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THE AUDITOR-GENERAL

ON

**KENYA MEDICAL SUPPLIES AUTHORITY
(KEMSA)**

**FOR THE YEAR ENDED
30 JUNE, 2023**



KEMSA

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KENYA MEDICAL SUPPLIES AUTHORITY

YOUR PARTNER IN HEALTHCARE

KENYA MEDICAL SUPPLIES AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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

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1. Acronyms, Abbreviations and Glossary of Terms

A: Acronyms and Abbreviations

CEO	Chief Executive Officer
CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
TNT	The National Treasury
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
OSHA	Occupational Safety and Health Act of 2007
PFM	Public Finance Management
PPE	Property Plant & Equipment
PSASB	Public Sector Accounting Standards Board
SAGAs	Semi-Autonomous Government Agencies
SC	State Corporations
WB	World Bank
HPTs	Health Product and Technologies

B: Glossary of Terms

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

Comparative Year- Means the prior period.

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2. Key Entity Information and Management

(a) Background Information

Kenya Medical Supplies Authority (KEMSA) was established as a State Corporation under the Kenya Medical Supplies Authority Act of 25th January 2013, as a successor to the Kenya Medical Supplies Agency established under the State Corporations Act. The Act gave KEMSA greater autonomy to run its affairs with clearly defined functions. The Act also ensured the Authority's functions were in tandem with the functions of devolved governments established under Article 176 of the Constitution and Section 67 of the Health Act, 2017.

The Health Laws (Amendment) Act, no. 5 of 2019 amended the 2013 act to provide for collaboration between KEMSA and county governments. The Health Laws (Amendment) Act further provides that national and county health facilities would refer to KEMSA for their health products and technologies. This is in support of the broad health sector objectives of improving the health and access to proper healthcare of Kenyan people. KEMSA supply chain activities encompass a range of functions, including forecasting and quantification. The Act further provides a framework through which KEMSA can collaborate and work with the national referral hospitals and the county governments by being the national strategic stock reserve and prescribes essential health pack.

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.

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

➤ **Vision**

"A world class provider of health supply chain solutions that save and transform lives".

➤ **Mission Statement**

"To provide reliable, affordable and quality health products, technologies, and supply chain solutions for improved health care".

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➤ **Strategic Objectives of the Authority**

1. *Financial Stewardship*: Strengthened financial and risk management.
2. *Customer Focus*: Efficiently meet Customer needs for enhanced customer satisfaction.
3. *Internal Business Processes and Systems*: Improved internal systems through digital solutions.
4. *Strategic Partnerships*: Selection and cooperation with strategic partners for attainment of mutually beneficial goals.
5. *Leadership and Governance*: Dynamic and efficient leadership, governance and management.
6. *Innovation and technology*: Intelligent deployment of technologies that will play an important role in making the healthcare supply chain more effective and efficient.

(c) Key Management

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

- Board of Directors
- The Chief Executive Officer
- Management

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and had direct fiduciary responsibility were.

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No.	Designation	Name
1.	Ag. Chief Executive Officer	Dr. Andrew Mulwa (wef-15 th May 2023)
2.	Director- Legal/Corporation Secretary	Fredrick Wanyonyi
3.	Director, Finance & Strategy	Waiganjo Karanja
4.	Operations Director	Edward Njoroge
5.	Director Human Resource & Administration	Ebla Mohamed
6.	Ag. Director Procurement	John Kabuchi
7.	Ag. Director, Commercial Services	Jackline Mainye
8.	Ag. Head, KEMSA-USAID MCP Program	Dr. Peter Mwangi
9.	Internal Audit & Risk Manager	Teresa Mute
10.	Finance Manager	Caroline W. O. Anunda

(e) Fiduciary Oversight Arrangements

The Board of Directors of the Authority comprises of the Chairperson who is appointed by the President, the CEO is appointed by the Board of Directors in concurrence with the Cabinet Secretary of Health, the Principal Secretary of the Ministry for Health or his representative, the Principal Secretary to the National Treasury or his representative, a person recruited by the Council of Governors and appointed by the Cabinet Secretary for Health, three members who are not public officers with diverse medical supply chain management experience appointed by the Cabinet Secretary-Ministry of Health.

All non-executive directors are independent of management of the Authority. The Board has varied and extensive skills in the areas of medical supply chain management and business management.

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The Board meets quarterly and has a formal schedule of matters reserved to it and which are attended to as per the board work plan. Board papers are circulated well in advance of the Board meetings by the secretary to the board. The key function of the Board is to guide and control the performance and management of the affairs of the Authority.

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

The Board has appointed four (4) standing Committees to which it has delegated certain responsibilities with the chairpersons of the Committees reporting to the full board. Operations of each committee are defined in terms of reference approved by the board. The composition of the standing Committees during the year is as set out below.

Finance, Strategy & Development Committee	Human Resources Committee	Audit and Risk Committee	Supply Chain Committee
Composition	Composition	Composition	Composition
Directors and the CEO	Directors and the CEO	Directors and the Internal Audit Manager	Directors and the CEO
Main Function	Main Function	Main Function	Main Function
Review and monitoring of KEMSA financial position, accounts, financial statements and statutory reports,	Consideration of human resources and administration matters that require to be considered by the Board including recruitment, promotions,	Consideration of matters relating to audit queries, audit management letters and quality assurance of	Oversee QA & control systems, warehousing & distribution of medicines, customer services, co-ordinate updates of EMMS list, commodities

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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.	discipline and welfare of staff.	systems and processes, including review of risk management.	procurement systems compliance to the law, ICT policy, accuracy of stock
Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum
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
Chairperson	Chairperson	Chairperson	Chairperson
FCPA. Hesbon Omollo	Ms. Jane Mbatia	Hon. Bernard Bett	Dr. Jane Masiga
Members	Members	Members	Members
Dr. Peter Chemwile Ms. Mary Awino Dr. Jane Masiga	Hon. Bernard Bett Dr. Peter Chemwile Ms. Mary Awino	Ms. Jane Mbatia Ms. Mary Awino Dr. Peter Chemwile	FCPA. Hesbon Omollo Ms. Mary Awino Dr. Peter Chemwile

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(f) Headquarters

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

(g) Contacts

Telephone: +254 20 3922 000
Email: info@kemsas.co.ke
Website www.kemsas.co.ke

(h) Bankers

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

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(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:

	<p>DOB: 13th May 1982</p> <p><i>Non-Executive Director</i></p> <p><i>Chairperson - Board of Directors</i></p> <p>Effective 15th May 2023</p> <p>Profession/Academic Qualifications: 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> <p>Work Experience; 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 & Principal Secretary Planning & Statistics; Chairman, National Tea Steering Task Force.</p>
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	<p>DOB: 23rd February 1975</p> <p><i>Non-Executive Director</i></p> <p>Profession/Academic Qualifications: BCOM, CPA, CS</p> <p>Work Experience: Managing Partner-Bon & Drew Associates (Audit, Tax and Management consulting firm)-2011-2023; Elected ICPAK council Member - 2021-todate. 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>
<p>FCPA Hesbon Omollo</p>	<p>DOB: 12th March 1960</p> <p><i>Non-Executive Director</i></p> <p>Profession/Academic Qualifications: 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>Work Experience: Managing Director, Head of Operations, Staff Pharmacist - Mission for Essential Drugs.</p>
	<p>Dr. Jane Masiga</p>

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	<p>DOB: 12th December 1965</p> <p><i>Non-Executive Director</i></p> <p>Profession/Academic Qualifications: 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&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>Hon. Bernard Bett</p>	<p>DOB: 11th May 1981</p> <p><i>Non-Executive Director</i></p> <p>Profession/Academic Qualifications:(BED) Bachelor of Education, Master of Philosophy in Economics -Moi University</p> <p>Work Experience Member of National Assembly 2013-2017; Part-time lecturer Eldoret Polytechnic-2009-2012; Former Member of Departmental Committee on Lands and Natural Resources.</p>

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 <p>Ms. Mary Atieno Awino</p>	<p>DOB: 25th December 1964</p> <p><i>Non-Executive Director</i> - Alternate to Principal Secretary, The National Treasury</p> <p>Profession/Academic Qualifications: MBA, BCOM, Dip-Supply Chain Management. Part III</p> <p>Professional Experience 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 unit Ministry of health (2003-2004); Head of procurement National Assembly (1992-1996)</p>
 <p>Dr. Peter Chemwile</p>	<p>DOB :14th February 1971</p> <p><i>Non-Executive Director</i> - Alternate to Principal Secretary, Ministry of Health: State Department of Medical Services.</p> <p>Profession/Academic Qualifications: PhD in Business Administration; Master of Business Administration; Post Graduate Diploma in Human Resource Management; Full Member -Kenya Institute of Management.</p> <p>Professional Experience Senior Chief Finance Officer-Ministry of Labour (March 2021-March 2022); Senior chief Finance Officer-Ministry of Water Sanitation and Irrigation (2018-2020); Chief Finance officer -Ministry of Agriculture (2015-2018);</p>

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	Deputy Chief Finance Officer-Ministry of Mining (2012-2015)
 <p>Dr. Andrew Mulwa Ag. Chief Executive Officer</p> <p>Effective 17th May, 2023</p>	<p>DOB: 22nd November, 1983</p> <p>Profession/Academic Qualifications:</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); Bachelor of Medicine and Bachelor of Surgery (MBCHB) University of Nairobi (2008).</p> <p>Professional Experience</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>

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Mr. Fred Wanyonyi
Director-Legal Services

DOB: 4th April 1966

Corporation Secretary

Profession/Academic Qualifications: LLB, DIP. Law

Work Experience: Company Secretary-Nzoia Sugar,
Advocate-Wetangula & Co. Advocate-P.L. Nalo & Co.
Advocates, Pupil-Simiyu Wetangula & Co Advocates

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4. Key Management Team



Dr. Andrew Mulwa
Ag. Chief Executive Officer
MBChB, MSc
Effective 15th May 2023



Mr. Fred Wanyonyi
Director-Legal
Services



Mr. John Kabuchi
Ag Director
Procurement



Mr. Edward Njoroge
Director-Operation

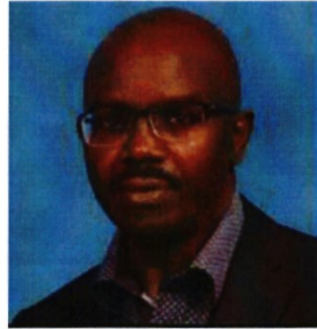


**Mr. Waiganjo
Karanja CPA,
CISA, CS**
Director Finance &
Strategy

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Ms. Ebla Mohamed
Director-Human Resource & Administration



Dr. Peter Mwangi
Ag. Director-Programs



Ms. Jackline Mainye
Ag. Director, Commercial Services



Ms. Teresa Mute
Internal Audit Manager



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



Ms. Catherine Maingi
Planning and Continuous Improvement Manager



Ms. Caroline Gichinga
Procurement Manager

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5. Chairperson's Statement

Ladies and gentlemen, on behalf of the Board of Directors, management and the entire KEMSA fraternity, I am delighted to present to you the Authority's financial and non-financial performance report for the financial year 2022/2023.

A Challenging Year

In the financial year under review, the Authority encountered various obstacles mainly; global challenges, issues related to leadership, governance, accountability, and the transparency of our supply chain processes.

In recognizing the challenges facing KEMSA, his Excellency the President and the Cabinet Secretary- Ministry of Health reconstituted the Board, which subsequently appointed a new Acting CEO to solve and clear emerging concerns from our stakeholders.

As a Board, our role is well defined and we are clear on the task ahead of providing governance, oversight and assisting management in sound decision making bearing in mind the promise to the public and our stakeholders. Consequently, we take our responsibility with greatest importance and commit to use our expertise to satisfy our esteemed customers and stakeholders.

Financial Performance Highlights

The challenges notwithstanding, the business transformation strategies executed in the last financial year yielded positive results with several growth areas.

KEMSA's capacity for facility ordering was on an upward trajectory, as evidenced by the successful delivery of 123,000 units to over 11,500 public health facilities the authority serves in last-mile locations across the country.

The sales/turnover volumes increased by **27%**, from **Kshs 6.31 billion** to **Kshs 8.03 billion**. This has led to an impressive order fill rate increase of 51 % for EMMS and 80% for Program

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Items. Additionally, the organization has achieved efficient order processing times, averaging at 14.4 days for hospitals and 16.9 days for RHF's.

The Authority's gross margin improved from -21% to -4%. Despite this improvement, there was an impairment of COVID-19 commodities for the year of **Kshs 756.71 million**, HPT's loss thorough expiries and damages of **Kshs. 1.213 billion** and a foreign exchange loss of **Kshs 496 million**. Together, these factors led a cumulative loss of **Kshs 3.90 billion** that represents an 30% increase from the loss of **Kshs 2.99 billion** incurred in the fiscal year 2021/22. This performance was however significantly below the projected surplus of **Kshs 837.6 million**.

Debt: KEMSA's overall debt stands at **Kshs 5.9 billion** which has affected the Authority's working capital and has impacted negatively on the order fill rate. Counties owe KEMSA approximately **Kshs 3.079 billion** out of which **Kshs 317.7 Million** has been outstanding for over one year. The Authority operates a HPT's revolving fund from where the sales proceeds are applied for the replenishment of HPT's.

The board and management are actively engaging the Governors of county governments to seek their support in clearing outstanding payments owed to KEMSA.

Future Outlook

Change/Transformation

The theme for the year under review and the current year of KEMSA is transformation of the Authority. KEMSA is undergoing a significant transformation aimed at accelerating operational efficiency and overcoming challenges that have hindered the fulfilment of our mandate. The Board and management maintain a positive outlook on the Authority's growth prospects with the reform agenda now 85% implementation. This positive outlook will be underpinned by a disciplined focus on the transformation strategy execution. The Board has committed to ensuring a 100% completion rate for all the priority areas of reform identified in the KEMSA Reforms Implementation Committee (KRIC) report and the strict adoption of the KEMSA turnaround strategic plan 2023-2024. The KEMSA turnaround

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strategic plan 2023-2024 will focus on building momentum for organisational productivity; to guarantee efficient last-mile delivery of health commodities countrywide. The new strategy has been formulated to position the Authority as the supply chain solutions provider of choice for the local health system. The KEMSA turnaround strategic plan 2023-2024 is founded on three strategic pillars and two enablers focusing on driving operational excellence, enhancing customer experience and repositioning the organisation as follows:

1) Operational excellence; by Strengthening Procurement

The board together with the management and great support from the government endeavours to restore stakeholders' trust in KEMSA by reforming the procurement Department. Significant progress has already been made in various areas, including strengthening procurement processes to restore public and donor trust. We are implementing transformative measures to enhance fairness, transparency, accountability, and value for money in our procurement activities. This includes the establishment of clear procurement guidelines and leveraging technology for end-to-end visibility. We are also advocating for changes in regulations to promote healthy competition and prevent single-sourcing practices, ultimately improving the availability of commodities and reducing stock-outs.

The board is also advocating to operationalize the Amendments made last year to the Procurement Act will make it possible for multiple awards. This will address the 'winner takes it all' scenario and support the spreading of risks by award of contracts to several suppliers per item. The board has also directed the creation of a market survey unit within the procurement department in an endeavour to ensure that KEMSA realises value for money on tenders.

2) Customer experience

We acknowledge our role as a results-oriented public, not-for-profit commercial agency, and we strive to maintain high customer experience standards while upholding the highest management and ethical standards. We value our customers by providing quality and

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affordable health products and technologies geared towards sustainability of a long and mutually beneficial relationship. We focus on low cost and best value of the products and services we provide to our customers to the last mile.

3) Financial sustainability

The organization faced financial limitations, hampering its ability to procure essential health products and vital technologies required to meet the needs of the various counties it serves. The Board and Management has however instituted robust credit controls, debt management and collection strategies and are very committed to regaining donor support to improve its cashflow through provision of agency services. Equally the Board is undertaking rigorous and robust resource mobilization strategies and pursuing the government to recapitalize the Authority.

4) People & culture

Intentional focus on human resource reforms geared towards culture, an efficient work force. The reforms on human resource are on top gear and so far, the Human Resource Instruments review is at approximately 85% completion.

5) Governance

The main change is the establishment of a new board and the appointment of an acting CEO, who are committed to put KEMSA where it ought to be and giving the authority a new face of leadership and a greater commitment to change the corporate governance of the Authority. As part of our commitment to corporate governance, we emphasize transparency, accountability, risk management, internal controls, ethical leadership, and good corporate citizenship. To ensure the success in the implementation of the strategic plan, the board has formed committees based on the rich expertise of the board members that will ensure the strategic plan is successfully implemented. We are dedicated to fulfilling our mandate in improving healthcare in Kenya, aligned with the goal of Universal Health Coverage.

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6) *Systems Automation*

Board is investing in a new Enterprise planning System (ERP) that will see the full automation of all our functions, and ensure end to end visibility of all our processes.

Our success this far has been made possible by the dedicated KEMSA Management, Staff teams and development partners. KEMSA will continue to collaborate with development partners and all our stakeholders to strengthen our capacity and optimize knowledge sharing for a more efficient supply chain. We are committed to contributing to national efforts to create a more equitable, healthier, and prosperous country.



Irungu Nyakera, CPA(K), CBS

Chairperson - Board of Directors

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6. Report of the Chief Executive Officer

This year signifies a pivotal juncture in the journey of the Kenya Medical Supplies Authority (KEMSA) as we present the organization's financial performance. We acknowledge the invaluable support from our diverse stakeholders and their substantial contributions to our transformation endeavours.

Our organizational transformation strategy is anchored in the reinforcement of our supply chain system, with a primary focus on conducting a comprehensive review of the procurement process. This review aims to introduce transparency and integrity, which are fundamental elements in realizing the Authority's mandate.

Concurrently, our management is actively engaged in the review of our human resource mechanisms, aligning them with the authority's mission to provide affordable, dependable, and high-quality Health Products and Technologies (HPTs) to the nation's public health facilities.

In response to economic challenges, KEMSA has initiated robust financial controls at all operational levels to curtail the squandering of precious resources and promote operational efficiency. The execution of our recovery strategy is designed to tackle systemic challenges within the national supply chain, leveraging automation to establish end-to-end visibility of health products while strengthening accountability and reporting throughout the supply chain.

The restructuring process, instigated by the Government through the Ministry of Health (MoH) for the achievement of Universal Health Coverage and the newly reconstituted board, has achieved several significant milestones. Functionally, KEMSA plays a pivotal role as a strategic state agency entrusted with the responsibility of procuring Health Products and Technologies (HPTs), warehousing, ensuring quality assurance, and facilitating the last-mile distribution of health commodities. The functionality of KEMSA is

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crucial to the smooth operation of the national health system, and its absence could severely compromise our national security and development plans. Therefore, our reform agenda is dedicated to positioning KEMSA as a world-class health commodity supply chain solutions provider, committed to saving and transforming lives.

Health Product and Technologies Security.

Ensuring the security of HPTs, KEMSA is actively reengineering its business processes by implementing a precise product selection, quantification, procurement, and distribution strategy. We are collaborating closely with the Ministry of Health (MoH) and other relevant stakeholders to expand the existing Essential Medicines and Technologies lists, guaranteeing optimal availability of HPTs in all public health facilities. To achieve this objective, the Authority is expediting the procurement of vital Essential Health commodities as guided by the Kenya Health Essential Commodities lists. Additionally, we remain dedicated to conducting regular capacity-building programs on commodity and data management to support counties in enhancing their inventory management and demand predictability, thereby mitigating perennial stockouts.

Over the last year, KEMSA's operational excellence resulted in the distribution of HPTs valued at Kshs. 27.3 billion, reaching 9,134 facilities nationwide.

In FY 2022/23, we observed a slight decline in stock availability for KEMSA's HPTs sales, primarily attributed to supplier delivery delays. While notable progress was made in the average Order Fill Rate and Order Turnaround Time (OTT), it's worth noting that these figures fell short of their respective targets.

The average Order Fill Rate for KEMSA Capital stood at 51% rate compared to the previous year's 50%, and for programs, an impressive OFR of 80% rate was achieved in contrast to the previous year's 77%. However, it's important to note that these figures fell short of their respective targets of 90% and 100%.

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In terms of efficiency, the annual Order Turnaround Time (OTT) for Hospitals increased to 14.4 days from the previous year's 12.6 days, falling short of the intended target of 7 days. Similarly, for Primary Health Facilities, the OTT stood at 16.9 days, showing improvement from the previous year's 19.8 days, but still falling short of the 10 days targets.

Financial Performance

Turning to our financial performance, KEMSA's total income for the FY 2022-2023 was Kshs 1.66 billion, significantly below the target of Kshs 4.77 billion by 65%. Meanwhile, the Authority's total expenses for the same period reached Kshs. 4.31 billion, representing a 49% increase from the previous year's expenditure of Kshs. 2.90 billion. This increase in expenditure is primarily due to tax obligations, along with Forex Exchange Losses and Impairment Losses as detailed:

- Tax Obligation paid during the year of **Kshs 1.316 billion**.
- Forex Exchange Loss of **Kshs 495.58 million**
- Impairment Loss of **Kshs 756.71 million**

As a result, the Authority realized a deficit of Kshs 3.90 billion, with Capital Expenditure amounting to Kshs 548.28 million. The primary capital expenditure relates to the ongoing construction of the National Supply Chain Centre. During the review period, the Authority received Kshs 120 million as a recurrent grant from the national government.

Fostering Partnerships and collaborations

KEMSA is intensifying partnerships with development organizations to revitalize healthcare supply chains and bolster stakeholder confidence. In the past year, we collaborated with various development partners i.e. World Bank, The Global Fund, United Nations International Children's Emergency Fund (UNICEF), AMREF Health Africa, CDIC Kenya, Clinton Health Access Initiative (CHAI), KAIZEN Institute and UNFPA.

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Noteworthy, the authority inked an IPA with UNFPA, a commitment of USD 10.2M spread over four years, dedicated to Family Planning commodities & supply chain enhancement, with an expected USD 1.5 million disbursement in the fiscal year 2023/24. The successful completion of Phase 1 USAID transition requirements signifies a renewed relationship with USAID. These collective efforts highlight KEMSA's steadfast commitment to service excellence and contribute to their vision of optimizing healthcare supply chain management in Kenya.

KEMSA Reforms

In order to ensure the success of UHC, the authority has embarked of reforms that are geared towards improved service delivery and strengthened brand image. The reforms include:

a) Human Resource

KEMSA has undertaken a thorough review of its staff structure, leading to a streamlined team with 538 members by June 2023. A recalibration is underway to reshape the Human Resource instruments. This endeavour will not just ensure operational agility but will also serve to align roles more tightly to KEMSA's overarching strategic vision.

b) Revolutionizing Procurement:

KEMSA has embedded transformative procurement measures that emphasize transparency, fairness, value for money, and accountability. The roll out of e-procurement via ERP will significantly enhance procurement transparency.

c) Automation & Technological Enhancement:

ERP Modernization and a revamped Logistics Management Information System (LMIS) will bolster connectivity, ensuring accountability and swift decision-making throughout the supply chain. By interfacing KEMSA-LMIS with government systems and Health facilities Health Management Information System (HMIS), KEMSA promises heightened transparency and real-time order monitoring for counties.

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d) Operational Efficiency:

To revitalize its financial health, KEMSA is strategizing to sell off slow moving commodities, freeing up space and boosting working capital. In order to support UHC, KEMSA prioritizes critical supplies like vital products, tracer items, and class-A products, essential for a robust public health facility commodity infrastructure.

The new state-of-the-art warehouse in Embakasi not only modernizes KEMSA's storage capabilities but also brings about a drastic annual rent reduction, leading to substantial savings.

e) Governance:

KEMSA has put in place a well-structured governance framework that will form the foundation for a successful and sustainable organization. By prioritizing transparency, compliance, risk management, and stakeholder engagement, the Authority will navigate challenges, seize opportunities, and deliver essential HPTs efficiently and effectively to the counties.

Appreciation

My gratitude goes to our parent Ministry, National Treasury, Strategic Partners, other National Government Agencies and Institutions, County Government, Faith Based Health facilities for the continued support during the year. I also recognise the role of the Board of Directors for their strategic policy direction and guidance and all KEMSA staff and management for their commitment and dedication to deliver our mandate.



Dr. Andrew Mulwa
Ag. Chief Executive Officer

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**7. Statement of Performance against Predetermined Objectives for FY
2022/2023**

KEMSA has 6 strategic pillars and objectives within its Strategic Plan for the FY 2019/2020-2023/2024. These strategic pillars are as follows:

Pillar 1: Financial Stewardship: To ensure a robust financial framework for a concrete financial base.

Pillar 2: Customer Focus: To increase Market Share from 70% to 90%.

Pillar 3: Internal Business Processes and System: To have robust physical facilities, internal business processes, systems, and infrastructural upgrades that support business growth.

Pillar 4: Strategic Partnerships: To develop and strengthen strategic alliances and partnerships for improved health supply chain systems.

Pillar 5: Leadership and Governance: To develop a dynamic, transparent, and accountable governance structure.

Pillar 6: Innovation and Technology: To develop and maintain highly effective, reliable, and secure ICT solutions that enhance user experience in healthcare service delivery.

