REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

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REPORT OF THE CONTROLLER AND AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA MEDICAL SUPPLIES AGENCY FOR THE YEAR ENDED 30 JUNE 2007

KENYA MEDICAL SUPPLIES AGENCY
(KEMSA)

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P.O. Box 47715, 00100 GPO
NAIROBI, KENYA

ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

CONTENTS

Institutional information:

Establishment

Kenya Medical Supplies Agency (KEMSA) was established as a Parastatal under Legal Notice No. 17 of 3rd February, 2000.

Functions of the Agency

- To develop and operate a viable commercial service for the procurement and sale of drugs and other medical supplies.
- To provide a secure source of drugs and other medical supplies to Public Health institutions.
- To advice the Health Management Boards and the general public on matters relating to the procurement, cost effectiveness and rational use of drugs and other medical supplies.

Registered office and principle place of business

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

Bankers

1. National Bank of Kenya
   Harambee Avenue,
   NAIROBI

2. Commercial Bank of Africa
   Nyerere Road,
   NAIROBI

Independent Auditor

Controller & Auditor-General
Kenya National Audit Office,
Kencom House, City Hall way,
NAIROBI.

Board Members

a) Mr. Peter T. Kanyago -Chairman

b) The Permanent Secretary, Ministry of Health

c) The Permanent Secretary, Ministry of Finance

d) The Director of Medical Services

e) The Chief Pharmacist

f) The Registrar of the Nursing Council

g) Mr. Jonathan Mutuku

h) Dr. Rodgers Atebe

i) Dr. Samson K. Ndege

j) Dr. Anastasia Nyalita

k) Mr. Bert Mbuvi

l) Ms. Beatrice Sabana - Vice Chairperson

m) Dr. Charles K. Kandie - Chief Executive Officer

Senior management staff

	Name	Designation
a)	Dr. Charles K. Kandie	Chief Executive Officer
b)	Mr. Charles M. Nyamai	Finance Director
c)	Dr. John M. Munyu	Technical Director
d)	Mr. John O. Wamwanga	Finance Manager
e)	Mr. Ignatius K. M'Arithi	Logistics Manager
f)	Dr. Wanjau Mbuthia	National Liaison Manager
g)	Dr. John Aduda	Quality Assurance Manager
h)	Mr. Godfrey Kiptum	HR & Adm Manager
i)	Mr. Paul K. Koske	ICT Manager
j)	Mr. Joseph Gichuru	Public Relations Manager
k)	Mr. Edward Buluma	Procurement Manager
l)	Mr. Samuel Okanda	Warehouse Manager
m)	Mr. Toddy Madahana	Security Manager
n)	Mr. Joseph Abok	Internal Audit Manager
o)	Mr. Fredrick Wanyonyi	Legal Manager

Statement of Board members' responsibilities

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

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

The Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Agency as at 30th June 2007 and of its surplus for the year then ended. The Board further confirms the accuracy and completeness of the accounting records maintained by the Agency which have been relied upon for the preparation of financial statements as well as the adequacy of the systems of the internal financial controls.

This statement is approved by the Board members and it is signed on their behalf by:

Dr. Charles K. Kandie
Chief Executive Officer
Date........17.12.07..............

Mr. Peter Kanyago
Board Chairman
Date........17/12/2007........

REPUBLIC OF KENYA

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KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA MEDICAL SUPPLIES AGENCY FOR THE YEAR ENDED 30 JUNE 2007

I have examined the financial statements of Kenya Medical Supplies Agency set out on pages 8 to 15 which comprise the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting polices and other explanatory notes in accordance with the provisions of Section 14 the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Board's Responsibility for the Financial Statements

The Board is responsible for the preparation of financial statements, which give a true and fair view of the Agency's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

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

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall representation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Objects of KEMSA as a State Corporation

Although one of the objects for which the Agency was established was to develop and operate a viable commercial service for the procurement and sale of drugs and medical supplies to public health institutions, the financial statements as presented do not reflect activities on procurement and sale of drugs and medical supplies. Consequently KEMSA has not fulfilled its mandate as a state corporation, eight years after its establishment. Management attributes this position to failure by the Ministry of Health to address policy issues necessary to enable KEMSA to trade with Public Health Facilities, inadequate capitalization for the Agency and failure by the Ministry to transfer procurement money to the Agency.

