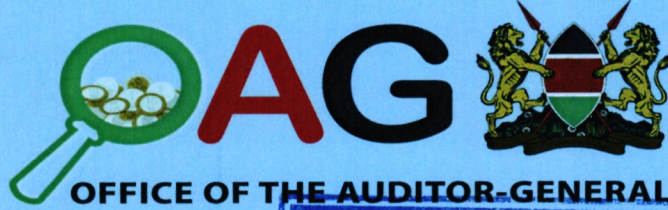


38



Enhancing Accountability



THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 18 FEB 2021

DAY:

Thursday

REPORT

PARLIAMENT
OF KENYA
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BY:

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OF

THE AUDITOR-GENERAL

ON

**HEALTH SECTOR SUPPORT PROJECT
(CREDIT NO.4771-KE)**

**FOR THE YEAR ENDED
30 JUNE, 2020**

**KENYA MEDICAL SUPPLIES AUTHORITY
(KEMSA)**

**KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT**



**Reports and Financial Statements
For the year ended June 30, 2020**

PROJECT INFORMATION

Kenya Health Sector Support Project (KHSSP) was initiated by the ministry of health, World Bank and DANIDA. The project objectives were to improve:

- (i) The delivery of essential health services for Kenyans, especially the poor,
- (ii) The effectiveness of planning, financing, procurement and logistics of Pharmaceuticals and medical supplies.

The key project indicators include:

- (i) Direct project beneficiaries (number) of which female (percent)
- (ii) Health facilities (level 2-4) without one of 14 tracer drugs at any point between delivery intervals (percent)
- (iii) Children immunized (number, disaggregated for Northeast Province)
- (iv) HSSF facilities meeting core financial management requirements of the fund (percent)
- (v) Timely payment to suppliers by KEMSA, based on agreed procurement contracts
- (vi) Facilities displaying quarterly information on funds received and availability of drugs at facility level (levels 2 and 3) (percent).

The support for commodities is intended to bring sustained relief to the frequent shortages and stock-outs of health commodities experienced in the primary health facilities. A reliable and steady supply of EMMS to the rural health facilities at levels 2 and 3 was to be established through the build-up of a reasonable buffer stock of these commodities at KEMSA, as well as reforms of the supply chain system. The support for commodities was to focus on delivering critical services and was to include EMMS for key health interventions such as child health and malaria. The financial support under the Project was to support reforms in the flow of funds from the ministry of finance through the ministry of health to KEMSA to improve the billing system, cover distribution costs, capacity development, and development of supplementary commodity services for hospitals.

**KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT**



**Reports and Financial Statements
For the year ended June 30, 2020**

The Project also addressed the key constraints that currently affect the availability of EMMS in the public health facilities in three coordinated ways.

1. The Project was to help to address the problem of insufficient budget for commodities and build up a buffer stock of EMMS for levels 2 and 3, and a limited extent for level 4 (sub-district hospitals).
2. The Project was supposed to support associated reforms to make the procurement and supply chain system more efficient and effective.
3. Finally, the Project also aimed to strengthen the financial sustainability of the KEMSA through improvements in its billing system, rationalization of the essential drugs list, faster payment of suppliers and activation of the drawing rights system.

The WB financing of commodities was mainly targeted for levels 2 – 3, with some to level 4, and focused on procurement of EMMS and other essential public health commodities. The money was funneled through the Health Commodity Basket of the Joint Financing Agreement to a special account managed by KEMSA. Procurement of the commodities would be done by KEMSA, using World Bank procurement guidelines and primarily international competitive bidding for the financing made available for health commodities. The release of funds was dependent on KEMSA being able to procure the commodities in a timely manner, and on the establishment of clear stocking policies at its central warehouse and for its customers.

Project Start Date:	July, 05 2010
Project End Date:	June 30, 2018
Project Sponsor:	The World Bank, DANIDA, Government of Kenya

Project contact person at Ministry of Health:

Name: Dr. Valeria Makory
Project Coordinator, KHSSP
Address: P.O. Box 30016
Ministry of Health
Afya House
Email: valeria.makory@gmail.com



**Reports and Financial Statements
For the year ended June 30, 2020**

CHIEF EXECUTIVE OFFICER'S REPORT

KEMSA has continued to attract and retain a number of key partners that provide Substantial financial, staffing and technical support. Having on board these partners is an Indicator of confidence in KEMSA's financial and operations systems and practices. Key partners include World Bank, USAID, Global Fund, Danida and UNICEF.