KEMSA develops its annual work plans based on the above 6 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 2022/2023 period for its 6 strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: Financial Stewardship	To ensure a robust financial framework for a concrete financial base.	a) Value of Capitalization b) Budget Absorption rate c) Gross Profit Margin	i. Increase revenue from supply chain services. ii. Share Health Supply Chain Expertise. iii. Enhance KEMSA capitalization from KES 8 billion to KES 10 billion. iv. Develop and implement a cost management mechanism. v. Ensure Business sustainability. vi. Integration of orders	a) KES 8.4 billion Capitalization b) 122% Budget Absorption c) -4% Gross Profit Margin d) Integrated distribution of program items as well as KEMSA sales items.
Pillar 2: Customer Focus	To increase Market Share from 70% to 90%.	a) % of debt recovered b) Value of sales c) Customer Satisfaction rate.	i. Increase demand for KEMSA Health Products & Technologies. ii. Enhance commercial performance.	a) 32% of debt recovered. b) KES 8.04 billion

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			<ul style="list-style-type: none"> iii. Improve marketing communication. iv. Improve customer relationship management. v. Strengthen the capacity of SSD. 	<ul style="list-style-type: none"> c) Over 9000 facilities reached in terms of access to HPTs.
Pillar 3: Internal Business Processes and Systems.	To have robust physical facilities, internal business processes, systems, and infrastructural upgrades that support business growth.	<ul style="list-style-type: none"> a) % Order fill rate b) Order Turn Around Time. (for Hospitals and RHF's) 	<ul style="list-style-type: none"> i. Bi-annual Review of Health Products and Technologies demand - strengthen selection, forecasting, and quantification. ii. Develop and update appropriate products and specifications in collaboration with MOH guidelines and customers. iii. Advocate for the enactment of new regulations for the PPAD Act 2015 to ensure the regulations meet KEMSA's needs. 	<ul style="list-style-type: none"> a) Average OFR KEMSA EMMS- 51% and programs-80%. b) average order turnaround time- Hosp-14.4 days Average Turnaround time RHF's-16.9 days. Improved visibility of tracks in transit.

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			<ul style="list-style-type: none"> iv. Strengthen quality assurance processes and systems throughout the supply chain. v. Improve operational performance management. vi. Improve Order Fill rate. vii. Improve order turnaround time. viii. Improve Staff welfare by the provision of amenities and recreational activities. ix. Establish employee assistance programs 	
Pillar 4: Strategic Partnerships	To develop and strengthen strategic alliances and partnerships for improved	<ul style="list-style-type: none"> a) Number of new partners on board b) Number of existing key stakeholders 	<ul style="list-style-type: none"> i) Develop and sustain transformational relationships with development partners. ii) Leverage on the strength of local manufacturers and industry players. iii) Build and sustain partnerships with key stakeholders. 	<ul style="list-style-type: none"> a) 2 new partners on board. b) 7 existing Partners (stakeholders).

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	health supply chain systems.		iv) Strengthen collaboration with the Ministry of Health and the National Treasury	
Pillar 5: Leadership and Governance	To develop a dynamic, transparent, and accountable governance structure	a) % increase in employee engagement index b) % Audit Recommendations accepted and implemented	i) Provide effective leadership and oversight. ii) Strengthen management systems for enhanced efficiency. iii) Improve public opinion, attitude, and behaviour of key stakeholders. iv) To Strengthen Enterprise Risk Management and Strengthen BCM v) Strengthen corporate security risk and disaster management programs. vi) Review Human Capital Management Systems vii) Strengthen Authority's Culture viii) Assure internal controls, governance, and risk management systems.	a) New full board in place.

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			ix) Review the KEMSA Act.	
Pillar 6: Innovation and technology	To develop and maintain highly effective, reliable, and secure ICT solutions that enhance user experience in health supply chain Delivery.	<p>a) No. of functional modules in the ERP implemented.</p> <p>b) % Procurements done through e-Procurement</p>	<p>i) Offer automated online enterprise-facing and customer-facing services.</p> <p>ii) Enhance the availability of business systems and ensure continuity of business operations.</p> <p>iii) Improve the efficiency and availability of ICT service delivery.</p> <p>iv) Proactively identifying and mitigating ICT risks, threats, and vulnerabilities.</p> <p>v) Enhance compliance with best practice frameworks, standards, procedures, and governance policies.</p>	<p>1. Call centres established.</p> <p>2. e-POD app award.</p> <p>3. Introduction of the information system e-POD, e-LPO, and increased robustness of the LMIS.</p> <p>4. Supplier assessment tool implemented</p> <p>5. Developing New ERP in progress. User requirements have been developed and a budget provided for New ERP in FY 2023/24.</p>

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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.

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8. Corporate Governance Statement

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 Committee.

During the Financial Year 2022-2023, there were a total of eleven (11) Full Board Meetings, four (4) Finance Strategy and Development Committee meetings, three (3) Human Resources Committee meetings, three (3) Audit and Risk Committee meetings and two (2) Supply Chain Committee meetings.

Table 1: Board Membership and Attendance for the Current Directors for the FY 2022-2023

Board Member	Classification	Designation	Committee Meetings	Full Board Meetings
Ms. Mary Mwadime	Appointed by HE the President	Chair	26	6
Ms. Mary Awino	Representing PS, The National Treasury	Member	21	11
Dr. Nancy Njeru	Representing MOH	Member	10	6

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Reema Doshi Lewis	Independent	Member	10	8
Albert Memusi Kasaine	Independent	Member	13	6
John Ndiritu Muturi	Independent	Member	20	6
Daniel Kipkogei Rono	Appointed by HE the President	Chair	21	4
Andrew Onyanch	Independent	Member	2	1
Mercy Chebet Cherongis	Independent	Member	2	2
Irungu Nyakera	Appointed by HE the President	Chair	8	5
Bernard Kipkirui Bett	Independent	Member	4	5
Hesbon Oyieko Omollo	Independent	Member	5	5
Dr. Jane Masiga	Independent	Member	5	5
Jane Mbatia	Independent	Member	9	6
Peter Chemwile	Representing, MOH	Member	2	6
Mr. Isaac Odek	Representative of Inspectorate of State Corporations	Member	0	2

Succession Plan

The Authorities' board members may be appointed for a cumulative term not exceeding six (6) years.

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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.

Board Appointment and Removal of Directors

The Authority's Board of Directors comprises the Chairperson who is appointed by His 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 offence, 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

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- c. Key personnel management
- d. Financial management

Induction and Training

The Board provides new Board members with an effective induction programme 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 will be conducted within the first quarter of financial year 2023/2024.

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 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

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best practice, board members are entitled to a sitting allowance for every meeting attended, lunch allowance, accommodation allowance and mileage reimbursement where applicable. In addition, the Chairperson is paid a monthly honorarium.

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.

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9. Management Discussion and Analysis

The Authority's performance for the period ending on June 30th, 2023, resulted in a cumulative loss of **Kshs 3.897 billion**. This includes a forex exchange loss of **Kshs 495.58 million**, and an Impairment Loss of **Kshs 756.71 million**. This represents an **30%** further loss compared to prior financial year loss of **Kshs 2.99 billion**. The negative performance dropped significantly below the projected surplus of **Kshs 837.6 million**.

The Authority's revenue for the financial year 2022/2023, amounted to **Kshs 1.66 billion**, marking an improvement compared to the previous fiscal year (FY 2021/2022). However, when compared to the budget, the revenue performance was **65%** below the forecasted budget of **Kshs 4.77 billion**. 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 Authority's total expenses for the period ended 30th June 2023 was **Kshs 5.562 billion** representing an **80%** increase from the previous year's expenditure of **Kshs 3.08 billion** FY 2021/2022.

The increase in expenditure was as a result of:

- Tax arrears amounted to **Kshs 1.316 billion** incurred during the year. Authority paid **Ksh 550 million** and accrued **Ksh 765.63 million**.
- Forex Exchange Loss of **Kshs 495.57 million**
- Impairment Loss of **Kshs 756.71 million**.

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Business Operations

In the FY 2022-2023 KEMSA received health products and technologies (HPTs) worth **Kshs 27.853 billion** out of which **Kshs 8.344 billion** were procurement of KEMSA Sales items and **Kshs 18.942 billion** being procurement by various programs/donord.

The Authority has managed to distribute HPTs as shown in table 8 below:

Table 1: HPTs distribution per financial year 2019/2020-2020-2022-23

Financial Year	KEMSA Capital Commodity Value	Programs Commodity Value	Totals Commodity Value - (Kshs)
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

In the Financial years 2019/20 to 2022/23, KEMSA's Capital order fill rates were 69%, 54%, 50%, and 51% respectively, compared to a target of 90%. For Programs, the rates were 90%, 94%, 77%, and 80%, against a 98% target. Furthermore, KEMSA successfully processed EMMS orders and Program Orders as detailed in table 2.

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Table 2: EMMS Orders and Program Orders

Category of Order fill rate	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023
Order fill rate for KEMSA EMMS	69%	54%	50%	51%
Target for KEMSA EMMS	90%	90%	90%	90%
Order fill rate for Programs EMMS (HIV, TB, FP, Malaria)	90%	94%	77%	80%
Target for Programs EMMS (HIV, TB, FP, Malaria)	98%	98%	98%	98%

In the Financial years from 2019/20 to 2022/23, the order turnaround time for Hospitals was recorded at 12.3 days, 12.6 days, 14.7 days, and 14.4 days, respectively, against a target of 7 days. For Primary Health Facilities (PHFs), the times were 17.5 days, 18.1 days, 19.8 days, and 16.9 days, respectively, compared to a 10-day target over the same periods. The Authority's performance for the year did not meet anticipated standards, with multiple factors leading to this outcome.:

Disjointed Warehouses Impacting Efficiency: The presence of disconnected warehouses throughout Nairobi had a detrimental effect on route integration and resulted in prolonged order processing times. Consequently, this issue led to extended order turnaround times.

Insecurity in Remote Areas: Insecurity in hard-to-reach regions further exacerbated the challenges. This posed difficulties in serving certain areas efficiently, affecting both operations and customer satisfaction.

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Financial Constraints for Essential Products: The organization faced financial limitations, hampering its ability to procure essential health products and vital technologies required to meet the needs of the various counties it serves.

Supplier Delays in Deliveries: The poor turnaround time of suppliers in delivering Health Products and Technologies (HPTs) to KEMSA added to the complications. These delays hindered the organization's ability to promptly fulfil its commitments to its customers

Uncertainty due to Organizational Reforms: The current organizational reforms introduced a level of uncertainty, which notably affected staff morale, leading to decreased productivity and engagement. To elevate future performance, it's crucial for the Authority to address several areas. Streamlining operations can be achieved by enhancing warehouse connectivity and optimizing delivery routes. Bolstering security in remote areas ensures broader service coverage. Financial challenges can be mitigated through recapitalization, strategic debt management, and adopting cost-efficient procurement methods. Collaboration with suppliers to enhance delivery schedules will boost efficiency. Furthermore, transparent management of organizational reforms and open communication with staff and stakeholders are vital for reinforcing morale, motivation, and trust.

National Commodity Storage Centre

The National Commodity Storage and Distribution Centre aims at strengthening and optimizing warehousing and distribution of medicines and other health products to health facilities. The Centre will enhance effective and efficient handling of medical supplies countrywide thus improving access to essential medicines regularly as well as shorter supply turn-around times guaranteed to the public health facilities, safety, and quality of

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commodities. Savings will also be realized on warehouse leasing costs hence value for money in total cost and also reduction on prices of pharmaceuticals and medical supplies.

The project is currently 92% complete and is on track to be fully operational by October 30th, 2023. Notable achievements to date include the finished construction of the main warehouse, which comprises storage and operation sections, mezzanine offices, cold rooms, and a power centre. All structural works and finishes are done, with only the installation of smoke vents and acquisition of operational items pending. The Flammable Goods Storage (FGS) has been completed and awaits connection to firefighting pipework and the addition of smoke vents to ensure fire safety. Meanwhile, civil, and external efforts, such as joint sealant application and concrete road construction, are in progress.

Compliance

The Authority has continued to prudently manage the financial resources and application of the same in providing services to the people of Kenya in strict compliance with Constitution of Kenya 2010, the Public Finance Management Act and related regulations as well as Treasury Circulars issued from time to time.

In compliance with the Public Finance and Management Act, the Authority did the following:

- i. Submission of Quarterly Financial Statements to The National Treasury by the 15th day of the next following quarter
- ii. Submission of the Performance contracting Evaluation Reports to the National Treasury, inspectorate of State Corporation and the Ministry of Health within by the 15th day of the next following quarter
- iii. KEMSA Submitted its budget to National Treasury through the Ministry of Health by 31st of January 2022.

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- iv. Submission of Annual Procurement Plan by 15th August 2022.
- v. Compliance with other circulars from National treasury issued in FY 2022/2023

Enterprise Risk Management In KEMSA

The Board is responsible for maintaining sound risk management and internal control systems and determining the nature and extent of the risks that the Authority is willing to take to achieve its strategic objectives. Through the support of the Board Audit Risk Committee (BARC), the Board carries out a regular review of the effectiveness of its risk management framework and internal control systems, covering all material controls including financial, operational and compliance controls.

To maintain a robust Enterprise Risk Management Framework, the Authority has established Enterprise Risk Management to ensure that there is an alignment of strategy, capital, process, people, technology and knowledge in the evaluation and management of business opportunities, uncertainties, and threats in a structured and disciplined manner.

The Authority has a risk management policy and procedure manual to help in systematic and disciplined approach in identifying, assessing, prioritizing, treating, monitoring and reporting of risks at the Authority when making strategic and operational decisions.

The Authority's top risks are:

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TOP RISKS			
Risk Index	Risk Definition	Risk Level	Mitigation
CR1	Operational inefficiencies in procurement, warehousing and distribution process	High	Implement activity-based budget
			Implement change management
			Organize stakeholders' forums and disseminate distribution schedule
			1) Reengineering procurement process 2) Implement DOM 3) Strict adherence to procurement timelines
			Use scanners for picking
CR2	Cyber risks, data management and ICT inadequacies	Medium	Implement ICT Information security policy
			1. Revamping the LMIS and offering it to the country as a unified tool for dispensing, data collection and reporting. 2. Implement new technologies
CR3	Non-compliance with legal, regulatory and	Medium	Training and sensitization
			Develop financial planning policies

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	other global standard requirements		Training and sensitization
CR4	Slow Moving stocks	High	Accurate demand planning and quantification
			Thorough training on specifications
			Robust market survey
			Proactively embrace new technology
			Aggressive follow up on distribution list
			Develop donation policy
CR5	Negative public perception on KEMSA's brand.	High	Media training, showcase KEMSAs success stories using brand ambassadors, active engagement with our customers/stakeholders
			Implement performance management
			Implement corruption prevention measures
CR6	Low Customer order fulfilment	High	Supplier performance measurement tool
			Accurate product specifications
			Address debt collection gaps
			Timely supplier payments
			Accurate consumption data
CR7		High	Implementation of the Culture change findings

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	Inadequate HR Systems and processes		Learning and development programs
			Fair labour practices
			Accountability, reward and sanctions
			Accountability, reward and sanctions
			Adherence to set procedures and guidelines
			Open communication and clear structures
			Proper job placement
			Clear career progression guidelines
			Implement results-oriented performance management
CR8	Liquidity and cash flow challenges	High	Stakeholder support in recapitalization
			Enforce debt collection strategies
			Enforce Kenya shilling as the bid currency for local suppliers/Purchase of dollars at time of tender opening
			Demand driven procurement

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			Review the Cost and pricing policy/review and re-negotiate the current MOUs and SLAs
			Good corporate governance
CR9	Failure to deliver KEMSAs mandate	Medium	Resource mobilization and allocation
			Implement board resolutions/policy/guidelines
			Implement board resolutions/policy/guidelines
			Training/capacity building
			Government/donor stakeholders support
			Governance audits
			Ensure implementation of ERM & Proper control environment
			Review the BCP and cascade across departments

Information and Communication Technology

The Authority has embraced technology for operational efficiency and effectiveness in the achievement of its mandate. Information Communication and Technology (ICT) has been core in driving KEMSA's business processes. During the year under review, the development of electronic signatures in the Logistics Management Information System (LMIS) revolutionized the process of Local Purchase Orders (LPO) approval and signing. Purchase orders are currently approved and signed electronically on tablets and a digital

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copy is sent to the supplier as soon as it's signed. The adoption of the QR code on digital Purchase Orders has further enhanced the security and integrity of the LPO document.

On the Enterprise Resource Planning (ERP) system, development has continued throughout the year with the following being some of the key enhancements. The asset management module was upgraded with key focus on improving the disposal and retirement of assets in a timely and effective manner. The system was also enhanced to support e signed LPOs with respect to automated budget checks and reservation to hasten the LPO signing and approval process.

The LMIS system was also enhanced with an order tracking and ticketing module. These enhancements have provided visibility of order status information to Counties. In addition, the electronic proof of delivery (e-POD) mobile application was rolled out to both Internal and third-party transporters. These initiatives and developments have eased access to information for Counties, health facilities, and the Authority.

The Warehouse Management System (WMS) was enhanced to support e-sign for delivery notes. The system was also developed to facilitate dispatch by Sub-County. These enhancements to the warehouse management module have helped in reducing the order turn-around times (OTT).

The Authority implemented a Wide area network (WAN) and a Local area network (LAN) in KEMSA Mombasa Regional Distribution Centres connecting Mombasa with Embakasi Supply Chain Centre. This will enable the visibility of stocks between the two warehouses and improve order processing.

In addition, the Authority implemented a call centre and complaint-handling system to enhance customer service. This is a complimentary solution giving customers, suppliers,

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and other stakeholders a reliable window to raise and track issues. Finally, the Authority implemented the time and attendance module (biometric system) at Commercial Street, Embakasi Supply Chain Centre, Kisumu, Mombasa, and Eldoret. The biometric systems have created efficiency in the management of attendance and payroll giving timely information on the attendance status of each employee.

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10. Environmental and Sustainability Reporting

In its quest to reposition, the Kenya Medical Supplies Authority set in motion a series of extensive transformative action plans, to fulfil its mandate with greater precision. Anchored on the principle of putting citizen's first, the Authority seeks to promote sustainability in all its operations as guided by its strategic plan.

i) Sustainability strategy and profile

Kenya Medical Supplies Authority's business strategy relies heavily on incorporating sustainability in all its operations. The Authority has taken into consideration key pillars of sustainable development: people, planet, prosperity and economic resources to ensure that we contribute meaningfully in delivering affordable, quality and reliable Health Products and Technologies to all Kenyans so that they can lead a healthy and fulfilling life.

While undertaking our critical role as outlined in our mandate, KEMSA commits to embrace value-driven procurements so as to lower the cost of healthcare in public health facilities across the nation.

ii) Environmental Performance

KEMSA has devoted itself to not only protect but also add value to the environment for the benefit of current and future generations.

The Authority has ensured that the disposal process of medical waste is handled in compliance with the Public Procurement and Asset Disposal Act, Health Care Waste Management Regulations of the Pharmacy and Poisons Act (Regulations 2022), Environmental Management and Coordination Act and related policy and institutional guidelines.

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The Authority has taken deliberate efforts to ensure the destruction of expired pharmaceuticals are not released into the environment to cause damage to the environment and ecosystem.

The Authority also improved on water conservation which is evidenced by the reduction of costs from **Kshs 651,786** in the Financial Year 2021/2022 to **Kshs 397,056** in the FY 2022/2023. This was as result of digging a bore hole and putting up a water treatment plant to make water fit for its desired end-use and save on the costs incurred purchasing from vendors at inflated prices.

iii) Human recourse management

KEMSA has standard procedures and guidelines for filling vacancies. These procedures are strictly followed in order to maximize chances of recruiting the best human resource with the requisite experience, professional qualifications, skills, and competencies required by the Authority to fulfil its mandate.

a) Recruitment, Selection and Deployment

- KEMSA is an equal opportunity employer and is committed to attracting, recruiting, and retaining skilled employees to drive and fulfil the organization's strategy and objectives. The Authority will always seek to recruit the most suitable Kenyans with qualifications, knowledge, skills, and experience relevant to each job.
- KEMSA will promote equal opportunities to all in employment. There is no discrimination based on gender, race, religion, colour, ethnicity, disability, marital status, or culture. KEMSA adheres to Government policies on the one-third gender requirements.
- The Authority values its human capital and focuses on providing an enabling environment and maintaining a work force that is equipped with required

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knowledge, skills, and competencies to enable the Authority to achieve its mandate and develop its workforce.

- Over the years, the Authority has continuously retained a skilled team with depths of experience and ability to execute its core mandate and objectives. We continue to attract, develop, and retain the right talent while inculcating a performance-based culture.

b) *Health and Safety*

- i) KEMSA is committed to using sound and responsible practices to safeguard the health, safety and welfare of its employees, contractors, customers, and any other person affected by its operations. Occupational Safety and Health (OSH) issues are addressed in systematic, proactive, and explicit manner to ensure that they are an integral part of day-to-day business of the organization.
- ii) This is done through total commitment and participation from all levels of employees. The effective application of OSH management system is reviewed regularly in light of legislative and organizational changes.
- iii) During the year, we continued conducting wellness programs covering staff, their immediate families, and the neighbouring communities.

c) *Gender Analysis*

As of 30th June 2023, the Authority had a total workforce of 740 comprising 289 Female (39%) and 451 Male (61%).

d) *Capacity Building*

To equip our people with the relevant skills and competencies, the Authority implemented its Annual Training Plan during the FY. The approach adopted including offering employees training programs that will help them upskill their professionalism

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and enhance their performance. Out of a total target of **150** programs, we were able to execute **61** programs.

e) *Performance Appraisal*

The Authority implemented its performance management and review program that entailed review of performance for employees based on a bi-annual and an annual appraisal framework. The framework incorporates setting targets, reviewing, and evaluating based on the Strategic Plan, Performance Contracting and other operational requirements.

f) *Employee Wellness*

- The Authority continued offering staff medical insurance cover to employees and their families. The medical insurance package consists of in-patient, outpatient, maternity dental and optical cover. This is meant to enhance employee health and wellness, which in turn boosts employee morale, hence increased productivity.
- Other wellness programs included offering psychosocial support to staff. KEMSA managed to bring on board a counsellor to offer psychosocial support services and other Employee Assistance Programs. As of 30th June 2023, **370** members of staff had received the services both in group and one on one basis. This was done by the Chiromo Hospital Group and a Counsellor from the Ministry of Health. These approaches were aimed at improving staff mental wellness.
- Further, the Authority conducted Adult and Drug Abuse Prevention sensitization for sixty (60) members of staff conducted by the Counselling Unit from the State Department for Public Service.

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g) Diversity and Inclusivity

- The Authority ascribes to the Government requirements on diversity and inclusivity in all its programs and activities. The Authority has set up the following Committees to address issues of diversity and inclusivity: Gender Mainstreaming Committee, National Cohesion and Values Committee and Disability Mainstreaming Committee.

h) Ethics and Integrity

- The Authority is committed to enhancing ethics and integrity in its operations. This enhances the protection of KEMSA's assets and prevents unethical practices and conduct amongst employees. The following initiatives have been put in place:
 - Appointment of Integrity Assurance Officers.
 - Training and sensitization of employees on integrity.
 - Filling and submission of Wealth Declaration Forms (Initial Declaration for new employees, once every two years by all employees and Final Declaration for exiting employees.

i) Employee Relations

- The Authority ensured that cordial employee relations were maintained during the year under review. The following initiatives were implemented to enhance employee relations: Resolution of employee grievances as received & Appointment and operationalization of a Disciplinary Committee.

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j) Health & Safety Policy Statement

KEMSA is committed to using sound and responsible practices to safeguard the safety, health, and welfare of its employees, contractors, customers, and any other person affected by its operations. Occupational Safety and Health issues shall be addressed in a systematic, proactive, and explicit manner to ensure that they are an integral part of day-to-day business of the organization. To fulfil this commitment KEMSA undertakes to:

- Conform to the set company policies and comply with applicable national and international regulations and code of practice governing Occupational Safety and Health.
- Ensure the management properly supervises all processes and systems of work that are designed to take account of safety and health and are held accountable for results on safety performance by setting yearly key performance indicators.
- Support each employee with appropriate safety and health awareness training, supervision, and other resources as necessary to enable safe performance of work in accordance with company policy.
- Facilitate the necessary forums where employees can raise issues of safety and health through the established Occupational Safety and Health Committee.
- Encourage consultation with and active participation of employees by continuously seeking to improve the performance of safety and health systems in place.
- Ensure the provision and maintenance of adequate resources to take care of safety issues;

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- Ensure that persons in workplace take responsibility for aspects of OSH over which they have control and provide a forum for continuous identification of workplace hazards;
- Protect the safety and health of identified vulnerable employees including the disabled staff, expectant and lactating mothers, and ensure they perform work appropriate to their physical capacity and those that pose no health hazards.
- Ensure visitors, contractors and customers abide by laid down safety and health guidelines and procedures on site.
- Consult with external experts and other interested parties on OSH issues; and
- Ensure the corporate Safety and Health management system is fully implemented within its business.

This will be done through total commitment and participation from all levels of employees.

The efficiency of OSH management system shall be regularly reviewed considering legislative and organizational changes.

Over the years, the Authority has continuously retained a skilled team with depths of experience and ability to execute its core mandate and objectives. We continue to attract, develop and retain the right talent while inculcating a performance-based culture.

