approved by the Quality Assurance Manager (QAM) and user departments, based on an undertaking from the supplier.</p> <p>Based on this clause, commodities valued at <b>Ksh. 1,058,822,260</b> were received with a shelf life of at least 66% due to stockouts. Commodities valued at <b>Ksh. 48,265,073</b>, which had a remaining shelf life below 66%, were accepted with a letter of undertaking because they were also out of stock. Program items valued at <b>Ksh. 54,817,563</b> with less than 66% shelf life were approved by the user department.</p> <p>The Authority would like to confirm that, no items were received with a shelf life as low as 21%.</p> <p>Items valued at <b>Ksh. 198,717,335</b> are equipment, which do not expire, and donations valued at <b>Ksh. 4,888,528,862</b> are also included.</p> <p><i>See Appendix 11 - Receipts of Medical Commodities Beyond the Accepted Shelf Life</i></p>
12.	<p>Irregular Donations of Medical Commodities</p> <p>Note 9 to the financial statements reflects total sales revenue of Kshs.8,039,143,444. The amount excludes donations of</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The Commodities that were issued as donations were used for promotion and marketing activities and part of KEMSA's Corporate Social Responsibility purposes. They were expensed and recognized as advertising and publicity expenditure as per the matching principle.</p>

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	<p>Kshs.177,266,033 made to seventy-four (74) health facilities which has been disclosed as advertising cost.</p> <p>Further, the donations include commodities of Kshs.45,300,969 with a shelf life of more than six months contrary to Section 8.2 of the Kenya Medical Supplies Authority Standard Operating Procedures which requires medical commodities to have a shelf life of less than six months to qualify for donations.</p> <p>In the circumstances, Management was in breach of established Policy.</p>	<p>The issuance of short dated commodities is as per the Standard operating procedures for the Warehouse department section 8.2. Additionally, KEMSA has developed a Stock holding policy as attached to guide in issuance of donations which is awaiting board approval.</p> <p><i>See Appendix 12 - Irregular Donations of Medical Commodities</i></p>
13.	<p>Unaccounted for Universal Health Coverage (UHC) Funds</p> <p>Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. The following observations were made;</p> <p>A)The Authority received Kshs.12,817,762,552 to procure, warehouse and distribute UHC products out of which products with a value of Kshs11,046,916,309 had been distributed as at 30 June, 2023 since the inception of the program in the year 2018 resulting to a balance of Kshs.1,770,846,243. However, the available UHC cash and inventory balance is Kshs.914,587,365 resulting to unaccounted for balance of Kshs.856,258,878</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>l.) The Authority would like to confirm that the UHC program had two components;</p> <p>a) KEMSA Capital commodities draw down component.</p> <p>b) Procurement of Program HPTs component.</p> <p>The draw down component was riding on existing KEMSA-Capital stocks and each county was to draw down at sale price. This means that the balance of cash would be utilized after the counties made orders from KEMSA. The balance of stocks therefore cannot be limited to the UHC program procurements only. Authority confirms that Kshs.12,817,762,552 was received and out of this Ksh 11,995,330,699.33 was issued out leaving an amount of Ksh 822,431,852.57 being unutilized funds. The unutilized UHC balances have been recognized in the customer prepayment and Trade</p>

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	<p>II. Further, the distributed health products include Kshs.85,874,122 in respect of donations and products from other sources of funds which were reported under Universal Health Care programme instead of the respective programmes. This also represents unaccounted for UHC funds since the products had already been funded from other sources.</p> <p>III. Included in the refundable deposit under Note 27 to the financial statements is Kshs.460,742,116 in respect of UHC against a cash and cash equivalent balance of Kshs.880,707,808 resulting to unreconciled and Undisclosed amount of Kshs.419,965,692.</p> <p>IV. In addition, the UHC funds were comingled in the Authority's other operational bank accounts without depositing them in a separate bank account exposing them to unintended use. This is contrary to Regulation 76 (1) of the Public Finance (National Government) Regulations, 2015 which requires each project to have a separate bank account at the Central Bank of Kenya into which all funds shall be kept.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>creditor Development partner's grant liability accounts. <i>See Appendix 13; Unaccounted for Universal Health Coverage (UHC) Funds-UHC Reconciliation report</i></p> <p>For procurement components, KEMSA was to procure and distribute at cost price and thereby earn a 10% management fee which explains the difference in cash balance since the Authority had to consume the earned fee. There was no requirement by MOH for KEMSA to open a separate bank account for UHC. UHC commodities were procured against existing KEMSA capital framework contracts.</p> <p>II.) The distributed HPTs valued at <b>Kshs.85,874,122</b> were KEMSA Capital funded items. These items were capitalized when KEMSA became an Authority.</p> <p>III)The Authority would like to confirm that the under UHC, the unutilized funds amount to Kshs.880,707,808.</p> <p>IV)UHC was riding on KEMSA systems. Supplies under UHC were done using the existing contracts. UHC was not a project but an integrated program.</p>

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14.	<p>Delays in Delivery of Medical Commodities</p> <p>Note 24(b) to the financial statements reflects the inventories balance of Kshs.12,899,915,421 out which Kshs.8,851,881,756 relates to medical commodities received beyond the scheduled delivery timelines. Further, commodities of Kshs.2,403,972,246 had not been received by 30 June, 2023 for over three (3) months after ordering. In addition, suppliers were not held accountable for delayed deliveries neither was performance rating used when selecting suppliers for repeat orders resulting to frequent stock outs. This was contrary to Regulation 53(1) Public Finance Management (National Government) Regulations, 2015 which states that a local purchase order or local service order shall be valid for a period of thirty days from the date of issue.</p> <p>(2) Any public officer who receives goods or services beyond the stipulated period specified in paragraph (1) commits an offence under the Act.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p><b>We acknowledge your observation and respond as follows;</b></p> <p>The directorate will closely monitor the performance of suppliers and liquidate performance securities as necessary.</p> <p>The supplier performance measurement tool was introduced in the FY 2022/2023 and penalties were to be applicable in the subsequent years.</p>

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15.	<p>Medical Supplies Made to Customers with Overdue Balances</p> <p>Note 22 (a) to the financial statements reflects receivables from exchange transactions balance of Kshs.6,008,541,865 out of which Kshs.166,541,204 relates to one hundred and fourteen (114) customers who had been denied services due to overdue balances. However, these customers made orders through their respective counties which were processed, approved and medical supplies of Kshs.666,584,203 delivered to them before clearing the previous debts. This was contrary to Paragraph 2.7 of the Kenya Medical Supplies Authority Credit Policy 2014 which gives a credit period of 30 and 45 days for public and non-public health facilities respectively after which services shall be denied until when the customer pays the overdue balances.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>Management takes note of the Auditor's observations and responds as follows:</p> <p>KEMSA maintains (i) County Accounts and (ii) Direct County Hospital Accounts. These are considered as two separate customer accounts. County procurements for supply to their hospitals is treated independently from a Direct hospital account. If a County decides to procure for their hospitals, the orders will be processed and supplied as long as the County account has passed credit terms checks. Denying hospital supplies being procured by the County would not be procedural as the two accounts are distinctively separate.</p> <p>Management will revise the credit policy to accommodate the business model</p>
16.	<p><b>Supply and Installation of Medical Oxygen System</b></p> <p>Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. Management procured a medical oxygen system through direct procurement due to urgency at a contract sum of Kshs.366,737,111. However, the contract was signed on 21 January, 2022 about five (5) months after tender opening which took place on 20 August, 2021. In</p>	<p>We acknowledge your observation and recommendation and respond as follows;</p> <p>Authority for Direct Procurement attached.</p> <p>This procurement was funded by the World Bank. After tender evaluation, the realized price exceeded the budget. KEMSA therefore sought additional funding from Ministry of Health to</p>