The World Bank through the Kenya Health Sector Support project has been a key partner in the following areas.

- Provision of seed capital for the medical revolving fund in KEMSA'S new business model
- Strengthening of KEMSA'S financial base from fees charged for procurement, Warehousing and distribution of partner-funded commodities.
- Capacity building of staff and improvement of operational processes.
- Strengthening of KEMSA'S ICT systems.
- Enhancing KEMSA'S filing system through the purchase of bulk filer.

Initially the project was to end on December 2016 however; there was an extension to June 30th 2018. KEMSA has now transferred the project fund balance totaling to **KES 289,090,323** to Ministry of Health.

KEMSA will continue to engage with strategic partners in provision of Medical supply chain solutions that add value to the discharge of its mandate under the KEMSA Act 2013 and realization of its Vision, in support of better health service delivery.

Mr. Edward Njoroge

Ag.Chief Executive Officer

Signature.....

Date.....

**KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT**



**Reports and Financial Statements
For the year ended June 30, 2020**

PROJECT MANAGEMENT STATEMENT OF RESPONSIBILITIES:

The project management is required to prepare financial statements which give a true and fair view of the state of affairs of Kenya Health Sector Support Project as at the end of the financial year and of its surplus or deficit for that year. During FY 2019/2020, the project reported a deficit of **KSH (331,070,910)** compared to deficit of **KSH (100,504,370)** in FY 2018/2019.

The project management is required to ensure that the Authority maintains proper accounting records which disclose with reasonable accuracy, the financial position of the project; he is also responsible for safeguarding the assets of the project. The project management accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, consistent with previous years and in conformity with the international Public Sector Accounting Standards (IPSAS).

The project management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Project as at 30th June 2020 and of its surplus for the year then ended. The project management further confirms the accuracy and completeness of the accounting records maintained by KEMSA which has been relied upon for the preparation of financial statements as well as the adequacy of the systems of the internal financial controls.

This statement is approved and signed by:

Mr. Waiganjo Karanja
Director, Finance & Strategy
ICPAK No. 7023

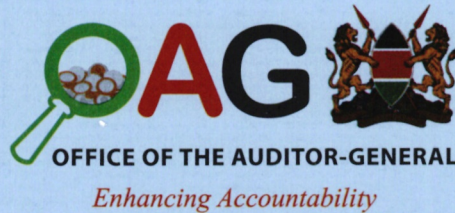
Signature.....
Date.....

Mr. Edward Njoroge
Ag. Chief Executive Officer

Signature.....
Date.....

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON HEALTH SECTOR SUPPORT PROJECT (CREDIT NO.4771-KE) FOR THE YEAR ENDED 30 JUNE, 2020 – KENYA MEDICAL SUPPLIES AUTHORITY (KEMSA)

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Health Sector Support Project Credit No.4771-KE Kenya Medical Supplies Authority (KEMSA) set out on pages 8 to 20, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Health Sector Support Project Credit No.4771-KE as at 30 June, 2020, 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 Schedule 2 Section II B (3) of the Financing Agreement Credit No.4771-KE dated 5 July, 2010 and as amended and restated on 21 January, 2014 between International Development Association and the Republic of Kenya and the Public Finance Management Act, 2012.

In addition, the special account statement presents fairly the special account transactions for the period and the closing balance has been reconciled with the books of account.

Basis for Qualified Opinion

Purchase of Asset, Equipment and Consumables

The statement of financial performance reflects purchase of assets, equipment and consumables expenditure of Kshs.25,046,348 for the year ended 30 June, 2020. However, the supporting schedule for this expenditure reflects Kshs.641,309,540 resulting in a variance of Kshs.616,263,192 which was offset against differed income without justification.