Continuous improvement is the cornerstone of our high-performance culture, which drives us to learn, change and improve. During the year, we continued conducting wellness programs covering staff and their immediate families.

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The Authority values its human capital and focuses on providing an enabling environment and maintaining a workforce that is equipped with the required knowledge, skills and competencies to enable the Authority to achieve its mandate and develop its workforce.

iv) Marketplace practices

a) Responsible competition practice

KEMSA believes in fair competition in procurement and tendering. Procurement at KEMSA is conducted strictly in adherence to the Public Procurement and Disposal Act, 2015. KEMSA procurement is carried out in an open and transparent manner that encourages open competition and open to public examination and review. This process enables KEMSA to obtain high quality goods and services at reasonable cost.

KEMSA has continuously done market assessment on pricing to ensure that prices of essential commodities remain considerably low. We have also been increasing our product range with an aim of availing more commodities for specialized categories e.g. Oncology, Urology, Laboratory, Theatre and Orthopaedics. KEMSA greatly values her customers by providing quality and affordable health products and technologies geared towards sustainability of a long and mutually beneficial relationship.

KEMSA is free from political interference as it is governed by an Act of parliament and other relevant legislation. Governance at KEMSA is overseen by an independent Board of Directors. At KEMSA we recognize that adherence to the principles of competition while dealing with our customers is essential to the maintenance of the integrity of the Authority. KEMSA seeks to achieve responsible commercial success and compete on a level playing ground, we are committed to promoting fair competition and healthy marketplaces. We operate in compliance with the applicable competition laws in the country. KEMSA prides

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itself as a market leader and being a government agency is committed to making health products and technologies affordable by offering the best prices in the market whilst enhancing customer experience.

b) *Responsible supply chain and supplier relations*

KEMSA has put in place two years framework contracts for supply of Health Products and Technologies (Health Products and Technologies). Managing relationships with suppliers is key in ensuring that contract terms are met by both parties. KEMSA has implemented an automated supplier performance measurement tool that helps track performance of each supplier against outlined Key Performance Indicators (KPIs). The KPIs aim at measuring delivery timeliness, quantity, quality, and cost. Suppliers who perform well are eligible to be awarded future contracts at KEMSA. Punitive measure also applies to suppliers whose performance is below the required threshold. Such measures include and not limited to Contract termination, Liquidation of Performance Security, and debarment in line with the procurement law. KEMSA conducts supplier conferences biannually, inviting all suppliers with active contracts for open discussions to address supply challenges and enhance supplier performance. Regular consultations are also organized with suppliers facing issues to collaboratively find solutions. The organization boasts a specialized contract management unit responsible for regularly monitoring supplier performance in line with contractual agreements. Persistent communication through letters, emails, and phone calls ensures consistent updates and feedback regarding contract statuses. Efficient internal processing of essential documents, such as electronic purchase orders, inspection letters, and contract agreements, plays a crucial role in boosting supplier performance, enabling prompt product deliveries and, when needed, timely bank financing.

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c) Responsible marketing and advertisement

In our marketing and advertising efforts for KEMSA's Health Products and Technologies, we prioritize the needs and sensibilities of our target audience. Our commitment is to ensure that our communications are devoid of content that is harmful, misleading, or inappropriate. By upholding the highest standards, we ensure that all information relayed to consumers is both accurate and sensitive to their needs.

Central to KEMSA's ethos is our dedication to ethical marketing. Our focus remains steadfast on offering products that genuinely meet our customers' needs. Every relationship we build is rooted in honesty, integrity, and loyalty, and we always operate within the confines of the law.

A critical aspect of our approach is preserving the independence of health professionals. We abstain from offering gifts or benefits that could potentially influence their prescription habits. Instead, our interactions with healthcare professionals center around product knowledge dissemination, scientific and educational data sharing, and furthering medical research and education. Such engagements are always aimed at enhancing patient well-being and advancing the medical field.

Our promotional efforts are grounded in truth and clarity. We champion the proper use of pharmaceutical products without overstatement. All our promotional materials undergo approval from the PPB before distribution. Notably, we refrain from advertising prescription-only medicines to the general public.

Furthermore, KEMSA's business model leverages social advertising to bolster our brand's image as a socially responsible entity while also highlighting our commercial activities. This dual approach ensures that our brand not only stands out for its products but also for its positive societal impact.

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d) *Product stewardship*

KEMSA is deeply committed to product stewardship, ensuring that our supplier stakeholders undergo rigorous screening. This approach targets the reduction of health, safety, environmental, and social impacts of our products, while upholding our customers' rights to essential needs, safety, information, choice, representation, education, and a healthy environment.

A cornerstone of our responsibility is our active role in environmental management. We ensure that every stakeholder, from designers and producers to sellers and users of our Health Products and Technologies (HPTs), prioritizes minimizing environmental impacts across the products' life cycle, inclusive of end-of-life management. Manufacturers bear the most significant responsibility in this regard, given their capacity to influence the environmental footprint of the HPTs.

Suppliers providing HPTs to KEMSA are held to a high standard. They are tasked with conceptualizing, managing, and funding stewardship programs that address the lifecycle impacts of their products. This responsibility encompasses the end-of-life management, mandating that they finance the collection, transport, and responsible reuse, recycling, or disposal of the HPTs supplied to KEMSA.

Upholding quality and safety is paramount for us. KEMSA's products consistently meet superior quality benchmarks and are guaranteed safe for consumers. Comprehensive quality assurance measures are applied throughout our value chain, including post-distribution surveillance, to ensure product safety. Our unwavering commitment is to adhere strictly to both local and international standards, product specifications, and legal mandates.

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v) Corporate Social Responsibility/ Community Engagements

In line with the Government's Agenda to plant 15 billion trees by the year 2032, KEMSA, in the Financial Year 2022/2023, planted 1,100 trees in Makueni County. The initiative, undertaken in partnership with the Makueni County Lands and Environmental Ministry involved five schools located in the Semi-Arid Eastern region which usually has reported incidences of drought.

The schools engaged include; Watuka, Kako Special for the Mentally Handicapped, Kako, Miau and St Paul Kyaume Primary Schools. Further, we supported the schools in maintaining the trees for a period of six months before fully handing over the project to them for sustainability.

So far, the tree seedlings have thrived with an almost 95 percent survival rate reported. Having the project undertaken in schools is part of KEMSA's Corporate Social Responsibility Strategy to educate communities on the importance of reforestation.



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Benefits of Corporate Social Responsibility For KEMSA

- Increased support to local communities
- Builds public trust.
- Enhances customer retention and loyalty.
- Improves brand reputation.
- Promotes greater innovation to meet communities' needs.

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11. Report of the Directors

The directors submit this report together with the financial statements for the year ended June 30, 2023, 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, 2023, are set out on pages 1-116.

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iii) Directors

Members of the Board of Directors who served during the year are listed on pages viii - xi. Throughout the year, two Directors resigned, and two new Directors were appointed effective from 18th March 2022.

Surplus remission.

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 3,132,829,242 during the year and in (FY 2021/2022 deficit of Kshs 2,991,725,431). 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, 2023.

By Order of the Board



.....
Fredrick Wanyonyi
Corporate Secretary/Secretary to the Board

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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

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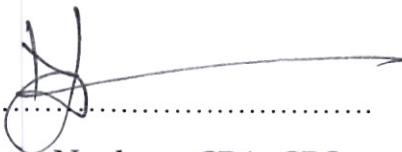
Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act.

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, 2023. 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.

Approval of the financial statements

The Kenya Medical Supplies Authority (KEMSA)'s financial statements were approved by the Board on 15/02/2024 and signed on its behalf by:



Mr. Irungu Nyakera, CPA, CBS
Chairperson of the Board



Dr. Andrew Mulwa
Accounting Officer

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY (KEMSA) FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

- A. Report on the 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 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 Government achieves value for money and that such funds are applied for the intended purpose.
- 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, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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

Adverse Opinion

I have audited the accompanying financial statements of Kenya Medical Supplies Authority (KEMSA) set out on pages 1 to 205, which comprise the statement of financial

position as at 30 June, 2023 and the 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 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Kenya Medical Supplies Authority (KEMSA) as at 30 June, 2023 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 do not comply with the Kenya Medical Supplies Authority Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Unsupported Cash and Cash Equivalents

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.

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.

2.0 Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.8,690,853,547 as disclosed 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 Un-Approved Exchange of Parcels of Land

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 an 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 where such disposal has not been taken into account in the estimates'

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 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.

2.2 Undisclosed Assets

The disclosed 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 storage of medical commodities.

2.3 Land Without Valuation Reports

The disclosed 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) 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.

2.4 Land Without Ownership Documents

The disclosed 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.

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, acquired ownership rights but the matter is under investigation by Directorate of Criminal Investigation pending determination.

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 disclosed in the financial statements.

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.

In the circumstances, the accuracy, completeness, ownership and valuation of land balance of Kshs.1,786,967,270 could not be confirmed.

3.0 Inaccuracies in Inventories

The statement of financial position reflects inventories balance of Kshs.12,899,915,421 as disclosed in Note 24 to the financial statements whose analysis revealed the following observations;

3.1 Misstated Inventory Values

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.

3.2 Overstatement of Stock Balances

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.

3.3 Unreconciled Stock Issuance

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. 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.

3.4 Improper Valuation of Inventories

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 overstatement of Kshs.15,041,208. Further, the inventory schedule includes 718,097 units of various medical commodities whose fair values as at the date of acquisition was not indicated.

3.5 Improper Stock Adjustments

The inventories balance was arrived at after adjusting commodities worthy 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.

In addition, inventories 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 unexplained variance of Kshs.117,726,078.

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 unaccounted for variance of Kshs.147,690,394.

3.6 Unaccounted for Inventory of Medical Commodities

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 Kshs.8,800,283,288 resulting to unreconciled variance of Kshs.3,505,958,218. These discrepancies represent undisclosed and unaccounted for medical commodities.

3.7 Retrospective Receipts and Issuance of Commodities

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.

3.8 Incorrect Inventory Transactions Due to Poor Information Technology Environment

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.

In the circumstances, the accuracy, validity and completeness of inventory balance of Kshs.12,899,915,421 could not be confirmed.

4.0 Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.6,008,541,865 as disclosed in Note 22(a) to the financial statements. The following observations were made;

4.1 Receivables from Other Government Entities

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 disclosed in the ministry books. The trade debtors receivables also includes Kshs.3,079,326,856 due from the County Governments 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.

4.2 Prepayments

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.

4.3 Long Outstanding Receivables

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.

4.4 Inaccuracies in Receivables

The balance includes trade debtors receivables of Kshs.5,900,014,323 out of which Kshs.1,030,430,783 relates to 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, receivables balance from thirty-four customers was understated by Kshs.104,796,818

4.5 Non-Adherence to Credits Limits

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.

In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.6,008,541,865 could not be confirmed.

5.0 Unallocated Customer Account

The statement of financial position reflects trade and other payables balance of Kshs.8,602,982,309 as disclosed in Note 26 to the financial statements. The balance includes customer 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.

In the circumstances, the accuracy and completeness of customer unallocated payment balance of Kshs.35,928,606 could not be confirmed.

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:

6.1 Incorrect Credit Notes

Analysis of sales schedules revealed that the amount was arrived at after deducting credit notes worthy Kshs.184,379,680. It was noted that the credit notes includes 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. 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 report at Kshs.59,079,436 resulting to unreconciled variance of Kshs.36,527,052.

6.2 Medical Commodities Sold Below the Set Price

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.

6.3 Medical Commodities to Undisclosed Health Facilities

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 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.

In the circumstances, the accuracy and completeness of the sales revenue value of Kshs.8,039,143,444 could not be confirmed.

7.0 Impairment Loss on Covid-19 Commodities

The statement of financial performance reflects an impairment loss of Kshs.756,710,171 as disclosed 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.

In the circumstances, the impairment loss of Kshs.756,710,171 could not be confirmed.

8.0 Lack of Fuel Register

The statement of financial performance reflects use of goods and services amounting to Kshs.2,003,659,568 which as disclosed 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.

In the circumstances, the accuracy and completeness of expenditure on fuel and oil amounting to Kshs.47,030,205 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 (KEMSA) 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 adverse opinion.

Emphasis of Matter

1. Poor Financial Performance

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.

2. Long Outstanding Trade Payables

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.

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.

3. Budgetary Control and Performance

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.

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.

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.

My opinion is not modified in respect of the these matters.

Key Audit Matter

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.

Other Matter

1. Delayed Implementation of Proposed KEMSA Reforms

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.

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.

2. Inefficiencies in KEMSA Operations

Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. However, the following unsatisfactory matters were noted;

No	Issue	Amount Kshs.	Section Breached	Observation
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

No	Issue	Amount Kshs.	Section Breached	Observation
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.
3	Untested Products	639,663,163	Paragraph 8.2 of the Kenya Medical Supplies Authority Standard Operating procedures for Quality Assurance	Health products were issued to health facilities before the laboratory tests 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
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 under staffed 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
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 Kshs.248,082,356

No	Issue	Amount Kshs.	Section Breached	Observation
				resulting to a loss of Kshs.98,866,817
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 underutilised receiving only medical commodities worthy Kshs.8,021,304
8	Medical Commodities for Maritime Personnel	308,084,587	Authority to Incur Expenditure	Relates to 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
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: MOH/ADM/1/2/16 VOL1 (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

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.

3. Unresolved Prior Year Matters

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 Auditor General's recommendations

on page 62 to 205 of financial statements indicates prior year issues have not been resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229 (6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and effectively.

Basis for Conclusion

1. Budget Imbalance

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.

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

2. Cancellation of Tender Resulting to Loss of Revenue

Note 8 to the financial statements reflects income from rendering of services amount of Kshs.1,357,355,506 out of which 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 wambo.org resulting to KEMSA losing rendering of services fee of Kshs.168,813,868.

In the circumstances, Management was in breach of the law which resulted to loss of revenue.

3. Irregular Procurement of commodities

Review of procurement processes revealed the following irregularities

No	Issue	Amount Kshs.	Law Breached	Observation
1	Irregular Extension of Contracts	330,094,358	Section 88(2) and (3) of PPAD 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 registered suppliers
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 Kshs.988,022,916 and restricted tendering method of Kshs.145,844,880 were irregularly engaged for a continuous period of two (2) years under framework agreements
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 Kshs.417,281,170 had not been received as at 30 June 2023 over three months after the call off orders were made

No	Issue	Amount Kshs.	Law Breached	Observation
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
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 PPAD, 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 paid under the contract.
11	Failure to Use e-procurement	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	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

No	Issue	Amount Kshs.	Law Breached	Observation
13	Over Procurement	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
14	Irregular Procurement of Assorted blood Bags	47,850,000	Section 75 (3) of PPAD, 2015	Failure by winning bidders to adhere to the technical specifications
15	Delay in processing Orders	5,540,145,763	Section 72(1) of the Public Management Finance Act 2012	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.

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

4. Delayed Deliveries

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 performance security shall unconditionally be fully seized by the procuring entity as compensation without prejudice to other penalties provided by the Act."

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

5. Late Delivery of Commodities

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.”

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

6. Donated Cancer Drugs

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

6.1 Donated Cancer Drugs Issued to a Private Hospital

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.

6.2 Failure to Factor KEMSA Costs in the Free Cancer Drugs Distribution Program

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 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

In the circumstances, the value for money on cancer drugs totalling Kshs.8,906,757,973 issued to a private hospital could not be confirmed.

7. Work in Progress - Irregular Sub-Contracting

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 resulting to a price variation of Kshs.719,275,419 or 23.35% with a likelihood of increasing since the project is still incomplete.

In the circumstances, Management was in breach of the law and the Authority did not get value for money.

8. Payment of Provisional Sums

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.

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

9. Unapproved Fees for Services Rendered

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.

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

10. Unapproved Review of Fees

Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. Warehouse issue report indicated 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.

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

11. Receipts of Medical Commodities Beyond the Accepted Shelf Life

Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. Warehouse management system indicated that health products and technologies of 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%.

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.

12. Irregular Donations of Medical Commodities

Note 9 to the financial statements reflects total sales revenue of Kshs.8,039,143,444. The amount excludes donations of Kshs.177,266,033 made to seventy-four (74) health facilities which has been disclosed as advertising cost. 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.

In the circumstances, Management was in breach of established Policy.

13. Unaccounted for Universal Health Coverage (UHC) Funds

Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. The following observations were made;

- I. The Authority received Kshs.12,817,762,552 to procure, warehouse and distribute UHC products out of which products with a value of Kshs.11,046,916,309 had been distributed as at 30 June, 2023 since 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.

- 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.
- 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.
- 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.

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

14. Delays in Delivery of Medical Commodities

Note 24(b) to the financial statements reflects inventories balance of Kshs.12,899,915,421 out of 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. (2) Any public officer who receives goods or services beyond the stipulated period specified in paragraph (1) commits an offence under the Act.

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

15. Medical Supplies Made to Customers with Overdue Balances

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.

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

16. Supply and Installation of Medical Oxygen System

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 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.

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'

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

17. Supply, Installation and Commissioning of Racking System

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 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.

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

18. Payment of Intangible Preliminaries

Note 25 (a) to the financial statements reflects capital work in progress balance of Kshs.5,497,816,074.89 out of which 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 3.0(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.

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

19. Comingling and Under-Withholding of Supplier Retention Funds

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) are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly.

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.

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

20. Delay of Metal Storage Racks Contract in Kisumu Warehouse

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 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.

In the circumstances, value for money obtained from the expenditure could not be confirmed.

21. Employee Costs

21.1 Bloated Staff Establishment

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.

21.2 Non-Compliance with the One –Third of Basic Salary Rule

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 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.

22. Failure to Hedge Against Foreign Exchange Losses

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 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.

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.

23. Unrecovered Advance Payment

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 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.

In the circumstances, Management was in breach of law and may not have received value for money for the unrecovered amount.

24. Private Health Facilities Supplies Billed to Government Entities

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

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 thereafter bill the county governments and the Ministry of Health.

In the circumstances, the value for money on distribution of health products to private facilities could not be confirmed.

25. Failure to Maintain Floating Deposits Funds for Credit Customers

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.

In the circumstances, Management was in breach of the credit policy.

26. Refund of Ineligible Expenditure

Note 26 to the financial statements reflects trade creditors from development partners of Kshs.2,894,257,131. 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.

In the circumstances, the value for money on management and accountability of donor funds could not be confirmed.

27. Expiry and Incineration Cost for Third-Party Commodities

Note 30 to the financial statements discloses medical commodity fund 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 commodities since donor agreements do not cover the cost of incineration.

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.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Unfulfilled Customer Orders

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 and distribution of orders took an average of seventeen (17) days against a target of ten (10) days.

In the circumstances, the effectiveness of internal controls on processing and distribution of orders could not be confirmed.

2. Loss on Sale of Medical Commodities Below the Purchase Price

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.

In the circumstances, the effectiveness of internal controls on price reviews could not be confirmed.

3. Expiries of Medical Commodities

3.1 Expired Medical Commodities

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.

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 disclosed 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.

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 could not be used by the recipient health facilities, making total expiries add up to Kshs.2,420,774,196.

In the circumstances, the effectiveness of the Authority's internal controls in place for managing and monitoring medical commodities could not be confirmed.

3.2 Delayed Disposal of Expired Covid-19 Medical Commodities

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 undisposed waiting clearance from Ethics and Anti-Corruption Commission.

In the circumstances, the delayed disposal increases the risk of unintentional usage and incurring of avoidable inventory carrying cost.

3.3 Slow Moving Inventory of Medical Commodities

Note 24(b) to the financial statements reflects inventory balance of Kshs.12,899,915,421 out of which Kshs.838,560,820 relates to 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.

In the circumstances, the effectiveness of internal controls on inventory management and issuance could not be confirmed.

4. Delays and Weak Proof of Commodity Delivery System

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.

In addition, warehouse management system issue report indicated commodities worth Kshs.35,228,836 were dispatched to various facilities and hospitals but could not be confirmed as having been received.

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.

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.

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.

5. Inefficiencies in Collection of Receivables

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.

In the circumstances, the effectiveness of internal controls in respect to debt management and revenue collection could not be confirmed.

6. Inventory

6.1 Noncompliance to First Expiry First Out Method of Issuing Inventory

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.

In the circumstances, the effectiveness of internal controls in respect to inventory management and issuance could not be confirmed.

6.2 Stock out of Medical Commodities

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.

In the circumstances, the effectiveness of internal controls in respect to inventory management could not be confirmed.

6.3 Overstocking of Slow Moving Commodities

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.

In the circumstances, the effectiveness of internal controls in respect to inventory management could not be confirmed.

7. Lack of an Offsite Backup Plan

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.

In the circumstances, the continuity of operations in the event of a disaster could not be confirmed.

7.1 Unapproved Supplies Made to Private and Faith Based Facilities

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.

In the circumstances, the effectiveness of internal controls on distribution of health products to private facilities could not be confirmed.

8. Supplies Made to Drop-in Centres

Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. Warehouse issued report indicated medical commodities of Kshs.33,013,575 were issued to twenty (20) drop in centres 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) centres across the country and their ownership could not be confirmed.

In the circumstances, the effectiveness of internal controls on distributions to drop in centres operating as service delivery points could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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 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 ability to continue to sustain its services, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to terminate the Authority or 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 are in compliance 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

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, and that public resources are applied in an effective way, 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls 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 controls 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:

- 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 controls.
- 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 Authority 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 Authority 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 Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

25 March, 2024

Kenya Medical Supplies Authority
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For the year ended June 30th 2023

14. Statement of Financial Performance for the year ended 30 June 2023

	Note	Period ended June 2023 Kshs	Comparative Period Ended 30th June 2022 (Ksh)
Revenue from non-exchange transactions			
Transfers from other government entities	6	120,000,000	100,000,000
Public contributions and donations	7	6,383,639	6,383,639
Total Revenue from non-exchange transactions		126,383,639	106,383,639
Revenue from exchange transactions			
Rendering of Services	8	1,357,355,506	787,689,106
Net Sales	9	(293,434,384)	(1,350,619,051)
Rental Revenue	10	1,298,428	1,298,428
Other Income	11	473,033,429	543,016,146
Total Revenue from exchange transactions		1,538,252,980	(18,615,371)
Total revenue		1,664,636,619	87,768,269
Expenses			
Outsourced distribution cost	12a	789,493,976	786,643,283
Use of goods and services	12b	2,003,659,568	529,851,254
Employee costs	13	1,208,905,403	1,223,659,186
Board expenses	14	13,902,905	28,107,161
Depreciation and amortization expense	15	111,873,340	119,174,766
Repairs and maintenance	16	20,719,350	21,370,790
Contracted Services	17	161,148,124	190,391,019
Total expenses		4,309,702,667	2,899,197,460
Other gains/(losses)			
Gain/(Loss) on sale of assets	18	3,572	2,061,456
Gain/(Loss) on foreign exchange transactions	19	(495,576,450)	(182,357,696)
Impairment loss	20	(756,710,171)	
Surplus/(Deficit) before tax		(3,897,349,097)	(2,991,725,431)
Taxation			
Surplus for the period		(3,897,349,097)	(2,991,725,431)

Kenya Medical Supplies Authority
Annual Report and Financial Statements
For the year ended June 30th 2023

The notes set out on pages 10 to 58 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. Andrew Mulwa
Accounting Officer

Date

Waiganjo Karanja
Head of Finance

ICPAK M/No: 7023

Date

**Irungu Nyakera, CPA(K),
CBS**
Chairman of the Board

Date

Kenya Medical Supplies Authority

Annual Report and Financial Statements

For the year ended June 30th 2023

15. Statement of Financial Position as at 30 June 2023

	Note	Financial Year 2022/2023 Kshs	Financial Year 2021/2022 Kshs
Assets			
Current assets			
Cash and cash equivalents	21	4,906,997,098	8,656,053,238
Receivables from exchange transactions	22(a)	6,008,541,865	5,803,811,189
Receivables from non-exchange transactions	23	7,060,656	7,383,812
Inventories-KEMSA Capital	24	12,899,915,421	13,962,897,325
Total current assets		23,822,515,041	28,430,145,564
Non-current assets			
Property, plant and equipment	25(a)	8,690,853,547	8,440,170,153
Intangible assets	25(c)	970,283	2,263,994
Receivables from exchange transactions	22(b)	46,165,683	62,376,526
Total non-current assets		8,737,989,513	8,504,810,673
Total assets		32,560,504,553	36,934,956,237
Liabilities			
Current liabilities			
Trade and other payables	26	8,602,982,309	8,424,107,200
Refundable Deposits and Prepayments from Customers	27	815,345,671	1,532,648,721
Current Provisions	28	1,111,906,567	330,717,836
Project Fund	29	-	57,344,216
Medical Commodity Fund	30	9,134,630,398	9,818,892,141
Total current liabilities		19,664,864,946	20,163,710,114
Non-current liabilities			
Deferred income	31	1,430,606,516	1,408,863,935
Total non-current liabilities		1,430,606,516	1,408,863,935
Total liabilities		21,095,471,462	21,572,574,049
Net assets		11,465,033,091	15,362,382,188
KEMSA Capital	32	8,461,576,303	8,461,576,303
Accumulated Funds		-	256,950,298
Revenue reserves		2,219,826,332	5,860,225,131
Revaluation reserve		783,630,456	783,630,456
Total net assets and liabilities		32,560,504,553	36,934,956,237