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	<p>addition, as at 30 June, 2023 Kshs.75,199,989 or 20.51% of the contract had not been executed twenty-two (22) months after tender opening. The use of direct procurement based on urgency was not justified.</p> <p>In addition, the contract sum of Kshs.366,737,111 exceeded the approved budget estimate of Kshs.119,010,000 by Kshs.247,727,111 contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which states that " an accounting officer shall not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates'</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>offset the difference. There was a delay in getting Ministry approval occasioning the delay in signing the contract. (Email attached)</p> <p>The contract was for covid emergency supply of medical oxygen to various facilities in different counties. The supply was based on consumption at each of the facilities and delivery was therefore staggered. The demand for oxygen began to decline after the contract was signed as the spread of the pandemic reduced slowing down execution of the contract. Despite the pandemic having come to an end, the supply has continued for other medical use.</p> <p>In addition to this being an emergency procurement, the supplier BOC Kenya were the only ones with the Oxygen that met our specifications.</p> <p>The price realized exceeded the initial budget. However, the Bank approved the excess budget before contracting. <i>See appendix 16- Supply and Installation of Medical Oxygen System</i></p>
17.	<p><b>Supply, Installation and Commissioning of Racking System</b></p> <p>Note 25 (a) to the financial statements reflects capital work in progress balance of Kshs.5,497,816,075 out of which Kshs.78,100,000 relates to provisional sums to be executed by a nominated subcontractor. This was contrary to the guidelines provided by Public Procurement Oversight Authority, 2007 which provide under Section VII Bills of Quantities Paragraph</p>	<p>Management takes note of the Auditor's observations and responds as follows:</p> <p>In addition to the Government's statutes and regulations, preparation of Bills of Quantities is guided by the Standard Method of Measurement of Building and Associated Civil Works for Eastern Africa,</p>

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	<p>3.0(d)(ii) that 'Provisional Sums to cover specialized works normally carried out by Nominated Sub Contractors should be avoided and instead Bills of Quantities of the specialized Works should be included as a section of the main Bill of Quantities to be priced by the main contractor.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>Second Edition (June 2008), Published by The Architectural Association of Kenya, Quantity Surveyors Chapter.</p> <p>It provides guidelines on the items to be considered for preliminaries and pricing (Section A (General rules) (attached)</p> <p>In addition, this amount was omitted from the Final Account due to the bidders' amounts not being within the budgeted amount provided.</p> <p>Prime Cost sums enable clients to select options based on their budget and preferences without needing to amend the entire contract. They provide a clear estimate of costs for specific items, helping clients manage their budget effectively while allowing for variations in pricing as actual selections are made.</p>
18.	<p><b>Payment of Intangible Preliminaries</b></p> <p>Note 25 (a) to the financial statements reflects capital work in progress balance of Kshs.5,497,816,074.89 out of which</p>	<p>We acknowledge your observation and respond as follows;</p> <p>Preparation of Bills of Quantities is not guided only by the provisions by Public Procurement Oversight Authority. In addition to the Government's statutes and regulations, preparation of Bills of Quantities</p>

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	<p>Kshs.14,500,000 is intangible preliminaries items in the bill of quantities in relation to security and sanitation of works. These preliminaries are part of the contractor's obligations and should not have been priced separately. This is contrary to the guidelines provided by Public Procurement Oversight Authority, 2007 which provide under Section VII Bills of Quantities Paragraph 30(a) that the number of preliminary items to be priced by the tenderer be limited to tangible items such as site office and other temporary works, otherwise items such as security for the works which are primarily part of the contractor's obligations should be included in the contractor's rates.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>is guided by the Standard Method of Measurement of Building and Associated Civil Works for Eastern Africa, Second Edition (June 2008), Published by The Architectural Association of Kenya, Quantity Surveyors Chapter.</p> <p>It provides guidelines on the items to be considered for preliminaries and pricing (Section A (General rules) and B (Preliminaries) (sections attached). Disclaimer is also indicated under our preliminaries that should the contractor not price any of the items, it is assumed he is providing it for free. It is standard practice to consider these items for convenience of pricing.</p>
19.	<p><b>Comingling and Under-Withholding of Supplier Retention Funds</b></p> <p>Note 26 to the financial statements reflects trade and other payables from exchange balance of Kshs.8,602,982,309 which includes customer retention money of Kshs.144,319,956. However, these funds were comingled in the Authority's other operational bank accounts without depositing them in a separate bank account exposing them to unintended use. This was contrary to Regulation 43(b) of the Public Finance Management (National Government) Regulations, 2015 which states that "An accounting officer shall ensure that public funds entrusted to their Coverage (UHC)</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The Authority's operates on a revolving fund hence its receivables due from Ministry of Health, Development Partners and Counties has taken longer to be paid. On this regard, the cash flow could not allow for depositing the retained amounts to a separate bank account. However, the Authority commits that the liability will be settled once they fall due.</p> <p>In addition, as per the contract agreement for the construction of the modern warehouse and office block, retention is calculated at a rate of 10% of works done quantified by the quantity surveyor. However, this retention monies can be held up to a maximum of 5% of the contract sum after which no further amounts can be held as retention in the subsequent payments.</p>

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	<p>are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly.</p> <p>In addition, the retention amount includes Kshs.126,401,777 for the construction of the modern warehouse and office block against Kshs.230,800,508 being 10% of the work in progress value of Kshs.2,308,005,083 less advance payments and consultancy fees which are not subject to retention, resulting to an amount of Kshs.104,398,731 not withheld. The retention amount not withheld is contrary to clause (f) of the contract agreement and may lead to management incurring expenses in the event defects occur during the defect liability period.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p><b>See Appendix 19;-Comingling and Under-Withholding of Supplier Retention Funds</b></p>
20.	<p><b>Delay of Metal Storage Racks Contract in Kisumu Warehouse</b></p> <p>Note 16 to the financial statements reflects repairs and maintenance expenses of Kshs.20,719,350 out of which Kshs.902,025 was payment for labour on assembling and fixing of metal storage racks in Kisumu warehouse. The contract was awarded on 7 July, 2020 and scheduled to be completed by 10 August, 2020 but the final certificate for</p>	<p>Management takes note of the Auditor's observations and responds as follows:</p> <p>The contract for installation of racks at Kisumu depot was entered into with Tashmi International Ltd. After the contractor moved to site, it was established that the warehouse layout design was not done in a manner that would maximize storage space. The contractor was then stopped from undertaking the works pending re-design of the layout which took too long occasioning the delay in completion. This has since been redesigned and racks installed to completion.</p> <p><b>See Appendix 20- Delay of Metal Storage Racks Contract in Kisumu Warehouse</b></p>

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	<p>completion was issued and signed on 27 March, 2023 which is more than two (2) years after the scheduled date. However, KEMSA did not take any action against this contractor. This is contrary to Section 140 of Public procurement and Asset Disposal Act, 2015 stipulates that -the contractor shall be liable to liquidation damages for delayed performance.</p> <p>In the circumstances, value for money obtained from the expenditure could not be confirmed.</p>	
<p>21.</p> <p>21.1</p>	<p><b>Employee Costs</b></p> <p><b>Bloated Staff Establishment</b></p> <p>Review of human resource records indicated the authority has an approved staff establishment of three hundred and forty-one (341) staff but review of the human resource staff register indicated seven hundred and forty-eight (748) employees as at 30 June, 2023. This exceeds the approved number of employees in the staff establishment by 407. In the circumstances, Management was in breach of Kenya Medical Supplies Authority Human Resource Manual.</p>	<p>Management takes note of the Auditor's observations and responds as follows:</p> <p>The Authority did not surpass its approved establishment. As indicated in your observation above the staff establishment of 341 was approved by the Board of Directors 37<sup>th</sup> meeting held on the 8th May 2014 and has not been surpassed.</p> <p>Despite the massive changes within the organization due to adoption of the new business model which was implemented to support the devolved healthcare system, the management has adhered to the approved establishment by limiting the recruitment of new staff to be within the approved establishment of 341.</p> <p>The following factors have contributed towards the increase in the number of staff:</p>

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		<p>a) Implementation of the new business model to support the devolved county health facilities which necessitated that KEMSA comes up with a new business architecture and organizational structure that supports devolved healthcare system.</p> <p>b) Implementation of the Government’s Big Four Agenda - specifically the Universal Health Coverage (UHC), where KEMSA was a key implementing partner. UHC demands that all Kenyans have access to quality and affordable medical health care.</p> <p>The above two factors necessitated the engagement of short-term staff on contract basis to enable KEMSA effectively respond to the county demands/workload, appropriate UHC implementation, while at the same time offering supply chain services to KEMSA’s various strategic partners; who have variable and unpredictable workload.</p> <p>The above reasons necessitated the engagement of short-term contract staff, who however do not form part of the approved staff in the establishment since they are required for specific period of time. The 407 employees fall in this category.</p> <p>This initial decision to start engaging staff on contractual basis was arrived at by the KEMSA Board during its 35<sup>th</sup> meeting held on 15<sup>th</sup> October 2013 - where it granted the approval for engagement of short-term contractual employees due to the increased and unpredictable workload. (<i>Refer to extract of Board Minutes under MIN No. 44/FB/2013 (d)</i>).</p> <p><u>Corrective action and way forward</u></p>