In the circumstances, the accuracy and validity of purchase of assets, equipment and consumables expenditure of Kshs.25,046,348 for the year ended 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Health Sector Support Project – Kenya Medical Supplies Authority (KEMSA) Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in 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 Public Procurement and Asset Disposal Act, 2015

During the year under review, the Kenya Medical Supplies Authority (KEMSA) procured 45,500 dispensing plastic resealable envelopes at a cost of Kshs.28,665,000 through tender No. KEMSA/DP03/2019-2021 and pharmaceutical items amounting to Kshs.94,962,092 through tender No. KEMSA/DP15/2018-2020 using direct procurement method. According to the Management, the use of the direct procurement method was aimed at mitigating against stock outs of critical items needed by the counties. The use of the direct procurement method was further justified on the basis that the identified supplier was a not for profit Faith-Based Organization. However, reasons given for the use of the direct procurement method in this case do not satisfy the conditions for use of the method as provided in Section 103(1) (2) of the Public Procurement and Asset Disposal Act, 2015.

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

2. Delay in Delivery of Goods

A review of procurement contracts entered into between the Authority and suppliers revealed instances of delay in delivery of goods for periods of 2-6 months by six suppliers with total orders of Kshs.19,718,531

The noted delay in delivery of goods if not addressed could adversely affect timely realization of the project objectives.

2. Variation of Contract Price

Contract for supply of chlorhexidine gluconate solution 5% was awarded to a supplier as per framework contract dated 18 October, 2018. The initial quantity was 16,573 units at Kshs.684.50 per unit translating to Kshs.11,344,218.50. Purchase order No. 819731 and 819732 were issued for supply of 7,500 units and 9,073 units respectively. However, out of the initial quantity of 16,573 units, only 7,500 units were delivered leaving a balance of 9,073 units. It was also noted that in call down No. 1 dated 20 November, 2019, the supplier agreed to supply additional quantity of 11,070 units at the price of Kshs.684.50 despite the fact that he had not supplied 9, 073 units from the initial contract which was outstanding for more than one year.

Further, in a letter dated 12 November, 2019, the supplier sought a 15% price variation citing increase in global price of raw materials and fluctuation of foreign exchange rates. Consequently, the Authority revised the price upward from Kshs.684.50 to Kshs.787.17 and cancelled purchase order No. 819732 for the 9,073 units and issued purchase order No. 824031 for 11,070 units, thereby resulting in additional cost of Kshs.931,524 for the 9,073 units supplied at the revised price of Kshs.787.17 per unit.

In view of the above, the public may not have realized value for money in respect of the varied contract that resulted in additional cost of Kshs.931,524.

4. Unresolved Prior Year Issue

Delay in Distribution of Equipment

In 2018/2019, it was reported that the statement of comprehensive income for the year ended 30 June, 2019 reflected purchase of assets, equipment and consumables amounting to Kshs.400,099,529 out of which equipment valued at Kshs.3,051,499 was still at KEMSA warehouses and had not been distributed for installation and commissioning despite the suppliers having been fully paid. A review of the matter in 2019/2020 indicated that equipment valued at Kshs.511,111 had still not been distributed for installation and commissioning as at 30 June, 2020.

Consequently, the public may not have realized value for money in respect of the undistributed equipment valued at Kshs.511,111 as at 30 June, 2020.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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 control, 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 Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its 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 terminate the Project or 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 are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those Charged With Governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Project 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

Report of the Auditor-General on Health Sector Support Project (Credit No.4771-KE) for the year ended 30 June, 2020 – Kenya Medical Supplies Authority (KEMSA)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

30 December, 2020

Report of the Auditor-General on Health Sector Support Project (Credit No.4771-KE) for the year ended 30 June, 2020 – Kenya Medical Supplies Authority (KEMSA)

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF FINANCIAL PERFORMANCE
For the Year Ended 30th June 2020

	Note	2019/2020 Kshs	2018/2019 Kshs
Revenue from non-exchange transactions			
Receipts from swap	1	-	249,539,459
Receipts for KEMSA Main		29,000,000	-
		29,000,000	249,539,459
Revenue from exchange transactions			
Bank Interest	1	29,690,951	43,434,983
Income for KEMSA Fees		-	83,654,749
		29,690,951	127,089,732
Total Revenue		58,690,951	376,629,191
Expenses			
Purchase of Asset, Equipment & consumable	2	25,046,348	400,099,529
	3	-	245,260
Bank Charges	4	11,406	15,932
Operating Expenses	5	364,704,106	76,772,841
Total expenses		389,761,860	477,133,561
Surplus/(Deficit) for the year		(331,070,910)	(100,504,370)