Kenya Medical Supplies Authority
Annual Report and Financial Statements
For the year ended June 30th 2023

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



Dr. Andrew Mulwa

Accounting Officer

Date




Waiganjo Karanja

Head of Finance

ICPAK M/No: 7023

Date



**Irungu Nyakera CPA(K),
CBS**

Chairman of the Board

Date

Kenya Medical Supplies Authority
Annual Report and Financial Statements
For the year ended June 30th 2023

16. Statement of Changes in Net Assets

FOR THE PERIOD ENDED 30TH JUNE 2023					
	Attributable to the owners of the controlling entity				Total Kshs
	KEMSA Capital Kshs	Revaluation Reserve Kshs	Accumulated Funds Kshs	Reserves	
				Retained Earnings Kshs	
As at July 1, 2021	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)
As at June 30, 2022	8,461,576,303	783,630,456	256,950,298	5,860,225,131	15,362,382,188
As at July 1, 2022	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)
					-
Balance as at 30th June 2023	8,461,576,303	783,630,456	-	2,219,826,332	11,465,033,091

Kenya Medical Supplies Authority
Annual Report and Financial Statements
For the year ended June 30th 2023

17. Statement of Cash Flows for the year ended 30 June 2023

	Note	FY 2022/2023	FY 2021/2022
Cash flow From Operating Activity		Kshs	Kshs
Net Surplus for the Period		3,897,352,669)	(2,993,786,887)
Depreciation Charge	15	111,873,340	119,174,766
Asset Disposal	25	64,284	-
Deferred Income	32	21,742,581	610,688,961
prior year Adjustment	25	186,947,924	-
Changes in Operating Activities			
Decrease/(Increase) in Current Assets		858,574,383	3,814,176,247
Increase/(Decrease) in Current Liabilities		(498,845,168)	388,657,350
Net cash flows from operating activities	33	(3,216,995,324)	1,938,910,437
Cash flows used in investing activities			
Purchase of property, plant, equipment and intangible assets	25	(548,275,231)	(1,391,206,362)
In Kind Donations-Fixed Assets		-	-
Proceeds from Disposal of Fixed Assets	18	3,572	2,921,270
Increase/decrease in non-current receivable		16,210,843	(8,561,096)
Net cash flows used in investing activities		(532,060,816)	(1,396,846,188)
Cash Flows from Financing activities			
Net cash flows used in financing activities		0	-
Net increase/(decrease) in cash and cash equivalents		(3,749,056,140)	542,064,248
Cash and cash equivalents at 1 July 2022		8,656,053,238	8,113,988,990
Cash and cash equivalents at 30th June 2023	21	4,906,997,098	8,656,053,238

Kenya Medical Supplies Authority
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18. Statement of Comparison of Budget and Actual amounts for the year ended 30June 2023

	Note	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%
Revenue from non-exchange transactions							
Transfers from other government entities	6	120,000,000	300,000,000	420,000,000	120,000,000	300,000,000	↑ 29%
Public contributions and donations	7	-		-	6,383,639	(6,383,639)	→ 0%
Total Revenue from non-exchange transactions		120,000,000	300,000,000	420,000,000	126,383,639	293,616,361	↑ 30%
Revenue from exchange transactions							
Rendering of Services	8	1,101,247,304	1,134,000,000	2,235,247,304	1,357,355,506	877,891,798	↑ 61%
Net Sales	9	1,565,721,073	54,000,000	1,619,721,073	(293,434,384)	1,913,155,457	↓ -18%
Rental Revenue	10	-		-	1,298,428	(1,298,428)	→ 0%
Other Income	11	493,894,466		493,894,466	473,033,429	20,861,037	→ 0%
Total Revenue from exchange transactions		3,160,862,843	1,188,000,000	4,348,862,843	1,538,252,980	2,810,609,864	↑ 35%
Total revenue		3,280,862,843	1,488,000,000	4,768,862,843	1,664,636,619	3,104,226,224	↑ 35%

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	Note	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%
Expenses							
Outsourced distribution cost		770,554,551	-	770,554,551	789,493,976	(18,939,425)	↑ 102%
Use of goods and services	12	539,339,120	650,000,000	1,189,339,120	2,003,659,568	(814,320,448)	↑ 168%
Employee costs	13	1,275,810,863	-	1,275,810,863	1,208,905,403	66,905,460	↑ 95%
Board expenses	14	30,000,000	-	30,000,000	13,902,905	16,097,095	↑ 46%
Depreciation and amortization expense	15	111,877,282	-	111,877,282	111,873,340	3,942	↑ 100%
Repairs and maintenance	16	19,848,739	-	19,848,739	20,719,350	(870,611)	↑ 104%
Contracted Services	17	133,156,031	28,000,000	161,156,031	161,148,124	7,907	↑ 100%
Total expenses		2,880,586,587	678,000,000	3,558,586,587	4,309,702,667	(751,116,080)	↑ 121%
Other gains/(losses)							
Gain/(Loss) on sale of assets	18	-	-	-	3,572	(3,572)	→ 0%
Gain/(Loss) on foreign exchange transactions	19	372,667,409	-	372,667,409	(495,576,450)	868,243,859	↓ -133%
Impairment loss	20	-	-	-	(756,710,171)	756,710,171	→ 0%
Surplus/(Deficit) before tax		27,608,847	-	837,608,847	(3,897,349,097)	5,480,292,762	↓ -465%
Taxation							
Surplus for the period		27,608,847	-	837,608,847	(3,897,349,097)	5,480,292,762	↓ -465%
Capital expenditure		1,694,095,250		1,694,095,250	548,275,231	1,145,820,019	↑ 32%

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Budget notes

The authority's recurrent budget was revised by Kshs 678 Million from to cater for the following additional activities;

- a) Settle outstanding tax obligation to KRA of Kshs 600 Million.
- b) Consultancy Fee of Kshs 18 Million.
- c) Tax Consultancy services of Kshs 10 Million.
- d) Branding and Corporate image of Kshs 50 Million.

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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 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, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the 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).

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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.

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity’s future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> a) Applying a single classification and measurement model for financial assets that considers the characteristics of the asset’s cash flows and the objective for which the asset is held; b) Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and c) Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model

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	<p>develops a strong link between an Entity’s risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</p>
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the Entity.</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the Entity’s financial performance, financial position and cash flows.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p>

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	<p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
<p>Other improvements to IPSAS</p>	<p><i>Applicable 1st January 2023</i></p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> • <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> • IPSAS 29: Financial instruments: Recognition and Measurement <p>Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.</p>

ii. *New and amended standards and interpretation in issue but not yet effective in the year ended 30 June 2023*

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<p>IPSAS 43</p>	<p><i>Applicable 1st 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 Entity.</p> <p>The new standard requires entities to recognize, measure and present information on right of use assets and lease liabilities.</p>
<p>IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations</p>	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires, 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>

iii. Early adoption of standards

The Entity did not early - adopt any new or amended standards in year 2022/2023.

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4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes, and fines

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

Transfers from other government entities

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

ii) Revenue from exchange transactions

Rendering of services

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

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

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 Entity.

Interest income

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

ii) Revenue from exchange transactions

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the Entity's right to receive payments is established.

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 FY 2022-2023 was approved by the National Assembly on *June 30, 2023*. Subsequent revisions or additional appropriations were made to the approved

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budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Entity upon receiving the respective approvals in order to conclude the final budget. The Entity didn't record additional appropriations.

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

A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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

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 Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Management periodically evaluates 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

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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.

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 Entity 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

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

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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;

Lease hold Land	No depreciation
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 Entity. 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 Entity also recognizes the associated lease liability at the inception of the lease. The liability

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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 over the useful life of the asset. However, if there is no reasonable certainty that the Entity 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 Entity. 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.

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h) Research and development costs

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

- 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.

i) Financial instruments

i) Financial assets

Classification of financial assets

The entity 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 entity'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

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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 entity 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 entity 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.

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.

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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. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end.

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 entity 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 entity 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 entity recognizes a loss allowance for such losses at each reporting date. Critical

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

ii) **Financial liabilities**

Classification

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

- i) Raw materials: purchase cost using the weighted average cost method.
- ii) Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the *Entity*.

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k) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. 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 **Ksh.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 be paid in instalments of 22 months. As at end of June **Kshs 550,000,000** had been paid leaving a balance of **Kshs 715,576,505** which will be honoured as per the agreed payment plan.

The Authority engaged National Youth services to provide services for Repainting and Land scaping of Embakasi supply chain centre and Annex stores at a cost of **Kshs 10,893,500** and renovation work for roof refurbishment and lighting replacement at cost of **Kshs 30,359,900**. The works started on 24th June 2022 and are at 95% complete as at 30th June 2023.

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

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need of society as a whole. The entity 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 entity will incur in fulfilling the present obligations represented by the liability.

m) Contingent liabilities

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

n) Contingent assets

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

o) Nature and purpose of reserves

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

q) Employee benefits

Retirement benefit plans

The *Entity* provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an Entity pays fixed contributions into a separate Entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

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 Entity 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

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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 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.

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, 2022.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. State all judgements, estimates and assumptions made:

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Estimates and assumptions

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

Useful lives and residual 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 Entity.
- 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 28. 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

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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)

6. Transfers from Ministries, Departments and Agencies (MDAs)

Name of the Entity Sending the Grant	Amount recognized to Statement of Financial Position Kshs	Amount Deferred under deferred income Kshs	Amount recognized in capital fund Kshs	Total transfers (Current FY) Kshs	Prior year 2021-2022 Kshs
Ministry of Health	120,000,000	-	-	120,000,000	100,000,000
Ministry of Health	-	-	-	-	-
Total Grants from National Government	120,000,000	-	-	120,000,000	100,000,000

In the current FY 2022/2023, the Authority was granted a recurring fund of Kshs 120 million, Kshs 110 million was received as at June with Kshs 10 million being received in July hence accrued for the period ending 30th June 2023.

7. Public Contributions and Donations	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Income from Donations	6,383,639	6,383,639
Total Public Contributions and Donations	6,383,639	6,383,639

The amount of Kshs6,383,639 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.

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Notes to the Financial Statements (Continued)

8. Rendering of Services	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Supply Chain Fees: -USAID	-	12,671,423
-Global Fund	668,795,462	512,669,708
-UNICEF	22,665,499	15,541,387
-Ministry of Health	567,908,142	216,643,654
-Other Strategic Partners	97,986,403	30,162,935
Total other income	1,357,355,506	787,689,106
<i>This revenue relates to fees earned for Procurement, Warehousing and Distribution services rendered to KEMSA Strategic partners as listed above.</i>		
9. Net Sales	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Sale Revenue -Pharmaceutical	3,135,547,025	3,452,060,711
Sale Revenue -Non-Pharmaceuticals	2,902,575,710	2,170,585,375
Sale Revenue -Non-Pharmaceuticals -Covid-19 commodities	1,196,715,776	523,716,900
Sales Revenue -UHC-Pharmaceuticals	784,892,179	78,418,435
Sales Revenue-UHC-Non-Pharmaceuticals	19,412,754	92,417,306
Total sales revenues	8,039,143,444	6,317,198,727
Cost of Sales		
Cost of Sales CGS (Pharms)	2,330,666,731	3,650,452,684
Cost of Sales -CGS (Non-Pharms)	2,248,013,590	1,940,300,934
Cost of Sales -CGS (Non-Pharms)-Covid-19 commodities	1,934,078,201	1,787,954,354
Cost of Sales-CGS-UHC (Pharms)	594,281,507	60,185,726
Cost of Sales-CGS-UHC (Non-Pharms)	11,822,612	81,457,510
Inventory Adjust Variance (Expiries & Damages)	1,213,715,186	147,466,570
Total cost of sales	8,332,577,827	7,667,817,778
Net Sales	(293,434,384)	(1,350,619,051)
<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. The loss after sale of COVID-19 commodities for the year is Ksh. 737.36 million.</i>		

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Notes to the Financial Statements (Continued)

10. Rental Revenue	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Rental Income	1,298,428	1,298,428
Total other income	1,298,428	1,298,428
<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>		

11. Other Income	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Sale of Tender Documents	-	2,000
Sale of Waste Materials	-	4,510
Bank Interest Received	467,564,741	518,452,886
Other Miscellaneous Income	5,468,688	24,556,751
Total other income	473,033,429	543,016,146
<i>These are revenues earned from other sources as including insurance refunds, and recoveries done for cost of damaged stocks on transit.</i>		

12 a. Outsourced Distribution	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Total Outsourced distribution cost	789,493,976	786,643,283

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Notes to the Financial Statements (Continued)

12b. Use of Good and Services	Period ended June 2023	Period ended June 2022
	Kshs	Kshs
Electricity	21,850,265	12,655,812
Water	364,963	651,786
Professional services		
Subscriptions	1,957,611	1,895,445
Advertising	173,041,880	15,583,811
Admin Expenses	73,666,359	51,164,548
Audit fees	4,153,607	4,273,300
Conferences and delegations	10,326,950	14,183,760
Fuel and oil	47,030,205	29,252,905
Insurance	178,824,643	149,650,484
Licenses and permits	11,178,533	8,424,434
Postage	196,648	266,339
Printing and stationery	14,457,041	7,853,885
Rental	15,484,023	86,394,150
Vehicle Maintenance	10,599,889	15,078,397
Fork Lift Maintenance	2,368,713	1,422,045
Maintenance of own Trucks	5,635,980	2,239,229
Telecommunication	18,803,072	24,698,985
Training	15,078,493	16,634,411
Travel, accommodation, subsistence and other allowances*	81,376,137	85,821,747
Tax Arrears & Penalties	1,265,576,505	-
Corporation Tax	50,054,897	
Bank Charges	1,633,153	1,705,780
Total Use of Good and Services	2,003,659,568	529,851,254

Disclosure: On 11th April, 2022, KEMSA received KRA assessment/ Demand Notice from KRA for Corporation Tax and Value Added Tax (VAT) of Ksh. 3,010,854,284.00 as Total debt. Following this huge tax liability, the organization engaged a tax consultant to work with KRA on tax the tax workings. After several considerations a revised tax obligation was arrived at Ksh. 1,265,576,505 which was to be paid in installments of 22 months. As at end of June Ksh. 550 million had been paid.

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Notes to the Financial Statements (Continued)

13. Employee costs	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Basic Pay	719,309,608	782,169,114
Overtime	8,356,220	8,350,464
Arrears	6,143,982	713,749
House Allowance	165,025,000	179,282,000
Acting Allowance	2,754,220	3,657,470
Leave Allowance	3,236,000	10,095,000
Entertainment Allowance	2,299,140	2,754,000
NSSF (KEMSA Part)	3,165,887	2,084,800
Gratuity and Pensions	127,897,033	136,550,511
Committee Allowances	18,551,000	10,388,000
Special Duty Allowances	75,836	166,840
Transport Allowance	42,930,367	46,860,000
Other Taxable Benefits	59,334,615	13,077,766
Casual and Contract Employees	986,008	498,000
Ex-Gratia Payments	17,883,538	13,176,863
Shift Allowance	546,306	(31,208)
Staff Seconded to KEMSA	30,410,643	13,865,817
Total employee costs	1,208,905,403	1,223,659,186
<i>These are expenditures incurred by the Authority for compensation of its employees. They include salaries, wages, social security contributions and allowances.</i>		

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Notes to the Financial Statements (Continued)

14. Board expenses	Period ended	Period ended
	June 2023	June 2022
	Kshs	Kshs
BOD Sitting & Lunch Allowances	6,598,600	13,856,000
BOD Travel & Accommodation Exp.	5,011,805	11,724,281
BOD Conferences	1,248,500	1,482,880
BOD Honoraria & Other Allowances	1,044,000	1,044,000
Total BOD expenses	13,902,905	28,107,161

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. The Board expenditure decrease is attributed reduced board activities during the period under review.

15. Depreciation & amortization	Period ended	Period ended
	June 2023	June 2022
	Kshs	Kshs
Buildings - Depreciation	32,596,898	32,596,898
Plant & Machinery - Depreciation	22,068,093	21,716,403
Office Equipment - Depreciation	9,112,229	7,682,611
Furniture & Fittings - Depreciation	4,869,255	4,671,862
Computer Equipment - Depreciation	9,955,334	12,042,074
Intangible Assets - Depreciation	1,293,711	1,293,711
Motor Vehicles - Depreciation	31,977,819	39,171,206
Total depreciation & amortization	111,873,340	119,174,766

These costs relate to depreciation charges for the Financial Year, on a straight-line basis.

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Notes to the Financial Statements (Continued)

16. Repair & Maintenance	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Repairs to Buildings and Roads	5,873,248	1,898,350
Maintenance of QA Tools & Equipment	896,088	378,901
Plant Repairs & Maintenance	735,216	1,231,779
Computer Stationery Expenses	8,144,887	11,512,003
Computer Maintenance Expenses	2,400,221	1,537,504
Computer Maintenance Agreement	1,782,507	4,576,209
Purchase of Tools & Maintenance	-	-
Generator Fuel & Maintenance	887,182	236,044
Total Repair & Maintenance	20,719,350	21,370,790

17. Contracted Services	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Legal expenses	56,764,795	126,365,772
Consulting fees	77,126,233	37,910,274
Security costs	15,577,356	21,416,733
Outsourced Cleaning Expenses	11,642,340	4,484,500
Sanitation Expenses	37,400	213,740
Contracted Services	161,148,124	190,391,019

The low performance when compared to previous year's performance attributed to cost cutting measures in reduction of legal fees. Consulting fees relates to consultancy costs that the Authority had engaged of JKUAT, APT for small works, MGI for Tax consultancy and Oxygen PR consultancy

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Notes to the Financial Statements (Continued)

18. Gain/Loss on sale of assets	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Property, plant and equipment	3,572	2,902,915
Total Gain/Loss on sale of assets	3,572	2,902,915
19. Gain/Loss on foreign exchange transactions	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Gain/ (Loss) on foreign exchange transactions	5,724,684	1,829,205
Gain/ (Loss) on foreign exchange transactions	(501,301,134)	(184,186,901)
Total Gain/Loss on foreign exchange transactions	(495,576,450)	(182,357,696)
20. Impairment loss	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Inventory	756,710,171	-
Total Impairment Loss	756,710,171	-

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Notes to the Financial Statements (Continued)

21 a. Cash and Cash Equivalents	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Petty Cash	-	-
Cash Book Transit	-	-
Nbk - Operations	3,919,825	16,909,238
World Bank E.A Lab Project	-	18,843,438
NBK Distribution	4,642,928	6,163,761
KCB Drugs	284,664,318	297,207,049
KCB Distribution	791	921
NCBA	1,080,812,179	635,438,430
Co-Op - Medical Grants	479,891,896	997,925,867
Co-Op Bank Gf Operations (Ksh)	32,846,887	738,301,227
Co-Op Bank Gf Operations (Usd)	870,207,611	753,725,118
SSD Co-Op Bank	470,438,213	700,457,202
SSD Equity Bank	1,665,608,822	4,341,306,340
Equity Warehouse Construction Project	2,253,107	144,599,872
Equity Bank Operations (Ksh)	11,168,373	495,137
Equity Bank Operations (Usd)	540,328	453,077
Mpesa Bulk Payment	1,822	4,226,560
Total cash and cash equivalents	4,906,997,098	8,656,053,238
<p><i>Included in the cash and cash equivalents balance of sh. 4,906,997,098 is an amount of sh. 3,836,645,391.75 ringfenced for specific activities and Development Partners funds hence not available for Authority's use. The only funds available for the Authority's utilization is sh. 1,070,351,706.45</i></p>		

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Notes to the Financial Statements (Continued)

22 a. Receivables from Exchange Transactions (Current)	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Trade Debtors -Receivable	5,900,014,323	5,715,641,818
Prepayments & Other Receivables (Ins...)	108,527,542	88,169,371
Total receivables from exchange transactions	6,008,541,865	5,803,811,189

22 b. Receivables from Exchange Transactions (Long-term)	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Long-term Deposit	46,165,683	62,376,526
Total long-term receivables from exchange transactions	46,165,683	62,376,526

These are rental deposits paid for warehouses that the Authority had rented to store medical commodities. Refund of the deposit is in proceeds after termination of leases

22 c. Ageing analysis for Receivables from Exchange Transactions	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Less than 1 year	4,267,700,950.46	3,519,491,377.60
Between 1.- 2 years	1,538,093,480.24	2,018,468,463.87
Between 2 - 3 years	174,649.40	55,054,065.25
Over 3 years	94,045,243.19	122,627,911.28
Total ageing for receivables from exchange transactions	5,900,014,323	5,715,641,818

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Notes to the Financial Statements (Continued)

23 a. Receivables from Non-Exchange Transactions	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Travel Imprest Debtors	1,058,157	2,358,757
Staff Salary Advances Debtors	191,708	191,708
Standing Imprest Debtor	138,590	438,208
Board imprest debtor	288,600	81,482
Staff Medical Advances	2,515,957	2,778,321
Staff Accountable Imprest	1,624,673	98,000
Interest Receivable	1,242,971	1,437,335
Total receivables from non-exchange transactions	7,060,656	7,383,811
23 b. Ageing Analysis - Receivables from non-exchange transaction	Current FY	% of the total
Less than 1 year	5,056,700	72%
Between 1-2 years	1,369,512	19%
Over 3 years	634,445	9%
Total	7,060,656	
24a. Inventories	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Medical Supplies-Pharmaceutical & Non-Pharmaceutical Stocks	12,896,130,538	13,958,506,662
Consumable stores-Stationery	3,536,284	3,815,509
Consumable stores-Beverages & Others	248,599	575,154
Total inventories at the lower of cost and net realizable value	12,899,915,421	13,962,897,325
<i>Out of stock value of sh. 12.9 Billion the entity is holding 3rd party stocks valued at sh. 9.1 Billion.</i>		

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Notes to the Financial Statements (Continued)

24 b. Inventories	Period ended June 2023	Period ended June 2022
	Kshs	Kshs
KEMSA capital	3,761,500,140	5,874,742,166.49
Third Party stock	9,134,630,398	8,083,764,495.19
Consumable stores	3,784,883	4,390,663.00
Total inventories at the lower of cost and net realizable value	12,899,915,421	13,962,897,325
<i>There were expiries of sh. 1,205,244,409 of third-party stocks</i>		

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Notes to the Financial Statements (Continued)25(a) Property, Plant and Equipment as at June 2023

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 (FY21/22)	1,786,967,270.37	1,451,416,332.09	248,345,704.50	38,864,673.27	74,772,793.97	60,429,367.33	216,402,273.01	3,799,741,357.13	7,676,939,771.67
Additions	-	466,600.00	-	386,885.00	199,520.00	11,613,558.00	744,816.00	1,377,794,983.36	1,391,206,362.36
Disposals	-	-	(5,640,000.00)	(1,376,453.52)	(2,842,460.00)	(1,796,038.40)	(56,000.00)	-	(11,710,951.92)
Transfers/Adjustments	-	-	-	-	-	-	-	-	-
As at 30th June (FY21/22)	1,786,967,270.37	1,451,882,932.09	242,705,704.50	37,875,104.75	72,129,853.97	70,246,886.93	217,091,089.01	5,177,536,340.48	9,056,435,182.10
Additions	-	-	-	2,878,000.00	9,306,141.60	16,757,088.64	11,302,304.11	508,031,697.06	548,275,231.41
Disposals	-	-	-	-	(128,567.68)	-	-	-	(128,567.68)
Transfer/Adjustments	-	-	696,000.00	2,000.00	-	106,038.40	-	(187,751,962.65)	(186,947,924.25)
As at 30th June (FY22/23)	1,786,967,270.37	1,451,882,932.09	243,401,704.50	40,755,104.75	81,307,427.89	87,110,013.97	228,393,393.12	5,497,816,074.89	9,417,633,921.58
Depreciation And Impairment									-
At 1July (FY21/22)	-	171,227,218.17	155,337,945.81	23,130,293.91	48,412,018.70	20,370,547.61	90,757,088.07	-	509,235,112.27
Depreciation	-	32,596,898.34	39,171,205.67	4,671,862.50	12,042,074.13	7,682,611.14	21,716,403.12	-	117,881,054.90
Impairment	-	-	(5,640,000.00)	(979,510.24)	(2,842,460.00)	(1,355,566.48)	(33,600.96)	-	(10,851,137.68)
Transfers/ Adjustments	-	-	-	-	-	-	-	-	-
As At 30th (FY21/22)	-	203,824,116.51	188,869,151.48	26,822,646.17	57,611,632.83	26,697,592.27	112,439,890.23	-	616,265,029.49
Depreciation	-	32,596,898.34	31,977,819.37	4,869,255.00	9,955,334.00	9,112,229.00	22,068,092.90	-	110,579,628.61
Disposals	-	-	-	-	(64,283.76)	-	-	-	(64,283.76)
Impairment	-	-	-	-	-	-	-	-	-
Transfer/Adjustment	-	-	-	-	-	-	-	-	-
As at 30th June (FY22/23)	-	236,421,014.85	220,846,970.85	31,691,901.17	67,502,683.07	35,809,821.27	134,507,983.13	-	726,780,374.34
Net Book Values									-
As at 30th June (FY21/22)	1,786,967,270.37	1,248,058,815.58	53,836,553.02	11,052,458.58	14,518,221.14	43,549,294.66	104,651,198.78	5,177,536,340.48	8,440,170,152.61
As at 30th June (FY22/23)	1,786,967,270.37	1,215,461,917.24	22,554,733.65	9,063,203.58	13,804,744.82	51,300,192.70	93,885,409.99	5,497,816,074.89	8,690,853,547.24

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Notes to the Financial Statements (Continued)

25(b) Property, Plant and Equipment at Cost

	COST	ACCUMULATED DEPRECIATION	NBV
	Kshs	Kshs	Kshs
LAND	1,786,967,270	-	1,786,967,270
BUILDINGS	1,451,882,932	236,421,015	1,215,461,917
OFFICE EQUIPMENT	87,110,014	35,809,821	51,300,193
PLANT & MACHINERY	228,393,393	134,507,983	93,885,410
FURNITURE	40,755,105	31,691,901	9,063,203
MOTOR VEHICLE	243,401,705	220,846,971	22,554,734
COMPUTER HARDWARE	81,307,428	67,502,683	13,804,745
TOTAL	3,919,817,847	726,780,375	3,193,037,472

Property plant and equipment includes the following assets that are fully depreciated.