2. Title Deeds

The property, plant and equipment balance of Kshs.296,771,938.00 as at 30 June 2007 includes land valued at Kshs.151,528,000.00 for which the Agency does not have title documents. According to information available, the land includes depots situated in Nairobi, Mombasa, Kisumu, Eldoret, Nakuru and Nyeri. Further, the Agency does not maintain an up to date fixed assets register, and this makes it difficult to confirm the ownership and physical location of the assets.

3. Stocks

Note 18 to the financial statements discloses that inventory of drugs held by the Agency on behalf of the Ministry of Health as at 30 June 2007 amounted to Kshs.5.7 billion. Out of this amount, drugs worth Kshs.32,474,704.00 are damaged or expired. These drugs are not accounted for in the financial statements and relevant records were not made available for audit verification. Consequently, I am unable to confirm that the disclosed inventories of drugs are properly accounted for and therefore fairly stated as at 30 June 2007.

Opinion

Except for the reservations discussed in the preceding paragraphs, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Agency as at 30 June 2007 and of its surplus and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Kenya Medical Supplies Agency Order, 2000.

P. N. KOMORA, C.B.S.
CONTROLLER AND AUDITOR GENERAL

Nairobi

22 February 2008

KENYA MEDICAL SUPPLIES AGENCY

INCOME & EXPENDITURE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	2006/2007	2005/2006
INCOME		Kshs.	Kshs.
Grants from MOH	2	169,800,000	169,800,000
Re-imbursements from MOH	2	162,656,279	0
Sale of tender documents		3,070,000	2,902,258
Profit/(loss) on Disposal of FA's	5	892,746	0
Other-Mission Pharm		351,138	0
European Union		55,105,753	0
Sale of Scrap	4	695,676	0
USAID	17	3,881,037	3,881,037
Global Fund	3	15,882,769	10,532,290
World Bank	17	6,343,675	6,343,675
E-Sokoni Project	4	4,864,499	136,202,964
Interest on deposits		2,470,882	1,019,720
Total Income		426,014,454	330,681,944
EXPENDITURE			
Administration expenses	6	44,745,734	26,783,266
Transport Operating	7	152,504,869	66,764,537
Travelling & Accommodation		12,658,020	14,123,516
Board Allowances and Conferences		9,476,496	14,590,948
Insurance		10,460,599	6,396,368
General office expenses	8	22,539,479	14,950,594
Maintenance of Building & Machinery	9	2,613,080	421,084
Audit Fees	10	213,562	148,720
Salaries & Wages	11	98,826,716	94,009,236
E-Sokoni Project		0	136,202,964
Depreciation	12	20,160,370	20,963,361
Total Expenditure		374,198,924	395,354,594
Surplus/(Deficit)	13	51,815,530	(64,672,650)

KENYA MEDICAL SUPPLIES AGENCY

BALANCE SHEET AS AT 30 JUNE 2007

	NOTE	2006/2007 Kshs.	2005/2006 Kshs.
NON CURRENT ASSETS			
Property, Plant & Equipment	12	296,771,938	275,426,725
Property, Plant & Equip-WIP	12	339,719	8,611,070
Intangible assets (WIP)	12	2,848,830	0
Longterm Investments	14	5,000,000	0
		304,960,487	284,037,794
CURRENT ASSETS			
Cash and Cash-equivalents	14	54,037,389	3,834,975
Receivables	15	12,086,301	7,337,451
		66,123,690	11,172,426
CURRENT LIABILITIES			
Payables	16	25,399,075	382,172
Net current Assets		40,724,615	10,790,254
Net Assets		345,685,102	294,828,049
FINANCED BY:			
General fund		320,922,299	270,070,033
Revaluation Reserve	12	10,229,500	0
NON CURRENT LIABLITIES			
Deferred Income	17	14,533,303	24,758,016
		345,685,102	294,828,049