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF FINANCIAL POSITION

As at 30th June 2020

	Note	2019/2020	2018/2019
		Kshs	Kshs
-			
Assets			
Current assets			
Cash and Cash-equivalents	6	38,275,254	911,916,874
Accounts receivables	7	-	101,482,453
Total Assets		38,275,254	1,013,399,327
Liabilities			
Current Liabilities			
Trade and Other Payable from Exchange Transaction	8	38,009,352	65,799,323
Total Current Liabilities		38,009,352	65,799,323
Non -Current Liabilities			
Deferred income	9	-	616,263,192
Total liabilities		38,009,352	682,062,515
Net assets			
Revenue reserve	10	265,901	331,336,811
Total Net Assets and Liabilities		38,275,254	1,013,399,327

The Financial Statements approved by:

Mr. Waiganjo Karanja
Director, Finance & Strategy
ICPAK No. 7023

Signature.....
Date.....

Mr. Edward Njoroge
Ag. Chief Executive Officer

Signature.....
Date.....

STATEMENT OF CHANGES IN NET ASSETS
 For the Year Ended 30th June 2020

Attributable to the owners of the controlling entity						
	Self Insuran ce reserve	Reserve capital replacement development reserve	Housing Reserve	Accumulated Surplus	Minority Interest	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Balance as at 30 June 2018	-	-	-	431,841,182	-	431,841,182
Surplus For the Period Transfer to/from Accumulated Surplus	-	-	-	(100,504,370)	-	(100,504,370)
Balance as at 30 June 2019	-	-	-	331,336,811	-	331,336,811
Surplus For the Period Transfer to/from Accumulated Surplus	-	-	-	(331,070,910)	-	(331,070,910)
Balance as at 30 June 2020	-	-	-	<u>265,901</u>	-	<u>265,901</u>

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 KENYA HEALTH SECTOR SUPPORT PROJECT

STATEMENT OF CASH FLOWS
As at 30th June, 2020

	Note	2019/2020 Kshs	2018/2019 Kshs
Cash flows from operating activities			
Receipts			
Receipt from swap Secretariat	1		249,539,459
Other Income-Bank interest Earned	1	29,690,951	43,434,983
Income for KEMSA Fees	1	-	83,654,749
Receipt from KEMSA Main		29,000,000	
		58,690,951	376,629,191
Payments			
Bank Charges	4	11,406	15,932
Exchange loss	3	-	245,260
Purchase of Asset, Equip & consumable	2	25,046,348	400,099,529
Operational Expenses	5	364,704,106	76,772,841
		389,761,860	477,133,561
Cash Flows from operating activities		(331,070,910)	(100,504,370)
Adjust For:			
Decrease (Increase) in payable		(27,789,971)	(324,382,987)
(Increase) Decrease in receivable	7	101,482,453	(101,482,453)
Increase (decrease) in Deferred Income		(616,263,192)	
Net cash flows from operating activities		(873,641,620)	(526,369,810)
Cash flow from investing activities			
Cash flows used in Finance Activities		-	-
Net Decrease in cash and cash Equivalents		(873,641,620)	(526,369,810)
Cash and cash equivalents at the start of the year	6	911,916,874	1,438,286,684
Cash and cash equivalents at the end of the 30th June 2020		38,275,254	911,916,874

KENYA MEDICAL SUPPLIES AUTHORITY
WB KE-4771 HEALTH SECTOR SUPPORT PROJECT



Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS

For the year ended 30TH JUNE 2020

	Original Budget	Actual on Comparable Basis	Performance Difference	Reasons for Variances
	2019-2020	2019-2020	2019-2020	
Revenue				
Other Income - Bank Interest	-	29,690,951	29,690,951	This is interest earned during the FY on bank balances. The funds held are part of receipts for KEMSA capitalization
Bank Transfer from KEMSA Main	-	29,000,000	29,000,000	This is compensation for over-expenditure on Deferred Income. The funds were meant for KEMSA capitalization.
TOTAL INCOME	-	58,690,951	58,690,951	
Payments				
Bank Charges	-	11,406	(11,406)	These are bank charges incurred during the year.
Operating Expenses - KEMSA Fees expense	-	100,660,131	(100,660,131)	These are purchase of HPTs from KEMSA Capitalization funds, transfer of KEMSA part of bank interest and provision for DANIDA interest.
Ministry of Health Fund Transfer	-	289,090,323.48	(289,090,323)	This is project fund balance Transfer after project closure to MOH
TOTAL EXPENSES	-	389,761,860	(389,761,860)	
SURPLUS FOR THE PERIOD	-	(331,070,910)	(331,070,910)	



Reports and Financial Statements
For the year ended June 30, 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment. 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 judgment in the process of applying the entity's accounting policies.