Disclosure on correction on PPE Movement Schedule

The prior year adjustments pertain to corrections made for Work in Progress related to the New Warehouse Construction, including:

- Recognition of retention funds payable to contractors previously unrecognized.
- Derecognition of VAT amounts recorded in FY 2018/19 for invoices paid by Global Fund that included VAT.
- Reclassification of legal fees previously expensed for warehouse construction.
- Refunded funds returned to Global Fund.
- Adjustment of reconciled opening balances for asset costs.

These adjustments necessitated prospective corrections to the opening balances, including prior adjustments to the Property, Plant, and Equipment (PPE) movement

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schedule to accurately restate the Work in Progress for the new warehouse value in accordance with IPSAS 3.

This is tabulated as below;

DESCRIPTION	AMOUNT
Prior year adjustments -This relates to the contractors retained amounts from payments made.	126,401,776.90
Adjustment of previously expensed payment to Akide and Advocates from legal fees expense account to WIP warehouse construction.	11,575,000.00
Adjustments of Global fund invoices previously captures with VAT. Global fund payments are Tax exempt.	(262,491,713.65)
Refund of disputed funds To the Principal Recipients Global Fund	(63,237,025.90)
Adjustment of opening balances for asset costs for categories Motorvehicle, Furniture and Office equipments	804,038.00
Total	(186,947,924.65)

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25 (c). Intangible Assets

Description	FY 2022/203	FY 2021/2022
		Comparative
	Kshs	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	144,400,642.90	143,106,931.78
Amortization	1,293,711.12	1,293,711.12
At end of the year	145,694,354.02	144,400,642.90
Impairment loss	-	-
At end of the year	145,694,354.02	144,400,642.90
NBV	970,283.29	2,263,994.41

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26. Trade and other payables	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Trade Creditors - Medical	3,714,809,888	2,464,270,152
Trade Creditors - Not Invoiced Receipts	1,726,627,780	437,723,132
Trade Creditors - Operations	54,106,831	508,122,729
Trade Creditors - Distribution	31,786,340	16,470,010
Trade Creditors - Development Partner's Grants	2,894,257,131	4,798,798,971
Customer unallocated Payment	35,928,606	161,507,829
Rent deposit's - tenants	-	3,032,428
Withheld vat	325,342	(2,333)
Vat output - due	1,883	666
Withheld tax- consultancy	0	4,804,936
Withheld tax- contractors	1	1,599,513
Withheld Tax - Rental Income	0	0
Suppliers Funds Retained	144,319,956	21,639,338
Paye Imprest Payable		
Paye Payroll Payable	0	1,557,256
Employee Imprest Payable (Refunds)	818,551	1,128,028
Board Imprest Payable (Refunds)		15,400
Employee Payables	-	3,438,851
Advances Recovery	(0)	300
Sacco Deductions		1
Payroll Control		(7)
Total trade and other payables from exchange transactions	8,602,982,309	8,424,107,200
<i>Out of 8.6 Billion liabilities there is a liability that relates to balance of funds meant to pay government taxes and programme commodities valued at 2.89 Billion</i>		
AGEING ANALYSIS: (TRADE AND OTHER PAYABLES)	Current FY	% of the Total
UNDER ONE YEAR	3,555,765,826	41%
1-2 YEARS	832,132,329	10%
2-3 YEARS	961,668,110	11%
OVER 3 YEARS	3,253,416,044	38%
TOTAL	8,602,982,309	100%

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27. Refundable Deposits and Prepayments from Customers	Period ended June 2023	Period ended June 2022
	Kshs	Kshs
Customer Prepayment	815,345,671	1,532,648,721
Total Prepayment	815,345,671	1,532,648,721

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

28. Current Provisions	Period ended June 2023	Period ended June 2022
	Kshs	Kshs
Balance Brought Forward	330,717,836	167,673,093
Additional Provisions	1,111,906,567	330,717,836
Provision Utilized	(330,717,836)	(167,673,093)
Total provisions	1,111,906,567	330,717,836

29. Project Fund	Period ended June 2023	Period ended June 2022
	Kshs	Kshs
BAL B/F	57,344,215.80	45,723,831
Add: Cumulative bank interest earned on EAPHLNP Account		11,343,918
Add: Period adjustment on KHSSP interest earned		276,467
Less: Cumulative bank interest earned on EAPHLNP Account		-
Less: DANIDA Refund	(38,491,058.76)	
Less: Over-Provision for DANIDA funds	(9,718.79)	
less EAPHL RUFUND TO TNT	(18,843,438.25)	
Add: Interest refundable to DANIDA		-
Total project fund	-	57,344,216

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30. Medical Commodity Fund	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Medical Commodity Fund	9,134,630,398	9,818,892,141
Total medical commodity fund	9,134,630,398	9,818,892,141

31. Deferred income	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Public Contribution and donations (Current Portion recognized from Donated Assets)	1,430,606,516	1,408,863,935
Total deferred income	1,430,606,516	1,408,863,935
<i>The Authority has recognized the absorption of the Grant from Global fund as work in progress on the funds paid to the supplier by the Global fund-at the National Treasury.</i>		

32. KEMSA Capital	Period ended June 2023 Kshs	Period ended June 2022 Kshs
Balance at the end of the Financial Year	8,461,576,303	8,461,576,303
Total KEMSA Capital	8,461,576,303	8,461,576,303

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33. Cash Generated from Operations	Financial Year	Financial Year
	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
Surplus for the year before tax	(3,897,352,669)	(2,993,786,887)
Adjusted for;		
Prior year adjustments	186,947,924	-
Asset Disposal (NBV)	64,284	-
Depreciation and amortization expense	111,873,340	119,174,766
Changes in Operating Activities		
Decrease/(Increase) in Current Assets	732,995,160	3,814,176,247
Increase/(Decrease) in Current Liabilities	(373,265,945)	388,657,350
Increase/(Decrease) in Deferred Income	21,742,581	610,688,961
Net cash flows from operating activities	(3,216,995,324)	1,938,910,437

34 Financial Risk Management

The Entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Entity'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 Entity does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Entity's financial risk management objectives and policies are detailed below:

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i) Credit risk

The Entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors.

The amounts presented in the statement of financial position do not include any provision for doubtful receivables even though Kshs. 3,989,600,611 is beyond one year. From prior experience and their assessment of the current economic environment. The carrying amount of financial assets recorded in the financial statements representing the Entity's maximum exposure to credit risk without taking account of the value of any collateral.

Credit risk	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
As at 30 June 2023				
Receivables from exchange transactions	5,900,014,323	5,900,014,323	3,927,950,733	0.00
Receivables from non-exchange transactions	7,060,656	7,060,656	-	0.00
Bank balances	4,906,997,098	4,906,997,098	-	0.00
Total	10,814,072,077	10,814,072,077	3,927,950,733	0.00
As at 30 June 2022				
Receivables from exchange transactions	5,642,303,360	1,569,852,985	4,072,450,374	0.00
Receivables from non-exchange transactions	7,383,812	7,383,812	-	0.00
Bank balances	8,656,053,238	8,656,053,238	-	0.00
Total	14,305,740,410	10,233,290,035	4,072,450,374	0.00

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

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Entity's directors, who have built an appropriate liquidity risk management framework for the management of the Entity's short, medium and long-term funding and liquidity management requirements. The

Entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows. The table below represents cash flows payable by the Entity 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.

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Liquidity Risk	0-30 Days	31-90 Days	Over 90 Days	Total
	Kshs	Kshs	Kshs	Kshs
As at 30 June 2023				
Trade payables	1,314,817,337	1,022,774,657	1,463,111,063	3,800,703,056
Creditors-Not invoiced Receipts			1,726,627,780	1,726,627,780
Development Partners			2,894,257,131	2,894,257,131
Retentions			144,319,956	144,319,956
Employee Imprest Payable (Refunds)			818,551	818,551
Trade Debtors Per Category - Unallocated Customer Receipts			35,928,606	35,928,606
Withheld vat			325,342	325,342
Customer Prepayments			815,345,671	815,345,671
Provisions			1,111,906,566.82	1,111,906,566.82
Total	1,314,817,337	1,022,774,657	8,192,640,667	10,530,232,660
As at 30 June 2022				
Trade payables	1,685,516,546	977,465,859	325,880,486	2,988,862,891
Creditors-Not invoiced Receipts			437,723,132	437,723,132
Development Partners	1,580,461,492	600,000,000	2,618,337,479	4,798,798,971
Rent Deposits- Tenants			3,032,428	3,032,428
Retentions	0	0	21,639,338	21,639,338
Trade Debtors Per Category - Unallocated Customer Receipts			161,507,829	161,507,829
Customer Prepayments			1,532,648,721	1,532,648,721
trade and other payable from non exchanged		12,542,611		12,542,611
Provisions	299,924,535	0	30,793,301	330,717,836
Total	3,565,902,573	1,590,008,470	5,131,562,714	10,287,473,757

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Notes to the Financial Statements (Continued)

iii) **Market risk**

The Entity has put in place an internal audit function to assist it in assessing the risk faced by the Entity 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 Entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The Entity's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the Entity's exposure to market risks or the manner in which it manages and measures the risk.

iv) **Foreign currency risk**

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

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

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v) **Interest rate risk**

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

35 Related Party Disclosures

Nature of related party relationships

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

Government of Kenya

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

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

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- iv) The National Treasury
- v) Board of directors.

36 Segment Information

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

37 Contingent Assets and Contingent Liabilities

Contingent Assets

Isiolo and Meru Land

Both Isiolo and Meru Land parcels were allocated to KEMSA; however, titles were still under processing as of the end of the financial year. Consequently, valuation had not been conducted to be recognized in the financial statements. Subsequently, upon receipt of the titles in FY 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, and the final valuation report is pending presentation to KEMSA in order to recognize the value of the assets in its financial statement.

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

	2022-2023	2021-2022
	Kshs	Kshs
CONTINGENT ASSETS		
EMBAKASI GREEN SITE LR Number 28464 and 28465	220,000,000	220,000,000
Total	220,000,000	220,000,000

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Notes to the Financial Statements (Continued)

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

In January 2019 Kenya Air Ports Authority filed a complaint before the National Land Commission seeking revocation of several parcels of land excised from land parcel No. LR 21919 which is registered in favour of Kenya Air Ports Authority. Among those parcels of land include LR No. 28464 and 28465 which was Registered in favour of KEMSA. Upon hearing the complaint, the National Land Commission recommended revocation of inter alia KEMSA's title over LR No. 28464 and 28465 and issuance of a sublease instead.

KEMSA instructed its lawyers to move to court and challenge the recommendations made by National Land Commission. Judicial review proceedings were instituted before the Environment and Land Court being Judicial Review application No. 91 of 2019 filed on 28th March, 2019. The matter is still in court represented by Gathii Irungu and Co. Advocates. As per the latest update from the counsel, the Attorney General, Public Service Commission and the Kenya Airports Authority are in negotiations through our lawyer to secure the parcel of land. This parcel currently holds a value of KES 220,000,000.00 (Two Hundred and Twenty Million Shillings) as our books of financials. In the case where the revocation is upheld, we will have to expunge the properties from our books of accounts.

Contingent Liability

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.

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Kenya Medical Supplies Authority made a deficit of Kshs (3,897,349,097) during the year, in (FY 2021/2022 a Surplus of Kshs. 2,991,725,431). 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 Entity

The Entity 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).

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Reference No. on the external audit Report	Issue / Observations from Auditor				Management comments	R Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	<p>Misclassification</p> <p>The following financial statements components were misclassified;</p>				<p>Property, Plant and Equipment - Motor Vehicles Ksh 36,912,165</p> <p>We note your observation and note that;</p> <p>In the FY 2020/2021, KEMSA purchased vehicles totalling to 36,912,165 on 28th June 2021, the vehicles were paid for in July 2021 which</p>		
	<p>Classification in Financial Statements</p>	<p>Financial Statement Element</p>	<p>Correct Classification</p>	<p>Amount (Ksh)</p>			
	<p>Work in progress - Purchase of Motor vehicles</p>	<p>Statement of Financial Position</p>	<p>Property, Plant and Equipment - Motor Vehicles</p>	<p>36,912,165</p>			
	<p>Disclosure note - tax liability</p>	<p>Statement of Financial</p>	<p>Trade and other payables from exchange</p>	<p>1,265,576,505</p>			

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		Position	transactions - tax liability		was the next financial year.		
	Operating activities - credit notes	Statement of cash flows	Not included in the statement - no cash movement	108,439,677	They were delivered and put into use after registration was complete in July. The vehicles were hence recognized as WIP by the closure of the FY		
	Operating activities - damages, expiries and donations	Statement of cash flows	Not included in the statement - no cash outflow movement	1,056,356,865	2020/2021. In the FY 2021/22 the vehicles were capitalized and the amount of KES 36,912,165 was transferred from WIP		
In the circumstances, the accuracy, completeness, presentation and disclosure of the above balances as at 30 June, 2022 could not be confirmed.					to Motor vehicle cost by;		
					Dr. Property, Plant and Equipment - Motor Vehicles-36,912,165		



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		<p>Cr. Work in progress - Purchase of Motor vehicles-36,912,165</p> <p>As indicated in the PPE movement schedule as WIP transfers.</p> <p>Disclosure note - tax liability 1,265,576,505</p> <p>Management Response</p> <p>We note your observation and respond as follow;</p> <p>The Authority received demand note from the</p>		
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		<p>Kenya Revenue Authority for a tax obligation of Sh. 3 Billion. A tax consultant was engaged and after reconciliation with KRA the tax liability reduced to Sh. 1.1 Billion.</p> <p>We refer to letter dated 28th September 2022 from our tax agent MGI Alekim LLP concerning late objection to KRA copy attached. The Authority confirms that the conclusion of this tax liability was done by KRA through a letter dated 3rd November 2022 copy attached where they issued correct outstanding</p>		
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		<p>amount and payment plan. As at 30th June 2022 Authority had not reconciled and concluded on outstanding amount therefore this was not included as liability FY 2021/2022 but outstanding amount will form part of liability in current financial year. See Annex 1</p> <p>  KRA LETTER.pdf MGI LETTER.pdf</p> <p>We disclosed this liability as a contingent liability to be incurred in Financial Year 2022/2023 as guided</p>		
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		<p>by IPSAS 19 since the assessment of this liability had not been concluded as at the end of Financial Year 2021/2022.</p> <p>In FY 22/2023 KEMSA has paid Ksh 550 M relating to this tax liability.</p> <p>Operating activities - credit notes 108,439,677</p> <p>Management Response</p> <p>We note your observation and respond as follow;</p> <p>A credit note is a legal document used to cancel a previously issued invoice</p>		
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		<p>partially or in full. Total sales value will be overstated and inaccurate with exclusion of credit notes. Total sales value forms a significant portion of operating activities, and thus should be correctly recognized with the value of credit noted netted since this amount is not earned</p> <p>Operating activities - damages, expiries and donations,1,056,356,865</p> <p>Damages, expiries and donation commodities are considered as a part of cost</p>		
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		<p>of sale since this is a revenue that KEMSA should have earned but Authority lost this revenue as a result of same. Total sales value will be overstated and inaccurate with exclusion of damages, expiries and donations.</p>		
<p>2.</p>	<p>Unsupported Finance Income</p> <p>The statement of financial performance and as disclosed in Note 11 to the financial statements reflects finance income of Kshs.518,452,886. However, the schedule presented for audit did not indicate the principal amounts, interest rates applied and details of negotiations with the various financial institutions to arrive at the interest rates. In the circumstances, the accuracy and completeness of finance income amount of Kshs.518,452,886 could not be confirmed.</p>	<p>Management Response</p> <p>We note your observation and respond as follow;</p> <p>A detailed finance income schedule report for FY 2021/2022 has been</p>		

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		<p>provided in support of the interest income earned.</p> <p> BANK INTEREST RATES 21.22.pdf</p> <p> BANK INTEREST RECEIVED-FY 2021-2;</p>		
<p>3.</p>	<p>Inaccuracies of Land and Buildings</p> <p>The statement of financial position reflects Property, Plant and Equipment balance of Kshs 8,440,170,153 as disclosed in Note 24 (a) to the financial statements. Included in the balance is land at Kshs. 1,786,967,270 and buildings at Kshs.1,248,058,816 whose analysis revealed the following unsatisfactory matters;</p> <p>i. The land balance is not supported by valuation reports while two parcels of land in Isiolo and Meru of unknown value have been omitted.</p>	<p>i. The land balance is not supported by valuation reports while two parcels of land in Isiolo and Meru of unknown value have been omitted.</p>		

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	<p>ii. Warehouse buildings in Mombasa used for storage of medical commodities were omitted.</p> <p>iii. The land balance includes Kshs.284,538,002 for seven (7) parcels of land whose original title documents were not provided for audit.</p> <p>iv. Interviews with management revealed that a parcel of land in Kisumu municipality valued at Kshs.25,000,000 has been encroached by a private developer, acquired ownership rights but the matter is under investigation by Directorate of Criminal Investigation</p> <p>v. 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 disclosed in the financial statements.</p> <p>vi. Physical verification in January, 2023 revealed that two parcels of land in Nyeri town measuring approximately 0.56 hectares were partially fenced exposing it to encroachment and undisclosed developer had erected a temporary fence on the unfenced portion of land. Although management indicated the matter is being pursued, there was no document on its progress.</p> <p>vii. The land balance includes four parcels of land in Mombasa, Kisumu, Kakamega and Garissa amounting to Kshs.1 15000,000</p>	<p>KEMSA was allocated land in Isiolo and Meru in the year 2018 via allocation letters done by the sitting governors then. The allocation letters had stated that the County Govt has set aside 10acres each for KEMSA in both counties. By the time the letters were issued, the land had not been adjudicated hence KEMSA could not claim ownership of the same. The land adjudication was later done which saw the location of the parcels change as the Counties were still planning on the positioning of the various organizations that had been allocated land in the area KEMSA included. KEMSA received the title deeds for Meru and Isiolo dated December 2021 and July 2022 respectively. At the time of Title deed receipt, the</p>		
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	<p>which have not been surveyed.</p> <p>viii. Included in the land balance is a parcel of land situated at Embakasi in Nairobi acquired in August, 2016 at a cost of Kshs.1,980,000,000 while the financial statements reflects a balance of Kshs.1,232,429,268 resulting to unexplained reduction in land value of Kshs.747,570,732.</p> <p>In the circumstances, the accuracy, valuation and fair statement of land and buildings balance of Kshs.3,035,026,086 as at 30 June, 2022 could not be confirmed.</p>	<p>land had not undergone cadastral survey, a requisite for valuation. Since the land was not purchased there was no cost to attach to the parcels. In February 2023 a cadastral survey was procured through the Administration department. This is yet to be completed by the Directorate of Survey. Once complete a technical file will be issued which will form the basis for valuation of land by the Ministry of Land - Directorate Land Valuation. See Annex. See attached title deed for Meru & Isiolo</p>		
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ISIOLO KEMSA TITLE
DEED.pdf



MERU TITLE DEED
11514.pdf

ii. Warehouse buildings in Mombasa used for storage of medical commodities were omitted.

KEMSA had carried out a valuation for Land and buildings in 2015. During then, Mombasa land and buildings value was reported as one amount of KES 76,000,000 which was recognized under land, separation of cost was never done. In August 2022 a valuation of Land and Building

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		<p>was done and a draft report issued for review by the management before presentation of final report. The Draft report indicates Land valued at KES 110,000,000 and developments valued at KES 31,000,000. New valuation will be effected after the final report is presented by the Ministry of Land and Physical Planning.</p> <p>iii. The land balance includes Kshs.284,538,002 for seven (7) parcels of land whose original title documents were not provided for audit. The original titles are available for Audit</p> <p>iv Interviews with management revealed that a parcel of land in Kisumu municipality valued at</p>		
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		<p>Kshs.25,000,000 has been encroached by a private developer, acquired ownership rights but the matter is under investigation by Directorate of Criminal Investigation. The matter is still under investigation with DCI</p> <p>vi 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 disclosed in the financial</p>		
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		<p>statements. The parcel of land where the KEMSA Kakamega depot is located will be de-recognized since the land was donated to KEMSA by Kakamega PGH.</p> <p>vii. The land balance includes four parcels of land in Mombasa, Kisumu, Kakamega and Garissa amounting to Kshs.1 15000,000 which have not been surveyed.</p> <p>The Garissa land belongs to the County government of Garisa and KEMSA is following up on</p>		
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		<p>the land to be subdivideds</p> <p>viii. Included in the land balance is a parcel of land situated at Embakasi in Nairobi acquired in August, 2016 at a cost of Kshs.1,980,000,000 while the financial statements reflect a balance of Kshs.1,232,429,268 resulting to unexplained reduction in land value of Kshs.747,570,732.</p> <p>We would like to clarify that the cost of land situated at Embakasi in Nairobi was acquired in August, 2016 at a cost of ksh</p>		
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		<p>2,297,720,087 made up of land at cost of Kshs.1,232,429,268 and building ksh 1,065,290,838.61. - and not Kshs.1,980,000,000 as indicated. However, the initial invoice provided and paid by KEMSA was Kshs.1,980,000,000 which was VAT exclusive. KQ paid for VAT amounting to Ksh 317,720,087 and later invoiced KEMSA same amount for reimbursement. Hence no variance of Kshs.747,570,732 as indicated.</p> <p>Please find attached current status</p>		
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		 CURRENT STATUS OF KEMSA LAND.xlsx		
4.	<p>Unaccounted Scanners</p> <p>The statement of financial position reflects property, plant and equipment balance of Kshs.8,440,170,153 as disclosed in Note 24 (a) to the financial statements. The balance includes office equipment balance of Kshs.43,549,295 out of which additions were Kshs11,613,558. Analysis revealed additions of Kshs.3,226,593 for only four (4) scanners that were delivered instead of eight (8) scanners procured and paid for at Kshs.8,208,800 resulting to unaccounted nor explained variance of Kshs. 4,962,207.</p> <p>In the circumstances, the accuracy and completeness of office equipment balance of Kshs.43,549,295 could not be confirmed.</p>	<p>Management Response</p> <p>We note your observation and respond as follow;</p> <p>Payment voucher for scanners APP-1047-21/22 for supplier Mega plus Africa Limited was for 4 scanners total amount KES 3,283,200. This delivery</p>		


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		<p>was done in January 2022 and the scanners capitalized in the Financial year 2021/22. Payment voucher APP-2457-20/21 the same supplier delivering 6 scanners amounting to 4,924,800 paid on 30th June 2021. The capitalization was done and posted in the FY 2020/2021 thus would not appear in the additions for FY 2021/22. All scanners are capitalized and posted in the asset register.</p>		
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<p>5.</p>	<p>Inaccuracies in Trade Creditors</p> <p>The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.8,256,459,842 as disclosed in Note 26 to the financial statements. However, the amount excluded unpaid goods and services as at 30 June, 2022 amounting to Kshs.22,690,890. In addition, Kshs.2,909,006,616 relates to supplies of medical commodities, distribution costs and other general operations from sixty-eight (68) suppliers but the respective invoices indicating the goods, works or services rendered were not provided for audit. Further, the amount includes Kshs.1,08 1,672,924 on procurement of medical commodities from thirty (30) suppliers whose invoices were in multiple currencies but the supplier statements did not indicate the local and the foreign currency and the applicable exchange rates.</p> <p>In the circumstances, the accuracy and fair statement of trade and other payables from exchange transactions balance of Kshs.8,256,459,842 as at 30 June, 2022 could not be confirmed.</p>	<p>Kshs.2,909,006,616 Relates to Supplies of Medical Commodities, Distribution Costs and Other General Operations</p> <p>Management response</p> <p>We note your observation and respond as follow;</p> <p>The invoices correspond with supplier statements as per below link Supplier invoice listing). See Annex 3</p> <p> Payables -AGING LISTING REPORT AS</p>		
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		<p>All invoices totaling to ksh 2,909, 006,616 liabilities are available for verification</p> <p>Further, the amount includes Kshs.1,08 1,672,924 on procurement of medical commodities from thirty (30) suppliers</p> <p>We concur with your observation, for the previous contracts there is no agreed exchange rate hence why the supplier statement does not show an exchange rate. Going forward, KEMSA contracts have been reviewed to include an agreed exchange rate and thus supplier statement will be</p>		
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		converted to ksh as per agreed contract rate.		
6.	<p>Inaccuracies in Inventories</p> <p>The statement of financial position reflects inventories balance of Kshs.13,962,897,325 as disclosed in Note 23 to the financial statements. However, the following unsatisfactory matters were noted.</p>			
6.1	<p>Inventory Variance</p> <p>The balance includes Kshs.8,233,257,797 for six hundred and one (601) stock items whose analysis of schedules revealed a balance Kshs.3,644,778,750 resulting to unexplained variance of Kshs4,588,479,047. In addition, the amount includes Kshs.1,405,592,596 for co-</p>			