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		<p>In order to address the staff establishment issue, the Board has taken the following measures:</p> <p>a) Conduct a staff review and rationalization exercise. Arising from the rationalization exercise, a total of 170 employment contracts which lapsed on 30<sup>th</sup> June 2023 were not renewed. This decision was arrived at by the Board during its 97<sup>th</sup> Special Board meeting held on 5<sup>th</sup> June 2023 (<i>Refer to extract of Board Minutes under MIN. No.31/FB/2023</i>).            Currently, the Authority has a total 562 employees, being a reduction from the previous 748 staff.</p> <p>b) Review of KEMSA's Human Resource Instruments. The Board initiated a review of KEMSA's Human Resource Instruments which include the Organization Structure, Staff Establishment, Career Progression Guidelines and the Human Resource Policies and Procedures Manual. Completion of this process will be within the FY 2024-25.</p> <p><b>See Appendix 21.1- Bloated Staff Establishment</b></p>
21.2	<p>Non-Compliance with the One – Third of Basic Salary Rule</p> <p>Analysis of the payroll data revealed that eight one (81) employees earned a net salary less than a third (1/3) of their basic salary. This was contrary to Section 19(3) of employment Act, 2007 which stipulates that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may</p>	<p>Management takes note of the Auditor's observations and responds as follows:</p> <p>The Authority has put in place controls in the system that locks the net pay to a minimum of a third of the basic pay. However, during the FY-2020/2021, the Government reviewed Pay-As You Earn (PAYE) rate from 30% to 25%. The tax relief measures were extended to cushion households and businesses from the adverse impact of Covid-19. As a result, most staff committed their salaries to loan repayments. The tax relief was later lifted by the government in December 2020 and reverted back to the 30% bracket.</p> <p>In order to comply with the one-third requirement on basic pay, the Authority wrote to all the affected staff to liaise with their banks and SACCOS to have their loans restructured. (<i>refer to copies</i></p>

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	<p>be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p><i>of memos addressed to individual employees dated 8<sup>th</sup> December 2021 to ensure compliance to the 1/3 rule).</i></p> <p>In early 2023, NSSF vide a memo dated 15<sup>th</sup> February 2023 notified employers to comply with the Court of Appeal ruling on the NSSF Act 2013 regarding the new rates. This also affected the net pay of most employees. In order to comply with one-third rule on salary, the management communicated to all employees who have existing loan facilities with various banks and SACCOS to liaise with them so that their existing loans are re-structured accordingly. <i>(refer to the CEO's memo dated 15<sup>th</sup> August 2023 addressed to all employees to ensure compliance to the 1/3 rule and letters addressed to individual employees dated 30<sup>th</sup> April 2024).</i></p> <p><i>See Appendix 21.2- Non-Compliance with the One – Third of Basic Salary Rule</i></p> <p>The above matter has now been fully resolved and the Authority is in compliance with the law.</p>
22	<p>Failure to Hedge Against Foreign Exchange Losses</p> <p>Note 19 to the financial statements reflects loss on foreign exchange transactions of Kshs.501,301,134. Review of procurement records indicated contracts were entered into using foreign currency while payments were made using the</p>	<p>Management takes note of the Auditor's observations and responds as follows:</p> <p>The Authority has made strides to cushion itself against the fluctuation of exchange rates using the following measures;</p>

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	<p>Kenyan currency but there was no evidence of hedging strategies to safeguard against foreign exchange unfavorable transactions. In addition, a five-year trend analysis from 2018/2019 financial year indicated an accumulated loss of Kshs.982,056,643 and the authority is likely to incur additional losses due to absence of hedging strategies.</p> <p>In the circumstances, and in view foreign exchange loss of Kshs.501,301,134, the value for money on annual procurements could not be confirmed.</p>	<p>I. Strategic currency payment utilization; where dollar earnings are used for Supplier Payments.</p> <p>II. The Authority has made it a requirement for local Bidders to submit bids in Kenya shillings. With these measures, the Authority will significantly reduce the exposure to foreign exchange currency risk.</p> <p><i>See Appendix 22 - Failure to Hedge Against Foreign Exchange Losses</i></p>																																			
23.	<p>Unrecovered Advance Payment</p> <p>Note 25 (a) reflects capital work in progress balance of Kshs.5,497,816,075. Included in this balance is an advance payment of Kshs.339,653,954 for preferential commencement of the works to be recovered through subsequent valuations. However, only Kshs.198,092,520 had been recovered as at 30 June, 2023 resulting to unrecovered amount of Kshs.141,561,434 which has not been disclosed as receivables in the financial statements. This was contrary to Section 148 of the Public Procurement and Asset Disposal Act, 2015 states that The successful tenderer shall use the advance paid only in activities related to the tender. If the</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>A comprehensive reconciliation was undertaken and recognition made in the financial year 2023/2024. The Authority would like to confirm that full recovery from most contractor has been effected, as highlighted below;</p> <table border="1" data-bbox="898 1034 1977 1390"> <thead> <tr> <th>ITEM</th> <th>DESCRIPTION</th> <th>Advance Granted</th> <th>Percentage recovery</th> <th>Advance recovered</th> </tr> </thead> <tbody> <tr> <td><b>Phase 1</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>a)</td> <td>Vaghjiyani Enterprises</td> <td>209,457,364.61</td> <td>100%</td> <td>209,457,364.61</td> </tr> <tr> <td>b)</td> <td>Master Power Systems</td> <td>30,358,274.00</td> <td>100%</td> <td>30,358,274.00</td> </tr> <tr> <td>c)</td> <td>Seven Fourteen Ltd.</td> <td>3,584,410.00</td> <td>77%</td> <td>2,766,508.02</td> </tr> <tr> <td>d)</td> <td>Volcanic Plumbers</td> <td>27,548,129.31</td> <td>100%</td> <td>27,548,129.31</td> </tr> <tr> <td>e)</td> <td>Ever Fortunes</td> <td>20,453,120.00</td> <td>100%</td> <td>20,453,120.00</td> </tr> </tbody> </table>	ITEM	DESCRIPTION	Advance Granted	Percentage recovery	Advance recovered	<b>Phase 1</b>					a)	Vaghjiyani Enterprises	209,457,364.61	100%	209,457,364.61	b)	Master Power Systems	30,358,274.00	100%	30,358,274.00	c)	Seven Fourteen Ltd.	3,584,410.00	77%	2,766,508.02	d)	Volcanic Plumbers	27,548,129.31	100%	27,548,129.31	e)	Ever Fortunes	20,453,120.00	100%	20,453,120.00
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	<p>successful tenderer uses the entire advance or part of it in other activities that are unrelated to the tender, the advance shall immediately be considered as a debt which shall be paid by seizing the entire security or part of it.</p> <p>In the circumstances, Management was in breach of law and may not have received value for money for the unrecovered amount.</p>	f)	Top Choice Surveillance Ltd	19,826,927.00	100%	19,826,927.00
		<b>Phase 2</b>				
		a)	Vaghjiyani Enterprises	175,122,407.51	100%	175,122,407.51
		b)	Volcanic Plumbers	5,509,158.00	100%	5,509,158.00
		c)	Master Power Systems	14,902,321.00	100%	14,902,321.00
		d)	Top Choice Surveillance Ltd - Lift	5,582,030.00	0%	-
		e)	Top Choice Surveillance Ltd - ICT	16,938,383.00	100%	16,938,383.00
24.	<p>Private Health Facilities Supplies Billed to Government Entities</p> <p>Note 9 to the financial statements reflects total sales revenue amount of Kshs.8,039,143,444. The amount includes health products of Kshs.56,597,926 issued to</p> <p>22 private, faith based and non-governmental health facilities but billed to various county governments while Kshs.1,115,000 was billed to the Ministry of Health. However, there was no approval to supply these products to private hospitals and</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p><b>Commodities billed to Counties.</b> Counties have made a deliberate decision to support some Faith-Based facilities especially those located in very remote areas where there are no public health facilities to achieve service delivery to communities in those remote areas.</p> <p><b>Commodities billed to MOH;</b> The Division of National Cancer Control Program supports various health facilities with the supply of chemotherapy drugs, including hospices listed as private, that provide palliative and chemotherapy services to Cancer patients. Some of the facilities are Hospices such as Meru</p>				