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

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

a). Revenue Recognition

i) Revenue from non-exchange transactions

Fees

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

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Funds Transfers from the Ministry of Health's Swap Secretariat to the KHSSP Project are categorized into two:



**Reports and Financial Statements
For the year ended June 30, 2020**

- a) Funds meant for KEMSA's Capitalization in line with the project's objectives
- b) Funds meant for the Project's operations which is mainly strengthening of systems in public health facilities.

KEMSA follows the guidance of IPSAS 23 to determine which elements of the financial statements will be recognized because of the transactions. The standard gives clear guidance on treatment of assets when there is obligation to transfer future economic benefits or service potential to third parties.

Funds received for KEMSA capitalization have are recognized as both assets (cash) and Liability in the statement of financial position because the economic benefit is meant to be transferred to KEMSA.

Funds for the Project's operations are recognized as income in the Project's statement of Financial Performance.

Revenue from exchange transactions

Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

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

Finance Income

Finance income comprises interest receivable from holding current accounts.

b). Trade And Other Receivables

Trade and other receivables are recognized at fair values.

c). Cash And Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.



Reports and Financial Statements
For the year ended June 30, 2020

d). Trade And Other Payables

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

e). Exchange Rate Differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation as at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. KEMSA uses Central Bank Mean rate as at end of reporting period.

f). Comparative figures

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

g). 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, 2019.

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NOTES TO THE FINANCIAL STATEMENTS FY 2019/2020

<u>1</u>	<u>Operating income</u>	2019/2020	2018/2019
		Kshs	Kshs
	Receipts from Swap Secretariat	-	200,000,000
	Bank transfer from KEMSA Main	29,000,000	
	MOH Medical Grant	-	49,539,459
	Income for KEMSA Fees	-	83,654,749
	Bank Interest Earned	29,690,951	43,434,983
		58,690,951	376,629,191
<u>2</u>	<u>Purchase Asset, Equip & Consumable</u>	2019/2020	2018/2019
		Kshs	Kshs
	Purchase Asset, Equip & Consumable	25,046,348	400,099,529
		25,046,348	400,099,529
<u>3</u>	<u>Exchange Loss</u>	2019/2020	2018/2019
		Kshs	Kshs
	Payment FY 18/19	-	358,526,282
	Less Payable(Equipment) FY 17/18	-	358,281,022
		-	245,260
<u>4</u>	<u>Finance costs</u>	2019/2020	2018/2019
		Kshs	Kshs
	Bank Charges	11,406	15,932
	Total Expenses	11,406	15,932

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5	<u>Operating expenses</u>	2019/2020	2018/2019
		Kshs	Kshs
	Interest Transfer 04.02.2020	50,000,000	-
	Interest Transfer 24.02.2020	23,414,867	
	Interest Refundable to DANIDA	2,198,916	3,909,148
	Project savings refund to MOH	289,090,323	
	KEMSA fees	-	72,863,692
	Total expenses	<u>364,704,106</u>	<u>76,772,841</u>
6	<u>Cash and cash equivalent</u>	2019/2020	2018/2019
		Kshs	Kshs
	Non Pooled Account	177,679	216,881,203
	Pooled Account	38,097,575	695,035,671
	Total Expenses	<u>38,275,254</u>	<u>911,916,874</u>
7	<u>Accounts Receivable</u>	2019/2020	2018/2019
		Kshs	Kshs
	Receipts from MOH	-	333,194,208
	Purchase of Medical Commodities	-	(158,848,063)
	KEMSA Fees Expense	-	(56,978,886)
			(15,884,806)
	Total Bal	-	<u>101,482,453</u>
8	<u>Trade and other payables</u>	2019/2020	2018/2019
		Kshs	Kshs
	Interest Payable to Danida b/f	35,810,436	31,901,288
	Interest Payable to Danida for the year	2,198,916	3,909,148
	Other Creditors (suppliers)	-	29,988,887
	Total	<u>38,009,352</u>	<u>65,799,323</u>