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	<p>financing commodities whose supporting schedules reflects valuation of Kshs.999,646,838 resulting to unreconciled variance of Kshs,405,945,758. Further, the inventories balance omitted 500,712 units of twenty-three (23) medical commodities of undetermined value.</p>	<p>We have noted the observation and wish to respond as follows:</p> <ol style="list-style-type: none">1. The closing balance of 601 items is Ksh.6,965,149,589.96 and not Kshs.8,233,257,797. The analysis in the inventory variance does not factor in the customer returns, stock adjustments, QA samples and supplier returns in the reconciled report. See Annex 4. <p> INVENTORY VARIANCE -QUERY 6</p> <ol style="list-style-type: none">2. 500,712 units were donations and were not supplied with an accompanying invoice. Moving forward KEMSA is developing a donation management policy, where no donations will be received without all the requisite documents for valuation		
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		<p>3. The analysis of the unreconciled variance of Kshs,405,945,758. does not factor in the customer returns, stock adjustments, QA samples and supplier returns in the reconciled report.</p>		
6.2	<p>Improper Adjustment</p> <p>The inventories balance was arrived after adjusting Kshs.6,130,735 for untraced commodities in the warehouse, Kshs.12,756,385 for excess issues to undisclosed health facilities and Kshs. 29,951 849 for damaged stock which should have been expensed.</p>	<p>We have noted the observation and wish to respond as follows:</p> <p>Damages are accounted for as cost of sales figure.</p> <p>The untraced and excess issued items were not expensed but moving</p>		

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		forward stock adjustments will be done for the excesses issued and the negative adjustment be done to be expensed as cost to the Authority.		
6.3	<p>Unreconciled Stock Issuance</p> <p>The amount includes sixty-two (62) medical commodities whose available stock for issue was 11,727,738 units valued at Kshs.794,137,087 but the warehouse issue report indicated issuance of 11,820,490 units valued at Kshs.842,510,836 resulting to unexplained nor reconciled over issuance of 92,752 units valued at Kshs.48,373,749.</p>	<p>We have noted the observation and wish to respond as follows:</p> <p>The over issuance analysis does not factor in the customer returns, stock adjustments, QA samples and supplier returns in the reconciled report. See Annex 5.</p>		

		 OVER-ISSUE-QUERY 6.3.xlsx		
<p>6.4</p>	<p>Use of Wrong Valuation Method</p> <p>Re-computation of inventories using the lower of cost and net realizable value revealed a balance of Kshs.4,309,172,340 resulting to unreconciled variance of Kshs.9,653,724,985.</p> <p>In the circumstances, the accuracy, valuation and fair statement of inventories balance of Kshs.13,962,897,325 could not be confirmed.</p>	<p>We take note of the auditor’s observation and clarify that KEMSA holds stock on behalf of a third party whose stock are not priced as for sale. the third part stock amounting to Ksh. 9 Billion is program items that do not have sale price since they are not sold instead they held at Cost, hence the valuation for Third party is at Cost.</p>		

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		<p>The Authority aims to conduct a price market survey for Covid-19-related commodities in the FY 2022/23, considering products intended for sale, where the sale prices have recently reduced.</p>		
		<p>Inventories</p>		
		<p>KEMSA CAPITAL</p>		
		<p>KEMSA CAPITAL CVD</p>		
		<p>3RD PARTY STOCKS</p>		
		<p>Consumable stores- Stationery</p>		
		<p>Consumable stores- Beverages & Others</p>		
		<p>Total inventories at the lower of cost and net realizable value</p>		

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7	<p>Unsupported Sales Revenue</p> <p>Note 8 to the financial statements reflects sales revenue of Kshs.6,317,198,727 net of credit notes of Kshs.108,439,677 for goods returned due to either being damaged on transit, not ordered by the customers or had quality issues but they were not traced in the warehouse management systems.</p> <p>In addition, the damaged commodities and those with quality issues were not physically verified and were not traced in the goods returns ledger.</p> <p>In addition, sales adjustments of Kshs.974,495,736 were done without evidence of credit notes/ entries explaining the reasons for adjustments and sales of Kshs,4,990,278 made ten (10) health facilities which were not invoiced.</p>	<p>We note your observation and respond as follow</p> <p>Any Returns from the facilities follow the following process:</p> <p>The Quality Assurance Officer (QAO) verifies the returns against copies of delivery notes and returns notification and raises AFSR in the WMS.</p> <p>The AFSR is approved by QAM</p>		
	In the circumstances, the accuracy and			

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	<p>completeness of sales revenue amount of Kshs.6,317,198,727 for the year ended 30 June, 2022 could not be confirmed</p>	<p>The approved AFSR is automatically transmitted to inventory clerk to initiate a product receipt process in the WMS-Quarantine similar to a GRN.</p> <p>Upon inspection, The QAM approves the returns GRN in the system and forwards to the QAM for final approval</p> <p>Unless the above system is completed, The credit note to the facility cannot be processed. So it is not</p>		
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		<p>feasible to have a credit notes raised without the receiving the product back into the WMS system</p> <p>Sales of Kshs,4,990,278 made ten (10) health facilities which were not invoiced</p> <p>Management Comments - The HPTs worth Kshs 4,990,278 supplied to 10 health facilities were short-dated HPTs below 6 months to expiry that were issued as Donations to the 10 health facilities. HPTs with a</p>		
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		<p>shelf life of 6 months and below are not sold to customers, they are donated free of charge upon receipt of donation orders from the customers.</p> <p>Where it's difficult to ascertain the loss, this is considered as commercial loss to Authority going forward with E POD this has minimised to reduce the loss.</p>		
8	<p>Unconfirmed Purchase of Medical Commodities</p> <p>Note 8 to the financial statements reflects cost of</p>			

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	<p>sales of Kshs.7,667,817,778 out of which items worth Kshs.56,582,084 were sold at Kshs.68,351 ,228. However, these items were not in the opening inventory balance and although they were assigned purchase order numbers, there was no evidence of details of the suppliers and dates of supplies.</p> <p>In the circumstances, the accuracy, validity and completeness of cost of sales amount of Kshs,56,582,084 for the year ended 30 June, 2022 could not be confirmed.</p>	<p>We have noted the observation and wish to respond as follows:</p> <p>All the items worth Kshs.56,582,084.00 were received in the warehouse before the issue process was commenced.</p> <p>Details of receipt of the LPOs in question including the supplier, delivery dates, receiving warehouse and Goods Receipt Note (GRN No.) are contained in the receipt</p>		
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		<p>report attached.</p>  <p>Receipt Report for Unconfirmed Purchas</p>		
<p>9.</p>	<p>Omitted Intensive Care Unit (ICU) Patient Ventilators</p> <p>Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778. However, the expenditure omits Kshs.57,400,000 for twenty-one (21) ventilators purchased from two (2) suppliers using funds from Ministry of Health. In addition, a donation five (5) Intensive Care Unit Patient (ICU) ventilators valued at Kshs.5,472,560 was not reflected under medical commodity fund. Further, these ventilators were issued to fifteen (15) counties but details of the specific health facilities that received them were not indicated in the issue report and installation reports were not provided for audit.</p> <p>In the circumstances, the accuracy and completeness of Kshs.62,872,560 expenditure on ventilators could not be confirmed.</p>	<p>We note your observation and respond as follow;</p> <p>The 21 ventilators purchased from two (2) suppliers using funds from Ministry of Health could not form part of cost of sale of Kshs.7,667,817,778 since they are program items and could not form part of KEMSA capital cost sales.</p> <p>Donation of five (5) Intensive Care Unit Patient (ICU) ventilators valued at Kshs.5,472,560 could not form part of medical commodity funds since they were issued out as per attached detailed issue report, which highlights in detail the specific health facilities where a total of 27 Ventilators were issued to; See Annex 6</p>		


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		 <p>Omitted Intensive Care Unit (ICU) Patien</p>		
10.	<p>Undisclosed Liability</p> <p>Note 26 to the financial statements reflects trade and other payables from exchange transactions balance of Kshs.8,256,459,842. However, an amount of Kshs.29,370,267 received from unidentified customers was not disclosed as a liability. In addition, this balance was not supported by a schedule indicating the opening balance, receipts, amounts transferred from the unidentified/suspense account to the specific customer and closing balance.</p> <p>In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.29,370,267 could not be confirmed.</p>	<p>We note your observation and respond as follow;</p> <p>We concur that an amount of Kshs.29,370,267 received from unidentified customers should form part of liability from exchange transactions and a detailed schedule indicating the opening balance, receipts, and amounts transferred from the unidentified customers will be provided.</p>		
11.	<p>Un-approved Exchange of Parcels of Land</p> <p>The statement of financial position reflects property, plant and equipment balance of Kshs.8,440, 170,153 as disclosed in Note</p>			

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<p>24 (a) to the financial statements. The balance includes land balance of Kshs.1,786,967,270 out of which a parcel of land along commercial street Nairobi measuring 0.1329 with net book value of Kshs.151,538,002 was exchanged with a private company's land measuring approximately 0.7676 in the same location of undetermined value. In addition, the lease of this parcel lapsed on 30 June, 2019 and there was no evidence of renewal. Further, there was no evidence of approval of the exchange transaction by the Cabinet Secretaries 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 where such disposal has not been taken into account in the estimates.</p> <p>In the circumstances, the valuation and ownership of parcel of land with net book value of Kshs.151,538,002 as at 30 June, 2022 could not be confirmed.</p>	<p>KEMSA has a valid title deed and the Authority has renewed the lease see attached title deed</p> <p> DEED OF EXCHANGE.pdf</p> <p>The exchange (Swap) was done in 1978 within the law)</p>		
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12.	Unconfirmed Receivables from County Governments Note 21 to the financial statements reflects receivables from exchange transactions of Kshs.5,642,303,360 out of which Kshs.2,819,806,723 relates to county governments. However, only three (3) counties with a balance of Kshs.193,792,617	As per policy, debt circularization was done in		



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	<p>responded to audit circularization resulting to unconfirmed balance of Kshs.2,626,014,106 by third parties. In addition, there was no evidence of half and end of the financial year circularization as required by Paragraph 2.14 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.2,626,014,106 could not be confirmed.</p>	<p>February 2022 for half year. In June 2022 and in August 2022 letters and responses to and from the Controller of Budget and The National Treasury to consider withholding disbursements to Counties with long outstanding debts and compel them make payments of the pending bills to KEMSA. (See Annex 7 circularization letters).</p>  <p>BARINGO COUNTY.pdf</p>		
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		<p style="text-align: center;">  GARISSA COUNTY.pdf  KAJIADO COUNTY.pdf </p> <p>In December, debt circularization letters for Audit purposes to all of the 46 counties with outstanding debts were circulated. However, the correspondence was supposed to be sent directly to the Office of the Auditor General and we had no track as to which counties had responded so that KEMSA would</p>		
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		<p>facilitate a follow up for the remaining ones.</p>		
<p>13.</p>	<p>Long Outstanding Receivables</p> <p>Note 21 to the financial statements reflects receivables from exchange transactions of Kshs. 5,642,303,360 out of which Kshs. 399,326,318 relates to ten (10) customers which 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 debts above three hundred and thirty (330) days.</p> <p>In the circumstances, the accuracy and recoverability of receivables from exchange transactions balance of Kshs.399,326,318 could not be confirmed.</p>	<p>Most of these debts are owed by County Governments, which are subject to audit by Office of the Auditor General, and there is no county whose existence is in doubt. Hence, there is no need for provision of bad debts.</p> <p>The outstanding debt is followed up aggressively until repayment of the</p>		


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		<p>same is made by the customers. A good example is the 195M remitted 6th April 2022 by Nairobi City County which had been outstanding for more than 360 days Ageing but it was eventually paid.</p> <p>KEMSA has been aggressively making physical follow ups through meetings with the customers, we have drafted debt confirmation letters as well as demand letters to these customers copies of which have been</p> <p> BOMET COUNTY COMMITMENT LETTER</p> <p>attached</p> <p> VIHIGA COUNTY - COMMITMENT LETTER</p>		
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		 <p>Controller of Budget Response.pdf -</p> <p>Correspondences to Counties and Controller of Budget). See Annex 8 a & b.</p> <p>It is worth noting, out of 10 customers whose outstanding debt was more than 360 days, 8 counties have paid in full, 1 County paid partially and 1 county not paid as at 28th July, 2023 the debt in question as per below analysis and Statements</p>		
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		(see Annex 8 c status of the  status of outstanding debt.xlsx debt.		
1.	<p>Failure to Purchase Global Fund Commodities</p> <p>During the year under review, Kshs.1835,607,005 was budgeted to procure, warehouse and distribute program commodities under the co-financing requirements. However, review of records revealed that only commodities worth Kshs. 1,366,506,543 were procured resulting to underfunding of Kshs.469,100,462.</p> <p>In the circumstances, Management may have failed to procure, warehouse and distribute enough program commodities as intended by the donors.</p>	<p>The budget for these procurements was Ksh 1,835,607,005.</p> <p>Procurement process was initiated and contracts amounting to Ksh 1,807,745,718 were entered into with various suppliers.</p>		

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		<p>At the time of the audit review, commodities worth Ksh 1,366,506,543 had been delivered.</p> <p>This left a balance quantity worth ksh 441,239,176 that was yet to be delivered and therefore allocated funds were fully utilised.</p> <p>The balance of Ksh 43,800,071 was a saving.</p>		
2.	<p>Unresolved Prior Year Matters</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 Management has not resolved the issues or</p>			

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	<p>given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.</p>	<p>We note your observation</p> <p>The status of all current issues raised by the OAG were resolved through in current FY 2021/2022</p>	<p>Resolved</p>	
<p>1.</p>	<p>Incomplete Construction of Capital Work in Progress</p> <p>The statement of financial position reflects property, plant and equipment balance of Kshs. 8,440,170,153 as disclosed in Note 24 to the financial statements. The amount includes capital work in progress balance of Kshs.5177536,340 for construction of KEMSA modern warehouse and office block. However, the following unsatisfactory matters were noted;</p> <p>i. The amount includes interest on delayed payments of Kshs. 17,036,034 but details on the certified amounts, the number of days outstanding and computation of this interest were not provided for audit.</p> <p>ii. The contract was for a duration of one hundred and eight two weeks (182) ending 25 September, 2020 but physical verification in the month of</p>	<p>i interest on delayed payment</p> <p>we take note of Auditor observation and respond as follow;</p> <p>Delays in processing payment delays were caused by challenges in the acquisition of the Tax waiver to the project on the Global Fund component. It</p>	<p>Partially Resolved</p>	

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	<p>December 2022 about twenty-seven months later, revealed that the project is incomplete.</p> <p>In addition, the contract sum was Kshs.</p>	<p>should be noted that 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 details on the certified amounts, the number of days outstanding, and the computation of this interest are here in attached.</p>		
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	<p>3,079,998,860 but as at 30 June, 2022 Kshs. 3,847,352,076 had been paid resulting to excess or price variation of Kshs. 767,353,216 of 25%.</p>	<p><i>Find attached details that has been attached in all valuations</i></p> <p> INTEREST IN DELAYED PAYMENTS.</p> <p>ii. Delays</p> <p>We note your observation and respond as follows:</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 the Tax Waiver</p>		
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	<p>iii. The Authority changed the initial floor finishing from power float finish estimated at Kshs. 3,393,500 to epoxy floor surfaces at Kshs.100,200,800.00 resulting to a price increase of Kshs.96,807,300 without justification.</p>	<p>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.</p>		
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	<p>iv. Further, the change of underground water tank from initial cost in the bills of quantities of Kshs. 10,000,000 to Kshs.32,779,190 exceeded the recommended 25% variation.</p> <p>v. Also, gate house provisional sum of Kshs. 3,480,000 increased to Kshs.14,885,701 or 328% variation.</p>	<p>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><i>Find attached reasons for delay and challenges experienced in project delivery.</i></p>		
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Causes and effects of
delays.pdf



Project Challenges
Experienced.pdf

In addition, we would like to note that as at 30 June 2022, total payments made of **Kshs.3,847,352,076** was composed of **Ksh 3,311,892,811** paid to the main and sub-contractors contractor vis a vie the contract sum of **Kshs.3,079,998,860**, an 8% contact variation and not 25% as

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	<p>vi. In addition, the contract for ventilation, smoke vents and air conditioning were awarded at a sum of Kshs. 38,367 131 and audit inspection in December, 2022 revealed that the inflammable warehouse was operational but the smoke vents were not fixed.</p>	<p>stipulated. Variation related to priority items that were urgently required for the operationalization of the warehouse like the Epoxy floor that was to be undertaken before the installation of racks and a gatehouse to facilitate a weighbridge, movement of trucks, and security checks. A detailed list of items that were varied is as per the attached reports.</p>		
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Find attached the total valuations and amounts paid to date. Total paid to date is Ksh.3,311,892,811.53.



VALUATION
 PAYMENTS.pdf

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

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		<p>threshold has not been surpassed.</p> <p>In addition, we would like to note that as at 30 June 2022, total payments made of Kshs.3,847,352,076 include Kshs. 535,459,264 paid to project management consultants that have been contracted separately and do not form part of the new warehouse contacted sum of Ksh of Kshs.3,079,998,860 as indicated.</p>		
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	<p>vii. Retention amount of Kshs. 384,735,208 equivalent to 10% of Kshs. 3,847,352,076 payments made was not withheld.</p> <p>In the circumstances, value for money on Kshs.5,177,536,340 for construction of KEMSA modern warehouse and office could not be confirmed.</p>	<p>iii. initial floor finishing</p> <p>We note your observation and respond as follows;</p> <p>The epoxy floor was considered urgent and was to be undertaken before installation of the racks. Epoxy Floor finish is vital in achieving pharmaceutical warehousing standards. The floor finish offers a hard-</p>		
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		wearing, durable surface that is able to withstand continuous traffic, with minimal cleaning to the area. Epoxy can not only handle impacts and shocks, but it can also withstand substantial weight. Adding epoxy to concrete can enhance its ability to hold weight. If epoxy bonds to the concrete properly and maintains a standard rigidity, then the surface will be stable enough to hold heavy loads and wear		
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		<p>and tear. Epoxy acts as a sealant protecting concrete floorings. further justification has been attached.</p> <p><i>Find attached justification</i></p> <p> KEMSA-EPOXY JUSTIFICATION-1.jpg</p> <p> KEMSA-EPOXY JUSTIFICATION-2.jpg</p> <p>iv Underground water tank</p> <p>We note your observation and respond as follows;</p>		
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		<p>The 25% threshold is not applicable to specific elements that make up the whole contract as indicated above. It is applicable to the whole contract sum and not individual elements. The amount of Kshs.10,000,000 was provisional since details for the tank were not known at the time of tender. The final contract amount of Kshs.32,779,190 is a representation of what was designed and implemented. The</p>		
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		<p>underground water tank was part of the main contract. The percentage applied should be on the whole tender amount and not individual elements. This threshold has not been surpassed.</p> <p>V Gate house provisional sum</p> <p>We note your observation and respond as follows;</p> <p>The new Warehouse master plan incorporated</p>		
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		<p>the need to be integrated with the existing supply chain warehouse. This meant that both warehouses shall require one entry point for security and regulation of the truck entry and exit. The gatehouse has several support facilities that are aiding in the efficiency of operations such as security/check offices and security</p>		
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		<p>bollards, with provisions for a weigh bridge. The gatehouse has aided in connection of firefighting pipes to the Flammable Goods Store from the Underground Water Tank, which may currently pose complexities of disrupting the operations of the existing supply chain warehouse and excessive excavations for</p>		
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crossing over of the pipes.

We note that there was a provision of kshs. 3,480,000.00 in the BOQ was for the refurbishment of the existing gate to the warehouse. However, due to the complexities of a modern warehouse supply chain, the existing gate was deemed to be inadequate to address the needs of the combined warehouses. The

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gatehouse was part of the main contract. The percentage applied should be on the whole tender amount and not individual elements. Further justification has been attached



KEMSA-PROPOSED
GATE HOUSE-JUSTIFI



KEMSA-PROPOSED
GATE HOUSE-JUSTIFI

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		<p>vi contract for ventilation, smoke vents and air conditioning</p> <p>We note your observation and respond as follows;</p> <p>The Automated Smoke Vents were tendered as part of the main contract and were to be imported owing to the fact that there are no manufacturers of the products locally. The subcontractor [M/s Seven 14 Ltd.] identified a supplier in California, USA [Kingspan Light + Air] for the manufacture of the Smoke Vents. The</p>		
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		<p>subcontractor, after issuance and approval of shop drawings and catalogues to the P.M team, proceeded to commence manufacture of the Smoke Vents in accordance with the specification.</p> <p>We note that despite the subcontractor writing to confirm the commencement of shipping of the smoke vents in February 2021, the smoke vents have never been delivered. The project management team has written severally to the</p>		
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		<p>subcontractor instructing them to import the smoke vents to no avail. The P.M issued the subcontractor with a Warning [vide letter ref: MAL/KEMSA/2017/510 dated 30th July 2021] and thereafter due to non-action, a Notice of Default [vide letter ref: MAL/KEMSA/2017/529 dated 24th November 2021] as the subcontractor was non-responsive.</p> <p>The subcontractor has frustrated the contract for several months, with non-performance. Attached are</p>		
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		<p>correspondences with complaints from the Main Contractor and consultants on nonconformity to the approved Program of Works and a general disregard for Main Contractor's and the Project Manager's instructions on numerous occasions.</p> <p>The project team has opted for termination of contract to avoid further delays to the project and The CIT has since recommended apportioning of the works</p>		
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		<p>that were causing delays to another sub-contractor.</p> <p><i>Find attached correspondence on smoke vents issue</i></p> <p> SMOKE VENTS-NOTICE OF DI</p> <p> SMOKE VENTS-NOTICE OF DI</p> <p> smokevents160.pdf</p> <p>Vii Retention amount of Kshs. 384,735,208</p> <p>We note your observation and respond as follows;</p>		
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		<p>Contract provisions clause 26 read together with the Appendix to Conditions of contract provide that limit of retention is 5% of the contract sum. The retention held cannot exceed 5% of the contract sum which is Ksh.153,999,942.97.</p> <p>We would like to confirm that the amount withheld to date as of Valuation No.30 is Ksh.126,401,776.91 and</p>		
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		<p>has since been recognized by;</p> <p>Dr Work in Progress Warehouse construction Cr Supplier retention funds</p> <p style="text-align: center;">  RETENTION TRACKER.pdf </p>		
<p>2.</p>	<p>Missing Invoices from Suppliers The statement of financial position and as disclosed in Note 26 to the financial reflects a balance of Kshs.8,256459,842 in respect to trade and other payables from exchange transactions. The amount includes trade creditors - not invoiced receipts balance of Kshs.437,723,132 (2021 - Kshs.2,588,017507). However, for over eighteen (18) months after the procurement of Covid-19 items, no invoices were raised despite a payment of Kshs.1,465,017,506. This is contrary to Regulation</p>	<p>We note your observation and respond as follows: This matter is under investigation by EACC and once complete</p>		


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	<p>99(3) of the Public Finance Management (National Government) Regulations, 2015 states that Every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates¹.</p> <p>In the circumstances, Management was in breach of the law</p>	<p>necessary action will be taken. See Annex 9.</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Appendix 1- LETTERS FROM EAC</p> </div> <div style="text-align: center;">  <p>EACC response 30th April 2021.pdf</p> </div> </div> <div style="text-align: center; margin-top: 10px;">  <p>Letter to EACC 12th April 2021.pdf</p> </div>		
<p>3.</p>	<p>Irregular Payment of Full Salaries</p> <p>The board of directors issued a directive on 04 November, 2021 to three hundred and ninety-seven (397) employees to work from home and who continue to draw their full salaries and allowances which amounted to Kshs.365,823,891. This was contrary to Section 197(1)(i) of the Public Finance Management Act, 2012 provide a public officer employed by the national government, or a national government entity commits an offence of financial misconduct if, without lawful authority, the officer incurs wasteful expenditure on behalf of that government or entity.</p> <p>In the circumstances, Management was in breach of the law and the value for money on Kshs. 365,823,891 paid to employees working from home could not be confirmed.</p>	<p>➤ The decision directing staff to work from home was a Board of Directors decision as part of the ongoing KEMSA reforms. The staff working from home then went to court and acquired a court order directing KEMSA to keep paying them all their salaries and allowances until the matter before court is</p>		