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	<p>thereafter bill the county governments and the Ministry of Health.</p> <p>In the circumstances, the value for money on distribution of health products to private facilities could not be confirmed.</p>	<p>Hospice, and Nyeri Hospice.</p> <p><i>Appendix 24; Private Health Facilities Supplies Billed to Government Entities</i></p> <ol style="list-style-type: none"> <li>1. Copy of FBOs supported by Machakos County</li> <li>2. Emails from the National Cancer Control Program with distribution lists of health facilities, which include the ones listed as private health facilities in the audit query, to receive the chemotherapy drugs.</li> <li>3. MOH Oral Morphine Ordering process by Hospices and Palliative Units registered with KEHPCA.</li> </ol>
25.	<p>Failure to Maintain Floating Deposits Funds for Credit Customers</p> <p>Note 22 (a) to the financial statements reflects receivables from exchange transactions balance of Kshs.6,008,541,865 out of which Kshs.5,900,014,323 is in respect to credit customers. According to paragraph 2.8 of the Kenya Medical Supplies Authority Credit Policy 2014, customers are required to make advance payments to be maintained in floating deposits in the KEMSA trading account where invoices will be drawn from and which is to be replenished on reaching the limit. However, no floating deposit funds were maintained for advance receipts from credit customers thus exposing the Authority to debtor's risk due to non-payment.</p> <p>In the circumstances, Management was in breach of the credit policy.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>KEMSA's current business model has been operating under a credit policy developed in FY 2013/2014, which required customers to make advance payments maintained as floating deposits in KEMSA's trading account. Invoices were to be drawn against these deposits, which were to be replenished once they reached a specified limit. However, this model became impractical as KEMSA's principal clients, the county governments, were restricted by the Public Finance Management (PFM) Act of 2012 and its 2015 regulations, which prohibit advance payments. The Authority is currently in the process of reviewing the Credit Policy to better align with the evolving business environment.</p>

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26.	<p>Refund of Ineligible Expenditure</p> <p>Note 26 to the financial statements reflects trade creditors from development partners of Kshs.2,894,257,1 31. The Authority refunded Kshs.49,478,880 to World Bank as ineligible expenditure under transforming health systems program. In addition, the Authority previously refunded Kshs.320,000,000 to the same institution in the 2021/2022 financial year resulting from failure to carry out due diligence on proper procurement process bringing the total ineligible expenditure to Kshs.369,478,880. However, no efforts have been made to recover the amount from the responsible officers.</p> <p>In the circumstances, the value for money on management and accountability of donor funds could not be confirmed.</p>	<p>We acknowledge your observation and recommendation and respond as follows;</p> <p>The ineligible expenditure of KES 49,478,880 and KES 320,000,000 was in respect of Covid Emergency procurements. The procurement was undertaken in line with Section 69 (2) of PPADA 2015 (Revised) 2022 that allowed retrospective approval. However, the Bank declined to recognize the operation of this provision of the PPADA declaring the expenditure ineligible and demanding a refund.</p> <p>KEMSA was implementing the project on behalf of The Ministry of Health and the project was World Bank funded. The demand for refund was due to used was due to application of retrospective covid-19 procurements which was against the World Bank funding agreement. KEMSA received funds from The Ministry of Health to settle the demand for refund.</p>
27.	<p>Expiry and Incineration Cost for Third-Party Commodities</p> <p>Note 30 to the financial statements discloses medical commodity fund, an amount of Kshs.9,134,630,398 being third party commodities under the custody of KEMSA. However, medical commodities amounting to Kshs.1,204,567,244 had expired in the warehouse and facilities since they were received with less than 75% shelf life. Therefore, the entity has to incur an extra-cost of disposing these</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>The medical commodities, totaling Ksh. 1,204,567,244, were not received with a short shelf life. The dates recorded in the report refer to the transfer of products between warehouses, known as inter-warehouse transfer dates. For instance, the audit report lists the receipt date for LEV/ETHINYL TABLETS (COC) - 0.15MG/30MCG as December 2022, while this item was actually received at</p>

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	<p>commodities since donor agreements do not cover the cost of incineration.</p> <p>In the circumstances, the value for money on expired medical commodities amounting to Kshs.1,204,567,244 and the likely additional cost of incineration by the Authority could not be confirmed.</p>	<p>KEMSA in July 2019. Consequently, the audit inaccurately recorded the receipt date, leading to the conclusion that the products were received with a short shelf life.</p> <p><b>See appendix 27-</b> Expiry and Incineration Cost for Third-Party Commodities</p> <p>The cost for incineration of expiries was not envisioned in the contracts with third parties because most of the commodities are procured based on quantified quantities and a distribution list is provided ensuring that all the products were issued promptly. The risk of expiries was therefore minimal. However, with the change of regimen for some of these commodities, the risk of expiries has increased in the recent past. As a result, KEMSA will have a discussion with the partners and ensure that the cost of incineration is including the in the agreements.</p>
<p>REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE</p>		
1.	<p><b>Unfulfilled Customer Orders</b></p> <p>Note 9 to the financial statements reflects total sales revenue of Kshs.8,039,143,444 generated from sale of health products and technologies. The Authority received customer quantity orders of 106,924,857 units from various health facilities out of which orders of 54,216,651 units or 51% were processed and distributed resulting to unfulfilled customer orders of 52,708,206 or 49% valued at Kshs.5,057,212,632. In addition, the processing</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>Unfulfilled customer orders are as a result of unavailability of some HPTs at the time of order processing after submission of orders by customers. The experienced disruptions in the supply chain cycle is caused by delayed payment of supplies made to Counties from KEMSA, which in turn delays KEMSA payments to suppliers, ultimately affecting the order fill rate.</p> <p><b>Measures taken to address the low order fill rate are;</b></p> <ol style="list-style-type: none"> <li>1. Continuous stakeholder engagement with COG and the Counties Health Management teams to prioritize payments to KEMSA, including County visits, Debt outstanding reminder letters and payment plan arrangements.</li> </ol>

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	<p>and distribution of orders took an average of seventeen (17) days against a target often (10) days.</p> <p>In the circumstances, the effectiveness of internal controls on the processing and distribution of orders could not be confirmed.</p>	<p>2. Lobbying for recapitalization of KEMSA from the Government and Development partners e.g World bank.</p> <p>3. There is ongoing engagement with COG and regular monthly routine engagements with the County Health and Finance Management teams.</p>
2.	<p>Loss on Sale of Medical Commodities Below the Purchase Price</p> <p>Note 9 to the financial statements reflects sales revenue of Kshs.8,039,143,444 generated from sale of various health products and technologies. Included in this amount is Kshs.44,386,081 from sale of various health products which were purchased at Kshs.52,947,568 resulting to a loss of Kshs.8,561 487. This was due to management delays in conducting price reviews for products after new procurements.</p> <p>In the circumstances, the effectiveness of internal controls on price reviews could not be confirmed.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>There was a delay in reviewing selling prices based on realized tender prices, which led to the sale of some commodities at a loss. This delay occurred when members of the previous Pricing Committee, part of the management team, were instructed to work from home in February 2022. As a result, there was a gap in pricing activities until a new Pricing Committee was appointed on 24th February 2023. A comprehensive pricing review, addressing the sale of commodities below purchase price was conducted in March 2023.</p> <p>There is a pricing policy in place and prices are reviewed twice a year or when new procurements have been completed.</p> <p>To prevent such occurrences in the future, the following measures have been implemented:</p> <ul style="list-style-type: none"> <li>• The Pricing Committee has established a system for revising selling prices immediately after each tender cycle.</li> </ul>