The financial statements on pages 8 to 15 have been signed on behalf of the board of directors by:

Dr. Charles K. Kandie
Chief Executive Officer
Date 17/12/07

Mr. Peter Kanyago
Board Chairman
Date 17/12/2007

KENYA MEDICAL SUPPLIES AGENCY
STATEMENT OF CHANGES IN ACCUMULATED FUNDS
FOR THE TWELVE MONTHS ENDED 30 JUNE 2007

Year ended 30 June 2006	Notes	General Fund Kshs.	Revaluation Reserves Kshs.	Deferred Income Kshs.	Total Kshs.
At start of the year (as previously reported)		334,742,683	-	-	334,742,683
-Fixed assets grant	17	5,916,122	-	11,832,244	17,748,366
-Plant, property & equip	17	5,916,122	-		5,916,122
-Depreciation	17	(5,916,122)	-		(5,916,122)
-Deferred income	17	(5,916,122)	-	(5,916,122)	(11,832,244)
As restated		334,742,683	-	5,916,122	340,658,805
Deficit	13	(64,672,650)	-	-	(64,672,650)
Fixed assets grant	17	-	-	29,066,607	29,066,607
Deferred income recognised	17	-	-	(10,224,713)	(10,224,713)
At end of year		270,070,033	-	24,758,016	294,828,049
Year ended 30 June 2007					
At start of the year (as previously reported)		270,070,033	-	24,758,016	294,828,049
-Depreciation	12	(963,264)	-		(963,264)
As restated		269,106,769	-	24,758,016	293,864,785
Surplus	13	51,815,530	-	-	51,815,530
Recognition of assets into the register	12	-	10,229,500		10,229,500
Deferred income recognised	17	-	-	(10,224,713)	(10,224,713)
At end of year		320,922,299	10,229,500	14,533,303	345,685,102

KENYA MEDICAL SUPPLIES AGENCY

CASHFLOW STATEMENT FOR THE TWELVE MONTHS ENDED 30 JUNE 2007

	Notes	2005/2006 Kshs.	2006/2007 Kshs.
CASHFLOWS FROM OPERATING ACTIVITIES			
Surplus (Deficit) Before Tax & Extra Ordinary Items	13	(46,061,058)	51,815,530
Adjustments For:			
Depreciation	12	22,600,979	20,160,370
E-sokoni/Usaid/World bank	17	0	(10,224,713)
Foreign Ex Loss/(gain)			
Interest on deposits		(1,019,720)	(2,470,882)
Interest Payable/ (Receivable)			
Loss/(Profit) on Disposal Of Fixed Assets		0	(892,746)
Surplus/(Deficit) Before Working Capital Changes		(24,479,799)	58,387,559
Decrease/(Increase) in Receivables	15	10,270,186	(7,127,057)
Increase/(Decrease) in payables	16	(109,915)	27,395,111
Cash Generated From Operations		(14,319,528)	78,655,612
Cashflows Before Extra ordinary Items		(14,319,528)	78,655,612
Extra ordinary Items		-	-
Net Cash From Operating Activities		(14,319,528)	78,655,612
CASHFLOWS FROM INVESTING ACTIVITIES			
Purchase of Tangible Assets	12	(65,767,764)	(27,568,511)
Proceeds From Sale of Equipment			
Longterm Investment	14	0	(5,000,000)
Interest Received		1,019,720	2,470,882
Dividends Received		-	-
Disposal of fixed assets	12	0	1,748,406
Net Cash Used On Investing Activities		(64,748,044)	(28,349,224)
CASHFLOWS FROM FINANCING ACTIVITIES			
Net Cash used On Financing Activities		-	-
Net (Decrease)/Increase in Cash & Cash Equivalents		(79,067,572)	50,306,389
Cash & Cash Equivalents at start of Year		82,902,547	3,834,975
Prior period cashbook Corrections			(103,975)
Cash & Cash Equivalents end of Period		3,834,975	54,037,389

ACCOUNTING POLICIES :

The principal accounting policies adopted in the preparation of the Financial Statements are set out below:

a) Basis of preparation

The Financial statements have been prepared on historical cost accounting basis.

b) Income recognition

Grants from the Ministry of Health and other sources are recognised when received.

c) Property, Plant and Equipment

Property, Plant and Equipment is stated at historical cost adjusted for any revaluations less accumulated depreciation. KEMSA has changed its depreciation policy from reducing balance to straightline.