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		<p>heard and determined. This matter is still active in court up to date hence the reason why KEMSA has been paying all the employees working from home all their benefits in compliance with the court order. See annex 10 petition no E 174 OF 2021</p> <p></p> <p>Petition No. E174 of 2021.pdf</p> <p>➤ All staff who have been working from home have since reported back to the office following a Board of Management decision made vide the Board minutes of the meeting held on 18th May 2023. This was also</p>		
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		<p>communicated by the Cabinet Secretary, Ministry of Health on 18th May 2023 directing the employees to report back to the office the following day (19th May 2023).</p>		
<p>4.</p>	<p>Un-Procedural Extension of Employee Contracts</p> <p>The statement of financial performance reflects employee costs of Kshs.1,223,659,186 as disclosed in Note 14 to the financial statements. The amount includes Kshs.7,479,840 paid to fifty-six (56) employees whose contracts had lapsed and were being renewed after every month instead of after a minimum of three (3) months without explanations. This was contrary Section 9(1)(a) of the Employment Act, 2007 which states that a contract of service is for a period or a number of working days which amount in the aggregate to the equivalent, of three months or more.</p> <p>In the circumstances, Management was in breach of law.</p>	<p>➤ The one-month extension of contracts was a directive from the CEO as part of the KEMSA reforms. This was due to the fact that the initial plan of the reforms was to declare all employees redundant and there were no clear timelines on when the reforms</p>		

		<p>were expected to conclude.</p> <ul style="list-style-type: none">➤ Also due to the fact that there was a pending court case, whose ruling was expected in a month's time and which would have had an impact on the staffing levels.➤ The matter has since been addressed and from 1st March 2023, all staff contracts that had lapsed were extended for a period of three months through a memo from the CEO, see annex 11 a  <p>Memo. Three months extension of contracts</p> <ul style="list-style-type: none">➤ As part of the ongoing reforms and staff rationalization, the Board vide its 97th Special Board meeting held on 5th June		
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		<p>2023, resolved that some contracts for contractual staff would not be renewed beyond 30th June 2023.</p> <p>From 1st July 2023, two hundred and sixty-one (261) contracts were renewed for a period of one year until 30th June 2024, while one hundred and seventy-one (171) contracts were not renewed as part of the ongoing KEMSA reforms. See annex 11 b & c</p>		
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		 Minutes of the 94th special board meeting  Minutes of the 97th Special Board meeting		
5.	<p>Irregular Procurement Through Call-Off Orders</p> <p>Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778 out of which Kshs.506,577,959 relates to goods procured through call off orders which were received after the scheduled delivery dates. In addition, the call off orders include Kshs.349,246,671 whose framework contracts had expired at the time the call off orders were made. This was contrary to Section 114(4) of the Public Procurement and Asset Disposal Act, 2015 which states that; For the purposes of subsection (3)(a), "call-offs order" means an order made using a framework agreement with one or more contractors, suppliers or consultants for a defined quantity of works, goods, consultancy covering terms and conditions including price that users require to meet the immediate requirements.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>Though no specific contracts have been cited in the audit findings, for any call off orders to be made, contracts are ascertained to be valid and if not, they are extended as appropriate before the call offs are placed.</p> <p>There was global supply chain disruption occasioned by Covid 19 pandemic. Further KEMSA experienced financial constraints hence delayed</p>		

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		<p>payments to suppliers impacting deliveries.</p> <p>The procurements referred to were done by way of Framework contracts which are different from Framework Agreements as per the Public Procurement and Asset Disposal Act, 2015.</p> <p>Framework contracts means a pact between a procuring entity and a selected supplier (or suppliers) or contractor (or contractors) identified for a definite term to supply goods works or service whose quantities and deliveries are not definable or determinable at the beginning, with a commitment to order a minimum quantity of the required goods, works, or services;</p>		
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		<p>Framework agreement means a pact between a procuring entity and a selected supplier (or suppliers) or contractor (or contractors) identified for a definite term to supply goods works or service whose quantities and delivery schedules are not definable or determinable at the beginning.</p> <p>KEMSA uses Framework contracts with a commitment for a minimum quantity. Subsequently, call off orders are made as need arises. Quantities to be called off during the contract period are undefined. KEMSA uses Framework contracts with a commitment for a minimum quantity. Subsequently, call off orders are made as need arises. Quantities to be called off</p>		
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		during the contract period are undefined.		
6.	<p>Unlawful use of Direct Procurement - Non-Pharmaceuticals</p> <p>Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778 out of which Kshs.1,940,300,934 relates to non-pharmaceutical commodities out of Kshs.60,261,197 were direct procurements. However, the commodities did not meet the conditions set for direct procurement under section 103 of the Public Procurement and Asset Disposal Act, 2015 neither did the accounting officer report to the Public Procurement Regulatory Authority within fourteen days after the notification of the award contrary to Regulation 90(1)(b) of the Public Procurement and Asset Disposal Regulations, 2020.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>All direct procurements had user justifications therefore were in line with the PPADA 2015 and PPADR 2020. For us to be able to respond, we request the audit team to specify the direct procurements referred to.</p>		
7.	<p>Over Procurements</p> <p>Note 23 to the financial statements reflects inventory balance of Kshs.13,962,897,325. However, one hundred and fifty-seven (157) medical commodities amounting to Kshs.1 842,162,067 were procured against the approximate annual demand of Kshs.590,791,788 resulting to over procurement of</p>	<ul style="list-style-type: none"> Some of these items were procured 		

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	<p>Kshs.1,251,370,278. This was contrary to Regulation 140(1) of the Public Finance Management (National Government) Regulations, 2015 states that 'Accounting Officer shall be responsible for the proper custody, care and use of government inventories under their control'</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>during UHC piloting in four counties (Kisumu, Nyeri, Machakos and Isiolo). The procurement was based on a quantification process by a technical working group comprising of officers from Ministry of Health, County governments, Kenyatta National Hospital and KEMSA. After the items were procured, the drawing rights for the four pilot counties were reviewed downwards resulting into excess inventory holding.</p>		
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		<ul style="list-style-type: none"> The bulk of these items were procured during UHC scaleup. However after the procurement , UHC program ended prematurely as funds were diverted to other demanding areas i.e. COVID. The items were therefore not absorbed leading to overstocking. <p>The procurement for some of the commodities was done based on the demand at the time. This demand continued to fluctuate downwards leading to overstocking.</p>		
8.	Under-Performance of Contracts			

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	<p>Note 9 to the financial statements reflects revenue earned from rendering of services to Global Fund of Kshs.512,669,708. A company was awarded to supply 215,000 packs of antiretroviral (ARV) medicines worth USD 3,165,660 or Kshs.347,399,528 but only 90,000 packs were delivered and certified by the inspection and acceptance committee to be the full quantity ordered. The variance of 125,000 packs of ARVs amounting to Kshs.201 976,470 remained undelivered as at 30 June 2022, fifteen (15) months after the contract was awarded. This was contrary to section 5.1-1(e) of the Global Fund Grant Regulations, 2014 which stipulates that; "Contracts shall be awarded only to contractors that possess the ability to successfully perform the contracts" Further, Section 140 of Public procurement and Disposal Act, 2015 stipulates that -the contractor shall be liable to liquidation damages for delayed performance."</p> <p>In the circumstances, Management was in breach of law.</p>	<p>Contract No: GF ATM HIV NFM-20/21 OIT 013- SUPPLY OF ARV MEDICINES - ADULTS II (TLD 300/300/50MG)</p> <p>Supplier Name: - Macleods Pharmaceuticals Limited</p> <p>Contract Signed on 31st March, 2021 expiring on 30th March 2022</p> <p>Contract Amount: USD 3,165,660.00</p> <p>Contracted Qty: - 215,000 packs</p> <p>Purchase Orders and Delivery Schedule</p> <p>828841- Qty - 35,000 packs - Delivered 28th May, 2021</p>		
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		<p>828840 - Qty 90,000 packs - Delivered 24th June, 2021</p> <p>828839 - Qty 90,000 packs - Delivered 14th July, 2021</p> <p>All deliveries were within the contract period.</p>		
<p>9.</p>	<p>Loss on Sale of Covid-19 Commodities</p> <p>Note 8 to the financial statements reflects a gross loss of Kshs.1,350,617,051 out of which Kshs. 1,271,897,145 relates to loss on sale of Covid-19 commodities. This loss relates to sale of four (4) commodities at Kshs. 431,681,615 procured at a cost of Kshs.1,703,578,760. This was contrary to 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 away- 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>We note your observation and respond as follow;</p> <p>The Authority received an approval to dispose Covid 19 Commodities vide letter REF: MOH/ADM/CONF/ME D/18/10/TY/18 dated</p>		

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		<p>26th August 2021, received on 3rd September, 2021.</p> <ul style="list-style-type: none"> i. Approved disposal by KEMSA of health commodities worth KShs. 5.45 billion at the prevailing market rates. ii. Authorized the writing off of the resultant book loss of KShs. 2 billion arising from the proposed sale. <p>Critical to note that the approval was received one year later after the original request, hence there is possibility that the</p>		
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		<p>approval was based on original request in 20th August 2020. Taking into consideration the continued price reduction of the HPTs and impending expiries hence the Board approved for management to immediately proceed with the disposal Covid 19 commodities to the willing customers at the prevailing market price. See attached Impairment</p> <p> impairment loss.xlsx</p> <p>loss report</p>		
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10.	<p>Irregular Extension of Contracts</p> <p>Note 9 to the financial statements reflects rendering fees revenue of Kshs. 787,689,106 in respect of procurement, warehousing and distribution of third-party commodities where the services of clearing and forwarding were procured at a price of USD 388,305 or Kshs.43,101,855 for a period of three (3) months ending 08 October, 2019 but renewed four (4) times up to 30 June, 2022. In addition, Note 13 to the financial statements reflects consulting fees of Kshs.37,910,274 out of which Kshs.19,941,120 was for consultancy services on board support and coordination services whose contracts were extended for more than three (3) months. This was contrary to Section 88 (3) of the Public Procurement and Asset Disposal Act, 2015 which requires contract extension be restricted to not more than thirty days (30) and may only be done once.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>Section 88 (3) of the Public Procurement and Asset Disposal Act, 2015 refers to extension of the tender validity period and not contract extension.</p> <p>DHL contract was extended four times to accommodate clearance of commodities that were pending delivery. This extension did not breach any provisions of the Public Procurement and Asset Disposal Act, 2015 (Amended) 2022 and Regulations 2020.</p>		
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11.	<p>Award of Tenders above the Prevailing Market Price.</p> <p>Note 9 to the financial statements reflects revenue earned from rendering of services amount of Kshs.787,689, 106 out of which Kshs.512,669,708 relates to fees earned to procure, warehouse and distribute Global Fund commodities. However, the Authority awarded tenders amounting to Kshs,1,360,073,270 at rate higher than the prevailing market price resulting to incurring an excess amount of Kshs.84,255,585. This was contrary to Section 5.1 1(f) of the Global Fund Grant Regulations, 2014 which stipulates that 'No more than a reasonable price (as determined, for example, by a comparison of price quotations and market prices) shall be paid to obtain goods and services.'</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>The realised prices were slightly above Global health supply chain program and Global Fund pooled procurement. However, approval was granted by the Global Fund before award of the tenders.</p>		
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12.	<p>Unapproved Fees for Services Rendered</p> <p>Note 8 to the financial statements reflects total sales revenue of Kshs.6,317,198,727 being revenue from sale of various medical commodities. However, the prices of these commodities were only reviewed by a pricing committee and were not presented to the board for approval before implementation. This is contrary to Section 6 (2) (d) of the Kenya Medical Supplies Authority Act 2013 states that 'Without prejudice to the generality of the foregoing, the Board shall have power to – levy fees for services rendered by the Authority as may be determined from time to time by the Board'.</p> <p>In the circumstances, Management was in breach of law.</p>	<p>We note your observation and respond as follow;</p> <p>In discharging his function pursuant to section</p>		

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		<p>8(3)(c)(I), (ii) and (v) of the Kenya Medical Supplies Act No. 20 of 2013, the Chief Executive Officer established a committee to review and determine a sustainable pricing model for the Authority's HPTs. Pricing of HPTS is a daily operational role done from time to time depending on market dynamics including after changes in realized prices of commodities and changes in market prices. The pricing committee determined a suitable pricing model that serves</p>		
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		<p>the needs of the health facilities and also enables the authority to achieve its objectives and subsequently transmitted its report to the Chief Executive Officer. The reports of the committees established by the Chief Executive Officer including that of the pricing committee are presented to the board on a regular basis for incorporation into the board calendar as among the board activities for consideration and ratification by the board</p>		
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		while receiving Financial Statements (Quarterly and Annually approval of financial Statements)		
13.	<p>Extension of Tender Validity Period</p> <p>Note 8 to the financial statements reflects cost of sales balance of Kshs.7,667,619,015 out of which Kshs.2,660,997,894 relates to procurement of medical commodities on contracts extended for sixty-nine (69) suppliers. The Authority extended these contracts for more than thirty days and continued to trade with the suppliers without competitive bidding or giving notice of extension to each of the person who submitted the tender. This is contrary to Section 88 (2) and (3) which requires contract extension be not more than thirty days and a notice of extension be given to each of the persons who submitted the tender.</p> <p>In the circumstances, Management was in breach of Law</p>	Section 88 (3) of the Public Procurement and Asset Disposal Act, 2015 refers to extension of the tender validity period and not contract extension. This extension did not breach any provisions of the Public Procurement and Asset Disposal Act, 2015 (Amended) 2022 and Regulations 2020.		
14.	<p>Irregular Use of Framework Contracting</p> <p>Management discussion and analysis under Section 8 to the financial statements reflects total procurement of</p>			

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	<p>Kshs.29,097,000,000 out of which Kshs.21,182,231,387 was procurement through framework contracting but there was no list of vendors undertaking these contracts and there was no evidence of mini competition among registered suppliers. In addition, after the first year of award, there was no evidence of conducting a value for money assessment to determine whether the terms designated in the framework agreement were still competitive. Further, suppliers through restricted method of Kshs.749,364,646, open tender of Kshs.2,448,96,611 and direct procurement method of Kshs.1,307,117,628 were continuously engaged for two (2) years under framework agreements contrary Section 114(1) and (2) of the Public Procurement and Asset Disposal Act, 2015.</p> <p>In the circumstances, Management was in breach of law.</p>	<p>The procurement was through Framework Contracting and not Framework Agreement. The requirement for mini competition and value for money assessment applies to Framework Agreement. There was therefore no breach of provisions of the Public Procurement and Asset Disposal Act, 2015</p>		
<p>15.</p>	<p>Inclusion of VAT in Global Fund Commodities</p> <p>Note 9 to the financial statements reflects revenue earned from rendering of services amounting to Kshs.787,689,106. Included in this balance is Kshs.512,669,708 in respect to Global Fund out of which Kshs.11,861,000 was earned to procure Global Fund HIV commodities of USD2,132,400, or Kshs.232,717,555 and VAT amounting to Kshs.1,636,000 charged. This was contrary to article 3, Section 3.5 of the Global Fund grant regulations, 2014, which states that the host country for Global Fund should ensure that all the program commodities are exempted from tax.</p>	<p>We note your observation and respond as follows;</p>		

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	<p>In the circumstances, Management was in breach of the law</p>	<p>Under the MOU entered between The National Treasury (as the Principal Recipient of the Global Fund Grant) and KEMSA, the responsibilities of KEMSA were stipulated as to perform procurement and supply chain management services under the Global Fund to fight Aids, TB and Malaria funded Programs in Kenya.</p> <p>Global Fund (donor funded) procured</p>		
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		<p>commodities and services are tax exempt, including Import Declaration Form (IDF) fees, Customs duties, Value Added Tax (VAT), and any other levies and charges.</p> <p>Global Fund / GOK counterpart funding (Kenya Government 20% co-funded) procured commodities are taxable.</p> <p>KEMSA's charges service fees at the agreed rate of 8% of the procured, warehoused and delivered</p>		
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		value of commodities and related services. These fees are also taxable.		
16.	<p>Stock out of Medical Commodities</p> <p>Note 23 to the financial statements reflects inventory balance of Kshs.13,962,897,325. Inventory records indicated three hundred and sixty-four (364) commodities were stocked out for an average of two hundred and ninety (290) days while one hundred and seventy-nine (179) commodities were below the minimum required stock levels resulting to missed sales of Kshs.3,113,453,816. This was contrary to Regulation 140(1) of the Public Finance Management (National Government) Regulations, 2015 which states that 'Accounting Officer shall be responsible for the proper custody, care and use of government inventories under their control'.</p> <p>In the circumstances, Management was in breach of the law.</p>	There was global supply chain disruption occasioned by Covid 19 pandemic. Further KEMSA experienced financial constraints hence delayed payments to suppliers impacting deliveries.		
17.	<p>Failure to Procure Essential Medical Commodities</p> <p>Note 26 to the financial statements reflects payables from development partners of Kshs.4,798,798,971. Included in the amount is Kshs.1,270,815,146 for family planning, nutrition and tuberculosis commodities which had not been utilized for eighteen (18) months as at December, 2022 while an additional Kshs.1281 580,000 for Antiretroviral (ARVs), lab reagents, vaccines and blood bags remained unutilized for a period of six (6)</p>	These were GOK and not development partner funded procurements.		

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	<p>Months. This is contrary to Regulation 214(b) of the Public Financial Management (National Government) Regulations, 2015 which requires activities of a corporation be effective in achieving national objectives and represent value for money for the expenditure of taxpayer'.</p> <p>In the circumstances, Management was in breach of the law</p>	<p>The ministry of Health authorized KEMSA to undertake procurement of the medical commodities in question and issued AIEs for the same. However, the AIEs were never funded and therefore KEMSA did not initiate the procurement process.</p>		
<p>18.</p>	<p>Non-Adherence to Credits Limits</p> <p>Note 21 to the financial statements reflects receivables from exchange transactions of Kshs.5,642,303,360 out of which Kshs.5,554,133,989 relates to trade debtors - receivables with County Governments accounting for Kshs.2,819,806,723 and other customers Kshs.2,734,327,266. However, the</p>	<p>We note your observation and respond as follows;</p>		

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	<p>Authority continued to trade with these customers beyond the 30 to 45 days credit limits period contrary to Paragraph 2.7 of the Kenya Medical Supplies Authority Credit Policy 2014. In addition, the Authority did not maintain Floating Deposits Funds for credit customers in the KEMSA trading account where invoices will be drawn from as required by Paragraph 2.8 of the Kenya Medical Supplies Authority Credit Policy, 2014.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>The Credit limit was adhered to, and services were denied to customers with overdue balances.</p> <p>In order to extend Credit, the customers are required to do an undertaking on how to repay their debts. (See annex 12 a & b commitment letters from</p> <p> COMMITMENT LETTER - SIAYA COUN customers).</p> <p> VIHIGA COUNTY - COMMITMENT LETTEI</p>		
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19.	<p>Unaccounted Donations to KEMSA Dispensary</p> <p>Note 8 to the financial statements reflects cost of sales balance of Kshs.7,667,817,778. This balance includes donations of medical commodities of Kshs.221,991,558 to eighty-six (86) health facilities out of which Kshs.23,373,737 relates to donations made to KEMSA staff dispensary whose physical verification in the month of December, 2022 revealed that they did not exist. This is contrary to paragraph 17.6 of the KEMSA Standard Operating Procedures, 2018 which requires KEMSA to donate medical commodities upon request by the customer.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>We have noted the observation and wish to respond as follows:</p> <p>KEMSA dispensary is a virtual set up in the system which is used to serve staff on demand.</p> <p>-The approved order for Kenya networks of cancer organization valued at Ksh 4,912,600 was issued through KEMSA dispensary since this was</p>		

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		<p>not a regular customer and did not have an MFL code.</p> <p>The order no EMB-3-042385-2021/2022.</p> <p>-The reason why facility was issued with the short dated items was to avoid the risk of items expiring in the warehouse and incurring cost of disposal.</p> <p>The other products which were issued through KEMSA dispensary were issued to KEMSA staff upon request and procedural approvals of Memos</p>		
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		All issues through KEMSA dispensary are well documented.		
20.	<p>Failure to Maintain a Master Vote Book</p> <p>The statement of financial performance reflects total expenditure of Kshs,3,083,384,361 which was not supported by a vote book. This was contrary to Regulation 52(1)(d) of the Public Finance Management (National Government) Regulations, 2015, which states when the AIE is issued by the Ministry or State Department or Agency, the allocation shall be entered as a commitment in the Ministry's or State Department's or Agency's master vote book so as to ascertain at all times the availability of uncommitted funds.</p> <p>In the circumstance, Management was in breach of the law.</p>	<p>We note your observation and respond as follows;</p> <p>KEMSA has not been maintaining a manual vote book. However, KEMSA's transactions and processes are highly automated and at the beginning of the financial year the approved budget is loaded in the ERP and every</p>		

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		<p>expense monitored and controlled through budget check before final approval by the Accounting officer thus no risk of budget over run or wrongful utilizations of budget. All expenditures are subjected to budget checks during requisition and at LPO stage. The automation of budget monitoring and control thus eliminate the need for a vote book.</p>		
<p>21.</p>	<p>Failure to Maintain an Imprest Register</p> <p>Note 13 to the financial statements reflects a balance of Kshs.1,689,600,811 in respect to use of goods and services which includes an expenditure of Kshs.85,821,747 in relation to travel,</p>			

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	<p>accommodation, subsistence and other allowances. However, an imprest register to account for imprests issued and surrendered was not maintained. This was contrary to Regulation 93 (4) of the Public Finance Management (National Government) Regulations, 2015 which provides that before issuing temporary imprests under paragraph (2), the Accounting Officer shall ensure that— (c) the applicant has been recorded in the imprest register including the amount applied for.</p> <p>In the circumstance, Management was in breach of the law.</p>	<p>We note your observation and respond as follows;</p> <p>The process of issuing imprest and surrendering of the same is fully automated and the transactions are recorded in the ERP system hence eliminating the need of maintaining a manual register.</p>		
22.	<p>Failure to Open a Retention Bank Account</p> <p>Note 26 to the financial statements reflects trade and other payables from exchange balance of Kshs.8,256,459,842 which includes customer retention money of Kshs.21,639,338. 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</p>	<p>We note your observation and respond as follows;</p>		

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	<p>care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly. Further Regulation 33 (f) (ii) states that 'Appropriation shall be for a specific purpose or a specific programme or item of expenditure'.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>The Authority's transactions and processes are highly automated. When processing supplier payment voucher, the retention funds are withheld creating a liability of the retained amount and the aforesaid amount is ringfenced and only released for payment to the contractor upon completion of the works. There is thus risk or exposure since the amount is ringfenced not maintain a separate bank account for these amounts</p>		
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		<p>The Authority's transactions and processes are highly automated. When processing supplier payment voucher, the retention funds are withheld creating a liability of the retained amount and the aforesaid amount is ringfenced and only released for payment to the contractor upon completion of the works. There is thus risk or exposure since the amount is ringfenced not maintain a separate bank account for these amounts</p>		
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23.	<p>Irregular Issuance of Medical Commodities as Donations</p> <p>Note 8 to the financial statements reflects cost of sales balance of Kshs.7,667,817,778 out of which Kshs.221,991,558 was donated to eighty-six (86) health facilities. However, the expenditure includes donations Kshs.6,138,171 whose shelf life was more than six months. This was contrary to Paragraph 17.6 of the KEMSA Standard Operating Procedures 2018 requires donations to be for commodities with a remaining shelf life of less than six months.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>We have noted the observation and wish to respond as follows:</p> <p>The system is configured to issue stocks on First Expiry First Out (FEFO). This was to ensure that wastage through expiries are reduced.</p> <p>During the period in question, the pickers were simply picking based on the picking lists without interrogating the kind of</p>		
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		<p>order. When this was noted, the entire staff were sensitized and trained on how to process donation orders to ensure only short dated commodities are picked.</p> <p>Current Status: The anomaly has been resolved by data clerks interrogating the short-dated requests and only generate exact quantities available as short dated. The picking lists generated contain only short-dated commodities. The pickers also have to confirm that</p>		
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		donation orders have only short-dated commodities.		
24.	<p>Delay in Deliveries of Medical Commodities</p> <p>Note 23 to the financial statements reflects inventories balance of Kshs.13,962,897,325 out of which medical commodities of Kshs.10,918,542,217 were received beyond the scheduled delivery timelines. In addition, commodities amounting to Kshs.2471,498,717 had not been received by 30 June, 2022 despite lapse of over six (6) months after ordering them. This was contrary to Regulation 53(1) Public Finance Management (National Government) Regulations, 2015 states that a local purchase order or local service order shall be valid for a period of thirty days from the date of issue. (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>There was global supply chain disruption occasioned by Covid 19 pandemic. Further KEMSA experienced financial constraints hence delayed payments to suppliers impacting deliveries.</p>		
1.	<p>Staff Over-Establishment</p> <p>Review of human resource records revealed approved staff</p>			