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		<ul style="list-style-type: none"> <li>• Once the new ERP system is implemented, pricing for HPTs will be automated, ensuring that no products are issued at below cost price.</li> <li>• KEMSA has put in place a price market survey unit under the Procurement Directorate. The section is mandated to guide current and future procurement prices by conducting pricing and marketing surveys on a quarterly basis.</li> </ul> <p><i>Appendix 2- Loss on Sale of Medical Commodities Below the Purchase Price</i></p>
3.	<p><b>Expiries of Medical Commodities</b></p> <p>Note 9 to the financial statements reflects cost of sales of Kshs.8,332,577,827 out of which Kshs. 1,213,715,186 relates to expired medical commodities.</p> <p>In addition, warehouse management system indicated global fund and other donated medical commodities of Kshs.1,204,567,244 also expired during the year but have not been dis in the financial statements. This is contrary to paragraph 44 of IPSAs 12 which requires any loss of inventory be recognized as an expense in the period it occurs.</p> <p>Further distribution schedule indicated commodities were issued with short shelf life out of which program commodities of Kshs.2,491,766 expired while on transit and</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The commodities highlighted in the distribution schedules related to orders whose delivery notes were misplaced by the courier transporter. Delivery was done earlier but duplicate delivery notes were issued later. These duplicate delivery notes pick the new printed date and not the initial PoD issue date. Receipt date has been extracted from distribution metric report. Acknowledgement on the E-pod app was done in October after issuing duplicate delivery notes</p> <p>Third party commodities closing balance recognized in the financial statements in the Medical commodity fund ledger is net of expired commodities.</p> <p><i>See Appendix 3- Expiries of Medical Commodities</i></p>

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	<p>could not be used by the recipient health facilities, making total expiries add up to Kshs.2,420,774,196.</p> <p>In the circumstances, the effectiveness of the Authority's internal controls in place for managing and monitoring medical commodities could not be confirmed.</p>	
3.2	<p><b>Delayed Disposal of Expired Covid-19 Medical Commodities</b></p> <p>Note 9 to the financial statements reflects cost of sales of Kshs.8,332,577,827 out of which Kshs.1,213,715,186 relates to expiries of medical commodities. The expiries include Covid-19 items of Kshs.334,388,156 in relation to 2020/2021 and 2021/2022 Financial years lying Undisclosedposed waiting clearance from ethic and anti -corruption commission.</p> <p>In the circumstances, the delayed disposal increases the risk of unintentional usage and incurring of avoidable inventory carrying cost.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>The expired items are quarantined in a different warehouse hence no risk of unintentional usage. All the boarded expired items for the 2021/2022 financial year were disposed off except for COVID-19 commodities which were waiting for EACC clearance. In the current FY 2023/2024, all the expiries are being disposed and the disposal process will be completed by end of April 2024.</p> <p><i>See Appendix 3.2-Delayed disposal of expired Covid-19 Medical Commodities</i></p>
3.3	<p><b>Slow Moving Inventory of Medical Commodities</b></p> <p>Note 24(b) to the financial statements reflects inventory balance of Kshs12,899,91 5,421 out of which Kshs.838,560,820 relates to</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p>

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	<p>slow moving commodities received between January, 2011 and December, 2020. The amount also includes commodities of Kshs.133,722,925 which did not move for the last two financial years while items of Kshs.120,330,714 had expired as at the time of audit in December, 2023 having been held for a period of between three and thirteen years. This implies the level of buffer stock maintained is not properly forecasted based on target customers, rate of consumption and lead times.</p> <p>In the circumstances, the effectiveness of internal controls on inventory management and issuance could not be confirmed.</p>	<p>Slow-moving stock, including COVID-19 products, are monitored on a monthly and quarterly basis, and no procurement is initiated for items with stock levels exceeding the stock holding policy. The sales and marketing team is focused on direct marketing to county health facilities and maintaining active engagement throughout the ordering process, resulting in improved uptake of slow-moving stock.</p> <p>Moving forward, KEMSA will continue to prioritize the procurement of Vital, Tracer, and Class A Health Products and Technologies (HPTs).</p> <p><i>See Appendix 3.3; Slow Moving Inventory of Medical Commodities</i></p>
4.	<p>Delays and Weak Proof of Commodity Delivery System</p> <p>Note 12(a) to the financial statements reflects outsourced distribution of Kshs.789,493,976 out of which commodities amounting to Kshs.81,753,426 were delivered after the due dates. These delays ranged between eight (8) days to three hundred and forty-four days (344) days.</p> <p>In addition, warehouse management system issue report indicated commodities worth Kshs.35,228,836 were</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>KEMSA follows a Service Level Agreement (SLA) with its outsourced transporters and conducts quarterly review meetings to address any non-compliance issues. There have been instances where deliveries took from eight (8) days to as long as three hundred forty-four (344) days.</p> <p>The delays were due to the following reasons:</p>

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	<p>dispatched to various facilities and hospitals but could not be confirmed as having been received.</p> <p>Further medical commodities of Kshs.60,789.098 were confirmed to have been received in various health facilities before they were issued from the warehouse.</p> <p>Inefficiencies in order processing where commodities stayed in rack for a duration ranging from four (4) days to one hundred and seventy-four (174) days were noted.</p> <p>In the circumstances, the effectiveness of the Authority's internal controls in respect to distribution could not be confirmed and the Authority did not get value for money.</p>	<p>a) <b>KEMSA Vehicle Deliveries:</b> Deliveries made by KEMSA vehicles to various facilities had delays due to the delayed updating of proof of delivery in the system.</p> <p>b) <b>M/s Sai Cargo:</b> KEMSA contracted M/s Sai Cargo for courier services across the country. The transporter faced several challenges, including delays in returning proof of delivery to KEMSA, which resulted in extended delivery times. The contract was eventually terminated by the transporter.</p> <p>c) <b>Transporter Misplacement:</b> Occasionally, transporters misplaced delivery notes and requested duplicates. Facility in-charges would sign these duplicates, which were then used to update the system.</p> <p><b>Unconfirmed Receipts:</b></p> <p>Medical supplies are dispatched with a delivery note and waybill, each consisting of three and two copies, respectively. Upon receipt, the recipient must sign and provide their personal details, including their number and phone number. The facility retains one copy of the delivery note and one copy of the waybill, while two copies of each are returned to KEMSA.</p> <p>The "Unconfirmed" column in the Warehouse Management System (WMS) is updated manually. Instances of blank "unconfirmed receipt dates" occurred due to returns not being updated in the</p>

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		<p>system, such as returns of RTKs from non-operational facilities. Additionally, a technical ICT issue during the year contributed to inaccuracies in the "Unconfirmed" receipt column.</p> <p><b>Receipt Before Dispatch:</b></p> <p>Goods totaling Kshs. 60,789,098 were confirmed as received at various health facilities before being officially issued from the warehouse. This discrepancy occurred due to technical issues with the POD App, which failed to update proof of deliveries with the actual dates. This issue has now been resolved.</p> <p>Additionally, some orders, such as those under the DDA category, were generated in the Warehouse Management System (WMS) but were not dispatched immediately. This delay was due to waiting for collection by pharmacists (e.g., Plan 1030795) and the need for order integration.</p> <p>Longer rack times were also attributed to challenges such as hard-to-reach areas, cold chain requirements for single orders, and emergency orders.</p> <p><i>See Appendix 4; Delays and Weak Proof of Commodity Delivery System</i></p>

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5.	<p><b>Inefficiencies in Collection of Receivables</b></p> <p>Note 22(a) to the financial statements reflects receivables from exchange transactions balance of Kshs.6,008,541,865 (2022-Kshs.5,803,811,189). However, it was noted that the turnover ratio was 1.36. This resulted into a receivable turnover of 268 days. This indicates inefficiencies in collection of receivables implying that the average time taken to collect receivables from a customer was 268 days contrary to Paragraph 2.7 of the Kenya Medical Supplies Authority Credit Policy 2014 which set a credit limit of 30 and 45 days for public and non-public health facilities respectively.</p> <p>In the circumstances, the effectiveness of internal controls in respect to debt management and revenue collection could not be confirmed.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b> KEMSA has been aggressively making physical follow ups through meetings with the customers, payment demand letters and payment plan agreements are issued regularly. There is continuous debt collection follow up with the Counties including engagement with COG. Most of the Counties cite delayed disbursement of funds from national treasury and despite delay in remitting their payments they do eventually pay their debts. There is also continuous engagement with defaulting counties for acceptable payment plans. We have signed MOUs with Counties outlining the Counties' payment obligations.</p> <p><i>Attached – Sample Commitment letter, Sample MoU &amp; SLA with Meru County</i></p> <p>All outstanding debt is followed up aggressively until repayment of the same is made by the customers. The Authority would like to confirm that out of Ksh 3,079,326,855.69 outstanding from the Counties, Ksh 4,205,852,048.64 has been collected.</p> <p><b>See Appendix 5; Inefficiencies in Collection of Receivables</b></p>
6.	<p><b>Inventory</b></p>	<p>We acknowledge your observation and respond as follows;</p>