The assets have been depreciated as follows;

	Rate per annum (%)
* Building	2.5
* Fixtures, fittings & equipments	12.5
* Plant & Machinery	10
* Furniture	10
* Motor vehicles	20
* Computer & Equipment	33.33
* Intangible Assets	33.33

d) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimate of the selling price in the ordinary course of business less the selling expense. Cost is determined by the average cost method.

e) Cash and Cash equivalents

For the purposes of the cashflow statement, Cash & Cash-equivalents comprise cash in hand and bank, un-dispatched cheques and Fixed deposits held at call with banks.

f) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS:

1 Principle activities

The principle activities were to procure, warehouse and distribute medical commodities to the Public Health institutions.

2 Grants From MOH

A)All the monthly recurrent Grants of Kshs. 119,800,000.00 were received. The Annual Developmnet Grant of Kshs. 50 million has also been received.

B) Outsourced logistics expenses were not factored in the grant for KEMSA, hence the re-imbursement by MOH after payment by KEMSA.

3 Global Fund

This was a disbursement from the involvement of KEMSA staff in the consortium.

4 Sale of Scrap

This scrap was assumed to have been fully depreciated hence the entire resale value is a gain.

5 Profit on disposal of Fixed assets

This was a gain & loss on disposal of four motor vehicles plus a gain on Insurance claim paid by the insurer.

6 Administration expenses	2006/2007 Kshs.	2005/2006 Kshs.
Telephone ,fax & postage	8,746,679	3,687,516
Office Entertainment	5,555,076	3,973,780
Water,Electricity,generators & Conservancy	1,680,654	1,009,967
Stationery & Office Expenses	5,781,619	2,981,951
Training&conferences	5,381,624	5,859,279
ICT Consumables	4,028,355	3,452,266
Rent & Rates	13,571,728	5,818,506
Totals	44,745,734	26,783,266

7 Transport	2006/2007 Kshs.	2005/2006 Kshs.
Fuels & oils	10,408,047	10,238,679
Vehicle maintenance	5,834,498	5,026,020
Outsourced distribution	136,262,325	51,499,839
Totals	152,504,869	66,764,537

8 General office expenses	2006/2007 Kshs.	2005/2006 Kshs.
Advertising & Public Relations	2,443,593	3,701,778
Obsolete stock Disposal	1,624,297	1,827,110
Contracted/Professional services	3,185,078	2,941,356
Legal	916,893	654,000
Other Office Expenses	1,335,761	647,073
Security	5,481,862	1,155,586
Warehouse Packaging Materials	6,550,595	3,119,479
Quality Assurance	1,001,400	904,211
Totals	22,539,479	14,950,594

9 Maintenance of Building & Machinery	2006/2007 Kshs.	2005/2006 Kshs.
Assets Repair & Maintenance	2,613,080	421,084
Totals	2,613,080	421,084

KENYA MEDICAL SUPPLIES AGENCY

NOTES TO THE FINANCIAL STATEMENTS:

10 Audit Fees

Audit Fees of Kshs. 189,766.50 has been accrued for and is still outstanding and is included in the payables in the balance sheet.

11 Salaries & Wages

	2006/2007 Kshs.	2005/2006 Kshs.
Staff seconded to KEMSA	6,274,693	30,026,183
Casual & Contract	15,129,767	6,412,600
Kemsa Salaries	77,422,256	57,570,453
Totals	98,826,716	94,009,236

12 Plant, Property & Equipment (Schedule 1)

Assets worth Kshs10,229,500 were taken on charge giving raise to a revaluation reserve. An error in depreciation for 3-motor vehicles KAV 090-2V was corrected amounting to Kshs 481,682.

(A) The WIP includes alterations to buildings whereby certificates of completion had not been issued as at Year

(B) Intangible Assets (WIP)

This comprises of re-branding expenses of Kshs 2,848,830.00 which has not been completed by Ogilvy.