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	<p>establishment of three hundred and forty-one (341) position, but the master staff register reflects nine hundred and sixty-two (962) employees as at 30 June, 2022 resulting to unapproved staffing of six hundred and twenty-one (621).</p> <p>In the circumstances, the effectiveness of controls on human resource management could not be confirmed.</p>	<p>➤ Through the minutes of the 35th Board of Directors meeting held on 15th October 2013 at the Commercial Street board room, the Board granted authority for recruitment of staff on contractual basis to ensure success of the new business model that had been adopted & partners project. All the other extra staff beyond 341 are all employed on this basis. The Authority's staff on Permanent & Pensionable terms are less than the approved 341.</p> <p>➤ See annex 13</p>  <p>appendix 3 mins of the 35th board meetir</p>		
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		<ul style="list-style-type: none">➤ Out of the 962 staff as per the report, 35 of them are Administrative Police Officers from the SGB unit for provision of security to government buildings. These staff are not KEMSA employees but have been attached to KEMSA for a period of 3years.➤ Out of the 962 staff also, 37 of them were casuals who had been engaged by the Authority on short term basis (3 months) between July 2021 to September 2021 due to a spike in workload. These staff exited the Authority after their contracts expired in September 2021.		
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		<p>➤ Out of the 962 staff also for the period under review, 5 staff were on secondment from the ministry of health, hence they weren't KEMSA employees, however 2 of these have since been released back to the Ministry of Health in (April 2022)</p> <p>➤ Currently, the Authority has a total of 560 employees as detailed below;</p> <ul style="list-style-type: none"> • 290 staff employed on permanent & pensionable basis • 267 staff on contractual basis. 		
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		<p>3 staff on secondment from the Ministry of Health.</p> <p>As a way forward, the Authority is currently reviewing its staffing requirements through an exercise that involves the KEMSA Management, Ministry of Health, the Public Service Commission and SCAC. It is envisaged that the newly developed Human Resource Instruments will have new optimal staffing levels under a new Staff Establishment.</p>		
2.	<p>Lack of Fuel Register</p> <p>The statement of financial performance reflects use of goods and services expenditure of Kshs.1,689,600,811 as disclosed in Note 13 to the financial statements. The amount includes fuel and oil balance of Kshs.29,488,949. However, a fuel register was not maintained and no reconciliation was performed on the supplier fuel statements. In addition, two vehicles fueled at Ksh.985,428 were not in the asset register and their log books not provided for audit.</p>	<p>Fuel *Based on the consumption report, KDA 600P (land cruiser with</p>		

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	<p>In the circumstances, the effectiveness of internal controls on fuels and oils could not be confirmed.</p>	<p>capacity of 120ltrs) formerly KCM 056Y was attached to distribution team until in January, 2022. The vehicle was moved to the pool under supervision by admin team to support in transporting Police officers. The approximated distance covered per day was between 100 to 250km (Commercial -Embakasi - Astra-Embakasi Commercial -Uhuru Camp -Shaurimoyo) depending on the</p>		
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		<p>residence of the driver on duty.</p> <p>*KDA 622P formerly KCM 055Y is attached to Commercial services director and as per the fuel report consumption was based on the field activities and local running.</p> <p>* NOCK had given us rights of access to the fuel system where we could daily tarry the amounts consumed by KEMSA vehicles. We could also generate the monthly consumption report and save for records and reference. The same report</p>		
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		<p>coupled with the manual receipts were used for surrendering the total fuel receipts consumed accompanied by the work ticket per vehicle.</p> <p>We have initiated a monthly fuel register per vehicle signed by the transport team and driver. In addition, with effect from FY 2023/2024 we shall purchase the fuel registers from Government printers for recording and supervision of the fuel consumption per vehicle. This will be in line with the system</p>		
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		<p>generated reports from the fuel service provider (RH Devani) online reports that are shared on a monthly basis. See annex 14</p> <p> LETTER TO NTSA BLUE.pdf</p> <p> LOG.pdf</p> <p> KCM 056Y - KEMSA.pdf</p> <p> KCM 055Y - KEMSA.pdf</p> <p> asset register extract.xls</p>		
3.	<p>Duplicate Inventory Records</p> <p>The statement of financial position reflects inventories balance of Kshs. 13,962,897,325 as disclosed in Note 23 to the financial statements. However, review of Information Technology (IT) environment revealed creation of duplicate inventory records amounting to Kshs.70224,025. In addition, the system allowed excess return of inventories from facilities</p>			

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	<p>amounting Kshs.8,839,027. Further, commodities valued at Kshs.42,526,804 with longer shelf life were sold before those with short shelf life against principle of First Expiry First Out (FEFO).</p> <p>In the circumstances, the effectiveness of controls on inventory management could not be confirmed</p>	<p>We have noted the observation and wish to respond as follows:</p> <p>1. Duplicate inventory Records</p> <p>There were no duplicate inventory records in the valuation report for AST FY 2021/2022.</p> <p>The total value of stocks is Kshs.13,958,506,661.68 as indicated in "ALL Exc duplicates" sheet in the AST FY 2021-2022 report.</p>		
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		<p>2. Duplicate returns The problem is domicile in the current ERP where there are weak controls in some users' areas and hence unable to detect duplicated codes. The system allowed users to have duplicate entries. Moving forward KEMSA is procuring a new ERP which is a more advanced version and will eliminate these weaknesses.</p> <p>3. Longer shelf life sold before short shelf life The analysis by OAG was done before sorting the</p>		
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		<p>data based on item description, expiry date and later issue date. (refer to “unsorted data” sheet in FEFO report).</p> <p>Upon sorting the data in the manner above (refer to “sorted data” in FEFO report), it’s clear that the commodities were issued/sold using the FEFO principle</p> <p> AST FY 2021-2022.xlsx</p> <p> FEFO - Report.xlsx</p>		
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4.	<p>Undefined Rendering Fee Charges</p> <p>Note 9 to the financial statements reflects rendering of services of Kshs.787,689,106 being fees charged for procurement, warehousing and distribution. However, a warehousing fee of 3% on the value of commodities is charged but the contract agreements do not specify the storage period. In addition, commodities amounting to Kshs.8,229,260 from different donors were stored for a period between three and seven years but only charged at constants rate. Further, there is no standard policy for charging these services since different partners are charged rates at 8%, 7% and 6% for the same services.</p> <p>In the circumstances, the value for money on procurement, warehousing and distribution services rendered to the donor partners could not be confirmed.</p>	<p>We note your observation and respond as follow;</p> <p>In October 2021, the Authority engaged a consultant from the World Bank to assist in developing an Agency Pricing Model using Activity Based Costing (ABC). The purpose of the exercise was to develop a rate card to be used in negotiating agreements for</p>		



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		<p>rendering of services fees charged to Strategic Partners.</p> <p>The expected deliverables of the exercise included the following;</p> <ul style="list-style-type: none">a) Quantification cost to be charged per contract.b) Procurement cost to be charged per tender.c) Inbound logistics processes cost to be charged per shipment.d) Quality assurance cost to be charged per shipment.e) Rate per cubic meter per day to be		
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		<p>charged for storage of commodities.</p> <p>f) Customer service cost to be charged per order.</p> <p>g) Rate per tonne per kilometer to be charged for distribution of commodities.</p> <p>As a milestone, the ABC model simulation was applied in negotiating agreement for the Max Foundation program.</p> <p>The following recommendations were developed to facilitate data capture for ease of</p>		
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		<p>allocation of cost to the cost drivers identified;</p> <p>a) Financial data needed to be broken down further.</p> <p>b) Detailed operational data needed to be collected e.g. weight and volume of a commodity's stock keeping unit.</p> <p>The Authority is in the process of</p> <p>Reviewing the Pricing and Credit policy which will be tabled to the board for</p>		
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		<p>approval by September 2023.</p> <p>There is an existing pricing policy approved by the board see attached annex</p>  <p>PRICING POLICY 00106052018090011</p>		
5.	<p>Weaknesses in Delivery System</p> <p>Note 13 to the financial statements reflects administrative costs of Kshs.842,506,072 out of which Kshs.786,643,283 relates to distribution costs of medical commodities amounting to Kshs.1,694,489,668 that were delivered after the due dates with delays ranging from eight (8) days to two hundred and fifteen days (215) days. In addition, the warehouse system indicated goods amounting to Kshs,15,704,410 were delivered to various health facilities before they were issued from the warehouse and commodities of Kshs.240854,066 dispatched to various facilities and hospitals but could not be confirmed as having been received. Further, some of the delivery notes were not dated,</p>	<p>The deliveries were made as per Service Level Agreement (SLAs) by KEMSA Transporter and</p>		

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	<p>stamped or signed as proof of delivery.</p> <p>In the circumstances, the effectiveness of internal controls of the warehouse system could not be confirmed.</p>	<p>the Customer needs were met. However, the delay in capturing actual delivery dates resulting into 8-215 days was as a result of a lost delivery note and wrong capturing of actual dates. Receipt date was keyed in the date the duplicate was taken back instead of the actual delivery date.</p> <p>To address this, KEMSA holds quarterly performance review meetings to discuss with transporters and recommend areas of improvements.</p>		
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		<p>During these meetings, challenges are discussed and solutions brought to the table by both parties. The transporters are also sensitized on the need for improvement and adherence to Service Level Agreements (SLAs) as per the contract.</p> <p>For transporters who under-perform, corrective action is taken through one on one meetings and to an extent given warning letters as stipulated in the contract.. (See <i>annex copies of letters to</i></p>		
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		<p><i>suppliers warning suppliers of delays)</i></p> <p> appendixes 5 a.pdf</p> <p> appendixes 5 B.pdf</p> <p>The Authority is piloting implementing the <i>Transporter Performance Appraisal Tool</i> for monitoring set targets which shall then be applied for the subsequent contract award. In addition to the tool, a review of the current contracts was concluded to</p>		
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		<p>include Penalties (punitive) for non-performance.</p> <p>KEMSA has introduced electrotonic Proof of Delivery App that is monitoring real time Health Products and Technologies (HPTS) deliveries and E-locks for cargo tracking and Security shall be implemented in the current FY 2023/24.</p> <p>KEMSA has been sensitizing 3PL service providers on signing of delivery documents by facility(ies) in-charges.</p>		
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		<p>Distribution and Finance will also be cross checking delivery documents for signing and stamping in future.</p> <p>Delivery before issues</p> <p>The variance is as a result of manually keying the data in the Electronic Proof Of Delivery (E-POD) App and once a confirmation button is pressed, then it (data) cannot be changed. However, sensitization and training has been carried out by the distribution team to all the</p>		
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		<p>transporters to ensure quality data capturing. In the new ERP KEMSA will introduce error detecting solution (Poka yoke) to prevent occurrence of such variances(<i>See attached sampled original PODs as per the data in Annex 16 for actual date of receipt</i>)</p> <p> proff of delivery after issue 5ii a.docx</p> <p> proof of delivery after issue 5ii b.docx</p>		
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		 Proof of delivery after issue 5ii.docx  SAMPLED PODs.pdf		
6.	<p>Failure to Hedge Against Foreign Exchange Losses</p> <p>Note 13 to the financial statements reflects use of goods and services expenditure of Kshs.1,689600,811 out of which Kshs.184,184,990 relates to foreign exchange loss. However, contracts were entered using foreign currency but payments made through the Kenyan currency resulting to a foreign exchange loss of Kshs.184,184,900 and there were no hedging strategies. In addition, the realized loss was not supported by schedule indicating the exchange rate both at the invoice date and the payment date.</p> <p>In the circumstances, value for money on the foreign exchange loss of Kshs.184,184,990, could not be confirmed.</p>	<p>We note your observation and respond as follows;</p> <p>KEMSA has in the past been allowing tenderers to submit bids in any freely convertible currency. However, successful</p>		

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		<p>bidders whose bid price is in foreign currency have been paid Kenya Shillings using the prevailing CBK exchange rate at the time of payment. Following the weakening of the shilling in the past two years, KEMSA has incurred losses due to the exchange rate fluctuations. To mitigate against this, KEMSA has put measures in place requiring local bidders to submit bids in Kenya Shillings for GOK-supported tenders.</p>		
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		<p>Effective 6th December 2022, it became mandatory for bidders whose bids were in foreign currency to provide the Kenya Shillings equivalent and all contracts and LPOs to have a conversion rate. Further a written undertaking clearly indicating the applicable exchange rate that will suffice during the payments.</p>		
7.	Failure to Re-Negotiate Covid-19 Commodities			
	Note 8 to the financial statement statements reflects cost of sales of			

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	<p>Kshs.7,667,817,778 out of which Kshs.1,787,954,354 relates to Covid-19 commodities. The Ministry of Health approved the disposal of Covid-19 items subject to re-negotiation with suppliers to lower the quoted prices. However, commodities with quoted price of Kshs.90,000,000 were not renegotiated.</p> <p>In the circumstances, value for money for Covid-19 items quoted at Kshs.90,000,000 could not be confirmed.</p>	<p>Suppliers of the four items in question submitted intent letters offering to supply the items at the lower prices.</p> <p>When tender documents were issued to them, they submitted their tenders at the higher prices. However, the evaluation committees did not verify the tender prices against prices in the intent letters and therefore recommending award at the higher prices in the tender document.</p>		
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		<p>This was an omission and not that prices were negotiated upwards.</p>		
<p>8.</p>	<p>Inefficiencies in Distribution</p> <p>Note 13 to the financial statements reflects administrative costs of Kshs.842,506,072 out of which Kshs.786,643,283 relates to distribution costs. Review of dispatch and turn around reports revealed that distributions were not coordinated with incidences of not loading trucks to their optimal levels with a view of increasing their frequency to the same dispatch stations.</p> <p>In the circumstances, the effectiveness of internal control of the distribution as at 30 June, 2022 could not be confirmed.</p>	<p>The vehicle capacity depends on either tonnage or volumes. In scenarios where we have huge volumes but with less weight, the truck requested is dependent on the box body size. More so, where we have small boxes that are have huge weights, the truck might not be filled to capacity as</p>		




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		a result of the maximum tonnage required.		
9.	<p>Procurements Outside E-Procurement System</p> <p>The statement of management analysis and discussion to the financial statement indicates procurement of health products and technologies of Kshs.29,097,000,000. However, there was no evidence to show that e-procurement platform was used to procure them. This was contrary to executive order No. 2 of 2018 that required all procuring entities to undertake all their procurement through the e-procurement module.</p> <p>In the circumstances, and in view of lack of Enterprise Resource Planning (ERP) functional modules, the Authority did not procure through e-procurement and did not achieve the set objectives under pillar number 6 on innovations and technology.</p>	<p>The Authority embraced the use of IFMIS in Financial Years 2020/2021 and 2021/2022 to undertake procurements. However, the system had shortcomings as far as compliance with PPADA 2015 necessitating KEMSA to revert to manual procurement.</p>		



		<p>KEMSA is in the process of acquiring a new ERP system that will facilitate E-procurement.</p>		
<p>10.</p>	<p>Refund of Ineligible Expenditure</p> <p>Note 26 to the financial statements reflects trade and other payables from exchange transactions of Kshs.8,256,842 which includes Kshs.4,798,798,971 in respect to trade creditors-development partner's grants. The balance includes Kshs.320,000,000 refund to the World Bank due to ineligible expenditure resulting from failure to carry out due diligence on proper procurement process. This was contrary to section 68(1)(a) of the Public Finance Management Act, 2012 which requires an accounting officer for a national government entity, Parliamentary Service Commission and the Judiciary be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the accounting officer are used in a way that is lawful and authorized.</p> <p>In the circumstances, the value for money on refunded expenditure of Kshs.320,000,000 could not be confirmed.</p>	<p>We note your observation and respond as follows: This matter is under investigation by EACC and once complete necessary action will be taken. Annex 17</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Appendix 1- LETTERS FROM EACC</p> </div> <div style="text-align: center;">  <p>EACC response 30th April 2021.pdf</p> </div> </div> <div style="text-align: center; margin-top: 20px;">  <p>Letter to EACC 12th April 2021.pdf</p> </div>		

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		<p>The Covid 19 procurement was done on an emergency basis. Following a review by the World Bank after the procurement, the Bank's position was that the procedures used were inconsistent with their guidelines and therefore demanded a refund of the amount involved in this procurement.</p>		
<p>11.</p>	<p>Unfulfilled Customer Orders</p> <p>Note 8 to the financial statements reflects total sales revenue of Kshs.6,3 17,198,727. The Authority received customer orders of Kshs.9,875,931 228 from various health facilities. However, only orders amounting to Kshs.5341340,265 or 56% were processed and distributed resulting to unfulfilled customer orders of Kshs,4,534,590,963 or 44%. In addition, the processing and distribution of orders took an average of nineteen (19) days against a target often (10) days.</p> <p>In the circumstances the effectiveness of internal control on servicing customer orders could not be confirmed.</p>	<p>There was global supply chain disruption occasioned by Covid 19 pandemic resulting in delayed deliveries. Further KEMSA experienced financial constraints hence delayed</p>		

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		<p>payments to suppliers impacting deliveries.</p>		
<p>12.</p>	<p>Loss of Revenue</p> <p>Note 8 to the financial statement reflects total sales revenue of Kshs.6,317,198,727 which includes Kshs.1,020,631,175 for one hundred and thirteen (113) medical commodities. However, these commodities should have been sold at Kshs.1,494,065,638 hence resulting to unexplained loss of Kshs.473,434,463. The amount also includes Kshs.71,261,137 for fifty-two (52) medical commodities that had been purchased at Kshs.87,460,544 resulting to an unexplained loss of Kshs,16,199,407.</p> <p>In the circumstances, valued for money on medical commodities sold at Kshs.1091,892,312 could not be confirmed.</p>	<p>We acknowledge the loss on the One hundred and thirteen (113) and fifty two (52) products. This is as a result of products that were delivered at new tender cost prices, whose selling prices had not been reviewed and updated in the ERP at the time of sale. This was also attributed by a delay in updating selling prices</p>		

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		<p>due to cost price variations. Going forward we have implemented the following measures to prevent loses on sale of commodities.</p> <ol style="list-style-type: none">1. Proactive selling prices review and update in the ERP after every tendering cycle prior to receipt of the commodities. All cost price variations will also be proactively communicated to commercial directorate to undertake a review and update of selling prices of the commodities affected.		
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		Configuration of the ERP prevent sale of any product with negative margin		
13.	<p>Issues under Universal Health Coverage (UHC)</p> <p>During the year under review, it was noted that since the year 2018, Kshs.12,766,762,552 had been received for Universal Health Coverage (UHC) commodities but only Kshs.10,519,028,352 was utilized by 30 June, 2022 resulting to a balance of Kshs.2,247,734,200. However, the following unsatisfactory matters were noted;</p> <ul style="list-style-type: none"> i. Analysis of UHC supporting schedules revealed a balance of Kshs.1,619,138,203, resulting to unexplained nor justified variance of Kshs.628,595,997. ii. The UHC funds were comingled in other operational bank accounts instead of receiving them in a separate bank account contrary to Regulation 76 (1) of the Public Finance (National Government) Regulations, 2015 which requires each project have a separate bank account at the Central Bank of Kenya into which all funds shall be kept. iii. Donor fund commodities worth Kshs.318,880,601 were erroneously distributed and accounted under UHC commodities instead of the respective donor. iv. UHC commodities worth Kshs.30,857,471 were distributed to seventy-eight (78) private and faith-based health facilities contrary to a letter Ref: MOH/ADM/1/2116 VOL1 (70) dated 24 January, 2020 which indicates the beneficiaries of the supplies be public health facilities whose county 	We note your observation and respond as follow;		

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	<p>management will have signed the Intergovernmental Participatory Agreement (IPA) with the Ministry.</p> <p>v. Physical verification in twenty-six health facilities spread across six (6) counties in the month of September, 2022 revealed stock out of the GeneXpert cartridges for up to three months.</p> <p>In the circumstances, the efficiency and effectiveness of the Authority to procure, store and distribute Universal Health Coverage (UHC) products could not be confirmed.</p>	<p>There was no requirement by MOH for KEMSA to open a separate bank account for UHC . UHC commodities were procured against existing KEMSA capital frame work contracts.</p>		
<p>14.</p>	<p>Medical Commodities Received Beyond the Acceptable Shelf Life</p> <p>Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778 which includes Kshs.688,316531 for commodities that were received with a remaining shelf life of less than six months. These commodities were due for donation in line with Paragraph 17.6 of the KEMSA Standard Operating</p>			

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	<p>Procedures 2018 which categories commodities with a remaining shelf life of less than six months as having short expiry and are earmarked for donations. In addition, the warehouse management system could not generate a report indicating the manufacture date of the commodities.</p> <p>In the circumstances, the effectiveness of internal control on purchases of medical commodities could not be confirmed.</p>	<ul style="list-style-type: none">• Most of the commodities received with a shelf life of less 6months are lab commodities most of which have a total shelf life of less than 1year. 50% of 1 year is 6months. Most of these commodities come with a distribution list and they are not donated.• Otherwise commodities with a shelf life of less 75% are accepted only when the product is Out of stock or low in stocks and is usually accompanied with a Letter of undertaking. These commodities are		
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		<p>tracked to ensure they are consumed before expiry.</p> <ul style="list-style-type: none"> • ICT is working on including the manufacture date of the commodities in Jasper. 		
<p>15.</p>	<p>Expiries of Medical Commodities</p> <p>Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778. Included in this amount is Kshs. 1,054,972,887 being expiries of medical commodities. The expiries include Covid-19 commodities of Kshs.908,890,295 and other medical commodities of Kshs.146,082,592 but no explanations for large quantity purchases despite low demand. In addition, commodities valued at Kshs.3,322,168 expired on transit to the respective health facilities. Further, face masks and Personal Protective Equipment (PPE) kits amounting to Kshs.478,620,200 received in June 2022 were set to expire on 31 July, 2022 without justification for the short shelf life of less than two months. Also, incineration costs of Kshs.1,900,000 for disposing expired stock were incurred with a likelihood of incurring additional costs to dispose third party expired commodities valued at Ksh.206,960,047 which are still in the stores.</p> <p>In the circumstances, effectiveness of internal controls on management and monitoring of stock for expiry could not be confirmed.</p>	<ul style="list-style-type: none"> • For Covid items, distribution of the items had been halted by the EACC investigations and by the time EACC allowed KEMSA to proceed with the distribution, the demand for Covid commodities was low because covid cases had significantly reduced and the restrictions eased. 		

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		<ul style="list-style-type: none">• We would like to clarify that face masks and Personal Protective Equipment (PPE) kits amounting to Kshs.478,620,200 received in June 2020 and not June 2022 as indicated• Following the outbreak of COVID 19, procurement of COVID items was done in large quantities as there was a looming shortage of the commodities. However, the absorption of the commodities ended up being very low• The cost for incineration of expiries was not envisioned in the contracts with third		
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		<p>parties because most of the commodities are procured based on a quantified quantity and a distribution list is provided ensuring that all the products were issued promptly. The risk of expiries was therefore minimum.</p> <p>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 is in discussion with the partners and explore possibilities of including the cost of incineration in the subsequent contracts/Bear the</p>		
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		cost of incineration when the reasons are beyond KEMSA control e.g Change of regimen.		
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Appendix 1: Implementation Status of Auditor-General's Recommendations

Dr. Andrew Mulwa

Ag. CHIEF EXECUTIVE OFFICER

APPENDIX II-STATUS OF PROJECT COMPLETION

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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

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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ANNEX III: TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor	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	
Recurrent Grants									
Ministry of Health	10/8/2022	July Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	8/9/2022	August Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	5/10/2022	September Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	13/12/2022	October Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	10/1/2023	November Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	16/02/2023	December Grant	10,000,000.00	10,000,000.00					10,000,000.00

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Name of the MDA/Donor	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	16/02/2023	January Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	19/04/2023	February Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	3/5/2023	March Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	5/6/2023	April Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	12/6/2023	May Grant	10,000,000.00	10,000,000.00					10,000,000.00
Ministry of Health	3/7/2023	June Grant	10,000,000.00	10,000,000.00					10,000,000.00
TOTAL			120,000,000.00	120,000,000.00	0	0	0	0	120,000,000.00

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Name of the MDA/Donor	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount-KES	Where Recorded/recognized					Others - must be specific	Total Transfers during the Year
				Statement of financial performance	Capital Fund	Deferred Income	Receivables			
FUNDS RECEIVED FOR THE PROCUREMENT OF HPT'S										
Ministry of Health	7/8/2022	KEMSA pending Bills	802,007,979.00					Trade creditors'- Development partners' Grant	802,007,979.00	
Ministry of Health	7/8/2022	Implementation of work plan for medicines affordability and pricing committee	80,000,000.00					Trade creditors'- Development partners' Grant	80,000,000.00	

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Name of the MDA/Donor	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount-KES	Where Recorded/recognized					Others - must be specific	Total Transfers during the Year
				Statement of financial performance	Capital Fund	Deferred Income	Receivables			
Ministry of Health	17/01/2023	Procurement of HIV commodities under Reference no; MOH/ AIDS/CONF/1/A/VOL.IV (05) dated 26th July 2022	1,543,500,000.00					Trade creditors'- Development partners' Grant	1,543,500,000.00	
Ministry of Health	17/01/2023	Procurement of PPEs to support response to Ebola Virus Diseases.	50,000,000.00					Trade creditors'- Development partners' Grant	50,000,000.00	
Ministry of Health	17/01/2023	Procurement of chemotherapy medicines for the public cancer centers	50,000,000.00					Trade creditors'- Development partners'	50,000,000.00	

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Name of the MDA/Donor	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	
								s' Grant	
Ministry of Health	17/01/2023	Refund of Ineligible Expenditure Under Contingency Emergency Response Component Of The Transforming Health Systems For Universal Care Project	49,478,880.00					Trade creditors'- Development partners' Grant	49,478,880.00
Ministry of Health	27/06/2023	Funds for shortfalls due to forex difference during procurement services for Gesdek	14,582,197.00					Trade creditors'- Development partner	14,582,197.00

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Name of the MDA/Donor	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount-KES	Where Recorded/recognized					Others - must be specific	Total Transfers during the Year
				Statement of financial performance	Capital Fund	Deferred Income	Receivables			
		covid-19 commodities						s' Grant		
Total									2,709,569,056.00	