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6.1	<p><b>Noncompliance to First Expiry First Out Method of Issuing Inventory</b></p> <p>Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421 out of which commodities with long shelf life valued at Kshs. 18,982,522 were issued first at the expense of commodities with short shelf life. This was contrary to the Kenya Medical Supplies Authority Stock Holding Policy 2017 which requires the use of First Expiry First Out inventory control method to be anchored in the Enterprise Resource Planning system.</p> <p>In the circumstances, the effectiveness of internal controls in respect to inventory management and issuance could not be confirmed.</p>	<p>The principle of First Expiry First Out (FEFO) is fully complied with electronically. However, there are instances where picking of same product from different sources of funds does not allow for FEFO.</p>
6.2	<p><b>Stock out of Medical Commodities</b></p> <p>Note 24 (b) to the financial statements reflects inventory balance of Kshs. 12,899,915,421. Inventory records indicated fifty-two (52) commodities were stocked out for the entire financial year while five hundred and eighteen (518) commodities were below the minimum required stock levels resulting to lost sales of Kshs.6,331 ,893,398.</p> <p>In the circumstances, the effectiveness of internal controls in respect to inventory management could not be confirmed.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>Unfulfilled customer orders are as a result of the unavailability of some HPTs at the time of order processing after submission of orders by customers, shortage of raw materials occasioned by the global market dynamics and global supply chain disruption by the COVID-19 pandemic. The supply chain cycle is broken due to delayed payment of supplies from Counties to KEMSA which in turn delays payment to suppliers by KEMSA, ultimately affecting the order fill rate.</p> <p>Measures taken to address the low order fill rate are</p> <ol style="list-style-type: none"> <li>1. Continuous stakeholder engagement with COG and the Counties to prioritize payments to KEMSA.</li> </ol>

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
		<p>2. Lobbying for recapitalization of KEMSA from the Government and Development partners e.g World bank</p> <p>3. Implementation of the supplier performance measurement tool introduced in the FY 2022/2023 and penalties were to be applicable in the subsequent financial years.</p>
6.3	<p><b>Overstocking of Slow-Moving Commodities</b></p> <p>Note 24 (b) to the financial statements reflects inventories of Kshs.12,899,915,421 from Kshs.13,962,897,325 in the previous year. Computations indicated inventory turnover ratio of 2.03 resulting into an inventory turnover of 180 days (being 365 days divided by the inventory turnover ratio) which is the average number of days for which commodities were in the warehouse this was attributed to over procurement of slow-moving commodities.</p> <p>In the circumstances, the effectiveness of internal controls in respect to inventory management could not be confirmed.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>The Authority would like to highlight that there are erratic ordering patterns from counties that often result in unpredictable demand and inaccuracies in forecasting and quantification of Health Products and Technologies (HPTs). Additionally, unforeseen occurrences such as disease outbreaks can significantly disrupt supply chain planning, further complicating demand forecasting. To mitigate these challenges, we have implemented continuous weekly stock status monitoring, with procurement initiated only for products within reorder levels. Special attention is given to slow-moving stock to prevent overstocking. Furthermore, bi-annual demand reviews have been enforced, with the most recent review conducted in March 2024.</p>

**Kenya Medical Supplies Authority**

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**For the year ended June 30<sup>th</sup> 2024**

Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
7.	<p>Lack of an Offsite Backup Plan</p> <p>Note 24 (b) to the financial statements reflects inventory balance of Kshs. 12,899,915,421. However, there was no evidence of an offsite backup plan as backups were not stored in an offsite location which hinders the continuity of operations in the event of a disaster.</p> <p>In the circumstances, the continuity of operations in the event of a disaster could not be confirmed.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows;</b></p> <p>The Authority confirms that all data backups are up to date. The ICT department currently uses external storage drives, with one set stored at Commercial Street and another at the Embakasi warehouse.</p> <p>To enhance data storage, KEMSA is procuring Network Attached Storage (NAS) servers, which will be installed at the Kisumu and Nairobi-Embakasi warehouses. These NAS servers, each with 50TB of storage, will provide automated external backups in two separate locations, ensuring data redundancy away from the primary site in a cost-effective manner.</p>
7.1	<p>Unapproved Supplies Made to Private and Faith Based Facilities</p> <p>Note 24(b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. Warehouse issue report indicated distributed health products of Kshs.867,376,945 for global fund and other donated medical products issued to one thousand six hundred and fifty-one (1,651) private, faith based and non-governmental health facilities. However, the issuance to these facilities was not supported by an approved distribution list and a commitment by the facilities to dispense the products for free as per the various donor agreements.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>The Authority would like to clarify that all the 1,651 facilities are on the approved list of Anti-Retroviral Therapy sites to receive commodities and have the Ministry of Health 730B dataset in the Kenya Health Information System. The distribution memos are sent electronically to KEMSA for processing.</p>

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Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE
	<p>In the circumstances, the effectiveness of internal controls on distribution of health products to private facilities could not be confirmed.</p>	
8.	<p>Supplies Made to Drop-in Centers</p> <p>Note 24 (b) to the financial statements reflects inventory balance of Kshs. 12,899,915,421.</p> <p>Warehouse issued report indicated medical commodities of Kshs.33,013,575 were issued to twenty (20) drop in centers operating as service delivery points which cater for key population clients. Physical verification indicated two (2) centres in Embu and Kitui counties are located in the respective county referral hospitals but operate privately as level two facilities owned by Undisclosed non-governmental organizations. In addition, the operations of the other eighteen (18) Centers' across the country and their ownership could not be confirmed.</p> <p>In the circumstances, the effectiveness of internal controls on distributions to drop in centers operating as service delivery points could not be confirmed.</p>	<p><b>Management takes note of the Auditor's observations and responds as follows:</b></p> <p>Drop-in centers are service delivery points that cater for Key population clients either within existing health facilities or as standalone facilities. KEMSA process the orders based on approved allocations (on system orders or memos). The Drop-in centers (DICEs) are approved by the respective counties and reporting for commodities happens through the regular reporting of the hosting health facility and also through the subcounty.</p>

**Kenya Medical Supplies Authority**

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**For the year ended June 30<sup>th</sup> 2024**

Ref. No	AUDIT OBSERVATION	MANAGEMENT RESPONSE

**APPENDIX TO QUERY 4-DIRECT PROCUREMENT**

SUPPLIER	TENDER/QUOTATION REF	JUSTIFICATION FOR DIRECT PROCUREMENT
AGRO CHEMICAL & FOOD COMPANY LIMITED	KEMSA/DP01/2022-2024	The company is a joint venture between the private sector and government of Kenya
ALLMED MEDICAL SUPPLIES LIMITED	KEMSA/DP08/2021-2023	The only bidder with the product registered in the country with Pharmacy and Poisons Board
ANGELICA MEDICAL SUPPLIES LTD	KEMSA/DP02/2021-2023	Product is from the sole manufacturer of the reagents for the machine
ANGELICA MEDICAL SUPPLIES LTD	KEMSA/DP07/2021-2023	Product is from the sole manufacturer of the reagents for the machine
AUTOSTERILE (EA) LTD	KEMSA/DP09/2021-2023	Product is from the sole manufacturer
AVACARE KENYA LIMITED	KEMSA/DP 18/2022-2024	The only bidder with the product registered in the country with Pharmacy and Poisons Board
BIOSURGIC (E.A) LIMITED	KEMSA/GOK-MOH/DP11/2022-2024	Product is from the sole manufacturer of the reagents for the machine

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BLACKWOOD HODGE (KENYA) LTD	KEMSA/DP25/2021-2023	Maintenance service was procured from the manufacturer of the generators
CHEMOQUIP LTD	KEMSA-DP15-2021-2023	Product is from the sole manufacturer of the glucometer machines
COLOUR INTERNATIONAL LTD	KEMSA/DP01/2021-2023	Product is from the sole manufacturer of the reagents for the machine
FARAM EA LTD	KEMSA-DP13-2021-2023	Product is from the sole manufacturer of the glucometer machines
KENYA MEDICAL RESEARCH INSTITUTE	KEMSA/DP23/2022-2024	KEMRI is a state corporation and reputable manufacturer
KONRAD SCIENCE LTD	KEMSA/GOK-MOH/DP12/2022-2024	Product is from the sole manufacturer of the reagents for the machine
LUED(A) CHEMICALS LTD	KEMSA/GOK-MOH/DP10/2022-2024	Product is from the sole manufacturer of the reagents for the machine
MANJI FOOD INDUSTRIES LIMITED	KEMSA/GOK-MOH/DP22/2022-2024	The company has nationwide distribution, universal brand with guaranteed quality, variety of biscuit flavours, competitive prices from manufacturer
MEDIONICS HEALTHCARE LTD	KEMSA-DP14-2021-2023	Product is from the sole manufacturer of the glucometer machines
MINI BAKERIES (NAIROBI) LIMITED	KEMSA/GOK-MOH/DP21/2022-2024	The company has availability of manufacturing plants across the company, universal brand with