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9 <u>Deferred income</u>	2019/2020	2018/2019
	Kshs	Kshs
At the beginning of the Year B/F	616,263,192	616,263,192
Purchase of Medical Commodities	(616,263,192)	
World Bank Capitalization Receipts		
Total Bal	-	616,263,192
10 <u>Revenue Reserves</u>	2019/2020	2018/2019
	Kshs	Kshs
At the beginning of the year	331,336,812	431,841,182
Surplus/deficit for the year	(331,070,910)	- 100,504,370
Total Revenue Reserves	265,902	331,336,812
11 <u>Cash Generated from Operations</u>	2019/2020	2018/2019
	Kshs	Kshs
<u>Surplus (Deficit) Before Tax & Extra Ordinary Items</u>	(331,070,910)	(100,504,370)
Adjustments For:		
Depreciation	-	-
Surplus/(Deficit) Before Working Capital Changes	(331,070,910)	(100,504,370)
Increase/(Decrease) in payables	(27,789,971)	(324,382,987)
Increase/(Decrease) in Receivable	101,482,453	(101,482,453)
Increase (decrease) in Deferred Income	(616,263,192)	-
Cash From Operations	(873,641,620)	(526,369,810)
Decrease/(Increase) in Deferred Income	-	-
Cash flows Before Extra-ordinary Items	(873,641,620)	(526,369,810)
Extra ordinary Items	-	-
Net cash generated from operating activities	(873,641,620)	(526,369,810)

12. Contingent Liability

Trade and other payables include a contingent liability of Kshs 38,009,352 interest earned from DANIDA's contribution to the fund that may be refunded to them. It comprises of an amount Kshs 35,810,436 for the period up to June 2019 and kshs 2,198,916 for year ending 30th June 2020. The amount refundable for the year is a 9% provision on interest earned during the year.

NOTES TO THE FINANCIAL STATEMENTS FY 2019/2020

PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated period within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status:	Timeframe:
				(Resolved/ Not Resolved)	(Put a date when you expect the issue to be resolved)
1.0	<p>Unconfirmed Receipt and Utilization of project Funds The statement of comprehensive income for the year ended 30th June 2019 reflects total revenue of Ksh 376,629,191 which comprises of receipt transferred from MOH (KHSSP/EMMS) amounting to Ksh 333,194,208 and a bank interest of KS 43,434,983 .The above Ksh 333,194,208 constitute an amount of KSH 200,000,000 Receipt from sector wide approach (SWAP) secretariat, Ksh 49,539,459 indicated as Ministry of Health Grants and Ksh 83,654.749 which is indicated as income for KEMSA facilitation. However the amounts indicated had not been received in the project bank account by closure of the Financial year but were instead received in the KEMSA Equity Trade account .Further it is not clear how the corresponding expenditure financed by the total amount of Ksh 333,194,208 was captured in the project ledger given that the amount had not been received in the project account</p>	<p>Receipts of Ksh 200,000,000 and ksh 133,194,208.35 were received on 9th July 2018 from Ministry of Health to KEMSA Equity Trade Account. Out of receipt of Ksh 200,000,000, Ksh 174,732, 869 was spent leaving a balance of Ksh 25,267,131 that formed part of funds that have been transferred to Ministry of Health. Out of Ksh 133,194,208, Ksh 56,978,886 was actual fees earned Leaving a balance of Ksh 76,215,321 that has formed part of Project funds transferred to MOH. This amount of Ksh 76,215,321 and Ksh 25,267,131 totaling to Ksh 101,482,453 in Financial statement was treated as a receivable to the project From KEMSA main account in FY 2018/2019</p>	Finance Manager	Resolved	30/06/2020

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2.0	Delay in distribution of Equipment	Distribution in progress	Ware house Manager/Quality assurance Manager	Partially done	30/06/2020
3.0	<p>Delayed Project Closure A review of project agreement indicate that the project was to close on 30 June 2018. During the year under review the project incurred expenditure amounting to Ksh 477,133,561. The management did not avail for audit review evidence of approval of the project extension or a letter of no objection from the donor</p>	<p>The Project was initially for 48months ending 30th September 2015. After the project was extended to 30th June, 2018. As per the Project Appraisal Documents (PAD) closure month is 3 months after end date</p>	Finance Manager	<p>Done Project fund balance has been transferred to Ministry of Health totaling to Ksh 289,090,323</p>	30/06/2020