13 Surplus

The income and expenditure account shows a Surplus of Ksh. 51,815,530.00. This Surplus is not as a result of gains in operations, but as a result of timing differences in expenditures & and the differences between wear and tear and capital expenditures

14 (A) Cash & Cash-equivalents

	2006/2007 Kshs.	2005/2006 Kshs.
Cash at hand	35,625	86,489
National Bank Of Kenya	2,858,414	3,728,486
CBA Bank	51,143,350	20,000
	54,037,389	3,834,975

(B) Longterm Investments

There is a longterm investment of Kshs 5 Million with the NBK which acts as a guarantee against employees car loan scheme and also earns an interest for the organisation.

15 Receivables

	2006/2007 Kshs.	2005/2006 Kshs.
KEMSA/E-SOKONI project	4,864,499	237,310
Distribution/Travel Imprest/Advances	1,719,137	314,014
Prepayments & Deposits	5,502,664	6,786,128
	12,086,301	7,337,451

16 Payables

	2006/2007 Kshs.	2005/2006 Kshs.
Audit Fees	189,767	148,720
Retention Fees	729,511	211,452
Sundry Creditors	24,454,797	0
Deposits for Boarded Motor vehicles	25,000	22,000
	25,399,075	382,172

17 Deferred Income

This is as a result of grants in form of Property,Plant&Equipment from USAID and World bank with a useful life of four(4) Years as follows;

Development Partner	2003/04	2005/06	Recognised	Deferred
USAID	11,832,244	3,691,905	13,678,197	1,845,953
World Bank	0	25,374,701	12,687,351	12,687,351
Totals	11,832,244	29,066,606	26,365,547	14,533,303

1 Inventory

The stocks held at KEMSA as at 30 June 2007 were valued at Kshs. 5.7 Billion. However this was not reflected in the Financial statements as the stocks are owned by the Ministry of Health. The stocks are however not insured by the Ministry of Health.

1 Currency

These financial statements are presented in Kenya Shillings (KShs.)

KENYA MEDICAL SUPPLIES AGENCY

EDULE 1

PERTY, PLANT & EQUIPMENT DEPRECIATION SCHEDULE FOR THE TWELVE MONTHS ENDED 30 JUNE 2007

	LAND	BUILDINGS	FIXTURES, FITTINGS & EQUIPMENT	PLANT & MACHINERY	FURNITURE	MOTOR VEHICLE	COMPUTER HARD & SOFT WARE	TOTALS	INTANGIBLE (WIP)	WORK IN PROGRESS (WIP)
T/VALUATION T 1/7/2006	151,528,000	67,416,019	11,054,643	11,473,359	9,662,810	65,256,102	13,619,423	330,010,356	-	
B/F		8,611,070						8,611,070		
ITIONS	-	6,992,288	9,530,972	9,389,772	1,411,311		7,285,120	34,609,462	2,848,830	339,719
D/WBANK								-		
'OSALS						(1,425,000)	(1,179,829)	(2,604,829)		
	151,528,000	83,019,376	20,585,615	20,863,131	11,074,121	63,831,102	19,724,714	370,626,059	2,848,830	339,719
RECIATION AS /7/2006	Nil	8,773,944	4,384,178	4,519,466	3,182,208	28,196,856	6,008,612	54,583,632	-	
DEPR ON QUIRED M/V ITTED								-		
DEPR ON POSAL						987,240	384,272	1,371,512		
RECIATION ARGE FOR THE IONTHS	Nil	1,856,136	2,025,180	1,634,367	789,191	9,155,372	4,700,125	20,160,370		
	Nil	10,630,080	6,409,358	6,153,832	3,971,400	36,364,987	10,324,465	73,854,121	-	
' AS AT 5/2007	151,528,000	72,389,296	14,176,257	14,709,299	7,102,721	27,466,115	9,400,250	296,771,938	-	
' AS AT 30/6/2006	151,528,000	58,642,075	6,670,465	6,953,893	6,480,602	37,059,246	7,610,812	275,426,725	-	