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		guaranteed quality, variety of flavours, competitive prices from manufacturer
NAIROBI BOTTLERS LTD	KEMSA/GOK-MOH/DP13/2022-2024	The company has availability of manufacturing plants across the company, universal brand with guaranteed quality, variety of flavours, competitive prices from manufacturer
NEW KENYA CO-OPERATIVE CREAMERIES LTD	KEMSA/DP18/2020-2023	KCC is a government entity and have better prices
PAN PHARMACEUTICALS LTD	KEMSA/DP 20/2022-2024	The only bidder with the product registered in the country with Pharmacy and Poisons Board
PARTEC EAST AFRICA LTD	KEMSA/GOK-MOH/DP05/2022-2024	Product is from the sole manufacturer of the reagents for the machine
PHILLIPS HEALTHCARE TECHNOLOGIES LIMITED	KEMSA/GOK-MOH/DP09/2022-2024	Product is from the sole manufacturer
PREMIER MEDICAL CORPORATION PRIVATE LIMITED	KEMSA/ GOK-MOH DP02/2022-2023	This is the only pre-qualified Manufacturer under the WHO pre-qualification list
ROCHE KENYA LIMITED	KEMSA/DP09/2022-2024	Product is from the sole manufacturer of the reagents for the machine
SCIENCESCOPE LIMITED	KEMSA/GOK-MOH/DP07/2022-2024	Product is from the sole manufacturer of the reagents for the machine
SURGILINKS LIMITED	GF ATM HIV NFM-2021/2022-DP-06	The only bidder with the product registered in the country with Pharmacy and Poisons Board

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SURGIPATH SERVICES EAST AFRICA LTD	KEMSA/GOK-MOH/DP08/2022-2024	Product is from the sole manufacturer of the reagents for the machine
TOTAL HOSPITAL SOLUTIONS LIMITED	KEMSA/DP09/2020-2022	Product is from the sole manufacturer of the reagents for the machine
ULTRALAB E.A. LTD	KEMSA/ GOK-MOH DP04/2022-2024	Product is from the sole manufacturer of the reagents for the machine
ULTRALAB E.A. LTD	KEMSA/GOK-MOH/DP06/2022-2024	Product is from the sole manufacturer of the reagents for the machine

**APPENDIX QUERY 4-RESTRICTED TENDER**

Supplier	TENDER/QUOTATION REF	JUSTIFICATION FOR RT
ALMOND GENERAL CONTRACTORS LIMITED	KEMSA-RT04-22-24	This procurement was done in line with Section 102 (1) (b) 'The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured'. Fifteen bidders were invited and therefore the minimum requirement was met.
B BRAUN MEDICAL KENYA LIMITED	KEMSA/RT21/2022-2024	The identified suppliers are the only ones who have retained the products with PPB. Section 102 (c ) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services.

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DAWA LTD.	KEMSA /RT07/2022-2024	Items were non responsive in open tender, The identified suppliers are the only ones who have retained the products with PPB. Section 102 (c ) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services.
DAWA LTD.	KEMSA/RT06/2022-2024	Items were non responsive in open tender, The identified suppliers are the only ones who have retained the products with PPB. Section 102 (c ) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services.
HARLEY'S LIMITED	KEMSA/RT07/2021-2023	This procurement was done in line with Section 102 (c ) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services. Section 89 (6) of the Regulation states that where RT is used, pursuant to section 102(1)(c ) of the Act, the Procuring entity shall invite tenders from all the known suppliers of the goods, works or services.
LABORATORY & ALLIED LTD	KEMSA/RT10/2021-2023	This procurement was done in line with Section 102 (c ) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services. Section 89 (6) of the Regulation states that where RT is used, pursuant to section 102(1)(c ) of the Act, the Procuring entity shall invite tenders from all the known suppliers of the goods, works or services.
LABOREX KENYA LIMITED	KEMSA/RT14/2022-2024	Items were non responsive in open tender, The identified suppliers are the only ones who have retained the products with PPB.

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		Section 102 (c ) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services.
LUED(A) CHEMICALS LTD	KEMSA/RT12/2021-2022	This procurement was done in line with Section 102 (1) (b) 'The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured'. Fifteen bidders were invited and therefore the minimum requirement was met.
MEDIONICS HEALTHCARE LTD	KEMSA-RT 11-2021/2022	This procurement was done in line with Section 102 (1) (b) 'The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured'. Twenty bidders were invited and therefore the minimum requirement was met.
PHILLIPS THERAPEUTICS LIMITED	KEMSA/RT01/2021-2023	This procurement was done in line with Section 102 (c ) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services.
PHILLIPS THERAPEUTICS LIMITED	KEMSA/RT10/2021-2023	This procurement was done in line with Section 102 (1) (b) 'The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured'. Thirteen bidders were invited and therefore the minimum requirement was met.
QUICKPACK LTD	KEMSA/RT10/2021-2023 (NRW-1198-2022/2023)	This procurement was done in line with Section 102 (1) (b) 'The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured'. Eleven bidders were invited and therefore the minimum requirement was met.

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		And section 102 (c) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services.
SAI PHARMACEUTICALS KENYA LIMITED	KEMSA/GOK-MOH/RT05/2022-2024	The products have known WHO prequalified manufacturers and are registered and retained by Pharmacy & Poisons Board Kenya.
STRATEGIC PAPER & PRINT SOLUTIONS	KEMSA/RT05/2022-2024	This procurement was done in line with Section 102 (1) (b) 'The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured'. Fifteen bidders were invited and therefore the minimum requirement was met.
STRATEGIC PAPER & PRINT SOLUTIONS	STRATEGIC PAPER & PRINT SOLUTIONS_KEMSA-RT25-2022/2023	This procurement was done in line with Section 102 (1) (b) 'The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured'. Thirteen bidders were invited and therefore the minimum requirement was met.
SURGIPHARM LIMITED	KEMSA/RT01/2022-2024	Items were non responsive in open tender, The identified suppliers are the only one who have retained the products with PPB. Section 102 (c) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services.
SYNER-MED PHARMACEUTICALS (K) LTD.	KEMSA/RT20/2022-2024	Items were non responsive in open tender, The identified suppliers are the only one who have retained the products with PPB. Section 102 (c) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services.

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TRAVOTECH AGENCIES LIMITED	KEMSA-RT 2021/2022	11-	Items were non responsive in open tender, Section 102 (c ) if there's evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services.
ZOA TAKA LIMITED	KEMSA-RT15-2/23		This procurement was done in line with Section 102 (1) (b) 'The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured'. Twenty bidders were invited and therefore the minimum requirement was met.

**20. Appendices**

**Appendix I-Projects implemented by KEMSA**

Project Title	Project Number	Donor	Period/duration	Donor commitment	Separate reporting required as per the donor agreement? YES/NO	Consolidated in these financial statements? Yes/no
National Commodities Storage (KEMSA Supply Chain Center)	1081101800	GLOBAL FUND/KEMSA AIA/GOK	14th March 2018-24th August 2022	973,103,460.00	NO	YES

**Kenya Medical Supplies Authority**

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Project	Status of Project Completion					Sources
	Total Project Cost (Ksh)	Total Expended to date	Completion %	Budget	Actual	
National Commodities Storage (KEMSA Supply Chain Center)	3,810,774,276	3,225,269,211	85%	3,810,774,276	3,225,269,211	GLOBAL FUND/KEMSA AIA/GOK
Warehouse Racking Project	959,598,729	770,898,709	80%	959,598,729	770,898,709	KEMSA AIA
Project Management Fees for National Commodities Storage (KEMSA Supply Chain Center) and Racking project	1,353,790,731	970,864,022	72%	1,353,790,731		KEMSA AIA

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**Appendix II: Transfers from other government entities**

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount-KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of financial performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
<b>Recurrent Grants</b>									
Ministry of Health	3/7/2023	June Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	15/8/2023	July Grant	35,000,000.00	35,000,000.00					35,000,000.00
Ministry of Health	13/9/2023	August Grant	35,000,000.00	35,000,000.00					35,000,000.00
Ministry of Health	23/10/2023	September Grant	35,000,000.00	35,000,000.00					35,000,000.00
Ministry of Health	15/11/2023	October Grant	35,000,000.00	35,000,000.00					35,000,000.00
Ministry of Health	14/12/2023	November Grant	35,000,000.00	35,000,000.00					35,000,000.00
Ministry of Health	5/1/2024	December Grant	35,000,000.00	35,000,000.00					35,000,000.00
Ministry of Health	14/02/2024	January Grant	35,000,000.00	35,000,000.00					35,000,000.00
Ministry of Health	13/03/2024	February Grant	35,000,000.00	35,000,000.00					35,000,000.00
Ministry of Health	12/4/2024	March Grant	35,000,000.00	35,000,000.00					35,000,000.00
Ministry of Health	17/5/2024	April Grant	35,000,000.00	35,000,000.00					35,000,000.00

**Kenya Medical Supplies Authority**

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Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount-KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of financial performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
Ministry of Health	18/6/2024	May Grant	35,000,000.00	35,000,000.00					35,000,000.00
<b>TOTAL</b>			<b>395,000,000.00</b>	<b>395,000,000.00</b>					<b>395,000,000.00</b>

Development Grants									
Ministry of Health	28/02/2024	Quarter 1 Development Grant	77,500,000.00	77,500,000.00					77,500,000.00
Ministry of Health	28/02/2024	Quarter 2 Development Grant	77,500,000.00	77,500,000.00					77,500,000.00
<b>TOTAL</b>			<b>155,000,000.00</b>	<b>155,000,000.00</b>					<b>155,000,000.00</b>

Funds Received for the Procurement of HPT's									
Ministry of Health	14/11/2023	Emergency procurement of First line anti-TB Medicines. AIE No. 738098	150,000,000.00	150,000,000.00					150,000,000.00
Ministry of Health	28/02/2024	Procurement of Chemotherapy medicines AIE No. 738133	50,000,000.00	50,000,000.00					50,000,000.00
Ministry of Health	29/02/2024	Procurement of Nutrition Commodities AIE. 738125	100,000,000.00	100,000,000.00					100,000,000.00
Ministry of Health	29/02/2024	Procurement of HIV Commodities AIE. 738120	500,000,000.00	500,000,000.00					500,000,000.00

**Kenya Medical Supplies Authority**  
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Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount-KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of financial performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
Ministry of Health	27/05/2024	Procurement of indoor residual spraying & larval source management services AIE 738450	330,000,000.00	330,000,000.00					330,000,000.00
<b>TOTAL</b>									<b>1,680,000,000.00</b>

**Appendix III- Inter-Entity Confirmation Letter**

Name of Transferring entity.....

Name of Beneficiary entity.....

Confirmation of amounts received by [Insert name of beneficiary Entity] as of 30th June (Current FY)					
Reference Number	Date Disbursed	Recurrent (A)	Development (B)	Total (C)=(A+B)	Remarks

**Kenya Medical Supplies Authority**  
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Total					

I confirm that the amounts shown above are correct as of the date indicated.

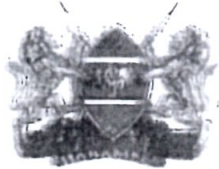
**Head of Accounts Department - Disbursing Entity:**

Name ..... Sign ..... Date .....

**Head of Accounts Department - Beneficiary Entity:**

Name ..... Sign ..... Date.....

(5)



REPUBLIC OF KENYA

MINISTRY OF HEALTH

STATE DEPARTMENT FOR MEDICAL SERVICES

OFFICE OF THE PRINCIPAL SECRETARY

19 AUG 2024  
Action By

Telephone: 254-20-2717077  
Email: psh@health.go.ke  
Fax: 254-20-2715239  
When replying please quote

AFYA HOUSE  
CATHEDRAL ROAD  
P O Box 30014  
NAIROBI

MOH/ACCT/SDMS/KEMSA/VOLI/(3)

19<sup>th</sup> August, 2024

22 AUG 2024

Dr. Waqo Ejersa, OGW  
Chief Executive Officer  
Kenya Medical Supplies Agency (KEMSA)  
NAIROBI

*DWS*  
*Take note*  
*1/05/24*

CONFIRMATION OF FUNDS TRANSFERS TO KEMSA


Reference is made to your letter Ref. KEMSA/FIN/23/24/06/27 dated 27<sup>th</sup> June 2024 on the above subject.

The purpose of this letter is to confirm disbursements to KEMSA for the FY 2023/2024.

DISBURSEMENTS TO KEMSA AS AT 30 <sup>TH</sup> JUNE 2024							
Reference Number	Date Disbursed	Amounts Disbursed by State Department for Medical Services as at 30 <sup>th</sup> June 2024				Amount Received as at 30 <sup>th</sup> June 2024 (E)	Differences (F)
		Recurrent (A)	Development (B)	Inter-ministerial (C)	Total (D)		
FT23227 T01CZ	15 <sup>th</sup> Aug 2023	35,000,000	-	-	35,000,000		
FT23256 6JFIQ	13 <sup>th</sup> Sep 2023	35,000,000	-	-	35,000,000		
FT23296 CMJKO	23 <sup>rd</sup> Oct 2023	35,000,000	-	-	35,000,000		
FT23319 GY047	15 <sup>th</sup> Nov 2023	35,000,000	-	-	35,000,000		

*Manda*  
*F-1A*  
*PN*  
*23/08/24*

FT23348 WGK44	14 <sup>th</sup> Dec 2023	35,000,000	-	-	35,000,000		
FT24005 03WIC	05 <sup>th</sup> Jan 2024	35,000,000	-	-	35,000,000		
FT24045 E0FRH	14 <sup>th</sup> Feb 2024	35,000,000	-	-	35,000,000		
FT24073 R3K4X	13 <sup>th</sup> March 2024	35,000,000	-	-	35,000,000		
FT24103 0BLHG	12 <sup>th</sup> April 2024	35,000,000	-	-	35,000,000		
FT24138 XQJ13	17 <sup>th</sup> May 2024	35,000,000	-	-	35,000,000		
FT24169 YWD2J	17 <sup>th</sup> June 2024	35,000,000	-	-	35,000,000		
FT2418 GPBDB	04 <sup>th</sup> July 2024	5,000,000	-	-	5,000,000		
FT24059 ST6RB	28 <sup>th</sup> Feb 2024	-	77,500,000	-	77,500,000		
FT24059 6LPP7	28 <sup>th</sup> Feb 2024	-	77,500,000	-	77,500,000		
FT24059 3SZK8	28 <sup>th</sup> Feb 2024	-	50,000,000	-	50,000,000		
FT24072 XMC1Y	12 <sup>th</sup> March 2024	-	500,000,000	-	500,000,000		
<b>TOTAL</b>		<b>390,000,000</b>	<b>705,000,000</b>	-	<b>1,095,000,000</b>		

  
**Harry Kimtai, CBS**  
**PRINCIPAL SECRETARY**

Commercial Street, Industrial Area  
P.O. Box 47745, 00100 GPO,  
Nairobi, Kenya



Tel: +254 20 3052000, Fax: +254 20 3052740  
E-mail: info@kemsa.co.ke

All Correspondence should be addressed to Chief Executive Officer

When replying please quote our ref:

Ref. No. KEMSA/FIN/23/24/06/27  
2024

Date: 27<sup>th</sup> June,

Mr. Harry Kintai, CBS  
Principal Secretary,  
State Department for Medical Services,  
Ministry of Health,  
P. O Box 30016-00100  
NAIROBI

5 JUL 2024

Dear

**RE: CONFIRMATION OF FUNDS TRANSFERS RECEIVED FROM THE  
MINISTRY OF HEALTH**

Kenya Medical Supplies Authority (KEMSA) acknowledges receipt of recurrent grant Ksh.385 million, development grant Ksh.155 million and funds for procurement of Health Products and Technologies (HPT's) Ksh. 1.6 billion for the FY 2023/2024. (Copy of funds received attached for ease of reference)

The purpose of this letter is to request for confirmation of remittance of the above funds to KEMSA for FY 2023/2024.

Yours

Dr. Andrew Mulwa  
Ag CHIEF EXECUTIVE OFFICER

Encls: