

REPUBLIC OF KENYA



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**KENYA MEDICAL SUPPLIES AUTHORITY  
(KEMSA)**

**FOR THE YEAR ENDED  
30 JUNE, 2021**



**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2021**

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



**Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

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## 1. 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 25<sup>th</sup> 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.

### (b) Principal Activities

#### ➤ Core Mandate

The Authority's Core Mandate as defined in the Act is to **Procure, Warehouse and Distribute** health products and technologies to public and other health facilities in Kenya. 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 packages.

#### ➤ 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".*

➤ **Strategic Pillars 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 Structure

- Board of Directors
- The Chief Executive Officer
- Management

(d) **Fiduciary Management**

The key management personnel who held office during the financial year ended 30 June 2021 and who had direct fiduciary responsibility were:

1.	Dr. Jonah Manjari Mwangi	Chief Executive Officer
2.	Mr. Edward Njoroge	Ag. Chief Executive Officer/Director - Operations
3.	Mr. Fredrick Wanyonyi	Director- Legal
4.	Mr. Charles Juma Ezekiel	Director- Procurement

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5.	Mr. Eliud Mureithi	Director, Commercial Services
6.	Mr. Douglas Onyancha	Head, KEMSA-USAID MCP Program
7.	Ms. Teresa Mute	Internal Audit Manager
8.	Mr. Waiganjo Karanja	Director Finance & Strategy
9.	Ms.Ebla Mohamed	Director Human Resource & Administration
10.	Ms. Caroline Wanjiru Ogongi	Finance Manager

### (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 her 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.

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
<b>Composition</b>	<b>Composition</b>	<b>Composition</b>	<b>Composition</b>
Directors and the CEO	Directors and the CEO	Directors and the Internal Audit Manager	Directors and the CEO
<b>Main Function</b>	<b>Main Function</b>	<b>Main Function</b>	<b>Main Function</b>
Review and monitoring of KEMSA financial position, accounts, financial statements and statutory reports.  Consideration of audit matters arising out of KEMSA's financial position and statements, examine the recommended structural developments including ICT installations and make appropriate recommendations	Consideration of human resources and administration matters that require to be considered by the Board including recruitment, promotions, discipline and welfare of staff.	Consideration of matters relating to audit queries, audit management letters and quality assurance of systems and processes, including review of risk management.	Oversee QA & control systems, warehousing & distribution of medicines, customer services, co-ordinate updates of EMMS list, commodities procurement systems compliance to the law, ICT policy, accuracy of stock
<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>	<b>Frequency of meetings per annum</b>

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Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis
Chairperson	Chairperson	Chairperson	Chairperson
Linton Kinyua Nyaga (Current chair) Prof. Timothy Waema (exited in April, 2021)	Terry Kiunge Ramadhani (Current chair) Dr. Dorothy Aywak (exited in April, 2021)	Dr. Robert Nyarango (Current chair) Joel Onsare Gesuka (exited in April, 2021)	Capt. (Rtd) Lawrence Wahome (Current chair) Dr. Bibiana Njue (exited in April, 2021)
Members	Members	Members	Members
Mary Atieno Awino Terry Ramadhani Isaac Oder (CM) Representative of SCAC Edward Njoroge Evans Cheruiyot	Dr. Josphat Mbuva Dr. Robert Nyarango Isaac Oder (CM) Representative of SCAC Edward Njoroge Evans Cheruiyot	Mary Atieno Awino Capt. (Rtd) Lawrence Wahome Isaac Oder (CM) Representative of SCAC Edward Njoroge Teresa Mute	Dr. Josphat Mbuva Linton Nyaga Kinyua Isaac Oder (CM) Representative of SCAC Edward Njoroge Evans Cheruiyot

NOTE:

1. CM -Current Member
2. FM- Former Member

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**(f) Headquarters**

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

**(g) Contacts**

Telephone: +254 20 3922 000  
Email: [info@kemsa.co.ke](mailto:info@kemsa.co.ke)  
Website: [www.kemsa.co.ke](http://www.kemsa.co.ke)

**(h) Bankers**

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

**(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

## 2. THE BOARD OF DIRECTORS

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



**Mary Chao Mwadime**  
DOB 28/09/1956  
*Non-Executive Director*  
*Chairperson - Board of Directors*  
Effective 30<sup>th</sup> April 2021  
(PhD-Business Leadership ongoing, MBA, BCOM-Business Administration / Marketing)

**Work Experience:** Senior acquisition & assistance specialist - Consultant with XLA, Senior acquisition & assistance specialist - USAID/Liberia Mission, Senior acquisition & assistance specialist - USAID/East Africa, Nairobi Mission, Chief Supplies Office - Kenyatta National Hospital, Project Manager - Kenya Railways Corporation, Chief Supplies Officer - Kenya Railways Corporation among other ranks



**Captain (KAF Rtd) Lawrence M. Wahome**  
DOB 21/07/1968  
*Non-Executive Director*  
Effective 30<sup>th</sup> April 2021  
(Masters, Public Proc. & Sustainable Devp., MBA-Total Quality Management, Post Graduate Cert-Logistics & international Transport, LLM-Public Procurement Law & Policy Devlp, BB Logistic & Supply Chain Management, Dip-Purchasing & Supply (CIPS), DIP-Aeronautical Navigation).

**Work Experience:** Head of Supply Chain Unit - UN WFP Rwanda Country Office, Kigali, Head of Procurement Unit - UN WFP Syria Arab Republic Country Office, Damascus, Head of Procurement - UN WFP Afghanistan Country Office, Kabul, Head of Logistics Unit - Mazar-e-Shariff Area Office, Northern region, UNWFP, Afghanistan. Head of Logistics Unit - UN WFP, Burundi Country Office, Bujumbura, Head of Logistics Unit - El Fasher Area Office, Northern Darfur region, UNWFP Sudan Country Office, Head of Logistics Unit -Herat Area Office, Western region, UNWFP Afghanistan Country Office, Mission Logistician - MSF-Holland, Kandahar Office, Afghanistan, Mission Flight Operations - UN WFP, Lokichogio. Flight Navigator/OC Air Movements - Kenya Air Force (Moi Airbase)



**Terry Kiunge Ramadhani MBA, CIPD**  
DOB 16/01/1980

*Non-Executive Director*

30<sup>th</sup> April 2021 – 5<sup>th</sup> March 2022

(Professional Human Resources Society of Tanzania, Professional Membership & working towards Charter status, Certified Prince 2 Practitioner, LLB-ongoing, MBA-HRM, Bachelor of Education).

**Work Experience:** Director, Human Resources and Academic Support, Director, Human Resources and Global Organizational Change Lead for Electronic Health Records (EHR) – Aga Khan University, Senior Director, President’s Delivery Unit – Government of Kenya, Regional Leader, Human Resources, EA, Aga Khan University, Head, Human Resources and Acting Company Secretary Opportunity International, Human Resources Coordinator Liverpool City Council Gladstone House Secure Children Home, Liverpool, Youth Programme Officer Liverpool City Council Gladstone House Secure Children Home, Liverpool



**Linton Nyaga Kinyua**

DOB 24/11/1962

*Non-Executive Director*

Effective 30<sup>th</sup> April 2021

Member (CPS(K), Member CPA(K), MBA, BBA-Accounting, Dip. Business Management)

**Work Experience:** Financial Controller – DHL Global International, Nairobi, Group Finance Director – Ocean Freight (E.A.) Limited, Mombasa, Director Finance, Personnel and Administration – Ocean Freight (E.A.) Limited



**Fred Wanyonyi**

*Director-Legal*

*Executive Member*

LLB, DIP. Law, ICS Non-member

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



**Robert Nyarango**  
DOB 30/09/1974  
*Non-Executive Director*  
Effective 30<sup>th</sup> April 2021  
(Member-Association for Healthcare Quality, Certified Professional in Healthcare Quality & Safety by the Healthcare Quality Certification Commission, MSC-Clinical Pharmacy, MBA-Strategic Management, Post Graduate Dip.-Health System Management).

**Work Experience:** Chief Executive Officer, Director of Outpatient Services, Director of Quality and Safety, Chief Pharmacist /Pharmacy Operations Manager, Clinical Pharmacist - Getrude's Children's Hospital



**Mary Atieno Awino**  
DOB 25/12/1964  
*Non-Executive Director*  
*Alt. to PS, The National Treasury*  
(MBA, BCOM, Dip-Supply Chain Mngt. Part III)

**Work Experience:** Currently 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)



**Dr. Jonah Manjari**  
DOB 07/02/1969  
*Chief Executive Officer (upto 13<sup>th</sup> May 2022)*  
*Executive Member*  
(M. Med (ENT, H&N Surgery). (UoN), MBChB (U.O.N) MBA-GLOBAL (USIU)

**Work Experience:** County Executive Committee Member (Minister of Health Services)-Kiambu & Nakuru County, Medical Superintendent & District Medical Services Officer-Ministry of Medical Services; Thika Level 5 Hospital, ENT Specialist Surgeon; Ministry of Health – Garissa & Meru Level 5 Hospitals, Post Graduate Senior House Officer-Kenyatta National Hospital, Senior Medical Officer- Thika District Hospital

### 3. MANAGEMENT TEAM



Terry Kiunge Ramadhani MBA, CIPD  
Chief Executive Officer  
Effective 13<sup>th</sup> May 2022



Mr. John Kabuchi  
Ag. Chief Executive Officer  
28<sup>th</sup> December 2021 – 27<sup>th</sup> May 2022



Dr. Jarred Nyakiba  
Ag. Operations Director  
Effective 10<sup>th</sup> Feb 2022



Dr. Silas Njeru  
Ag. Procurement Director  
Effective 10<sup>th</sup> Feb 2022



Dr. Evans Imbuki  
Ag. Programs Director  
Effective 10<sup>th</sup> Feb 2022



Ms Tecla Lel  
Ag. Warehouse Manager  
Effective 10<sup>th</sup> Feb 2022



Dr. Simon Wahome  
Ag. Commercial Director  
Effective 10<sup>th</sup> Feb 2022  
Pharmacy Specialist, Master of Pharmacy



CPA James Macharia  
Ag. Finance Manager  
Effective 10<sup>th</sup> Feb 2022  
MBA, BBA, CPAK



Hilary Tioni  
Ag. ICT Manager  
Effective 10<sup>th</sup> Feb 2022  
MDY, MSS, Security +, BCFE, CFCE, CEH



Vainora Kerubo  
Ag. HR Manager  
Effective 10<sup>th</sup> Feb 2022



Ms. Silvia Kanyi  
Ag. Legal Officer  
Effective 10<sup>th</sup> Feb 2022



CPA Geoffrey Mochache  
Principal Auditor  
MCOM, BCOM, CPAK, CPSP



Dr. Jonah Manjari  
Chief Executive Officer



Mr. Edward Njoroge  
Ag Chief Executive  
Effective 14<sup>th</sup> August 2020



Mr. Charles Juma  
Procurement Director



Mr. Eliud Muriithi  
Director, Commercial Services



Mr. Douglas Onyancha  
Head of KEMSA/USAID  
MCP Program



Mr. Waiganjo Karanja CPA, CISA  
Director, Finance and Strategy



Ms. Ebla Mohamed  
Director, Human Resource & Admin



Mr. Fred Wanyonyi  
Director, Legal



Dr. George Walukana  
Ag Director Commercial Services  
Effective August 14th 2020



Mr. Edward Buluma  
Ag Director Procurement  
Effective August 14th 2020



Ms. Teresa Mute  
Internal Audit Manager



Ms. Caroline Anunda (CPA)  
Finance Manager

#### **4. CHAIRPERSON'S STATEMENT**

On behalf of the Board of Directors, it gives me great pleasure to present to you KEMSA's performance for the financial year ended 30<sup>th</sup> June 2021.

The Mandate of Kenya Medical Supplies Authority is to Procure, Warehouse and Distribute Medical Supplies and drugs for prescribed Public Health Programs, the National Strategic Stock reserve, Prescribed Essential Health Packages and National Referral Hospitals. KEMSA manages supply chain of medical commodities from suppliers to health facilities, and the Authority prides itself in its great Milestone of last mile delivery. The existing distribution network does delivery on a last mile basis to over 8,000 facilities across all the 47 counties. We undertake door step deliveries to facilities as far as Faza Island which is two hours by speed boat from Lamu and Kalacha town in the middle of Chalbi desert in Northern Kenya. This distribution network serves the primary healthcare segment and is able to reach over 60% of the Kenya population. We have an opportunity to increase this reach through an enhanced service delivery in the secondary healthcare segment through the referral hospitals and other specialty facilities.

The Board undertakes to perform its responsibilities diligently and strives to provide the required leadership to support the Authority's key strategic pillars of; Financial Stewardship, Customer Focus, Internal Business Processes and Systems, Strategic Partnerships, Leadership and Governance anchored in the Strategic Plan 2019-2024. The Strategic Plan will give stimulus to the ongoing infrastructure expansion such as the new modern warehouse and office block as well as redesigned distribution centers in Mombasa and Kisumu.

The Upgrade will involve Automation of the Centers to enable them to provide Warehousing, Picking, distribution and order processing services. The regional distribution centers is a strategic objective of the Authority in a bid to take services closer to the customer and improve Order Turnaround time to public health facilities, KEMSA undertook a Strategic Network Optimization assessment of its business and is implementing the recommendations

#### **Highlights of Business Performance**

KEMSA revenue reduced by 22% from Kshs 4.698 Billion in FY 2019-2020 to Kshs 3.684 Billion in FY-2020-2021, whereas operational expenditure increased by 8% from Kshs 3.035 Billion to Ksh. 3.282 Billion. The decrease in revenue is attributed to reduction in UHC sales.

KEMSA's performance contract score in FY 2020-2021 as evaluated by the Directorate of Performance Contracting was 3.0209 (Very Good).

**Corporate Governance:**

The Board of Directors and the management of the Authority shall endeavor to see to it that the Authority continues to execute its mandate, and particularly in playing its role towards improvement of healthcare in Kenya, in light of the National Government's main pillar of Universal Health Coverage. We will continue to count on the invaluable support from the Ministry of Health, The National Treasury, the strategic partners and all our stakeholders.

As part of enhanced corporate governance, KEMSA Board has been fully reconstituted. I welcome the appointments of Cpt. (KAF Rtd) Lawrence M. Wahome, Terry Kiunge Ramadhani, Linton Nyaga Kinyua and Robert Nyarango to the KEMSA Board.

I wish to appreciate the former KEMSA Board Members; Sen. Kembi Gitura, Mr. Joel Gesuka, Dr. Bibiana Njue, Dr. Dorothy Aywak and Prof. Timothy Waema whose terms of service ended during the financial year 2020/2021 for their invaluable commitment, dedication and contribution to the Authority.

**KEMSA's Role in the Realization of the Government's Big Four Agenda**

KEMSA as a state corporation is in a unique position to deliver this constitutional promise to the people of Kenya even as Kenya strives to meet its obligations to the global community. KEMSA's role in UHC is anchored under its key mandate of procurement, warehousing and distribution of essential medicines and medical supplies. KEMSA's mandate under UHC is thus to consistently supply quality and affordable essential medicines and medical supplies.

The need for continuous supply of good quality health products and technologies is paramount to the success of the UHC agenda. As the Government Health commodity supplier for UHC, KEMSA has the ability to supply quality, effective and affordable Essential Medicines and Medical Supplies (EMMS) in a timely manner and meet the increased demand by improved demand predictability.

**Covid 19 Pandemic Preparedness**

We are going through unprecedented times due to the Coronavirus (COVID-19). Amidst the unprecedented global crisis of the pandemic, KEMSA has made efforts to procure Health Products and Technologies against widespread supply chain disruptions following the effects and response to Covid-19 in line with our mandate. The Authority has actively been involved in sourcing for Covid-19 (HPTs) to mitigate the spread of the pandemic for equipping the health workers with requisite assorted personal protective equipment. As a state corporation, KEMSA has closely collaborated with Ministry of Health (MOH) and other Government agencies involved in the fight against Covid 19 to facilitate timely delivery of products to the doorstep of targeted health facilities, isolation centers, testing laboratories, surveillance teams, National Referral Hospitals, The National Command Center, Emergency command Centers amongst other institutions involved in the fight against the pandemic.

**Challenges faced by the Authority;**

- Debt management remained a big task for the Authority especially the long outstanding debt owed by County Governments and development partners posing liquidity risk.
- Change in treatment guidelines creating a big risk of expired items in our stock holding. Transitioning to the new treatment guidelines took place immediately without considering existing stocks in our reserve.
- Reduced GOK funding for the National Project by the Ministry of Health and The National Treasury leading to delays in achieving the target completion of the National Commodity Storage Centre.
- Erratic Ordering by the County governments due to high debt with the Authority leading to reduced shelf lives of HPTs in stock and in extreme circumstances expiries.
- The Covid-19 Pandemic that has disrupted the supplies of key HPTs especially from Asia, The USA and Europe.
- USAID/KEMSA MCP project came to an end in May 2021. The exit of USAID has contributed to a drop in KEMSA fees. The Project contributed an average of 36% of KEMSA's income each year.
- Negative public perception on KEMSA as a brand

**KEMSA Reforms**

The Board recognizes that the Authority has had challenges and currently the Authority is undergoing reforms on various areas of its operations. The role played by KEMSA in the lives of Kenyans cannot be over-emphasized. Among the basic essentials for human beings, good health is second to none. Healthcare is therefore pivotal, not only to our development, but to our very existence. Therefore, it is the Board responsibility to provide the required leadership in designing suitable plans and strategies that will contribute to high and sustainable socioeconomic development.

The board is committed to work closely with management, staff and all stakeholders to ensure that all issues are dealt with and KEMSA's objectives are met. The Priority areas of reforms are;

- Financial, Governance & Risk Management
- Procurement & Regulatory
- Warehousing & Logistics Management
- Donations & Tax Exemption Management
- IT and Support Systems

**KEMSA'S Future Outlook;**

The focus of the Board remains singular; to steer the Authority to sustainable stability and resilience. We have adopted a multi-pronged strategy that includes;

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1. Ensure availability of affordable and quality Essential Health Products and Technologies (HPT) at all Public Health Facilities in support of UHC and COVID-19 response;
2. Ensure that we meet an order fill rate of 90% and above for all orders placed in support of UHC and COVID-19 response.
3. Ensure that we provide required Essential HPTs at the required time.
4. Ensure accessibility and reliability of HPT information and data for National and County Planning and decision making in support of UHC and COVID-19 response.

On behalf of the Board, I wish to thank our strategic partners, the National and County Governments, for their continued support of our expansion effort. In addition, the Board recognizes the Authority's management and staff for their professionalism, commitment and drive in executing the Authority's mandate of delivering timely, quality, and efficacious Health Products and Technologies to the last mile of the Republic of Kenya.



**MARY CHAO MWADIME**  
**CHAIRPERSON - BOARD OF DIRECTORS**

## 5. REPORT OF THE CHIEF EXECUTIVE OFFICER

KEMSA Act has mandated the Authority to establish mechanisms that ensure efficiency, effectiveness and sustainability in carrying out its mandate. To achieve this, the Authority has rolled out its Strategic Plan 2019 - 2024 which is in its first year of implementation. The Plan takes into consideration Kenya's Vision 2030; Medium Term Plan III which envisions to provide "equitable and affordable health care at the highest standards. The plan also takes into consideration the Sustainable Development Goals No. 3 which seeks to ensure healthy lives and promote wellbeing for all at all ages thereby thrusting the prominence of citizen's health to the forefront of responsibilities for all governments.

The management strives to offer excellent corporate performance that ensure delivery of better services to Kenyans that eases the health burden. KEMSA achieves this through timely delivery of high quality and affordable Health Products and Technologies to public health institutions.

### **The Key activities for the Authority are;**

#### **Procure**

The Authority sources for medical supplies centrally in order to ensure quality and enjoy economies of scale that emanate from bulk procurement. The procurement procedures are guided by the Public Procurement Regulations.

#### **Warehouse**

KEMSA's main supply chain center is in Nairobi. In addition, the authority has 2 regional distribution centers (Mombasa and Kisumu) and 6 regional warehouses (Kakamega, Eldoret, Nakuru, Nyeri, Meru and Garissa) across the country to enhance flexibility and quick response to customers' demand.

#### **Distribute Medical Commodities and Medical Supplies**

The Authority delivers medical supplies to the door step of each health facility in Kenya consistently and efficiently. In partnership with experienced third-party carriers, KEMSA has set up a robust distribution network with the capacity to access the last mile of all Public Hospitals, Health Centers and Dispensaries countrywide.

KEMSA also distributes program commodities which at times are integrated with Essential Medicines and Medical Supplies (EMMS). This includes reproductive health commodities, nutritional food supplements, TB/Leprosy and ARV's. This is aimed at reducing distribution costs and managing medical commodities within one supply chain resulting in greater reach and efficiencies.

### **Role of KEMSA in Universal Health Coverage**

KEMSA is the Government health commodities supplier for Universal Health Coverage mandate with the following roles of implementing the UHC program.

- Influence price reduction of Health Products and Technologies through reduced mark ups
- Consistent supply of quality essential medicines and medical supplies
- Support local manufacturing of essential medicines and medical supplies
- Support the counties to ensure accurate forecasting and quantification
- Meeting counties needs through fulfilling requirements of Essential Drug List
- Monitor stock availability; to meet the growing needs of the counties
- Advocate order placement and prescription based on generic names
- Advocate for the enactment of regulations to operationalize PPADA to facilitate multiple awards for critical tracer commodities
- Strengthen engagement with the counties to streamline ordering to avoid erratic ordering.

To ensure that this mandate is implemented, KEMSA has collaborated with MoH to develop Specifications for Essential Diagnostic Supplies (SEDS) April 2020 and Specifications for Essential Medical Supplies (SEMS) were compiled and posted on the KEMSA website. The Authority ensures that Continuous monitoring of stock availability since it keep the promise as one stop shop for all medical commodities thus ensuring that there is a Continuous Supply of accessible and affordable Health Product Technologies.

The Authority endeavors to ensure a Last mile distribution and has put in place mechanisms to ensure optimum stock availability. This has been made possible by enhancing procurement from local manufacturers, entering into arrangement with other public and FBOs procuring entities as stop gap measure to bridge the gap, exploring contract manufacturing both locally and internationally to improve availability and affordability whilst observing the procurement law, entering into framework contracts with suppliers.

### **Non-Financial Performance**

In FY 2020-21, The Average KEMSA Sales Order Fill Rate was 49% and 90% for Program orders against a target of 90 and 98% respectively.

The stock availability for KEMSA sales HPTs was low during the year, occasioned by challenges in importation of HPTs and APIs due to boarder closure during the height of the COVID-19 pandemic.

During the year, UHC (input financing model) roll out was executed to completion

The Order turnaround time (OTT)- This is the time taken for KEMSA to fulfil Hospital orders from date of order receipt at KEMSA to date of order delivery at facility (as per the Proof of delivery). The average annual OTT for all Hospitals orders stood at 12.6. days against the target of 7 days. The average OTT for Primary Health Facilities orders was 18.1 days against the target of 10 days.

### Financial Performance

KEMSA's total income for the year 2020-2021 was **Ksh 3.684 Billion** against a target of **Ksh 3.558 Billion** representing **4%** performance above the target.

Total expenditure amounted to **Ksh 3.282 Billion** which was a **99.8%** absorption of the approved expenditure budget of **Kshs 3.285 Billion**.

The authority realized a surplus of **Ksh 401.70 Million** whereas Capital Expenditure was **Ksh. 964 Million**. The main capital expenditure cost relates project cost of the ongoing construction of the National Commodity Storage Centre which is a Vision 2030 Flagship project.

The Authority received **Ksh 125 Million** as recurrent grant and none for development grant from the Ministry of Health, however the authority expects continuous support from the GOK.

KEMSA has put in place well-defined policies aligned to relevant regulations and best practice, and ensure alignment across the organisations. We are in the process of renewing some of these policies and structures to allow for enhanced synergies across the organisation and ensure accountability at all levels that will lead to effective control of operations within the organisation. The Authority has developed and implemented the Business Continuity Plan whose objective is to support the continuity of KEMSA's critical business operations in the event of a disaster. The policy is aimed at ensuring minimal inconveniences and potential disruption to stakeholder's while ensuring proper crisis management and communication.

Financial year 2020-2021 marked the final year (Year 5) of the KEMSA MCP contract with USAID. The contract ended in May 2021. In the last four years, KEMSA MCP has operated a reliable supply chain for HIV/AIDS, malaria and family planning National programs by providing sufficient commodities to meet the country needs. Since inception the program has procured commodities worth USD 454 million keeping the country on track in the achievement of the 90.90.90 UNTAID targets.

By end June 2020, the program was supporting 1.2 million. Since inception in October 2015, the program has been a main revenue stream for the Authority by earning KEMSA Ksh 34.5 Billion in reimbursement of Indirect costs, base and award fees.

KEMSA is currently in consultation with USAID for a possible extension/modification of the contract. USAID has been the main source of funds in the fight against the HIV/ AIDS pandemic and Malaria without which, the gains would be lost.

The Authority has experienced challenges in debt collection specifically from the counties and other various development partners posing liquidity risks to its operation. I appreciate our continued partnership with the Ministry of Health and county Governments and acknowledge receipts of long outstanding debt within the financial year.

### Strategic Partnerships

KEMSA recognizes the key contribution that its strategic partnerships make to the success of implementation of its mandate and has entered into various MOUs with various strategic partners. KEMSA has signed 29 MOUs with 29 County governments. These legal agreements are in relation to the manner in which the authority provides Health Products and Technologies to their respective facilities, and how the counties pay for the delivered Health Products and Technologies. KEMSA also signed 2 MOUs with single/private facilities; one with Maisha Poa CBO and the second with Consolata Hospital in Kyeni.

Other strategic partners during the financial year included;

- United States Agency for International Development (USAID)-MCP
- World Bank
- The Global Fund
- United Nations International Children's Emergency Fund (UNICEF)
- AMREF Health Africa
- CDIC Kenya
- Clinton Health Access Initiative (CHAI)
- Korea Foundation for International Healthcare (KOFIH)
- Elizabeth Glaser Paediatric AIDS Foundation (EGPAF)
- Other International Donors
  - UNFPA
  - ASCEND (Accelerating the Sustainable Control and Elimination of Neglected Tropical Diseases)

- Bill & Melinda Gates Foundation (BMGF)
- The KAIZEN Institute
- Association of Supply Chain Management (ASCM)

### **KEMSA Reforms**

The Authority is working closely with Ministry of Health by reengineering its standard operating procedures, policies and other management systems across the organization to ensure that the processes are efficient and effective. Through a tripartite collaboration with the Ministry of Health, our donor partners and the Authority, the Authority is now implementing priority reforms that guarantee for end to end accountability. Reform priority areas are on the following thematic areas;

#### **1. IT and Systems Management.**

ICT infrastructure is a key strategic priority and the Authority intends to put in place systems that are will increase visibility across the supply chain and to strengthen IT controls. The KEMSA LMIS and Warehouse Management Module will be fully integrated with the DHIS2 system and the authority is engaging NASCOP to review the HCMP platform for HIV test kits and explore possibilities of integration with DHIS2 to avoid double entries. Some of the key process issues identified that required system solutions are resolved:

- Enhanced Order Management System: This is an ordering platform that will give counties a better ordering experience as well as support KEMSA in more streamlined order fulfillment.
- Proof of Delivery (POD) Mobile Application: This will support digitized and automated proof of delivery in the distribution process.
- Procurement System: A system to automate procurement end-to-end

#### **2. Financial, Governance & Risk Management**

KEMSA finances are managed in accordance with the Public Finance Management Act, 2012, as applicable, and KEMSA's Finance and Accounting Manual (approved in March 2018). The Authority in the recent year under review has been faced with liquidity risk posed by longer collection days when compared to expectation of payable days. The Authority is working on updating and enforcing a credit policy and also making necessary efforts on timely collection of debts owed by counties and other development partners. The Authority is also reviewing its cost allocation policy whose objective is to ensure the Authority's self-sustenance and capability by assessing the adequacy of the fees charged by KEMSA on programs.

### 3. Procurement

KEMSA procurement is undertaken in accordance with the Public Procurement and Asset Disposal Act 2015 and attendant regulations 2020 whose aim is to ensure fairness, transparency and accountability. The Authority is leveraging on information technology-based processes that focus on minimal human intervention, we are on course to raising our integrity levels. We are also working closely with various oversight bodies to ensure that we provide constant checks on our operating procedures and strengthen our governance and ethical standards. Learning from the Covid-19 pandemic which necessitated emergency procurement outside of the standard operating procedures, we have reviewed elements including emergency procurement guidelines. These guidelines also focus on the procedures for contracts management and supplier performance measurement and management.

### 4. Warehouse and Logistics Management

The Authority is working to optimise and ensure that we have full leverage of our unique selling proposition. By far, we are the best resourced and placed Health Products and Technologies (HPTs) supply chain solutions provider in sub-Saharan Africa. We provide reliable, affordable and quality health products and supply chain solutions geared towards improving healthcare in Kenya and beyond. Going forward, we are optimising our capabilities by adopting technological solutions and focusing on service provision decentralisation to complement our procurement capabilities. Technically, this means that we shall be integrating the full value chain to derive cost and lead-time synergies. This also means working closely with local manufacturers to ensure that we undertake just in time procurement and maintain optimum inventories based on accurate demand projections. We have a distribution network that does delivery on a last mile basis to over 8,000 facilities across all the 47 counties.

The Authority is working on redesigned plan that will Integrate old and new warehouse and upgrade the old warehouse to meet Good Warehousing Practicing Standards, automate picking and dispatch, racking in Mombasa and Kisumu and fleet tracking. In addition KEMSA will explore a simple two-tiered distribution system with Programs, where regular distributions for all counties are scheduled, with a provision for emergency orders and currently there is integration of Malaria HPTs with EMMS purchased by county facilities. Some TB and HIV orders are dispatched together. Synchronize the reporting/ordering of the two programs to facilitate distribution of both ARVs and TB medicines.

## 5. Donations Management

The Authority together with the Ministry of Health, the Department of Health Products Technologies is working on development of a donations portal intended to ease compliance and operationalization of requirements of donations. A portal housed by MoH and appropriately linked to the systems of other stakeholders will be developed and the stakeholders sensitized on the same. The portal will be complete with the relevant forms and templates on HPT donations from request, approval, delivery through to feedback.

The online donations portal will allow donors to register and upload both specific commodity data and quality data for the product(s) proposed for donation. Through the donation's portal, products will be technically approved and managed through the entire process. All various stakeholders will have required access to the donation's portal. The donations portal will become the primary interface between donors and the various internal stakeholders which will include Ministry of Health (MoH), Kenya Medical Supplies Authority (KEMSA), Kenya Bureau of Standards (KEBS), Pharmacy and Poisons Board (PPB), Pesticides Control Board (PCB), and any other stakeholder required to approve or view donations.

As we undertake the reforms that will increase internal efficiencies, we are also listening externally to customers to continue building a more sustainable relationship. Medical needs cannot be postponed and it is important that we keep the supplies to health facilities flowing continuously. As part of the Board and Management team's focus to foster consultative engagements, we are reaching out to the Council of Governors to establish a liaison partnership that allows us to effectively engage through established frameworks. We sincerely want to listen to our stakeholders and ensure that we are flexible and dynamic enough to meet their unique needs as a one -size -fits- all approach is not sustainable.

To this end I would like to appreciate our parent Ministry and the National Treasury for the continued financial and technical support. I also wish to greatly thank the Board under the leadership of the Chair for their instrumental support in providing an enabling environment and resources that facilitates the Authority in achieving its mandate and key strategic objectives. In conclusion, I would like to thank our staff for their dedication in delivering this exemplary performance



**TERRY KIUNGE RAMADHANI**  
**CHIEF EXECUTIVE OFFICER**

## 6. STATEMENT OF KENYA MEDICAL SUPPLIES AUTHORITY'S PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

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. Strategic Objective 1:** To ensure a robust financial framework for concrete financial base.

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

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

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

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

**Pillar 6: Innovation and Technology. Strategic Objective 6:** 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 on a quarterly basis. KEMSA achieved its performance targets set for the FY 2019/2020 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 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 cost management mechanism.	a) 8 Billion b) 100% c) 0.15

			V. Ensure Business sustainability.	
Pillar 2: Customer Focus	To increase Market Share from 70% to 90%.	<ul style="list-style-type: none"> <li>a) % of debt recovered</li> <li>b) Value of sales</li> <li>c) Customer Satisfaction rate.</li> </ul>	<ul style="list-style-type: none"> <li>I. Increase demand for KEMSA Health Products &amp; Technologies.</li> <li>II. Enhance commercial performance.</li> <li>III. Improve marketing communication.</li> <li>IV. Improve customer relationship management.</li> <li>V. Strengthen the capacity of SSD.</li> </ul>	<ul style="list-style-type: none"> <li>a) 38% of debt recovered.</li> <li>b) Kes.8.223Billion</li> <li>c) Customer satisfaction survey will be carried out the FY 2021/22.</li> </ul>
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"> <li>a) % Order fill rate</li> <li>b) Order Turn Around Time.( for HosP and RHF's)</li> </ul>	<ul style="list-style-type: none"> <li>i. Bi-annual Review of Health Products and Technologies demand - strengthen selection, forecasting and quantification.</li> <li>ii. Develop and update appropriate products and specifications in collaboration with MOH guidelines and customers.</li> <li>iii. Advocate for enactment of new regulations for the PPAD Act 2015 to ensure the regulations meet KEMSA's needs</li> <li>iv. Strengthen quality assurance processes and systems throughout the supply chain</li> <li>v. Improve operational performance management</li> <li>vi. Improve Order Fill rate</li> </ul>	<ul style="list-style-type: none"> <li>a) Average OFR KEMSA EMMS- 51.5%</li> <li>Average OFR for programmes- 98%</li> <li>b) average order turnaround time- Hosp-12.6days</li> <li>Average Turnaround time PHF's-18.1 days</li> </ul>

			<ul style="list-style-type: none"> <li>vii. Improve order turnaround time</li> <li>viii. Improve Staff welfare by provision of amenities and recreational activities</li> <li>ix. Establish employee assistance programmes</li> </ul>	
Pillar 4: Strategic Partnerships	To develop and strengthen strategic alliances and partnerships for improved health supply chain systems.	<ul style="list-style-type: none"> <li>a) Number of new partners on board</li> <li>b) Number of existing key stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>i) Develop and sustain transformational relationships with development partners</li> <li>ii) Leverage on the strength of local manufacturers and industry players.</li> <li>iii) Build and sustain partnerships with key stakeholders</li> <li>iv) Strengthen collaboration with Ministry of Health and the National Treasury</li> </ul>	<ul style="list-style-type: none"> <li>a) 2 partners</li> <li>b) 8 Partners(stakeholders)</li> </ul>
Pillar 5: Leadership and Governance	To develop a dynamic, transparent and accountable governance structure	<ul style="list-style-type: none"> <li>a) % increase in employee engagement index</li> <li>b) % Audit Recommendations accepted and Implemented</li> </ul>	<ul style="list-style-type: none"> <li>i) Provide effective leadership and oversight</li> <li>ii) Strengthen management systems for enhanced efficiency</li> <li>iii) Improve public opinion, attitude and behavior of key stakeholders</li> <li>iv) To Strengthen Enterprise Risk Management and Strengthen BCM</li> <li>v) Strengthen corporate security risk and disaster management programmes</li> <li>vi) Review Human Capital Management Systems</li> </ul>	<ul style="list-style-type: none"> <li>a) To be carried out in the fy 2021/22</li> <li>b) 77%</li> </ul>

			<ul style="list-style-type: none"> <li>vii) Strengthen Authority's Culture</li> <li>viii) Provide assurance on internal controls, governance and risk management systems</li> <li>ix) Review the KEMSA Act.</li> </ul>	
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.	<ul style="list-style-type: none"> <li>a) No. of functional modules in the ERP implemented</li> <li>b) % Procurements done through e-Procurement</li> </ul>	<ul style="list-style-type: none"> <li>i) Offer automated online enterprise facing and customer facing services</li> <li>ii) Enhance availability of business systems and ensure continuity of business operations.</li> <li>iii) Improve the efficiency and availability of ICT service delivery.</li> <li>iv) Proactively identifying and mitigating ICT risks, threats and vulnerabilities.</li> <li>v) Enhance compliance with best practice frameworks, standards, procedures and governance policies.</li> </ul>	<ul style="list-style-type: none"> <li>- activity budgeted under fy 21/22.</li> <li>- 80%</li> </ul>

The Authority has cascaded the strategy and its activities downwards through the various departments. It has developed a Performance Management Plan which details all KPIs (Strategic, Tactical and Operational indicators) and responsible parties. This too has been cascaded and captured in the individual Performance contracts with the authority.

## 7. CORPORATE GOVERNANCE STATEMENT

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

KEMSA Board recognises that principles of good corporate governance, together with open, honest and comprehensive business practices, are essential to protect the interests of all stakeholders. These principles are integrated in the organisational culture to ensure that they become a way of life within the Authority and further underpinned by the core values of customer focus, integrity, innovation, professionalism, diversity and inclusivity. Governance principles are incorporated into all the KEMSA structures, which are continuously reassessed and reviewed to ensure that compliance and best practices are applied and practised.

At Kenya Medical Supplies Authority, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the Authority's activities. The Board has adopted the

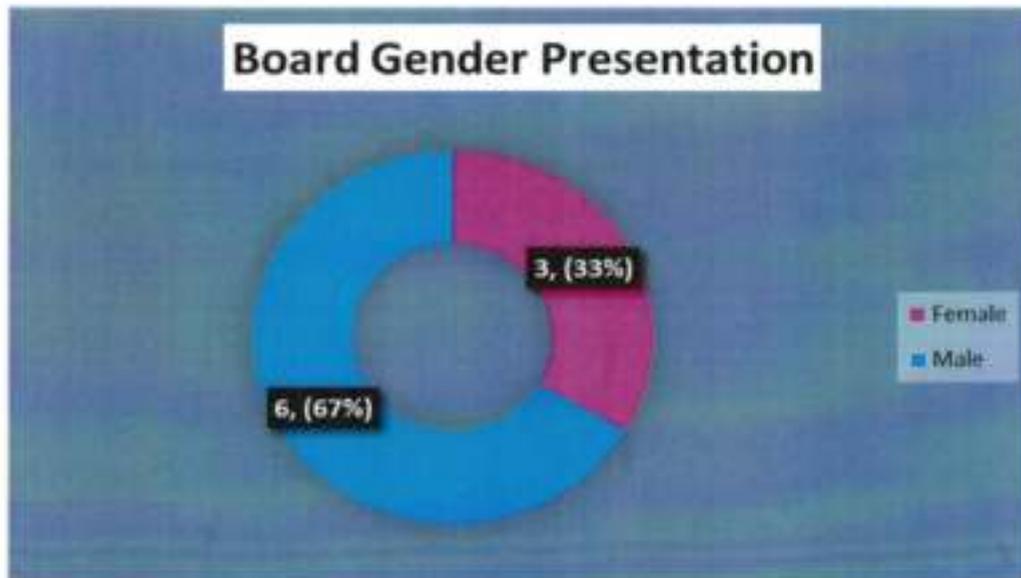
Code of Best Practice for Corporate Governance issued by the Centre for Corporate Governance (Kenya) is used as the benchmark in developing the Authority's corporate governance principles. In addition, KEMSA is in compliance with Code of Governance for State Corporations (Mwongozo) which offers guidance to all state corporations on issues of governance.

The Board is responsible for the governance of the Authority and conducts the business and operations of the Authority with integrity and in accordance with generally accepted corporate practices, based on transparency, accountability and responsibility.

### Board of Directors

The composition of the Board is set out on page 8-10. The Authority's Board of Directors comprises of the Chairperson who is appointed by the President, the Chief Executive Officer who is appointed by the Board of Directors in concurrence with the Cabinet Secretary of Health, the Principal Secretary of the Ministry of Health or her 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 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. All non-executive directors are independent of management of the Authority.

The board consist of 9 members as presented below;



The directors' responsibilities are set out in the Statement of Directors Responsibilities. The directors are responsible for the development of internal financial controls, which give assurance against material mis-statements.

#### **The Board Chair**

The Chairperson provides the overall leadership to the Board without limiting the principle of collective responsibility for Board decisions. She 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.

#### **Role and Function of the Board**

The key function of the Board is to guide and control the performance and management of the affairs of the Authority. 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. In this regard the main roles are;

a) **Strategic management**

i) Approval of strategic plan, with annual updates, an annual operational plan and budget and related corporate performance measures;

ii) Reviewing the progress and performance of the Authority in meeting these plans and corporate objectives;

- iii) In conjunction with management, taking account of changes in the business

environment, their potential impact on the Authority's strategies and operating environment and responding to these changes where necessary;

- iv) Approving key Authority policies and working with management in

establishing policies for strengthening the performance of the Authority including ensuring that Management is proactively seeking to build the business through areas such as innovation initiative, technology, new products, performance improvement and the development of its business capital;

**b) Corporate governance**

- i) Ensuring corporate accountability to the people of Kenya; the government of

Kenya and all the stakeholders of the Authority primarily through adopting an effective stakeholder relations strategy, encouraging effective participation at events relevant to the Authority mission and, through the Chairperson providing a link between the Authority and its stakeholders;

- ii) Ensuring that the Authority adheres to high standards of ethical and

corporate behavior

- iii) Ensuring that the Authority has appropriate risk management, internal

control and regulatory compliance policies and procedures in place;

- iv) Ensuring the Authority establishes a corporate social responsibility policy

and acts in accordance with the policy

**c) Key personnel management**

- i) Monitoring senior management's performance and strategy implementation;

- ii) In line with Government guidelines appointment of the CEO, remunerating the CEO, formal reviews of the CEO's performance, overseeing the development of the CEO and ensuring a succession plan is in place for the CEO position;

- iii) Delegating appropriate powers to the CEO, Management and Board Committees to ensure the effective day-to-day management of the business and monitoring the exercise of these responsibilities;

- iv) Approving the corporate remuneration framework and the remuneration levels of senior executives and all other levels

- v) Ensuring appropriate human resource systems are in place to ensure the well-being and effective contribution of all employees.

**d) Financial management**

- i) Approving the annual statutory financial statements ensuring they are true and fair and otherwise conform with law;
- ii) Ensuring the Authority's financial position is protected and is able to meet its debts and other obligations when they fall due;
- iii) Approving major capital expenditures, major contracts, acquisitions and divestments;
- iv) Approval of acquiring or selling patent rights, rights in registered trademarks, licenses or other intellectual property rights of the Authority.

**Board Membership and Attendance**

The Board meets quarterly and has a formal schedule of matters reserved to it. Board papers are circulated well in advance of the Board meetings by the secretary to the board.

**Table 1: Board Membership and Attendance for the Current Directors for the FY 2020-2021**

Board Member	Classification	Designation	Finance, Strategy & Development Committee	Human Resources Committee	Audit and Risk Committee	Supply Chain Committee	Full Board Meetings
<b>TOTAL NUMBER OF MEETINGS (JULY,2020-JUNE,2021)</b>			<b>10</b>	<b>7</b>	<b>5</b>	<b>5</b>	<b>16</b>
1.Sen.Kembi-Gitura	Appointed by the President	Chairman (till 28 <sup>th</sup> April,2021 )	n/a	n/a	n/a	n/a	13
2.Ms.Mary Mwadime	Appointed by the President	Chair (from 30 <sup>th</sup> April,2021	n/a	n/a	n/a	n/a	2

## Annual Reports and Financial Statements

For the year ended June 30, 2021

3. Mr. Benard Ndung'u	<i>Representing PS, The National Treasury</i>	Member (elected in	1	n/a	2	n/a	5
4. Dr. Josphat Mbuva	<i>Representing MOH</i>	Member	6	1	n/a	5	16
5. Mr. George Ombua	<i>Representative of SCAC</i>	Member	-	3	4	-	5
6. Ms. Mary Atieno Awino	<i>Representing PS, The National Treasury</i>	Member	9	n/a	3	1	10
7. Mr. Joel Gesuka	<i>Independent</i>	Member (till 28 <sup>th</sup> April, 2021)	n/a	6	5	n/a	14
8. Dr. Bibiana Njue	<i>Independent</i>	Member (till 28 <sup>th</sup> April, 2021)	1	6	n/a	5	13
9. Prof. Timothy Waema	<i>Independent</i>	Member (till 28 <sup>th</sup> April, 2021)	8	n/a	n/a	4	12
10. Dr. Dorothy Aywak	<i>Independent</i>	Member (till 28 <sup>th</sup> April, 2021)	n/a	5	5	n/a	10
11. Ms. Theodora Gichana	<i>Representative of SCAC</i>	Member	1	-	1	-	-

### Process of appointment and Removal of Directors

Board structure, composition and method of appointing and removing directors are detailed section 5 of the KEMSA Act 2013 and as amended thereafter.

### Board Member Performance

The Board conducts an annual evaluation to appraise its performance. This evaluation is carried out in accordance with the Board Evaluation Tool. 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 20/21.

### **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 programme will also provide the Board member with an orientation of the authority's strategic plans, financial status and policies, risk management, compliance programmes and the Code of Conduct and Ethics. Under the year of review there two new board members that were taken through the induction programme.

### **Board Remuneration**

Board members shall be remunerated for their services in accordance with the prevailing relevant legislative provisions and/ or guidance from the relevant authority. In line with best practice, Directors 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.

### **Conflict of Interest**

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

### **Board Charter**

The authority has a Board Charter in place which provides guidelines to the roles of the board and responsibilities as well as functions and structures in a way that supports the members in carrying out their strategic oversight function. The Charter does not replace or supersede any statutory laws and regulations that govern the Authority.

## 8. MANAGEMENT DISCUSSION AND ANALYSIS

The Financial year 2020/2021 has seen KEMSA make remarkable strides with regard to ensuring the continued execution of our mandate as outlined in the KEMSA Act of 2013, with stability seen across all key business metrics. KEMSA Strategic Plan 2019-2024 will also give impetus to the ongoing infrastructure expansion such a new modern warehouse and office block as well as redesigned distribution centres in Mombasa and Kisumu.

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 31<sup>st</sup> of January 2020.
- iv. Submission of Annual Procurement Plan by 15<sup>th</sup> August 2020.
- v. Compliance with other circulars from National treasury issued in FY 2020/2021

### Financial Highlights

KEMSA's total revenue for the financial year 2020-21 was **KES 3.684 Billion** which is composed of grants from the Ministry of Health of **Ksh 125 Million**, Net sales of **Ksh 1.317 Billion**, supply chain fees of **Ksh 1.543 Billion**, Interest income of **Ksh 616 Million** and other incomes of **Ksh 75.5 Million**.

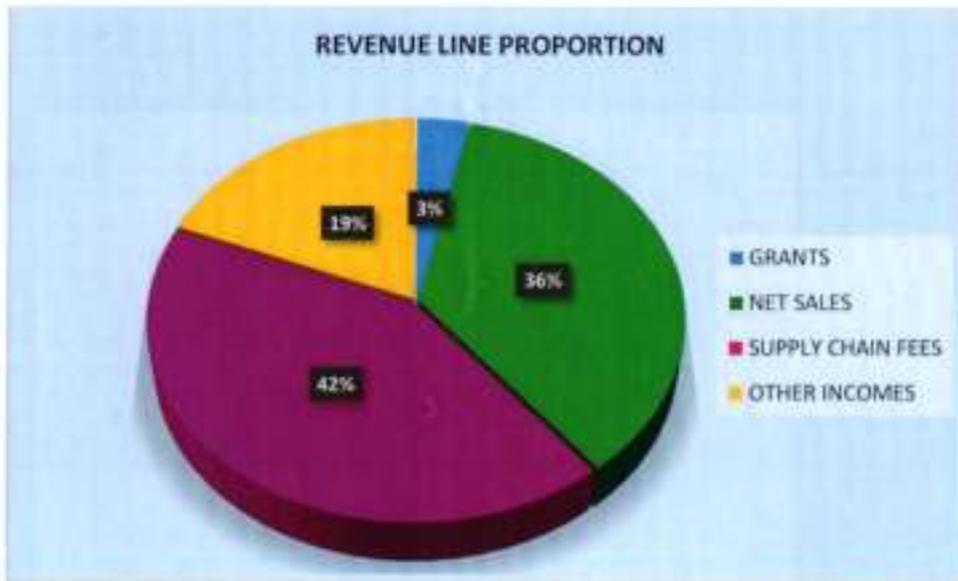


### Sales of Service

KEMSA earned KSh. 1.543 Billion from sale of procurement, warehousing and distribution services from key strategic partners. 60% of these earnings came from Global fund, 26% from USAID. The distribution of sales services for the year is as shown below;



The highest sources of revenue in the year 2020-2021 came from supply chain fees at **Ksh 1.543 Billion** at **42%** followed by Net sales at **Ksh. 1.265 Billion** at **36%**, with other income and government grant being **19%** and **3%** respectively.



### Expenditure Absorption Rate

During the financial year ended 30th June, 2021, the Authority's recurrent expenditure amounted to **Kshs 3.277 Billion** against a target of **Kshs 3.285 Billion**. Translating into **99.8%** absorption of the total funds allocated while Capital Expenditure amounted to **KSh 964 Million** against a target of **KSh 1.120** translating into **86%** absorption.



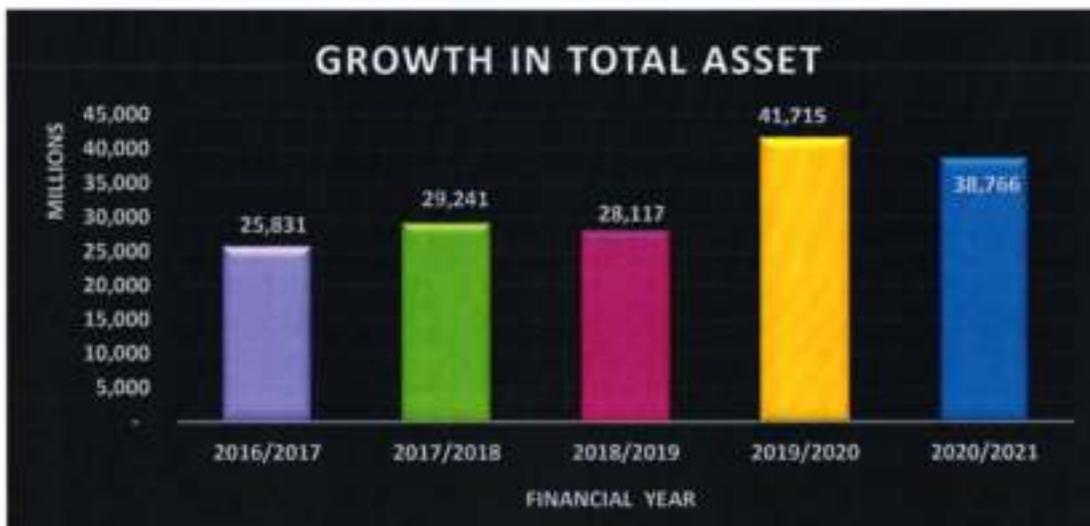
**Sales revenue analysis:**

KEMSA's Sales revenue amounted to **Kshs 8.2 Billion**, with a cost of sales of **Kshs 6.91 Billion**. The gross profit was **Ksh 1.32 Billion**. The realized sales revenue were slightly above target. There was however a depletion of the counties drawing rights on UHC funds and a decrease in disbursement of exchequer release to the counties resulting to low sales orders.



The UHC sales for FY 2020-2021 was **Ksh. 4.155 Billion** representing 51 % of the total turnover, while EMMS sales were **Ksh. 4.068 Billion** Representing 49% of the total sales. FY 2020-21 turnover reduced by 22% when compared to FY 2019-2020 turnover.

The Authority's Current assets reduced by **Ksh. 3.785 Billion** mainly attributed to decrease in Cash and Cash equivalents on UHC funds and tied up capital on inventory.



**Information and Communication Technology**

The authority has embraced technology for operational efficiency and effectiveness in the achievement of its mandate. During the year under review, the Authority fully operationalized, the Logistics Management Information systems (LMIS) for both Universal Health Coverage (UHC) and Essential Medicine and Medical Supplies (EMMS). LMIS is a computer system used by the counties for ordering medical commodities. The LMIS is an e-platform that enables county health facilities to access stock status at the KEMSA warehouse, place orders online and access reports online. Approvals are done within the LMIS system. The LMIS systems removed paper in the ordering processing and enhanced the order turn-around time and management of Universal Healthcare commodities.

During the year the Authority implemented a Wide area network in Kisumu connecting Kisumu with Embakasi warehouse. This has enabled visibility of stock between the two warehouses and efficient processing of orders.

During the year under review the Authority implemented an E-Board Management Systems to automate the operations of the Board and enhance its efficiency. The system will enable the Board to manage meetings effectively, with the advantage of reducing paperwork and enhancing remote attendance capabilities thus reducing traveling and printing.

Business Process Engineering is central to process improvement in the Authority. The authority has embarked on process improvement initiatives with the aim of enhancing business efficiency. The enhancements are ongoing.

**KEMSA's Risk Management Strategy**

The Board and Management of KEMSA have identified that the achievement of its Vision, Mission and Objectives (strategic and operational) requires a coordinated and structured way of identifying and managing events impacting on the Authority. One of the key strategic management tools is risk management. KEMSA Board and Management has identified the following as the top KEMSA Corporate Risks.

The risks highlighted below should not be considered a complete narration of all risks and uncertainties that KEMSA may face: -

No.	Risk	Source	Mitigation
1.	Loss of key partners	<ul style="list-style-type: none"> <li>• Political environment</li> <li>• Inadequate Stakeholders management and engagement</li> <li>• Negative publicity</li> <li>• Poor performance</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance good corporate governance</li> <li>• Enhance stakeholders' management</li> <li>• Enhance Corporate communication</li> <li>• Implement strategies for improving performance</li> </ul>

2.	Cyber risks, data management and system risks and ICT inadequacies	<ul style="list-style-type: none"> <li>• Inadequate ICT security and system surveillance</li> <li>• Failure to adhere to ICT and Information security policy</li> </ul>	<ul style="list-style-type: none"> <li>• Implement Cyber security surveillance tools</li> <li>• Implement ICT Information security policy</li> <li>• Implement new technologies</li> </ul>
3.	Liquidity and cash flow challenges to meet mandate and objectives	<ul style="list-style-type: none"> <li>• Inadequate financial planning</li> <li>• Weak budgetary control processes</li> <li>• Inadequate or inefficient Financial Controls</li> <li>• Non-Compliance with PFM act and other regulations</li> <li>• Weak Governance structures</li> <li>• Delay in customer debt payment</li> </ul>	<ul style="list-style-type: none"> <li>• Develop and implement financial planning policies</li> <li>• Implement budget and control policies</li> <li>• Enhance good corporate governance</li> <li>• Review credit control measures</li> <li>• Comply with PFM act and other regulations</li> </ul>
4.	Non-competitive HPTs prices	<ul style="list-style-type: none"> <li>• Default method of procurement (open tender)</li> <li>• Procuring from agents</li> <li>• Price fixing</li> </ul>	<ul style="list-style-type: none"> <li>• Market survey</li> <li>• Use competitive methods of procurement</li> </ul>
5.	Disruptions of KEMSA's operations	<ul style="list-style-type: none"> <li>• Unforeseen events</li> </ul>	<ul style="list-style-type: none"> <li>• Implement Business Continuity Management</li> </ul>
6.	Negative public perception on KEMSA's brand	<ul style="list-style-type: none"> <li>• Negative Media reports and Coverage</li> <li>• Poor service delivery</li> <li>• Corruption and Ethics perception</li> <li>• Breakdown in communication among top, middle and low levels within the organization</li> <li>• Staff dissatisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Media training</li> <li>• Implement targets based performance</li> <li>• Implement corruption prevention measures</li> <li>• Improve in information flow</li> <li>• Develop and implement staff motivation programs</li> </ul>
7.	Non-compliance with legal, regulatory and other global standard requirements	<ul style="list-style-type: none"> <li>• Lack of awareness of Standards and requirements</li> <li>• Changes in legal and regulatory environment</li> <li>• Budgetary constraints</li> </ul>	<ul style="list-style-type: none"> <li>• Training and sensitization</li> <li>• Develop financial planning policies</li> </ul>

8.	Operational inefficiencies in procurement, warehousing and distribution process.	<ul style="list-style-type: none"> <li>• Negative staff attitude</li> <li>• Erratic ordering patterns from Counties</li> <li>• Bureaucracies in processes</li> <li>• Prolonged procurement cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Implement activity based budget</li> <li>• Implement change management</li> <li>• Reengineering procurement process</li> </ul>
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## 9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

Kenya Medical Supplies Authority (KEMSA) exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is an outline of the organization's policies and activities that promote sustainability.

### i) Sustainability strategy and profile

As a responsible corporate citizen, KEMSA recognizes the need to engage with its diverse public and stakeholders through Corporate Social Responsibility (CSR) to embrace corporate accountability and to encourage a positive impact on the environment and stakeholders. This has cultivated good relations in the environment we operate in.

KEMSA's core responsibility to its various stakeholders is to work closely with them to pursue the enhancement and fulfillment of corporate values through sound business practices to promote a sustainable society.

KEMSA developed a CSR Strategy aligned to the Authority's Strategic Plan 2019-2024 which has institutionalized the practice of CSR by providing guidelines on partnership opportunities for CSR programmes. This is in support of KEMSA's Strategic Objective No. 4; To develop and strengthen strategic alliances and partnerships for improved health supply chain systems.

### Corporate Social Responsibility Engagements

KEMSA appreciates the need to participate in CSR activities since it gives the Authority an opportunity to give back to the society, country and environment. CSR goes beyond acts of charity and philanthropy and it encompasses initiatives that enable the Authority to take responsibility for financial prudence,

stakeholder welfare and environmental sustainability, all of which are central to the achievement of KEMSA's mandate.

#### **Benefits of Corporate Social Responsibility For KEMSA**

- Visibility and improved reputation of the Authority
- Enhanced service delivery
- Make the world a better place
- Make KEMSA a public sector role model
- Building relationships with key stakeholders.

#### **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. In fulfilling our CSR promises, KEMSA has adopted a 'Value to the Planet Pillar' under which the following activity was undertaken;

##### ***a) World Environmental day participation***

On 5<sup>th</sup> June 2021, KEMSA in partnership with NEMA participated in the World Environment Day that was held at Garissa University Grounds. The theme for the day was "Act now, Restore Nature and Livelihood", which KEMSA echoed through a donation of Kshs. 200,000/- that went towards tree planting in Garissa County.



KEMSA has over the years partnered with the Kenya Forest Service in the "Adopt-a-Forest" project whereby the Authority planted about 3,000 indigenous tree seedlings and maintained three acres at the semi-arid area of Kibiku forest.

However, due to the Covid-19 challenges the Authority went through during the last financial year, KEMSA did not undertake any activities at the site in Kibiku Forest. We will however endeavor to embark on this activity this financial year.

### iii) Employee welfare

#### HEALTH & SAFETY POLICY STATEMENT

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 Health and Safety issues shall be addressed in 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 health and safety;
- Ensure the management properly supervises all processes and systems of work that are designed to take account of health and safety 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 health and safety through the established Health and Safety Committees;
- Encourage consultation with and active participation of employees by continuously seeking to improve the performance of health and safety systems in place;
- Ensure the provision and maintenance of adequate resources to take care of safety issues;
- Ensure that persons in workplace take responsibility for aspects of OH&S over which they have control and provide a forum for continuous identification of workplace hazards;
- Protect the health and safety of identified vulnerable employees including the disabled staff, pregnant and nursing women, 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 health guidelines and procedures on site;
- Consult with external experts and other interested parties on OH&S issues; and
- Ensure the corporate health and safety management system is fully implemented within its business.

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

The effective of OH&S management system shall be regularly reviewed in light of legislative and organizational changes.

Over the years, the Authority has continuously retained a skilled team with depths of experience and ability to execute on our 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, their immediate families and the neighbouring communities.

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

*a) Gender Analysis:*

The Authority staff establishment is aligned with the organizational requirements. As at 30<sup>th</sup> June 2021, the Authority had a total workforce of 877 comprising various cadres distributed as detailed here-below:

Category/Level	Total No. of staff per category/level	Gender	
		Gender	No.
Senior Management (SA1-SA3)	27	Male	20
		Female	7
Middle & Supervisory (SA4-SA7)	252	Male	120
		Female	132
Operational staff & Support (SA8-SA12)	598	Male	407
		Female	191
<b>TOTAL</b>	<b>877</b>		<b>877</b>

**Note.**

In addition, we also have the following officers as at the same period (30<sup>th</sup> June 2021).

1. Seconded staff from Ministry of Health (SC) - 5
2. Attached Staff from Security of Government Building (Admin Police) - 13
3. Short Term Contract Staff (STC) - 36

TOTAL. 54

**b) Capacity Building**

In order 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 and enhance their performance. Out of a total target of 240 programs, we were able to execute 68, the programs were greatly affected by the Covid-19 pandemic during the year under review. Number of programs during the year as summarized in table below;

S/No.	Category of training	No. of staff trained
1.	Cross-departmental	4
2.	Performance Contract	13
3.	Professional programs	26
4.	Other programs	46

*c) Youth Attachments & Internships*

KEMSA continues to offer several University and middle level college students work integrated learning specific to their areas of interest in all the sections and departments. Under this program, the interns are based at a specific business unit for a period of 3-6 months in order to learn on the job and get the appropriate mentorship in the specific areas. This program enhances the Government's agenda on development and growth for the youth, the Authority implemented an attachment and internship program as follows:

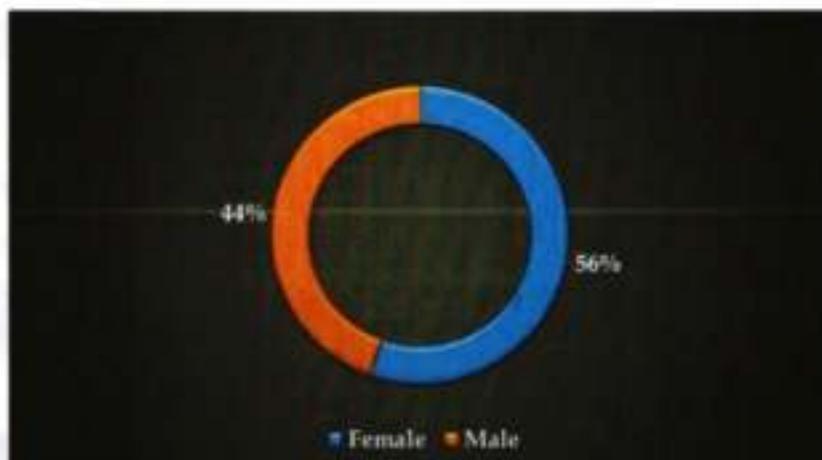
- a) Attachments - for ongoing/continuing students
- b) Internships - as a post qualification for graduates from various Universities, Colleges & tertiary institutions.

The Internship program was done in liaison with the Public Service Commission (PSC) while attachment was coordinated together with the National Industrial Training Authority (NITA). Details for the attaches and interns are as per graph below:

Youths on attachment/Internship- Gender.

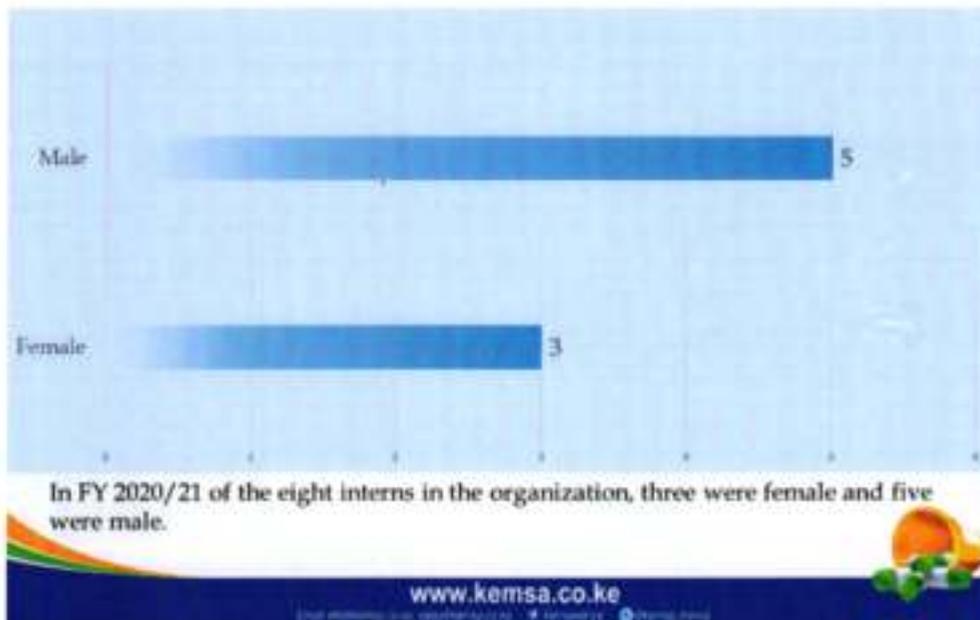
As at the end of the year, KEMSA had engaged 36 Attaches, and 8 interns in total. Attaches represented 81.8% while interns represented 18.18% of student intake in the year as illustrated in the chart below:

**KEMSA Students on Attachment by Gender**



In the year, of the 36 students on Attachment, 20 were female representing 56% while 16 were Male representing 44%

## Interns by Gender



### d) *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 the same - based on the Strategic Plan, Performance Contracting and other operational requirements.

### e) *Employee Welfare and 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 sensitization of the employees and external community on HIV/AIDS awareness. This is as detailed in the table below;

S/No.	Activities	No. per category
1.	No. of employees sensitized on HIV/ AIDS	2
2.	No. of external community members reached out by KEMSA on HIV/ AIDS awareness	NIL
3.	No. of staff who attended rehabilitation program	3

**Covid-19 measures:**

In a bid to prevent the spread of the Covid-19 pandemic, the Authority initiated the following activities:

- a) Testing of staff for Covid-19
- b) Vaccination of staff against Covid-19
- c) Provision of face masks to staff
- d) Provision of sanitizers
- e) Ensuring that there is adequate water and soap for washing hands
- f) Disinfecting of work places.

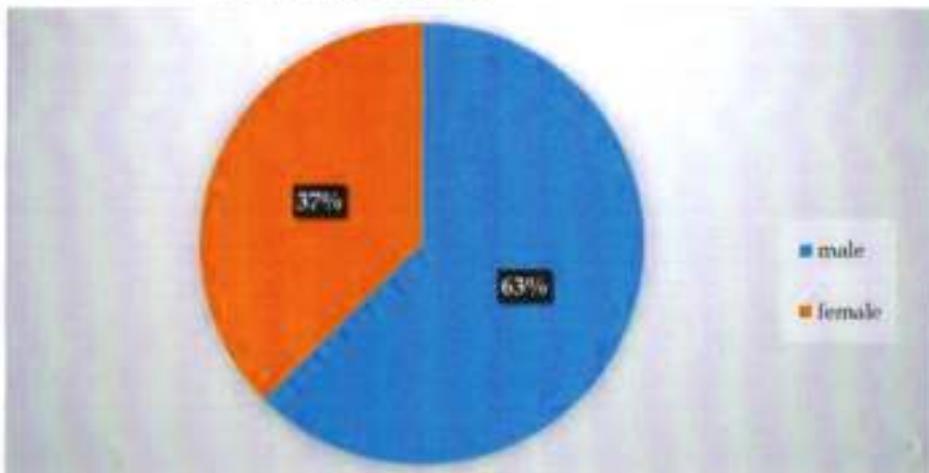
*f) Diversity and Inclusivity*

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:

- a) Gender Mainstreaming Committee.
- b) National Cohesion and Values Committee.
- c) Disability Mainstreaming Committee.

The following graph illustrates the gender composition affirming the Authority's commitment in observing a third gender rule.

**KEMSA** KEMSA TOTAL STAFF DISTRIBUTION



In FY 2020/21, Male staff represented 63% of total staff in KEMSA while female staff represented 37%.

[www.kemsa.co.ke](http://www.kemsa.co.ke)

*g) 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 fraud. The following initiatives have been put in place:

- a) Appointment of Integrity Assurance Officers
- b) Training and sensitization of employees on integrity
- c) Filling and submission of Wealth Declaration Forms for new/exiting employees and once every two years by all employees.

*h) 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:

- a) Resolution of employee grievances as received.
- b) Appointment and operationalization of a Disciplinary Committee

*iv) Market place 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 has aligned to the Treasury's Integrated Financial Management Information System (IFMIS) portal further enhancing

procurement 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 Orthopedics. KEMSA greatly values her customers by providing quality and 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.

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 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 marketing and advertisement*

As part of the marketing and advertising of KEMSA's Health Products and Technologies, we always give profound consideration to the intended recipients and those exposed to the messages and ensure that our marketing communications do not include harmful, illegal, immoral, irresponsible or misleading content. We ensure that the content communicated to consumers are appropriate and carry with them all the sensitivity required. We endeavor to maintain ethical marketing practices by focusing on provision of products that are responsive to customer needs. We build and maintain customer relationships with honesty, integrity and loyalty while abiding by the law.

*c) Product stewardship*

Product stewardship for KEMSA means that our products satisfy the highest quality standards and are safe for the consumers. *KEMSA endeavors to maintain product stewardship through rigorous screening of our supplier stakeholders while targeting on minimizing the health, safety, environmental, and social impacts of the products and promotion of our customer's rights to basic needs, safety, information, representation, consumer education and a healthy environment.* All products undergo extensive quality assurance along the entire value chain including post distribution surveillance in the interest of product safety. We strictly adhere to local and international standards, product specifications and legal requirements.

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For the year ended June 30, 2021

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We are committed to strict adherence to our systems and procedures as explicated in our Quality Management System.

The KEMSA Laboratory is now highly regarded both nationally and internationally for its technical competence to test quality of medical products before they are released to the public. KEMSA also works with National Quality Control Laboratory, Kenya Bureau of Standards (KEBS) and other regulatory bodies to ensure patients safety. More importantly, KEMSA ensures that only those products that are authorized to be in the market by Pharmacy and Poisons Board are procured.

Recently the Authority expanded its laboratory to ensure that latest equipment is in place to assure quality of commodities before distribution to various health facilities.

### **Good business practices with suppliers**

KEMSA has put in place long term framework contracts currently two years for supply of Health Products and Technologies (Health Products and Technologies). Managing of relationship with suppliers is key in ensuring that contract terms are met by both parties.

### ***Supplier Performance Measurement***

KEMSA has put in place a 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.

### ***Supplier Conferences and Regular Meetings***

KEMSA has adopted the practice of holding supplier conferences at least twice a year. During these conferences, all suppliers who have running contracts with KEMSA are invited for an open discussion, highlight supply challenges and discuss ways to improve supplier performance. Furthermore, regular meetings are held with suppliers experiencing supply challenges and a way forward is agreed upon.

### ***Continuous two-way Communication with suppliers (providing immediate feedback)***

KEMSA has a dedicated contract management unit whose main mandate is to continuously track performance of each supplier against the contractual terms. Continuous communication through letters, e-mails and even telephone conversation provide a platform where there is continuous update and feedback from the supplier on the status of their contract.

*Timely Issuance of Relevant Documents*

Timely and effective internal processing of relevant documents such as purchase orders, inspection and acceptance letters and contracts agreements have a significant impact on supplier performance. This facilitates delivery of products, timely bank financing where necessary.

**v) Corporate Social Responsibility/ Community Engagements**

Commodity Management

KEMSA is a medical supermarket that procures, warehouses and distributes Health Products and Technologies to all public facilities countywide. In order to ensure that the health commodities are in good condition, good warehousing practices should be maintained not only in KEMSA but in all health facilities. It is in this regard and in light of KEMSA Strategic objective no. IV; which stipulates our role to support county governments to establish and maintain appropriate supply chain systems for drugs and medical supplies, that KEMSA identified three best performing counties namely Kwale, Nakuru and Kilifi.

The Authority embarked on a structured CSR journey with these counties to ensure they maintained high standards in commodity management. This will ensure quality, effectiveness and safety of the drugs. KEMSA, in liaison with the three counties identified respective areas that needed support as follows;

*i) Msambweni County Referral Hospital*

The facility identified drug store shelving as their most pressing need. KEMSA distributes medical commodities to this facility but it lacked a shelved drug store. The commodities would be received at the facility and placed on the floor on pallets. The Authority committed to ensuring shelving was done at the drug store at a cost of Kshs 497,000/- to boost commodity management at the facility drug store. This is a great milestone to the facility, which has a catchment population of about 23,307 people. It brings along sanity and orderliness to inventory management and proper commodity storage. Phase 2 of the project will include temperature control measures, painting and co-branding.

**Before Photos****After Photos****ii) Mtwapa Health Centre**

The facility has a catchment population of about 63,000 people that are direct beneficiaries. Plans are underway to upgrade it from a Health Centre to a Sub County hospital. The Health Centre had a dilapidated and incomplete drug store that needed flooring (tiles), wall plastering and ceiling. KEMSA donated Kshs 499,500/- which facilitated these requirements; tiling of the floor, ceiling placement, and wall plastering.

In order to continue in maintaining good warehousing practices at the facility, the Authority will undertake the following activities under Phase II of the project;

- Racking
- Temperature control
- Painting and co-branding.

**Before photos****After Photos****iii) Nyonjoro Health Centre – Nakuru**

The facility requested for support in equipping their newly established laboratory. The facility serves a population of around 10,000 people and lack of a functional laboratory in the area affects service delivery to this populace. Equipping the laboratory will aid in diagnosing and testing diseases of the patients visiting the facility. In view of this, KEMSA donated Kshs 500,000/- that went towards the purchase of the following items;

- 1 Olympus binocular microscope
- 2 Laboratory stools
- 1 Laboratory table
- 1 laboratory metallic cabinet

## 10. REPORT OF THE DIRECTORS

The directors submit this report together with the financial statements for the year ended 30 June 2021, which show the state of affairs of Kenya Medical Supplies Authority.

### 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

KEMSA's results for the year ended 30<sup>th</sup> June 2021 are set out on pages 61-109.

### iii) Directors

The names of the directors who held office during the year to the date of this report are set out on page 8-10.

iv) Auditors

The Auditor General is responsible for the statutory audit of the Kenya Medical Supplies Authorities in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit for the year ended June 30, 2021 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board

Mr. Fred Wanyonyi

Corporation Secretary

Nairobi

*for*  
..... *Beatrice Kamuti (Legal Officer)*

## 11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Kenya Medical Supplies Authority Act of 25<sup>th</sup> January 2013 section 17 requires the Directors to prepare financial statements in respect of the Kenya Medical Supplies Authority (KEMSA), which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results for that year. The Directors are also required to ensure that KEMSA keeps proper accounting records which disclose with reasonable accuracy of its financial position. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of KEMSA's financial statements, which give a true and fair view of the state of affairs as at the end of the financial year ended 30<sup>th</sup> June, 2021. 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 the entity;
- (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 the assets of KEMSA;
- (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the KEMSA's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of KEMSA'S transactions during the financial year ended 30th June 2021, and of the financial position as at that date.



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**For the year ended June 30, 2021**

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The Directors further confirm the completeness of the accounting records maintained by KEMSA which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that KEMSA will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The entity's financial statements were approved by the Board on \_\_\_\_\_ 2021 and signed on its behalf by:

Signature.....

**Terry Kiunge Ramadhani**  
**CHIEF EXECUTIVE OFFICER**

Signature.....

**Mary Chao Mwadime**  
**BOARD CHAIRPERSON**

# REPUBLIC OF KENYA

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## REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY (KEMSA) FOR THE YEAR ENDED 30 JUNE, 2021

### 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 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 61 to 119, which comprise of the statement of

financial position as at 30 June, 2021, 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, 2021, 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. Unauthorised Expenditure**

##### **1.1 Over Expenditure on Plant and Machinery**

The statement of financial position reflects property, plant and machinery of Kshs.7,167,704,659 (2020 – Kshs.6,341,530,305) which, as disclosed in Note 33(a) to the financial statements, includes an addition to plant and machinery amounting to Kshs.37,668,129 comprising forklifts and reach tracks whose budget was Kshs.33,200,000 leading to an unapproved over expenditure of Kshs.4,468,129.

##### **1.2 Over Expenditure on Employee Costs**

Similarly, the statement of financial performance reflects employee cost balance of Kshs.1,264,329,720 while the approved budget indicates a balance Kshs.1,199,280,000 resulting to unexplained over expenditure of Kshs.65,049,720.

In the circumstances, the regularity in the expenditure amounting to Kshs.69,517,849 could not be confirmed for the year ended 30 June, 2021.

#### **2. Inaccuracy in the Financial Statements**

The statement of financial position reflects property, plant and equipment balance of Kshs.7,167,704,659 (2020 – Kshs.6,341,530,305), which, as disclosed in Note 33(a) to the financial statements, includes a provision on scrapping for unverified fixed assets balance of Kshs.236,678,111 on various PPE items and an accumulated depreciation of Kshs.72,937,592. This resulted into net prior year adjustment of Kshs.163,740,520 which is reflected in the statement of changes in net assets contrary to Paragraph 48 of the International Public Sector Accounting Standard (IPSAS) 3 which states that a prior period error shall be corrected by retrospective restatement except to the extent that it is

impracticable to determine either the period specific effects or the cumulative effect of the error.

In the circumstances, the accuracy and completeness of statement of changes in net assets for the year ended 30 June, 2021 could not be confirmed.

### **3. Irregular Procurement of Assets**

The statement of financial position reflects property, plant and equipment of Kshs.7,167,704,659 (2020 – Kshs.6,341,530,305) as disclosed in Note 33(a) to the financial statements. The Authority advertised for supply of four (4) forklift and four (4) reach trucks and five (5) firms responded using different currencies, one quoted with Euro (€), three in USA Dollar (USD) and one in Kenya shillings (KES). The wining company had quoted two (2) forklifts at EUR 74,000 and four (4) Reach Trucks at EUR 169,800 all amounting to EUR 243,800. There was no evidence of uniformity in evaluating using same currency by converting prevailing market rates for all bids quoted to one currency.

In the circumstances, the accuracy and propriety in the expenditure on the procurement of the plant and equipment could not be confirmed.

### **4. Unsupported Contracts – Warehouse Works**

The statement of financial position reflects property, plant and machinery of Kshs.7,167,704,659 which, as disclosed in Note 33(a) to the financial statements, includes an amount of Kshs.960,283,859 in respect of addition to plant and machinery. Review of the balances revealed that an amount of Kshs.4,740,000 paid to a contractor for assembling and fixing of storage racks. The Authority awarded tender to assemble and fix metal storage racks in Kisumu and Mombasa warehouses on 07 July, 2020 at a cost of Kshs.4,740,000 with a duration of one month ending 10 August, 2020. Physical verification in February, 2022 revealed that some metal bars were delivered to Kisumu warehouse but were not assembled while none were delivered to Mombasa warehouse. In addition, the designs, Bills of Quantities and Technical Supervision Reports were not provided for audit review.

In the circumstances, the accuracy and propriety in the expenditure on the procurement of the plant and equipment could not be confirmed.

### **5. Unsupported Distribution Costs**

The statement of financial performance reflects distribution costs amounting to Kshs.859,488,800 which, as disclosed in Note 9 to the financial statements, includes an amount of Kshs.729,351,595 paid to outsourced distributors for delivery of medical commodities to various counties. However, the corresponding signed delivery notes were not provided for audit review.

Further, the balance includes an amount of Kshs.33,075,000 paid to outsourced distribution costs of assorted personal protective equipment, PPE kit dispatched to Nyanza Province (PGH) – Jaramogi Oginga Odinga Teaching and Referral Hospital (JOOTRH). However, physical verification carried out at the Hospitals revealed that there

was no entry of this consignment in the respective store records while the copy of the delivery notes provided did not indicate the date of receiving the items.

In addition, and as previously reported, the Authority entered into a contract agreement with a Courier Services Company on 24 September, 2016 for provision of Courier Services to health facilities countrywide. However, from April, 2019 to September, 2019, the firm was overpaid by Kshs.19,352,250. The amount had not been recovered as at 30 June, 2021 and no explanation was provided for the anomaly.

Consequently, the propriety and accuracy of distribution costs of Kshs.762,426,595 could not be confirmed.

## **6. Long Outstanding Balances**

### **6.1. Account Receivables**

The statement of financial position reflects receivables from exchange transactions balance of Kshs.5,863,800,694 (2020 – Kshs.6,605,189,547) which, as disclosed in Note 21 to the financial statements, includes long outstanding receivables balance of Kshs.4,362,709,769 owed by various agencies which has been outstanding for more than ninety (90) days.

### **6.2. Account Payables**

Further, the statement reflects trade and other payables from exchange transactions balance of Kshs.7,015,398,881 which, as disclosed in Note 25 to the financial statements, includes operations creditors' balance of Kshs.180,784,194 out of which an amount of Kshs.36,370,448 has been long outstanding since year 2012. In addition, trade creditors – medical balance of Kshs.2,786,573,806 includes an amount of Kshs.250,044,341 which has been outstanding for over one year while the supplier funds retained balance of Kshs.21,639,338 includes an amount of Kshs.10,977,838 dating back 01 July, 2012.

Consequently, the recoverability of the account receivables and the validity of the trade payables balances as at 30 June, 2021 could not be confirmed.

## **7. Unsupported Expired Inventories**

As disclosed under Note 23 to the financial statements, the statement of financial position reflects inventory balance of Kshs.17,558,529,935. The balance constitutes expired stocks worth Kshs.328,237,158 out of which an amount of Kshs.191,870,834 was financed by KEMSA Capital Fund while the balance of Kshs.136,366,324 by third parties. The expired stocks were not disclosed in the annual reports and financial statements of the expired stocks, Management did not indicate the reasons for expiry of stock worth Kshs.114,389,834.

Further, the expired stock balance constitutes COVID-19 stock worth Kshs.124,513,400. However, the supporting schedule provided for audit lacked crucial details such as the receiving dates, their location, date of the manufacture, unit of the manufacture, batch number, pallet number, shelf life and the reasons for expiry.

In absence of any justification and disclosure of expired stocks, the accuracy and completeness of the financial statements for the year ended 30 June, 2021 could not be confirmed.

#### **8. Unsupported Trade and Other Payables**

The statement of financial position reflects trade and other payables from exchange transactions amounting to Kshs.7,015,398,881 which, as disclosed in Note 25 to the financial statements, includes trade creditors totalling to Kshs.2,588,017,506 that lacked invoices, goods received notes and respective stock cards.

Consequently, the accuracy, validity and completeness of trade and other payables from exchange transactions of Kshs.2,588,017,506 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.

#### **Key Audit Matters**

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 other key audit matters to report in the year under review.

#### **Other Matter**

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

In the audit report of the previous year and in the Special Audit Report on KEMSA, several issues were raised. However, the Management has not resolved the issues or given satisfactory explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular Ref AG.4/16/2 Vol.3(72) dated 30 June, 2021.

### **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 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 in an effective way.

## **Basis for Conclusion**

### **1. Unexplained Loss of Revenue**

As disclosed in Note 3 to the financial statements, the statement of financial performance reflects a balance of Kshs. 1,317,254,777 in respect of net sales arrived at after deducting the total cost of sale balance of Kshs.6,905,579,004 from the total sales balance of Kshs.8,222,833,780. Analytical review performed revealed that sales revenue from pharmaceutical products amounted to Kshs.2,070,014,129 (2020 – Kshs.4,066,305,161) while the corresponding cost of input on the pharmaceutical products was Kshs.1,853,919,861. However, a comparison of cost versus revenue revealed various pharmaceuticals inputs procured at Kshs.14,133,303 were sold at Kshs.12,329,965 resulting to unexplained loss of Kshs.1,803,338.

In the circumstances, it has not been established whether value for money was achieved.

### **2. Non-Compliance with the Public Procurement and Asset Disposal Act, 2015**

As disclosed in Note 3 to the financial statements, the statement of financial performance reflects cost of sales amounting to Kshs.6,905,579,004 which includes cost of sales on Non- Pharmaceuticals amounting to Kshs.1,770,542,066 and Pharmaceuticals inputs amounting to Kshs.1,853,919,861. Analytical review performed revealed the following unsatisfactory matters:

- i) The cost of sales on non- pharmaceuticals and Pharmaceuticals inputs amounting to Kshs.536,752,879 and Kshs.95,439,349 respectively, were procured through direct procurement method contrary to Section 103 (2) of the Public Procurement and Asset Disposal Act, 2015 which requires that the method is applied in circumstances where goods, works or services are available only from a particular supplier or contractor and due to the urgency of supplies.
- ii) Further, non- pharmaceuticals and Pharmaceuticals inputs worth Kshs.368,536,692 and Kshs.178,440,091 respectively, were delivered after the due dates. The delays ranged between fifteen (15) days to six hundred and eighteen (618) days.
- iii) Further, the cost of sales on pharmaceutical inputs constitutes COVID-19 items which were acquired through direct procurement method without any justification contrary to Section 48 (4) (c) of the Public Procurement and Asset Disposal Act, 2015. Three suppliers who won bids worth Kshs.258,974,400 through direct procurement were not in the prequalified list of suppliers. There was no evidence that any market survey was carried out and no reports on the direct procurements of values exceeding five hundred thousand shillings (Kshs.500,000) was made to the Public Procurement Regulatory Authority as required by the law.
- iv) The cost of sales on non-pharmaceutical inputs includes procurement valued at Kshs.211,019,769 which relates to addendum contracts that were varied and signed before the lapse of twelve (12) months contract period. This is contrary to Section 139 (b) of the Public Procurement and Asset Disposal Act, 2015 which provides that no

contract price shall be varied upwards within twelve months from the date of the signing of the contracts.

- v) The cost of sales on Non-Pharmaceutical inputs balance includes purchase of dispensing envelopes (khaki) worth Kshs.10,534,000. However, two Members in the Opening Committee did not have letters appointing them to the Committee. This is contrary to Section 78(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that; An Accounting Officer of a procuring entity shall appoint a Tender Opening Committee specifically for the procurement.
- vi) The cost of sales further constitutes purchases of pharmaceutical and non - pharmaceuticals goods from fourteen (14) suppliers worth Kshs.1,062,371,472. The purchases were based on expired contracts based on a memo dated 14 August, 2020 which extended the contracts to facilitate additional call down. However, the extensions were not based on the recommendation of an Evaluation Committee. This is contrary to Section 139(2) of Public Procurement and Asset Disposal Act, 2015 which states that an Accounting Officer of a procuring entity, on the recommendation of an Evaluation Committee, may approve the request which request shall be accompanied by a certificate from the tenderer making a justification for such cost—  
(a) extension of contract period.

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

### **3. Irregular Extension of Contracts**

#### **3.1. Extension of Distribution Contracts**

As disclosed in Note 9 to the financial statements, the statement of financial performance reflects distribution costs balance of Kshs.859,488,800. Included in this amount is Kshs.738,510,884 paid to suppliers under outsourced distribution costs. However, the expenditure was based on double extension of contracts for more than thirty (30) days.

#### **3.2. Extension of Insurance Covers**

Further, the statement of financial performance reflects insurance expenses of Kshs.159,102,627 which, as disclosed in Note 10 to the financial statements, includes insurance costs balance of Kshs.15,795,502 out of which Kshs.4,261,566 relates to extension of insurance covers. The contracts were extended for more than thirty (30) days without review of the contract implementation and approval by the Board of Directors.

This is contrary to Section 88 (3) of the Public Procurement and Asset Disposal Act, 2015 which provides that an extension under subsection (1) shall be restricted to not more than thirty days (30) and may only be done once.

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

#### **4. Irregular Acquisition of Property, Plant and Equipment**

The statement of financial position reflects property, plant and machinery of Kshs.7,167,704,659 which, as disclosed in Note 33(a) to the financial statements, includes an amount of Kshs.960,283,859 in respect of addition to plant and machinery. Review of the balances revealed that the balance includes procurement of laboratory equipment valued at Kshs.5,438,354 for items procured using restricted tender. Fifteen (15) firms had submitted bids but only three (3) were evaluated as responsive out of which the highest bidder was awarded. However, the lowest bidder was disqualified based on conditions which had not been included in the initial bid documents. This is contrary to Regulation 184 of the Public Procurement and Asset Disposal Regulations, 2015 requires that a procuring entity shall use standard asset disposal documents.

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

#### **5. Staff on Secondment**

The statement of financial performance reflects employee cost of Kshs.1,264,329,720 which, as disclosed in Note 8 to the financial statements, includes payment of salaries amounting to Kshs.8,682,676 to five (5) staffs who were on secondment and had served for more than six (6) years in the capacity without explanations for continued contract extensions. This is contrary to Part B.33(1) of the Public Service Commission (PSC) Human Resource Policies and Procedures Manual, May, 2016 which provides that secondment of officers from the public service to other organizations is applicable to pensionable officers, for a period not exceeding three (3) years and may be renewable once.

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

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

## **Basis for Conclusion**

### **1. Weakness in Cash Management system**

As disclosed in Note 14 to the financial statements, the statement of financial performance reflects staff travel expenses of Kshs.124,014,172. Examination of sampled payment vouchers revealed issuance of imprest before previous ones are surrendered or recovered in full from the salary. Further, the schedules presented for audit to support hire of taxi, staff travel lacked key details such as nature of the activities, location, purpose and number of days.

Consequently, the existence of an effective internal control system could not be confirmed

### **2. Realized Exchange Loss**

The statement of financial performance reflects other operating expenses of Kshs.398,193,149 which, as disclosed under Note 19 to the financial statements, includes bank charges and commission realized forex exchange loss of Kshs.174,723,450 which exposed the Authority to financial loss and no mitigating measures have been put in place.

In the circumstances, the management of fiscal responsibilities and controls of projecting, analyzing and hedging forex exchange losses are weak.

### **3. Weak Governance of the Authority**

The financial statements under fiduciary management indicates that key departments are headed by officers in acting capacity for more than six (6) months who have been paid cumulative salary of Kshs.29,703,231. This contrary to Section C.14 (1) of the Human Resource Policies and Procedures Manual for the Public Service 2016 states that "when an officer is eligible for appointment to a higher post and is called upon to act in that post pending advertisement of the post, he is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary and the acting allowance will not be payable to an officer for more than six (6) months.

Under circumstances, firm and effective decision-making mechanism could not be established.

### **4. Unapproved Staffing**

As disclosed in Note 8 to the financial statements, the statement of financial performance reflects employee cost of Kshs.1,264,329,720. The Authority has an approved staff establishment of three hundred and forty-one (341) staff. However, the staff register indicates that a total of nine hundred and eleven (911) employees in place resulting to unapproved staffing of five hundred and seventy (570).

Under the circumstances, it is not clear how the Authority identified the staffing needs thereby employing five hundred and seventy (570) extra members of staff which poses a risk of bloated staffing, duplication of duties which constrains Authority's finances.

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 the 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 control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve 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 are responsible for overseeing the Authority 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 control 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 control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability 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 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.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

19 July, 2022

### 13. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021

	Note	Financial year FY 2020-2021 Kshs	Financial year 2019-2020 Kshs
<b>Revenue from non-exchange transactions</b>			
Grants from National Government	1	125,000,000	653,239,996
Public contributions and donations	2	6,383,639	8,044,545
		<b>131,383,639</b>	<b>661,284,541</b>
<b>Revenue from exchange transactions</b>			
Net Sales	3	1,317,254,777	1,818,997,228
Rendering of Services	4	1,543,484,208	1,624,822,909
Rental Revenue	5	11,205,348	14,569,878
Finance Income	6	616,085,847	489,361,413
Other Income	7	<b>64,299,118</b>	88,996,228
		<b>3,552,329,297</b>	<b>4,036,747,655</b>
<b>Total revenue</b>		<b>3,683,712,936</b>	<b>4,698,032,196</b>
<b>Expenses</b>			
Employee costs	8	<b>1,264,329,720</b>	1,083,420,635
Distribution Costs	9	<b>859,488,800</b>	772,369,557
Insurance costs	10	<b>159,102,627</b>	92,417,174
Rental expenses	11	<b>217,175,902</b>	181,481,365
Legal expenses	12	<b>99,993,837</b>	139,772,928
Utilities expenses	13	<b>18,933,084</b>	20,967,539
Staff travel expenses	14	<b>124,014,172</b>	154,944,559
Finance costs	15	<b>1,768,676</b>	2,189,997
Audit fees	16	<b>3,500,000</b>	3,500,000
BOD expenses	17	<b>17,681,305</b>	10,954,944
Depreciation & amortization	18	<b>117,830,125</b>	161,179,098
Other Operating Expenses	19	398,193,149	411,440,778
<b>Total expenses</b>		<b>3,282,011,396</b>	<b>3,034,638,576</b>
<b>Other gains/(losses)</b>		-	-
<b>Surplus before tax</b>		<b>401,701,540</b>	<b>1,663,393,620</b>
Taxation			
<b>Surplus for the period</b>		<b>401,701,540</b>	<b>1,663,393,620</b>



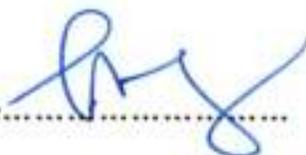
The Financial Statements set out on pages 61 to 109 were signed on behalf of the Board of Directors by:

1. Mr. James Macharia  
AG. FINANCE MANAGER  
ICPAK No. 10124

Signature.....

Date.....4/8/2022

2. Terry Kiunge Ramadhani  
CHIEF EXECUTIVE OFFICER

Signature.....

Date.....5/8/2022

3. Mary Chao Mwadime  
CHAIRPERSON OF THE BOARD

Signature.....

Date.....5/8/2022

**14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021**

	Note	Financial Year 2020/2021 Kshs	Financial Year 2019/2020 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	20	8,113,988,990	10,453,522,589
Receivables from exchange transactions	21	5,863,800,694	6,605,189,547
Receivables from non-exchange transactions	22	4,430,114	528,371,687
Inventories	23	17,558,529,935	17,738,279,406
<b>Total current assets</b>		<b>31,540,749,734</b>	<b>35,325,363,229</b>
<b>Non-current assets</b>			
Property, plant and equipment	33 (a)	7,167,704,659	6,341,530,305
Intangible assets	33 (b)	3,557,706	-
Long Term Deposit	24	53,815,430	48,515,430
<b>Total non-current assets</b>		<b>7,225,077,795</b>	<b>6,390,045,735</b>
<b>Total assets</b>		<b>38,765,827,529</b>	<b>41,715,408,964</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange	25	7,015,398,881	6,879,649,362
Trade and other payables from non exchange	26	2,761,333	
Payment Received in Advance	27	3,025,877,078	7,594,224,973
Current Provisions	28	167,673,093	117,961,863
Project Fund	29	45,723,831	29,065,065
Medical Commodity Fund	30	9,356,110,719	8,920,214,768
<b>Total current liabilities</b>		<b>19,613,544,935</b>	<b>23,541,116,031</b>
<b>Non-current liabilities</b>			
Deferred income	31	798,174,974	58,146,334
<b>Total non-current liabilities</b>		<b>798,174,974</b>	<b>58,146,334</b>
<b>Total liabilities</b>		<b>20,411,719,910</b>	<b>23,599,262,366</b>
<b>Net assets</b>		<b>18,354,107,619</b>	<b>18,116,146,599</b>
KEMSA Capital	32	8,461,576,303	8,461,576,303
Accumulated Funds		256,950,298	256,950,298
Revenue reserves		8,851,950,562	8,613,989,542
Revaluation reserve		783,630,456	783,630,456
<b>Total net assets and liabilities</b>		<b>38,765,827,529</b>	<b>41,715,408,965</b>

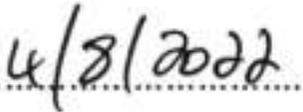
The Financial Statements set out on pages 61 to 109 were signed on behalf of the Board of Directors by:

1. Mr. James Macharia

AG. FINANCE MANAGER

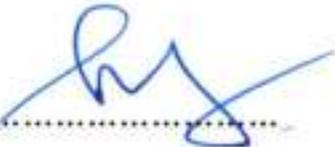
ICPAK No. 10124

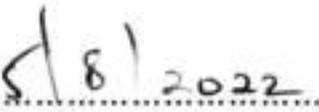
Signature.....

Date.....

2. Terry Kiunge Ramadhani

CHIEF EXECUTIVE OFFICER

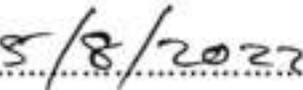
Signature.....

Date.....

3. Mary Chao Mwadime

CHAIRPERSON OF THE BOARD

Signature.....

Date.....

15. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

	Attributable to the owners of the controlling entity				Total Kshs
	KEMSA Capital Kshs	Reserves		Revaluation Reserve Kshs	
		Accumulated Funds Kshs	Revenue Reserve Kshs		
Balance as at 1st July 2017	8,461,576,303	256,950,298	4,962,592,613	783,630,456	14,464,749,670
Revaluation Surplus Surplus for the period			837,296,594		
Balance as at 30th June 2018	8,461,576,303	256,950,298	5,799,889,207	783,630,456	15,302,046,264
Revaluation Surplus Surplus for the period			1,150,706,715		
Balance as at 30th June 2019	8,461,576,303	256,950,298	6,950,595,922	783,630,456	16,452,752,979
Surplus for the period			1,663,393,620		
Balance as at 30th June 2020	8,461,576,303	256,950,298	8,613,989,542	783,630,456	18,116,146,599
Prior Year Adjustment			(163,740,520)		
Surplus for the period			401,701,540		
Balance as at 30TH JUNE 2021	8,461,576,303	256,950,298	8,851,950,562	783,630,456	18,354,107,619

## 16. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	Financial Year	
		FY 2020/2021	FY 2019/2020
		Kshs	Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Grants from National Government	1	125,000,000	653,239,996
Public contributions and donations	2	6,383,639	8,044,545
Net Sales	3	1,317,254,777	1,818,997,228
Rendering of Services	4	1,543,484,208	1,624,822,909
Rental Revenue	5	11,205,348	14,569,878
Finance Income	6	616,085,847	489,361,413
Other Income	7	64,299,118	88,996,228
<b>Total Receipts</b>		<b>3,683,712,936</b>	<b>4,698,032,196</b>
<b>Payments</b>			
Employee costs	8	1,264,329,720	1,083,420,635
Distribution Costs	9	859,488,800	772,369,557
Insurance costs	10	159,102,627	92,417,174
Rental expenses	11	217,175,902	181,481,365
Legal expenses	12	99,993,837	139,772,928
Utilities expenses	13	18,933,084	20,967,539
Staff travel expenses	14	124,014,172	154,944,559
Finance costs	15	1,768,676	2,189,997
Audit fees	16	3,500,000	3,500,000
BOD expenses	17	17,681,305	10,954,944
Depreciation & amortization	18	117,830,125	161,179,098
Other Operating Expenses	19	398,193,149	411,440,778
<b>Total Expenses</b>		<b>3,282,011,396</b>	<b>3,034,638,576</b>
<b>Net Surplus</b>		<b>401,701,540</b>	<b>1,663,393,620</b>
Decrease/(Increase) in Current Assets		1,445,079,896	(8,234,224,923)
Increase/(Decrease) in Current Liabilities		(3,927,571,096)	11,942,906,788
Increase/(Decrease) in Deferred Income		740,028,640	(8,044,545)
Asset Disposal(NBV)			943,875
Depreciation & amortization	18	117,830,125	161,179,098
In cash support on Expenditure			
<b>Net cash flows from operating activities</b>		<b>(1,222,930,896)</b>	<b>5,526,153,914</b>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant, equipment and intangible assets		(964,164,992)	(1,366,033,712)
Proceeds From Disposal Of Fixed Assets			
Increase/decrease in non current receivable		(5,300,000)	(11,210,844)
<b>Net cash flows used in investing activities</b>		<b>(969,464,992)</b>	<b>(1,377,244,556)</b>
<b>Cash Flows from Financing activities</b>			
KEMSA Capital		-	-
Revaluation Surplus		-	-
<b>Net cash flows used in financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,339,533,600)</b>	<b>4,148,909,358</b>
Cash and cash equivalents at 1 July 2020		10,453,522,590	6,304,613,231
Cash and cash equivalents at 30 June 2021	20	8,113,988,990	10,453,522,590

The Financial Statements set out on pages 61 to 109 were signed on behalf of the Board of Directors by:

1. Mr. James Macharia  
AG. FINANCE MANAGER  
ICPAK No. 10124

Signature.....

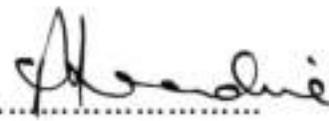
Date.....4/8/2022.....

2. Terry Kiunge Ramadhani  
CHIEF EXECUTIVE OFFICER

Signature.....

Date.....5/8/2022.....

3. Mary Chao Mwadime  
CHAIRPERSON OF THE BOARD

Signature.....

Date.....5/8/2022.....

17. STATEMENT OF COMPARISON BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2021

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	% of Utilization
	2020/2021	2020/2021	2020/2021	2020/2021	2020/2021	
<b>INCOME</b>	<b>Ksh.000's</b>	<b>Ksh.000's</b>	<b>Ksh.000's</b>	<b>Ksh.000's</b>	<b>Ksh.000's</b>	
Grants from National Government	250,000	(125,000)	125,000	125,000	-	100.00%
Public contributions and donations		-	-	6,384	6,384	
Net Sales	1,229,361	-	1,229,361	1,317,255	87,894	107.15%
Other Income	2,204,153	-	2,204,153	2,235,075	30,921	101.40%
<b>TOTAL INCOME</b>	<b>3,683,514</b>	<b>(125,000)</b>	<b>3,558,514</b>	<b>3,683,713</b>	<b>125,199</b>	

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	% of Utilization
	2020/2021	2020/2021	2020/2021	2020/2021	2020/2021	
Payments	Ksh.000's	Ksh.000's	Ksh.000's	Ksh.000's	Ksh.000's	
Staff Costs	1,199,280	65,948	1,265,228	1,264,330	899	99.93%
Distribution Costs	966,198	(106,664)	859,534	859,489	45	99.99%
Insurance costs	141,500	17,849	159,349	159,103	247	99.85%
Rental expenses	148,966	68,245	217,211	217,176	35	99.98%
Legal expenses	100,000	140	100,140	99,994	146	99.85%
Utilities expenses	9,282	9,715	18,997	18,933	64	99.66%
Staff travel expenses	124,742	(650)	124,092	124,014	78	99.94%
Finance costs	2,970	(842)	2,128	1,769	360	83.10%
Audit fees	6,466	(2,941)	3,525	3,500	25	99.29%
BOD expenses	14,420	4,473	18,893	17,681	1,212	93.59%
Depreciation & amortization	147,960	(29,810)	118,150	117,830	320	99.73%
Other Operating Expenses	423,898	(25,464)	398,434	398,193	241	99.94%
<b>TOTAL EXPENSES</b>	<b>3,285,683</b>	<b>(0)</b>	<b>3,285,683</b>	<b>3,282,011</b>	<b>3,671</b>	
<b>SURPLUS FOR THE PERIOD</b>	<b>397,831</b>	<b>-</b>	<b>272,831</b>	<b>401,702</b>	<b>121,528</b>	

## 18. NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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

### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value.

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

The financial statements have been prepared in accordance with the *PFM* Act, the State Corporations Act, KEMSA act 2013 and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. ADOPTION OF NEW AND REVISED STANDARDS

- i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2021.*

Standard	Impact
Other	Applicable: 1 <sup>st</sup> January 2021:
Improvements to IPSAS	<p>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks.</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved.</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.</p>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.*

Standard	Effective date and impact:
<b>IPSAS 41:</b> Financial Instruments	<p><b>Applicable: 1<sup>st</sup> January 2023:</b></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"> <li>• 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;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model 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.</li> </ul>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****IPSAS 42: Applicable: 1<sup>st</sup> January 2023****Social Benefits**

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:

- (a) The nature of such social benefits provided by the entity;
- (b) The key features of the operation of those social benefit schemes; and
- (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.

**Amendments to  
Other IPSAS  
resulting from  
IPSAS 41,  
Financial  
Instruments****Applicable: 1st January 2023:**

- 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.
- b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.
- c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.

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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### iii. *Early adoption of standards*

The entity did not early – adopt any new or amended standards in year 2020/2021.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Revenue Recognition

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

- Fees

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Summary of Significant Accounting Policies (continued)

- **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 KEMSA.

- **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.

### **Rental income**

KEMSA recognized income from tenants who inhabited its warehouses in the period ending 30<sup>th</sup> June 2021. Rental income has been recognized on the accrual basis of accounting.

- b) Budget Information**

The original budget for FY 2020-2021 was approved by the National Assembly in June 2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of KEMSA. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and

the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****Summary of Significant Accounting Policies (continued)****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 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

**d) In-Kind Contributions**

In-kind contributions are donations that are made to the KEMSA in the form of support programs, equipment, funds, plant and motor vehicles.

**e) Property, Plant and Equipment**

All categories of property, plant and equipment are initially recorded 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.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through valuations carried out by independent external valuer. If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****Summary of Significant Accounting Policies (continued)**

However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.

If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease is recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

Depreciation on property, plant and equipment is recognized in the income statement 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%

Depreciation and impairment of property, plant and equipment

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Summary of Significant Accounting Policies (continued)

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

#### f) Intangible Assets

Intangible assets comprise purchased computer software licenses, and rebranding activities, which are capitalized on the basis of costs incurred to acquire and bring to use. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an

impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

#### g) 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. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the actual price method. 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Summary of Significant Accounting Policies (continued)

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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.

**h) 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.

**i) 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.

**j) 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies (continued)**

**k) Nature and purpose of reserves**

**a) Accumulated Funds**

These are the realized surpluses over the years when the Authority was fully dependent on the National Government for its operations. The Accumulated funds were specifically meant for cushioning the organization against any shortfall in Grants in the subsequent years.

**b) Revaluation Reserves**

These arose from past revaluation of different classes of property, plant and equipment. The purpose of the reserve is to cushion the authority against any decrease in the carrying amounts of the assets arising from future revaluations.

**c) Surplus/Deficit**

These are accumulated surpluses from income and expenditures since the financial year 2010/2011. The reserves are meant to finance future capital expenditures e.g. Construction of Modern warehouses in Nairobi and the Regional Depots.

**l) 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.

**m) 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies (continued)**

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.

**n) 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 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.

**o) Related parties**

The Entity 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 Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

**p) 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Summary of Significant Accounting Policies (continued)**

For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**q) Comparative figures**

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

**r) 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, 2021.

**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.

**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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Significant Judgments and Sources of Estimation Uncertainty (continued)**



**Annual Reports and Financial Statements**

**For the year ended June 30, 2021**

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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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Annual Reports and Financial Statements

For the year ended June 30, 2021

1. Transfers from the Ministry					
Ministry of Health	Amount recognized to statement of financial performance	Amount deferred under deferred income	Amount recognized in Capital Fund	Total transfers 2020/21	Prior year 2019/2020
	Kshs	Kshs	Kshs	Kshs	Kshs
GRANTS FROM MOH - OPERATIONS	125,000,000	-	-	125,000,000	390,739,996
GRANTS FROM MOH - DEVELOPMENT	-	-	-	-	262,500,000
<b>Total Grants from National Government</b>	<b>125,000,000</b>	<b>-</b>	<b>-</b>	<b>125,000,000</b>	<b>653,239,996</b>

1. Transfers from the Ministry	FY 2020-2021 Kshs	2019-2020 Kshs
GRANTS FROM MOH - OPERATIONS	125,000,000	390,739,996
GRANTS FROM MOH - DEVELOPMENT	-	262,500,000
<b>Total Grants from National Government</b>	<b>125,000,000</b>	<b>653,239,996</b>

2. Public Contributions and Donations	FY 2020-2021 Kshs	2019-2020 Kshs
Income From Donations	6,383,639	8,044,545
<b>Total Public Contributions and Donations</b>	<b>6,383,639</b>	<b>8,044,545</b>

*The recognized amount relates to benefits that has accrued from use of donated Fixed Assets to the Authority by Strategic Partners*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Net Assets	FY 2020-2021	2019-2020
	Kshs	Kshs
Sale Revenue -Pharmaceutical	2,070,014,129	4,066,305,161
Sale Revenue -Non-Pharmaceuticals	1,998,080,253	3,813,485,429
Sales Revenue -UHC-Pharmaceuticals	2,398,910,944	1,641,519,411
Sales Revenue-UHC-Non Pharmaceuticals	1,755,828,455	1,060,396,995
<b>Total sales revenues</b>	<b>8,222,833,780</b>	<b>10,581,706,996</b>
<b>Cost of Sales</b>		
Cost of Sales CGS (Pharms)	1,853,919,861	3,337,254,253
Cost of Sales -CGS (Non-Pharms)	1,770,542,066	3,192,584,356
Cost of Sales-CGS-UHC (Pharms)	1,849,244,865	1,324,158,758
Cost of Sales-CGS-UHC (Non-Pharms)	1,431,872,213	908,712,400
<b>Total cost of sales</b>	<b>6,905,579,004</b>	<b>8,762,709,768</b>
<b>Net Sales</b>	<b>1,317,254,777</b>	<b>1,818,997,228</b>

*The revenue earned and cost incurred in selling relates to sale of medical commodities to all public health facilities in the counties and other supplementary customers like Faith Based institutions and Universities. Included in Cost of Sales is Ksh.191,870,834 relating to Expired stocks and Ksh. 54,175,813 for Donations.*

4. Rendering of Services	FY 2020-2021	2019-2020
	Kshs	Kshs
Supply Chain Fees: -USAID	400,376,053	794,199,038
-Global Fund	936,352,570	638,546,361
-UNICEF	20,831,142	21,691,655
-Ministry of Health	177,204,106	105,262,297
-Other Strategic Partners	8,720,338	65,123,559
<b>Total other income</b>	<b>1,543,484,208</b>	<b>1,624,822,909</b>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Rental Revenue	FY 2020-2021	2019-2020
	Kshs	Kshs
Rental Income	11,205,348	14,569,878
<b>Total other income</b>	<b>11,205,348</b>	<b>14,569,878</b>
<i>Rental Income was received from KEMSA tenants Bollore and Kenya Airways during the Financial Year.</i>		

6. Finance Income	FY 2020-2021	2019-2020
	Kshs	Kshs
Bank Interest Received	616,085,847	489,361,413
<b>Total other income</b>	<b>616,085,847</b>	<b>489,361,413</b>
<i>This is income earned from the funds in the Authorities bank current accounts at negotiated interest rates.</i>		

7. Other Income	FY 2020-2021	2019-2020
	Kshs	Kshs
Proceed From Disposal of Fixed Assets	-	616,125
Sale of Tender Documents	-	115,000
Sale of Waste Materials	-	175,305
Forex Realized Gain	11,461,706	24,192,553
Direct Revenue(MCP-Cost Recovery)	50,174,089	47,403,046
Other Miscellaneous Income	2,663,323	9,373,814
Disposal of Fixed Assets	-	7,120,385
<b>Total other income</b>	<b>64,299,118</b>	<b>88,996,228</b>
<i>This are revenues earned from other sources as highlighted above</i>		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Employee costs	FY 2020-2021	2019-2020
	Kshs	Kshs
Basic Pay	810,404,905	705,408,504
Overtime	11,675,220	15,154,811
Arrears	855,851	2,978,812
House Allowance	189,745,806	169,167,000
Acting Allowance	4,940,993	2,153,987
Bonus	-	287,987
Leave Allowance	8,622,500	6,991,000
Entertainment Allowance	2,777,226	2,514,000
NSSF (Kemsa Part)	2,238,000	2,088,600
Gratuity and Pensions	144,396,940	96,136,078
Committee Allowances	11,427,200	10,548,000
Special Duty Allowances	38,235	-
Transport Allowance	50,111,516	45,405,000
Other Taxable Benefits	16,518,528	11,379,032
Casual and Contract Employees	-	215,780
Ex-Gratia Payments	1,002,506	485,911
Shift Allowance	360,618	2,329,686
Staff Seconded to Kemsa	8,682,676	7,709,051
Internship Stipends	531,000	2,467,396
<b>Total employee costs</b>	<b>1,264,329,720</b>	<b>1,083,420,635</b>

*The employee costs expenditure for the financial year was Kshs 1.264 Billion which was a 100% absorption of the budget*

9. Distribution Costs	FY 2020-2021	2019-2020
	Kshs	Kshs
Fuel and Oil for own Trucks	1,939,623	2,566,155
Maintenance of own Trucks	2,228,676	982,341
Insurance and Govt. Levies	-	-
Hire of Transport	2,649,500	239,500
Outsourced Distribution Costs	814,569,353	734,720,653
Fuel and Oils	20,806,907	18,347,761
Vehicle Maintenance	13,299,735	11,888,468
Vehicle Insurance & Govt. Levies	313,230	1,211,917
Fork Lift Maintenance	3,622,426	2,382,841
Fork Lift Fuel and Oils	59,351	29,922
<b>Total distribution costs</b>	<b>859,488,800</b>	<b>772,369,557</b>

*The costs above relates to distribution of Health products and technologies which entity has outsourced for programme and sale activities*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Insurance costs	FY 2020-2021 Kshs	2019-2020 Kshs
Medical Premiums	132,699,034	78,215,813
Insurance Expenses - premiums	26,303,594	14,201,361
Insurance Expenses - Policy Excess	100,000	-
<b>Total insurance costs</b>	<b>159,102,627</b>	<b>92,417,174</b>
<i>The cost relates to medical insurance for staff and insurance covers for companys' assets</i>		

11. Rental expenses	FY 2020-2021 Kshs	2019-2020 Kshs
Warehouse Rent	217,175,902	181,460,311
Hire of Space	-	21,054
<b>Total rental expenses</b>	<b>217,175,902</b>	<b>181,481,365</b>
<i>This cost relates to hired go down at Sun flag property investment ltd and Kikora Ltd</i>		

12. Legal Expenses	FY 2020-2021 Kshs	2019-2020 Kshs
Legal Fees	99,993,837	139,772,928
<b>Total legal expenses</b>	<b>99,993,837</b>	<b>139,772,928</b>
<i>This expenditure relates to legal appeals and settlement of court cases.</i>		

13. Utilities Expenses	FY 2020-2021 Kshs	2019-2020 Kshs
Water and Conservancy Expenses	898,798	1,014,536
Electricity & Lighting Expenses	15,795,502	13,287,328
Generator Fuel & Maintenance	2,238,784	6,665,675
<b>Total utilities expenses</b>	<b>18,933,084</b>	<b>20,967,539</b>

14. Staff travel expenses	FY 2020-2021 Kshs	2019-2020 Kshs
Staff Travel Allowance - Local	114,895,237	123,018,487
Staff Travel Allowance - International	-	7,996,568
Air Tickets	4,411,670	8,482,518
Hire of Taxi & Other Transport	4,707,265	8,385,471
Mileage Claims -Use Own Cars	-	11,030
Travel and other Related Expenses-Donor Funded	-	7,050,485
<b>Total staff travel expenses</b>	<b>124,014,172</b>	<b>154,944,559</b>
<i>The cost relates to expenditure during sales and programme activities</i>		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Finance costs	FY 2020-2021	2019-2020
	Kshs	Kshs
Bank Charges	1,768,676	2,189,997
<b>Total finance costs</b>	<b>1,768,676</b>	<b>2,189,997</b>

16. Audit fees	FY 2020-2021	2019-2020
	Kshs	Kshs
Audit Fees & Others	3,500,000	3,500,000
<b>Total audit fees</b>	<b>3,500,000</b>	<b>3,500,000</b>

17. Board expenses	FY 2020-2021	2019-2020
	Kshs	Kshs
BOD Sitting & Lunch Allowances	8,844,000	5,938,200
BOD Travel & Accommodation Exp.	5,995,585	3,972,744
BOD Conferences	1,797,720	-
BOD Honoraria & Other Allowances	1,044,000	1,044,000
<b>Total BOD expenses</b>	<b>17,681,305</b>	<b>10,954,944</b>

18. Depreciation & amortization	FY 2020-2021	2019-2020
	Kshs	Kshs
Buildings - Depreciation	32,588,150	39,349,097
Plant & Machinery - Depreciation	17,873,421	18,482,774
Office Equipment - Depreciation	4,954,666	6,476,835
Furniture & Fittings - Depreciation	4,714,010	6,109,941
Computer Equipment - Depreciation	7,854,777	37,813,346
Intangible Assets - Depreciation	323,428	66,000
Motor Vehicles - Depreciation	49,521,674	52,881,105
<b>Total depreciation &amp; amortization</b>	<b>117,830,125</b>	<b>161,179,098</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. Other Operating Expenses	FY 2020-2021	2019-2020
	Kshs	Kshs
Training Expenses	16,181,066	22,644,268
Conference Expenses	7,940,795	20,421,778
Change Management Expenses	-	7,097,000
Recruitment Agency	-	3,295,560
Official Entertainment	16,921,555	20,265,413
Office Beverages	6,900,734	9,394,807
End Of -Year Staff Staff Party	9,424,000	12,965,660
Staff Support Expenses	4,430,335	1,935,392
Purchase Of New Uniforms	11,913	1,420,352
Laundry and Cleaning	7,900	75,840
Telephone - Switchboard LLS	3,370,128	3,375,805
Telephone - Direct Land Lines	250	-
Cell Phones	9,509,500	8,909,348
E-mail/Internet	4,174,661	7,956,657
Postage & Courier	577,304	187,285
Computer Maintenance Expenses	2,442,816	6,168,012
Computer Maintenance Agreement	3,089,612	2,405,372
Computer Software and Licenses	5,853,685	7,151,855
Computer Stationery Expenses	5,461,473	9,308,922
Hire of Services - Security Firms	15,776,187	11,188,909
Hire of Services From Police	3,441,000	3,781,500
Security Equipment	932,516	502,680
Cleaning Materials & Implement	2,056,952	2,296,148
Pest Control Expenses	1,127,802	763,660
Outsourced Clening Expenses	4,661,764	4,237,461
Sanitation Expenses	593,782	2,605,070
Plant Repairs & Maintenance	803,743	264,877
Repairs To Buildings and Roads	3,576,840	3,028,533
Purchase of Tools & Maintenance	1,634,031	1,871,378
Rates Paid To The Local Govt.	1,058,611	-
Reagents	8,639,560	2,042,224

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Third Party Services	7,415,293	19,321,270
Maintenance Of QA Tools & Equipment	2,783,075	1,332,144
Palleting cost	-	7,140,000
Packaging Material and Expenses	10,026,476	14,525,043
Protective Clothing & Gear	4,616,355	862,391
Cost -Disposing Damage Stock	1,970,279	2,995,655
Stationery Expenses	9,419,029	13,926,615
Office Expenses	3,604,308	5,804,164
General Admin expenses	-	77,862
Staff Subsscription Expenses	1,357,790	1,364,241
Statutory Subscriptions	559,500	493,500
Fire Fighting & Safety Equipment	7,400,495	2,222,024
Hire of Safety training Serv	423,187	90,000
Bank Charges And Commission - Realized Loss	174,723,450	93,238,620
Penalties And Fines	5,109,232	12,000
Consultancy	7,133,125	23,767,436
Public Relations Expenses	1,260,200	6,133,497
Donations	1,696,500	237,000
Sponsorships	-	3,950,000
Shows And Exhibitions	-	150,800
Communication & Infor. Exp.	2,091,497	-
Advertising Expenses	3,196,819	11,135,203
Corporate & Other Calenders	3,202,500	6,505,500
Advertising Of Tenders	6,559,486	16,704,620
Publicity & Advertising Expenses	2,883,850	1,374,500
Newspaper Expenses	160,190	514,928
Journals, Books & Periodicals	-	-
<b>Total other operating expenses</b>	<b>398,193,149</b>	<b>411,440,778</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 a. Cash and Cash Equivalents	FY 2020-2021	2019-2020
	Kshs	Kshs
PETTY CASH	0	22,659
NBK - OPERATIONS	812,741	6,371,491
WORLD BANK E.A LAB PROJECT	18,843,438	29,065,065
NBK DISTRIBUTION	70,432	96,679
KCB DRUGS	412,412,454	566,731,869
KCB DISTRIBUTION	1,221	2,412
CBA	262,789,312	1,240,139,032
CO-OP - MEDICAL GRANTS	1,243,065,882	1,615,789,011
CO-OP BANK GF OPERATIONS (KSH)	66,665,526	98,646,638
CO-OP BANK GF OPERATIONS (USD)	339,857,900	186,199,163
CO-OP BANK GF ATM R4P1 (USD)	1,920,371	1,915,053
CO-OP BANK GF ATM R5P1 (USD)	1,959,665	1,943,211
CO-OP BANK GF ATM R6 (USD)	125,683	131,805
CO-OP BANK GF ATM R4P2 (USD)	9,760	6,658
CO-OP BANK GF ATM R5P2 (USD)	22,373	29,768
CO-OP BANK GF ATM R7P1	7,092,339	7,012,704
CO-OP BANK GF ATM R4P2	909	905
CO-OP BANK GF ATM R5P1	1,069,586	1,065,051
CO-OP BANK GF ATM R6 (KSH)	1,029,785	1,025,419
CO-OP BANK GF ATM R7P1	4,195,195	4,181,004
WORLD BANK HSSP NON POOLED	174,107	177,679
WORLD BANK HSSP POOLED PROJECT	40,480,896	38,097,575
SSD CO-OP BANK	1,351,267,598	1,100,010,909
SSD EQUITY BANK	3,237,732,786	4,799,287,198
KEMSA EQUITY WAREHOUSE CONSTRUCTION PROJECT	1,077,171,295	579,863,638
KEMSA EQUITY BANK OPERATIONS (KSH)	1,657,647	36,777,924
KEMSA EQUITY BANK OPERATIONS (USD)	43,558,621	138,932,065
MPESA BULK PAYMENT	1,467	5
<b>Total cash and cash equivalents</b>	<b>8,113,988,990</b>	<b>10,453,522,589</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 (a) Cash and Cash Equivalents	FY 2020-2021 Kshs	2019-2020 Kshs
Current accounts	8,113,988,990	10,453,499,930
Cash on Hand and On Transit	(0)	22,659
<b>Total cash and cash equivalents</b>	<b>8,113,988,990</b>	<b>10,453,522,589</b>
<b>21. Receivables from Exchange Transactions</b>		
	FY 2020-2021 Kshs	2019-2020 Kshs
Trade Debtors -Receivable	5,756,958,122	6,483,414,850
Supplier prepayment	106,842,572	121,774,697
<b>Total receivables from exchange transactions</b>	<b>5,863,800,694</b>	<b>6,605,189,547</b>
<b>22. Receivables from Non Exchange Transactions</b>		
	FY 2020-2021 Kshs	2019-2020 Kshs
Other Debtors - Uninvoiced Receivables	-	523,509,924
Travel Imprest Debtors	23,802	2
Staff Salary Advances Debtors	186,708	186,713
Standing Imprest Debtor	22,700	0
Staff Medical Advances	2,196,128	2,412,664
Staff Accountable Imprest	200,000	-
Rent Deposit	-	2,262,383
Interest Receivable	1,800,775	-
<b>Total receivables from non exchange transactions</b>	<b>4,430,114</b>	<b>528,371,687</b>
<b>23. Inventories</b>		
	FY 2020-2021 Kshs	FY 2019-2020 Kshs
Medical Supplies-Pharmaceutical & Non Pharmaceutical Stocks	17,554,455,351	17,734,238,206
Consumable stores-Stationery	2,939,878	3,947,407
Consumable stores-Beverages & Others	1,134,706	93,793
<b>Total inventories at the lower of cost and net realizable value</b>	<b>17,558,529,935</b>	<b>17,738,279,406</b>
<i>Out of stock value of khs 17,554,455,351 the entity is holding 3rd party stocks valued at ksh 7,063,985,435 and Ksh 5,511,378,634 for Covid-19 Commodities</i>		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Long Term Receivables from Non Exchange Transactions	Kshs	
	FY 2020-2021	2019-2020
	Kshs	Kshs
Long-term Deposit	53,815,430	48,515,430
<b>Total long term receivables from non exchange transactions</b>	<b>53,815,430</b>	<b>48,515,430</b>
<i>These are rental deposits paid for warehouses that the Authority has rented to store medical commodities</i>		

25. Trade and other payables from exchange transactions	Kshs	
	FY 2020-2021	2019-2020
	Kshs	Kshs
Trade Creditors - Medical	2,786,573,806	2,930,241,847
Trade Creditors - Not Invoiced Receipts	2,588,017,506	2,742,577,146
Trade Creditors - Operations	180,784,194	80,990,560
Trade Creditors - Distribution	112,882,794	(0)
Trade Creditors - Development Partner's Grants	1,322,468,816	1,100,301,588
Rent deposits - tenants	3,032,428	3,032,428
Withheld vat	(1)	(1)
Vat output - due	(0)	64,174
Withheld tax- consultancy	0	0
Withheld Tax - Rental Income	0	0
Suppliers Funds Retained	21,639,338	22,441,620
<b>Total trade and other payables from exchange transactions</b>	<b>7,015,398,881</b>	<b>6,879,649,362</b>
<i>Out of 7.02 Billion liabilities there is a liability that relates to COVID supplies valued at 2.5 Billion that have been delivered but not paid for since FY 20-21, there is also a liability for balance of funds meant to pay government taxes valued at 1.3 Billion</i>		

26. Trade and other payables from non exchange transactions	Kshs	
	FY 2020-2021	2019-2020
	Kshs	Kshs
NSSF PAYABLE	1	-
PAYROLL CONTROL	(5)	-
PAYE IMPREST PAYABLE	13,200	-
THIRD PARTY LOAN RECOVERIES	(0)	-
EMPLOYEE IMPREST PAYABLE (REFUNDS)	1,147	-
WITHHELD TAX-CONTRACTORS	1	-
EMPLOYEE PAYABLES	2,746,989	-
<b>Total payables from exchange transactions</b>	<b>2,761,333</b>	<b>-</b>

27. Payments Received in Advance	Kshs	
	FY 2020-2021	2019-2020
	Kshs	Kshs
Customer Prepayment	3,025,877,078	7,594,224,973
<b>Total Prepayment</b>	<b>3,025,877,078</b>	<b>7,594,224,973</b>
<i>These are funds received in advance by the Authority from customers like the Ministry of Health for UHC-Scale Up- to procure medical commodities.</i>		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. Current Provisions	FY 2020-2021	2019-2020
	Kshs	Kshs
Balance Brought Forward	117,961,863	82,674,496
Additional Provisions	167,673,093	117,961,863
Provision Utilized	(117,961,863)	(82,674,496)
<b>Total provisions</b>	<b>167,673,093</b>	<b>117,961,863</b>

29. Project Fund	FY 2020-2021	2019-2020
	Kshs	Kshs
EAPHLNP Cash Balance	18,843,438	29,065,065
Less: Cumulative bank interest earned on EAPHLNP Account	(11,343,918)	
Add: Interest refundable to DANIDA	38,224,311	
<b>Total project fund</b>	<b>45,723,831</b>	<b>29,065,065</b>

30. Medical Commodity Fund	FY 2020-2021	2019-2020
	Kshs	Kshs
Medical Commodity Fund	9,356,110,719	8,920,214,768
<b>Total medical commodity fund</b>	<b>9,356,110,719</b>	<b>8,920,214,768</b>

31. Deferred income	FY 2020-2021	2019-2020
	Kshs	Kshs
Public Contribution and donations (Current Portion recognized from Donated Assets)	798,174,974	58,146,334
<b>Total deferred income</b>	<b>798,174,974</b>	<b>58,146,334</b>

*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.*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The deferred income movement is as follows:

	National government	International funders	Public contributions and donations	Total
Balance brought forward	-	-	58,146,334	58,146,334
Additions			746,412,279	746,412,279
Transfers to Capital fund				-
Transfers to income statement			6,383,639.35	6,383,639
Other transfers				-
Balance carried forward			798,174,974.42	798,174,974

32. KEMSA Capital	FY 2020-2021	2019-2020
	Kshs	Kshs
Balance at the end of the Financial Year	8,461,576,303	8,461,576,303
<b>Total KEMSA Capital</b>	<b>8,461,576,303</b>	<b>8,461,576,303</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

33(a) Property, Plant and Equipment as at JUNE 2021									
	LAND	BUILDINGS	OFFICE EQUIPMENT	PLANT & MACHINERY	FURNITURE	MOTOR VEHICLE	COMPUTER HARDWARE	WIP	TOTALS
<b>COST AS AT 30/06/18</b>	354,336,000	411,599,195	39,002,520	1,177,092,500	32,790,953	180,886,388	30,566,529	2,014,362,791.30	5,405,794,728.28
<b>COST RESTATEMENT AT FAIR VALUES</b>	354,336,000	416,306,194	39,002,520	1,177,092,500	32,790,953	79,493,646	30,566,529	2,014,362,791.30	5,724,352,099.61
<b>ADDITIONS</b>	104,990,344	147,729,863	1,152,445	1,504,124	5,243,985	5,501,000	21,501,134	54,221,156.00	407,336,133.12
<b>WIP Transfer</b>	1,062,470,024	941,882,348	-	-	-	-	-	(2,004,321,372.34)	-
<b>COST AS AT 30/06/2017</b>	1,796,967,270	1,396,118,605	40,154,965	1,178,996,624	38,034,938	87,387,428	72,067,863	64,264,609.96	5,771,488,252.13
<b>COST RESTATEMENT AT FAIR VALUES</b>	-	-	-	-	-	-	-	-	-
<b>DISPOSAL OF FIXED ASSET</b>	-	-	-	-	-	(2,437,610)	-	-	(2,437,610.00)
<b>ADDITIONS</b>	-	-	8,090,834	9,260,450	6,764,122	38,802,370	11,894,397	494,320,612.00	587,102,683.20
<b>WIP Transfer</b>	-	64,264,609	-	-	-	-	-	(64,264,609.96)	0.00
<b>COST AS AT 30/06/2018</b>	1,796,967,270.37	1,370,963,899.68	48,245,800.98	1,188,257,074.40	44,799,057.75	111,691,420.00	83,962,261.96	494,320,612.00	6,286,352,525.07
<b>COST RESTATEMENT AT FAIR VALUES</b>	-	-	-	-	-	-	-	-	-
<b>DISPOSAL OF FIXED ASSET</b>	-	-	-	-	-	(920,000.00)	-	-	(920,000.00)
<b>ADDITIONS</b>	-	1,061,000.00	2,913,328.08	13,710,372.14	1,196,796.30	13,823,086.00	23,765,389.94	1,243,061,963.76	1,704,478,796.52
<b>WIP Transfer</b>	-	-	-	1,189,480.32	-	-	-	(1,189,480.32)	-
<b>COST AS AT 30/06/2019</b>	1,796,967,270.37	1,372,963,899.68	48,579,129.08	1,190,181,961.86	46,095,854.05	124,514,506.00	107,727,651.94	1,794,192,676.10	5,589,912,312.29
<b>COST RESTATEMENT AT FAIR VALUES</b>	-	-	-	-	-	-	-	-	-
<b>DISPOSAL OF FIXED ASSET</b>	-	-	-	-	-	(12,611,000.00)	-	-	(12,611,000.00)
<b>ADDITIONS</b>	-	-	5,235,547.00	17,643,779.64	1,844,267.30	49,792,000.00	5,762,314.28	1,247,733,580.76	1,764,033,711.67
<b>WIP Transfer</b>	-	-	-	-	-	-	-	-	-
<b>COST AS AT 30/06/2020</b>	1,796,967,270.37	1,373,963,899.68	51,814,676.08	1,191,827,741.50	48,079,121.75	111,534,420.00	113,489,966.22	1,941,916,657.79	6,953,534,023.96
<b>SCRAPING FOR UNVERIFIED FIXED ASSETS</b>	-	(122,310,857.39)	(21,496,720.76)	(6,693,597.98)	(13,032,870.48)	(13,414,692.80)	(39,127,881.82)	-	(236,478,111.63)
<b>PREVIOUS YEAR ADJUSTMENTS</b>	-	-	-	-	-	-	-	-	-
<b>DISPOSAL OF FIXED ASSET</b>	-	-	-	-	-	-	-	-	-
<b>ADDITIONS</b>	-	863,000.00	38,111,411.03	37,648,139.49	3,028,013.06	13,523,401.00	20,460,636.30	454,737,064.70	560,283,655.14
<b>WIP Transfer</b>	-	-	-	-	-	-	-	(36,912,345.34)	-
<b>COST AS AT 30/06/2021</b>	1,796,967,270.37	1,374,826,900.00	90,026,087.11	1,229,475,880.99	61,107,134.75	125,057,821.00	133,450,321.88	1,905,004,312.45	7,525,940,620.46
<b>ACCUMULATED DEPRECIATION</b>	-	247,422,131.73	12,812,396.06	89,121,379.20	18,272,099.75	93,251,519.49	23,796,176.71	-	484,664,007.13
<b>PREVIOUS YEAR ADJUSTMENTS</b>	-	(108,783,063.18)	2,403,284.02	1,762,287.99	144,076.10	12,564,792.01	18,771,071.47	-	(72,957,585.60)
<b>DEPRECIATION CHARGE FOR THE YEAR</b>	-	32,588,149.42	4,954,665.53	17,871,420.88	4,734,010.06	49,321,674.52	7,894,779.52	-	117,358,699.73
<b>ACCUMULATED DEPRECIATION</b>	-	171,227,218.17	20,170,347.61	90,757,088.07	23,130,293.91	153,337,965.81	48,412,056.70	-	399,235,113.27
<b>NET AS AT 30/06/2021</b>	1,796,967,270.37	1,203,599,681.83	69,855,739.50	1,138,718,792.92	37,966,840.84	111,786,855.19	85,038,265.18	1,905,004,312.45	7,126,705,507.19
<b>Net Book Values</b>									
<b>As at 30/6 June 2020</b>	1,796,967,270.37	1,324,581,707.99	28,306,786.82	107,192,181.22	22,442,390.72	80,672,649.47	9,690,831.48	1,941,916,657.79	6,241,530,304.83
<b>As at 30/6 June 2019</b>	1,796,967,270.37	1,404,791,350.20	29,346,074.43	109,020,135.73	26,648,065.86	44,515,628.30	2,931,181.16	1,734,192,676.03	5,137,551,566.83
<b>As at 30/6 June 2018</b>	1,796,967,270.37	1,440,409,452.44	33,257,140.48	105,823,479.46	30,345,668.33	52,313,960.00	15,078,328.49	494,320,412.39	3,968,484,669.27
<b>As at 30/6 June 2017</b>	1,796,967,270.37	1,413,664,540.00	32,977,032.00	111,367,740.00	29,190,952.00	63,811,493.00	31,191,420.00	64,264,609.00	3,930,346,913.37

Reports and Financial Statements

For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 (b) Intangible Assets			
COMPUTER SOFTWARE	INTANGIBLE	TOTALS	TOTALS
130,204,894	12,380,610	142,585,504	3,548,330,232.28
130,204,894	12,380,610	142,585,504	3,468,937,603.01
-	-	-	407,336,153.12
-	-	-	-
130,204,894	12,380,610	142,585,504	3,874,273,756.13
-	-	-	-
-	-	-	(2,437,610.00)
-	198,000	198,000	557,300,883.20
-	-	-	0.04
130,204,894.00	12,578,610.00	142,783,504.00	4,429,137,029.37
-	-	-	-
-	-	-	(920,000.00)
-	-	-	1,304,478,786.92
-	-	-	-
130,204,894.00	12,578,610.00	142,783,504.00	5,732,695,816.29
-	-	-	-
-	-	-	(2,612,000.00)
-	-	-	1,366,033,711.67
-	-	-	-
130,204,894.00	12,578,610.00	142,783,504.00	7,096,117,527.96
-	-	-	(236,678,111.43)
-	-	-	-
-	-	-	-
-	3,881,133.31	3,881,133.31	964,164,992.45
-	-	-	-
130,204,894.00	10,697,476.31	140,902,370.31	7,423,404,408.98
130,204,894.00	12,578,610.00	142,783,504.00	607,449,511.13
-	-	-	(72,937,591.60)
-	323,427.78	323,427.78	117,830,124.51
130,204,894.00	12,902,037.78	143,106,931.78	652,342,044.04
-	-	-	-
-	3,887,788.33	3,887,788.33	7,179,262,344.94
-	-	-	-
-	-	-	6,341,530,304.92
-	66,000.00	66,000.00	5,137,685,566.33
-	132,000.00	132,000.00	3,968,870,648.27
-	-	-	3,535,246,933.37

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33c. Property, Plant and Equipment at Cost

If the freehold land, buildings and other assets were stated on the historical cost basis the amounts would be as follows:

	Cost	Accumulated Depreciation	NBV
	Kshs	Kshs	Kshs
Land	1,506,977,026.37		1,506,977,026.37
Buildings	1,303,686,469.09	171,227,218.17	1,132,459,250.92
Plant and machinery	216,402,273.01	90,757,088.07	125,645,184.94
Motor vehicles, including motorcycles	248,345,704.50	155,337,945.81	93,007,758.69
Computers and related equipment	74,772,793.97	48,412,018.70	26,360,775.27
Office equipment, furniture, and fittings	99,294,040.60	43,500,841.52	55,793,199.08
	3,449,478,307.54	509,235,112.27	2,940,243,195.27

34. Property, Plant and Equipment at Cost

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

	Cost or valuation	Normal annual depreciation charge
Plant and machinery	2	2
Motor vehicles, including motor cycles	0	0
Computers and related equipment	17,509,089.00	5,836,363.00
Office equipment, furniture and fittings	31	31
<b>Total</b>	<b>17,509,122.00</b>	<b>17,509,122.00</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35. Cash Generated from Operations		
	FY 2020-2021	2019-2020
	KShs	KShs
Surplus for the year before tax	401,691,740	1,663,393,620
Adjusted for:		
Depreciation	117,830,125	161,179,098
Gains and losses on disposal of assets	-	943,875
Working Capital adjustments		
Decrease/(Increase) in Current Assets	1,445,089,696	(8,234,224,923)
Increase/(Decrease) in Current Liabilities	(3,927,571,096)	11,942,906,788
Increase/(Decrease) in Deferred Income	740,028,640	(8,044,545)
Net cash flow from operating activities	(1,222,930,896)	5,526,153,914

### 36. Financial Risk Management

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize 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 Authority's financial risk management objectives and policies are detailed below:

#### 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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 are net of allowances for doubtful receivables, estimated by the Authority's management based on prior experience and their assessment of the current economic environment.

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

Credit risk	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
<b>As at 30 June 2021</b>				
Receivables from exchange transactions	5,852,199,510	1,489,551,996	4,362,647,514	0.00
Receivables from non exchange transactions	4,420,314	4,420,314	-	0.00
Bank balances	8,113,988,990	8,113,988,990	-	0.00
<b>Total</b>	<b>13,970,608,814</b>	<b>9,607,961,300</b>	<b>4,362,647,514</b>	<b>0.00</b>
<b>As at 30 June 2020</b>				
Receivables from exchange transactions	6,911,196,221	2,462,520,947	4,448,675,274	0.00
Receivables from non exchange transactions	528,371,687	528,371,687	-	0.00
Bank balances	10,453,522,589	10,453,522,589	-	0.00
<b>Total</b>	<b>17,893,090,497</b>	<b>13,444,415,223</b>	<b>4,448,675,274</b>	<b>0.00</b>

The ageing of accounts receivables that explain the Authority's exposure to credit risk as at 30<sup>th</sup> June 2021 was made up as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<b>Trade Receivables:</b>		
	<b>FY 2020/2021</b>	<b>FY 2019/2020</b>
-by up to 30 days	810,240,836	1,289,179,419
-by 31-60 days	320,891,317	726,636,908
-by 61-90 days	358,419,843	446,704,170
-Over 91 days	4,362,647,514	4,448,675,274
	<b>5,852,199,510</b>	<b>6,911,196,221</b>

The board of directors sets the Authority's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated. The Authority has an established credit policy which stipulates the standard payment terms and conditions. However, in specific cases especially when transacting with Development partners, the Memorandum of Understandings (MOUs) signed by both parties are used to define applicable credit terms. The credit risk is low since the customers are primarily public institutions, development partners and faith based organizations. The Management has the responsibility of managing the Authority's credit risk. The carrying amount of financial assets represents the maximum exposure to credit risk.

**ii) Liquidity risk management**

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

The following are the contractual maturities of financial liabilities at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Liquidity Risk	0-30 Days	31-90 Days	Over 90 Days	Total
	Kshs	Kshs	Kshs	Kshs
<b>As at 30 June 2021</b>				
Trade payables	1,604,213,725.13	935,252,673.15	540,774,394.82	3,080,240,793.10
Creditors-Not invoiced Receipts			2,588,017,506.00	2,588,017,506.00
Development Partners			1,322,468,816.37	1,322,468,816.37
Rent Deposits- Tenants			3,032,427.50	3,032,427.50
Stale Cheque	-	-	-	-
Retentions	-	-	21,639,338.00	21,639,338.00
Customer Prepayments		89,276,165.00	2,936,600,913.49	3,025,877,078.49
Provisions	148,971,106.82	-	18,701,986.00	167,673,092.82
<b>Total</b>	<b>1,753,184,831.95</b>	<b>1,024,528,838.15</b>	<b>7,431,235,382.18</b>	<b>10,208,949,052.28</b>
<b>As at 30 June 2020</b>				
Trade payables	2,452,180,955.73	480,883,573.30	78,167,878.82	3,011,232,407.85
Creditors-Not invoiced Receipts			2,742,577,146.00	2,742,577,146.00
Development Partners			1,100,301,587.68	1,100,301,587.68
Rent Deposits- Tenants			3,032,427.50	3,032,427.50
Stale Cheque	-	-	-	-
Retentions	-	-	22,441,620.41	22,441,620.41
Customer Prepayments	6,780,844,341.34	456,967,753.40	356,412,878.36	7,594,224,973.10
Provisions	114,461,863.00	-	3,500,000.00	117,961,863.00
<b>Total</b>	<b>9,347,487,160.07</b>	<b>937,851,326.70</b>	<b>4,306,433,538.77</b>	<b>14,591,772,025.54</b>

iii) Market risk

The board 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 Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Finance Department is responsible for the development of a detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Authority's exposure to market risks or the manner in which it manages and measures the risk.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**a) 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. The Authority's policy is to record transactions in foreign currencies at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect

at the reporting date. All gains or losses on changes in currency exchange rates are accounted for in profit or loss. Consequently, the Authority's exposure to exchange risk is minimal. In light of this, the directors are of the opinion that any sensitivity analysis with respect to the foreign exchange exposure would be un-precedent.

**b) Interest rate risk**

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

**Management of interest rate risk**

To manage the interest rate risk, management has endeavored to bank with institutions that offer favorable interest rates. Interest from short term deposits is one of the significant sources of revenue for the authority. The Authority's exposure to the risk of changes in market interest rates relates primarily to probability of reduction in finance income if interest rates were to go down significantly. The average interest rate in the financial year 2020/2021 was 8%.

**Capital Risk Management**

The objective of the entity's capital risk management is to safeguard the entity's ability to continue as a going concern. The entity capital structure comprises of the following funds:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020-2021	2019-2020
	Kshs	Kshs
Revaluation reserve	783,630,456	783,630,456
Retained earnings	8,851,940,762	8,613,989,542
Capital reserve	8,461,576,303	8,461,576,303
<b>Total funds</b>	<b>18,097,147,521.06</b>	<b>17,859,196,300.76</b>

37. Contingent Assets

The following Assets which are in Financial Statements have Ownership disputes

	2020-2021	2019-2020
	Kshs	Kshs
<b>CONTINGENT ASSETS</b>		
EMBAKASI GREEN SITE LR NO 21919	110,000,000	110,000,000
KAKAMEGA GREENSITE ALLOTMENT LETTER 209163/A11	7,500,000	7,500,000
KISUMU MUNICIPALITY BLOCK B/128	0	0
NYERI MUNICIPALITY/BLOCK 3/117	7,500,000	7,500,000
<b>Total</b>	<b>125,000,000</b>	<b>125,000,000</b>

(i) EMBAKASI GREEN SITE LR NO 21919

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 favor of Kenya Air Ports Authority. Among those parcels of land include LR No. 28464 and 28465 which was Registered in favor 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 28<sup>th</sup> March, 2019. The matter is still in court.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

The Authority proposes that the recommendations by National Land Commission be complied with and negotiations with Kenya Airports Authority be embarked on for issuance of a sublease in favour of KEMSA.

**(ii) KAKAMEGA GREENSITE ALLOTMENT LETTER 209163/A11**

KEMSA had earlier been allocated a parcel of land in Kakamega in October 2002 via Allotment letter ref No. 209163/A11. Kakamega County government later developed a referral hospital on the land. KEMSA has since sought for compensation and discussions are ongoing with the county govt of Kakamega to have an alternative parcel of land identified and allocated to KEMSA.

**iii) KISUMU MUNICIPALITY BLOCK B/128**

KEMSA had earlier been issued with a parcel of land in Kisumu whose land reference number is KISUMU MUNICIPALITY BLOCK B/128 by way of 99-year Lease from 01<sup>st</sup> October, 2005. The Lease was issued to the Authority. However, it erroneously indicated that the Lease is issued in favour of the Cabinet Secretary to the Treasury (as trustee for the Ministry of Health), a body corporate duly established under the Cabinet to the Treasury Act (Cap 102) of the laws of Kenya. The Authority instructed counsel to make an application to correct the error and have KEMSA registered as the proprietor. The said counsel advised that on following up the issue with the lands registry in Kisumu, it transpired that the said land is registered as above and is also registered in the name of another individual and the matter is with the DCI (Frauds Unit)-Kisumu.

**iv) NYERI MUNICIPALITY/BLOCK 3/113**

Part of KEMSA's Land in Nyeri Ref; Nyeri Municipality /Block 3/113 was grabbed by a private developer. The matter has been reported to the Ethic and Anticorruption Commission EACC

**38. RELATED PARTY TRANSACTIONS**

The Authority is 100% owned by the Government of Kenya. The Authority's main related parties are the Government of Kenya - Ministry of Health and the County Governments. KEMSA's core business is procurement, warehousing and distribution of medical supplies to public health facilities.

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party in making financial or operational decisions. During the year the following transactions were carried out with related parties.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Related Party Transactions	2020/2021 Kshs	2019/2020 Kshs
Grants from the National Government	125,000,000	653,239,996
Purchase of Electricity from KPLC	14,718,124	13,287,328
Purchase of Water from Gov't Service providers	898,798	1,014,536
Sale of Medical Commodities to Public Health facilities	8,222,833,780	10,581,706,996
Board Expenses	17,662,305	10,954,944
Key Management Compensation	73,287,915	61,821,217
<b>TOTAL</b>	<b>8,454,400,922</b>	<b>11,322,025,017</b>

**39. DISCLOSURE ON PPE MOVEMENT SCHEDULE**

**Disclosure on correction on PPE Movement Schedule**

The Authority undertook 100% verification of assets in the FY 2020/2021 to ascertain the physically available assets owned by the Authority. The exercise resulted to prior year adjustment recommended by the Authority to be adjusted prospectively from FY 2020/2021.

IPSAS 3 recommends retrospective correction of errors, however it provides for limitations of retrospective adjustment under paragraph 48 that *"A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error"*. The errors herewith recorded by the Authority related to disposals done in previous years as "lots" and revaluation done as batches under some classes of assets and could not be attached to some specific asset tags in the register. This has made the exercise impracticable to determine the specific assets from the asset register that were already disposed and those that were revalued with new prices in the prior years. The prior year's disposals of assets were physically done, however not done on the system/fixed as assets register. In addition, the items sold, as "lots" do not have records of the asset tags disposed hence could not be removed from the asset register individually on specific periods. In addition, assets disposed as lots, had been mixed with waste materials and had been paid for as a whole, in such cases prices could not be separated and apportioned to specific asset for proper disposal in the ERP/ Asset register.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

This necessitated prospective correction on the opening balances of the PPE movement schedule and the opening balances of the Statement of Statement of Changes in Net Assets.

The Authority has since developed a fixed asset policy as internal control to guide fixed management in the Authority. The Authority has further completed development of a robust fixed Asset Module that will be used to record all movements of all fixed assets

**40 DISCLOSURE ON DONATED MOTOR VEHICLES FROM PSI KENYA**

Population Services Kenya donated two motor Vehicles to KEMSA after completion of the Health Communication and Marketing Project (HCM) funded by USAID that ended on May 2021. The transfer was formalized through an agreement dated 25<sup>th</sup> March 2020 signed by the CEO and Chief of Party HCM Project and the CEO KEMSA. The vehicles were donated on condition that KEMSA would pay for the government taxes and levies required related to the transfer of ownership which included customs duty since the vehicles were previously tax exempt. The vehicles included a Toyota Landcruiser Hardtop and a Toyota Hilux Double Cab pickup. The Authority paid the required taxes, acquired ownership documents and recognized the vehicles in the asset register.

IPSAS 23 under paragraph 97 prescribes that *'donations including goods in kind are measured at their fair value as at the date of acquisition which may be ascertained by reference to an active market or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification'*. For purposes of recognition of the Assets in the Fixed Asset Register, the Authority recognized the value of donated Assets using the insurance valuation report and the customs duty paid. The Authority is organizing with the Ministry of Transport, Infrastructure, Housing and Urban development through the Mechanical and Transport division for the valuation of the Motor Vehicles as it awaits the completion of transfer, re-registration and valuation by the relevant ministry.

**41. DISCLOSURE ON GLOBAL FUND GRANT**

The Authority has commenced construction of the National Commodity Storage Center, **Project Ref No: 1081101**. Global fund is currently supporting the Authority on the project to the tune of **Ksh. 973 Million** as a grant through the National Treasury. The Authority has recognized the absorption of the Grant from Global fund as work in progress on the funds that have been paid to the supplier by the Global the supplier to the tune of **KSh. 736,662,279 Million**.

**42. DISCLOSURE ON SALE OF COVID-19 COMMODITIES**

The Cabinet approved the disposal of Covid-19 commodities at the prevailing market prices. There has been material reduction on market prices of these commodities. Also approved was a write off of Ksh 2.0 Billion against the commodities, however KEMSA had requested authority to write off Ksh 4.46 Billion which was estimated using the prevailing Market Prices as at June 2021.

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Approval of Ksh 2.0 Billion may not be adequate to support the anticipated actual loss of the commodities using current prevailing prices. KEMSA has written back to the Principle Secretary Ministry of Health for consideration. In addition, - KEMSA has engaged the Kenya National Bureau of Statistics to conduct a market survey that will inform the current prevailing Market prices.

#### **43. DISCLOSURE ON TAX DEMAND NOTICE**

The Kenya Revenue Authority served KEMSA with a Demand Notice dated 17<sup>th</sup> December 2020 of a total amount of **Kshs 461,568,874**.

The demand notice is based on the Audited Financial statements for the financial years 2015/2016, 2016/2017, 2017/2018 and 2018/2019, where a 30% Corporation tax has been applied on some revenue items in the financial statements.

After receiving the demand notice, KEMSA and KRA scheduled for a meeting to reconcile the assessment.

The first meeting between KEMSA and KRA was done in the month of May 2021 in a bid to reconcile the Tax Obligation.

On 22<sup>nd</sup> September 2021, KEMSA received another assessment from KRA for Corporation Tax with a revised claim of Ksh. 1,541,576,106.48 and informed the Authority for need a working meeting at KEMSA premises to review and deliberate on the pending issues.

The KEMSA management after receiving the second assessment sought professional opinion from the Office of Auditor General on 20<sup>th</sup> January 2022. In consultation with the OAG the Authority came up with reconciliation of corporation tax amounting of Ksh.274,553,747.69 which was calculated using the direct method. This amount is exclusive of penalty and interest. However, OAG expressed a request of the final assessment.

From the meeting KEMSA decide to schedule a meeting with KRA and AOG held on 17<sup>th</sup> March 2022 where there was a lengthy discussion and the following outcomes were considered.

1. KEMSA to deliberate and agree on a payment plan and advise KRA on first instalment for Kshs.274M payable on account
2. KEMSA to provide a schedule of buildings and machinery so that inspection can be undertaken and agree on the appropriate date to undertake inspection;
3. KEMSA would consult KRA on exempt non-pharmaceuticals supplies and provide a list to seek guidance.
4. KEMSA to ensure that current taxes are remitted on time.
5. Once reconciliation was completed, KEMSA would file amended returns.
6. KEMSA should provide to KRA, copies of the exemption certificates from the development partners as claimed.

7. Provide evidences of fee notes and remittances on account of withholding taxes for consultancy and legal fees.
8. Reconcile schedules for all taxes as provided by KRA prior to final exit meeting.
9. Provide breakdown on amounts paid on account of repair to building and roads. If paid to contractors then tax is withheld at 3%.
10. Both teams would engage and the final exit meeting would be held in a month's time where the final assessment would be presented.

From the meeting held on 17<sup>th</sup> march 2022, KEMSA has provided all the required documents and schedules to KRA and team is awaiting the final assessment from KRA.

**Why Tax Obligation:** The background of the non payment of Corporation Tax and VAT is premised on *KEMSA ACT SECTION PART III – FINANCIAL PROVISIONS which states that;*

*Funds of the Authority.*

*(3) Unless Treasury otherwise directs, the balance of the funds of the Authority at the end of the financial year shall be retained for the purposes for which the Authority is Established.*

Whereas, the Authority has a current Tax Compliance Certificate issued on 06/07/2021. The Management wishes to inform the Auditors of the following;

- (1) In case the KRA decides to go ahead with the demand notice, KEMSA will not be able to make the tax settlement due to cash flow challenges, and will require support from the Exchequer through the Ministry of Health. The risk resulting from this demand is possible aggression from KRA to progress to freeze KEMSA accounts, however the management believes that the Authority has not reached this this stage.
- (2) The VAT implication on the cost of medical commodities will be additional cost on the current state of the Authority which will worsen the current Financial Health and worse is increase medical cost for the entire country.
- (3) No sufficient Budget in the recurrent Budget for FY 2021/2022 for Corporation Tax and VAT

The Authority has since written to the Ministry of Health requesting for intervention in seeking waiver on the tax and penalties from The National Treasury.



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**44. ULTIMATE AND HOLDING ENTITY**

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

**45. CURRENCY**

The financial statements are presented in Kenya Shillings (Kshs)

## APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
1.	The accuracy and validity of the net sales balance of Kshs.1,818,997,228 for the year ended 30 June 2020 could not be confirmed.	KEMSA's business model is "PULL" system where counties, other public health, and Faith based facilities determine what they require and buy the same. After devolution, the entire public health supply chain system moved from push to PULL and some commodities attracted little or no demand from these facilities. These commodities have over time exhausted their shelf life and hence becoming obsolete.	Resolved	
2	The Authority had nine hundred and twelve (912) employees as at 30 June 2020 against an approved staff establishment of three hundred and forty-one (341) resulting in un-approved and unexplained over establishment of five hundred and seventy-one (571) officers. No	The factors that contributed towards the increase in the number of staff are  1. Implementation of the new business model to support the devolved county health facilities.  2. Implementation of the Government's Big Four Agenda		

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	approval was availed to support the over establishment of 571 officers.	The above two factors necessitated the engagement of short term staff on contract basis to enable KEMSA effectively respond to the county demands/workload.		
3.	It was observed that five (5) officers on secondment from the Ministry of Health have served the organization for a period of more than 6 years contrary to section 13.33 (1) of the Public Service Commission Human Resource Policy	The Authority had earlier on vide its letter Ref. No. KEMSA/ST/HR/20/02/19 dated 20th February 2019, written to the Principal Secretary/MOH requesting the Ministry to take back the seven (7) seconded staff. Out of the seven MOH employees, only two (2) staff were recalled/taken back by the Ministry, leaving behind the other five (5).	Not resolved	JUNE 2022
4.	The outsourced costs include amount of Kshs.75,000,000 captured vide journal KEMSA-JV-6-19/20 and Kshs.84,500,000 KEMSA-JV-42-19/20 disclosed as accrual of distribution expenses for the month of June 2019 June 2020 respectively. It could not therefore be confirmed why the Authority accrual the expenditure instead of capturing the actual invoices.	The amount of Ksh. 75Million was an estimated cost of distributing commodities for the month of June 2019. This was arrived at based on the Suppliers' statement as of 30 <sup>th</sup> June 2019. In the year under review, JV-6-19/20 was a reversal of the accrual done in FY 2018/19 since the actual invoices were expected to be received within the year 2019/2020. As demonstrated in the attached schedule, there was no significant variance between the JV and total value of the invoices. For the month of June 2020 distribution services were invoiced after end of FY 2019/20, hence necessitating an accrual for the expenditure in the month of June 2020. The JV-42-19/20 of Ksh. 84.5Million was an estimated cost of distributing commodities for the month of June 2020. This was arrived at based on the Suppliers' statement as of 30th June 2020. there was no significant variance between the JV and total value of the invoices	Resolved	

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5.	<p>The Authority entered into a contract agreement with a Courier Services Company on 24 September 2016 for provision of courier services to health facilities countrywide. However, it was noted that from April 2019 to September 2019, the firm was overpaid Kshs.19,352,250 and the amount had not been recovered as at 30 June 2020.</p>	<p>This issue is under investigation and awaiting the outcome, for further action. Payments of the supplier's pending invoices relating to the supplier are on hold until conclusion of the matter.</p>	Not resolved	
6.	<p>Receivables from exchange transactions balance of Kshs.6,601,968,773 as disclosed at note 18 to the financial statements includes receivables totaling Kshs.4,974,361 317 comprising of Counties Kshs. 2,848,869,446 and the Ministry of Health Kshs.2,125,491,871 that have been outstanding for more than twelve (12) months and whose recovery is doubtful</p>	<p>We concur with your observation that as at 30th June 2020, The County Governments owed KEMSA a total outstanding debt of Ksh. 2,848,869,466.67. We wish to inform you that as at 25<sup>th</sup> March 2021, KEMSA has collected a total of Ksh. 2.234 Billion from the counties against the debts outstanding as at 30<sup>th</sup> June 2020.</p>	Not resolved	

<p>7.</p>	<p>Included in inventories balance of Kshs.16,057,902,180 as at 30 June 2020 is pharmaceutical and non-pharmaceutical stocks balance of Kshs.16,053,860,980 which includes stocks of Kshs.8,022,512,318 in respect of KEMSA capital stocks that also include COVID 19 stock amounting to Kshs.2,264,047,646. It was however noted that the Authority procured COVID items amounting to Kshs.7,632,065,588 during the year under review. However, analysis and review of store records revealed that stocks amounting to Kshs.401,912,648 were issued and stock balances of COVID 19 items as at 30 June 2020 stood at Kshs.2,264,047,646 compared to the expected balance of Kshs.7,230,152,940.</p>	<p>We wish to clarify that value of procurement of COVID 19 items was Ksh. 7,632,968,223.53 and not Kshs. 7,632,065,588 as captured in the query. As at 30 June 2020 the value of COVID 19 stocks stood at Ksh. 5,736,405,163.33. Stocks worth Ksh. 1,896,563,060.20 had been issued out of the initial procurement of Ksh. 7,632,968,223.53. However, only stocks valued at Ksh. 3,959,375,534.75 were captured in the stock take valuation of Ksh. 16,053,860,980 leaving out a balance of Ksh. 1,777,029,628.58.</p>		
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8.	<p>As previously reported, the property, plant and equipment balance of Kshs.6,341,530,304 as at 30 June 2020 includes land at a cost of Kshs.1,786,967,270 which includes various parcels of land spread across the country and valued at Kshs.158,000,000 for which the Authority does not possess ownership documents.</p>	<p>Board has however engaged Priority Management Limited, (Conveyance experts) and KTK Advocates to handle the issue of realization of the titles deeds and is following up on updates on issuance of title documents from the respective lands registries.</p> <p>KEMSA does not possess documents to facilitate processing of registration of the Meru land measuring 0.3 Has in its favour. The Authority has also realized that the user of the subject parcel of land has been converted from establishment of medical stores to establishment of a stadium hence it is not foreseeable that KEMSA will acquire title documents in respect of the land.</p>	Not resolved	June 2022
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9	<p>The property, plant and equipment balance of Kshs.6,341,530,304 includes motor vehicles net book value of Kshs.80,472,648 which include four (4) vehicles with a net book value of Kshs.410,083 that are owned by the National Government.</p>	<p>KEMSA had requested for transfer of ownership from the Permanent Secretary, Ministry of Health, copy of the letter attached (<i>Appendix 6.2 - Copy of letter to Ministry of Health requesting to transfer of GK motor vehicles to KEMSA and letter from MOH recalling 2 drivers and a vehicle registration number GK 960B</i>).</p> <p>The vehicle registration number GK 960B was physically released to the Ministry as soon as the request was received. We acknowledge that no formal release letter was provided to Finance Department in order make adjustments in the Asset Register.</p>	Not resolved	30 <sup>th</sup> June 2022
10	<p>Included in the work in progress balance of Kshs. 1,247,756,581 are two contracts for proposed refurbishment of Mombasa and Kisumu warehouses. Contract No KEMSA/RT24-20 18-2019, Mombasa Warehouse and KEMSA/RT1-20 18-2019, Kisumu warehouse amounting to Kshs.26,458,460 and 30,667,130 respectively which were awarded through restricted tender on grounds of urgency on 13 February 2019. Work was to be completed on or</p>	<p>Restricted tendering was not used because the works were urgent as the method that would have been applicable in case of urgency is Direct Procurement. However, the choice of Restricted Tendering method was in line with Section 102 (1) (b) of the Public Procurement and Asset Disposal Act 2015 which envisaged that below some threshold it would not be prudent to use the Open Tender method if the cost and time involved in processing the tender was disproportionate to the value of the tender. Regulations 2006 did not set the threshold and left it at the discretion of Procuring Entities to determine the threshold below which to use this provision of the Act. It was KEMSA's considered opinion that the value of the tenders satisfied provisions of Section 102 (1) (b) of the Act. Indeed Regulation 2020 have set the</p>	Not Resolved	

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	before 30 April 2019. However, by the time of the audit in January 2021, work had not been completed although the contract period had lapsed.	threshold under which this provision can be used at Ksh 30 million.		
11	Trade and other payables from exchange transactions balance of Kshs.6,879,649,362 as at 30 June 2020 includes long outstanding operation creditors of Kshs.36,227,940 that have been outstanding for a long period of time. Further, the trade and other payables from exchange transaction balance includes long outstanding suppliers' funds retained balance of Kshs.22,441,620 out of which Kshs.10,977,837 is dated 1 July 2012.	<ol style="list-style-type: none"> <li>1. The amount of Ksh. 9,858,300 is a retention for Alliance Technologies Ltd after the termination of the contract existing between KEMSA and Alliance Technologies Ltd, due to failure to meet obligations under the contract. Alliance Technologies sought legal redress and the case is still ongoing, and as stated in the Memorandum of Appearance, civil suit No. 87, KEMSA has retained the amount until the case is decided.</li> <li>2. long outstanding operation creditors of Kshs.36,227,940. Awaiting resolution of the pending bills incurred during operation of the consortium. The National Treasury-Global Fund office is currently processing the outstanding pending bills.</li> </ol>	Not Resolved	Pending Court decision
			Partially resolved	June, 2022
12	Note 28 to the financial statements reflects medical commodity fund balance of Kshs.7,239,837,543 as at 30 June 2020 comprising of third-party stocks balance of Kshs.7,222,525,965 and global funds account balance of and Kshs.17,311,578. However,	<p>It was realized that third party funds i.e. funds held on behalf USAID for payment of suppliers and un-spent AIE's funds received had been omitted in the analysis. We wish to confirm that the balance of the Medical Commodity Fund as at 30<sup>th</sup> June 2020 was Ksh. 8,920,214,768.39. The breakdown is as follows:</p> <ol style="list-style-type: none"> <li>1. Third Party Stocks -Ksh. 8,031,348,661</li> <li>2. Funds Held On Behalf Usaid For Payment Of Suppliers - Ksh. 55,383,691.94</li> </ol>	Resolved	

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	<p>supporting documents and schedules for the two balances were not availed for audit review. Further it was noted that third-party stocks balance of Kshs.7,222,525,965 differ with the figure of third-party inventory reflected in the financial statements supporting schedule balance of Kshs.8,031,348,661 resulting in unexplained variance of Kshs.808,822,696. Consequently, the accuracy and validity of the medical commodity fund balance of Kshs.7,239,837,543 as at 30 June 2020 could not be confirmed.</p>	<p>3. Un-Spent Aie's Funds Received -Ksh. 816,170,837.30          4. Global Funds Account Balances Ksh. 17,311,578.15</p>		
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Signature..........

Date.....

**Terry Kiunge Ramadhani**  
**CHIEF EXECUTIVE OFFICER**

**APPENDIX 2: PROJECTS IMPLEMENTED BY THE STATE CORPORATION/SAGA FUNDED BY DEVELOPMENT PARTNERS**

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
EAST AFRICA PUBLIC HEALTH NETWORKING PROJECT	KE-4732	WORLD BANK	Start: July 05 2010  End: March 31,2020		YES	YES
USAID KEMSA MCP PROGRAM	AID-615-C-15-00003	USAID	Start: October 1 <sup>st</sup> 2015  End : 30 <sup>th</sup> December 2020		NO	YES

### APPENDIX 3: INTER-ENTITY TRANSFERS

Transfer from Ministry departments and Agencies (MDAs)

RECURRENT GRANT						
Date Received	Name of the Entity Sending the Grant	Amount recognized in Statement of Comprehensive Income	Amount Deferred	AMOUNT RECOGNIZED IN CAPITAL Fund	Total Grant Income during the quarter	Prior year 2019-2020
4/9/2019	Ministry of Health					97,684,999.00
12/27/2019	Ministry of Health					97,684,999.00
4/1/2020	Ministry of Health					97,684,999.00
5/8/2020	Ministry of Health					97,684,999.00
12/3/2020	Ministry of Health	125,000,000.00	-	-	125,000,000.00	
<b>TOTAL RECURRENT</b>		<b>125,000,000.00</b>			<b>125,000,000.00</b>	<b>390,739,996.00</b>
DEVELOPMENT GRANT						
1/16/2020	Ministry of Health					131,250,000.00
4/27/2020	Ministry of Health					131,250,000.00
						<b>262,500,000.00</b>
DIRECT PAYMENT						
Date Received	Name of the Entity Sending the Grant	Amount recognized in Statement of Comprehensive Income	Amount Deferred	AMOUNT RECOGNIZED IN CAPITAL Fund	Total Grant Income during the quarter	Prior year 2019-2020
7/7/2020	Ministry of Health	-	-	-	1,500,000,000.00	299,999,988.00
7/8/2020	Ministry of Health	-	-	-	175,000,000.00	5,799,085.00
7/9/2020	Ministry of Health	-	-	-	300,000,000.00	20,098,620.00
7/9/2020	Ministry of Health	-	-	-	304,160,118.00	38,000,915.00
7/9/2020	Ministry of Health	-	-	-	77,774,400.00	195,213,987.00
7/10/2020	Ministry of Health	-	-	-	50,375,000.00	931,373,369.30
7/13/2020	Ministry of Health	-	-	-	20,381,515.00	50,375,000.00
7/13/2020	Ministry of Health	-	-	-	9,889,451.00	245,000,000.00
10/29/2020	Ministry of Health	-	-	-	8,929,600.00	8,956,350.00
12/7/2020	Ministry of Health	-	-	-	5,872,215.00	2,756,682,278.09
12/21/2020	Ministry of Health	-	-	-	13,400,863.00	54,000,000.00
3/12/2021	Ministry of Health	-	-	-	200,000,000.00	486,000,000.00
3/12/2021	Ministry of Health	-	-	-	100,285,556.00	450,000,000.00
3/25/2021	Ministry of Health	-	-	-	436,083.00	50,000,000.00
4/29/2021	Ministry of Health	-	-	-	1,232,377,870.00	237,700,000.00
5/3/2021	Ministry of Health	-	-	-	59,000,000.00	2,875,365.00
5/10/2021	Ministry of Health	-	-	-	365,200.00	39,999,590.00
5/19/2021	Ministry of Health	-	-	-	150,000,000.00	500,000,000.00
5/19/2021	Ministry of Health	-	-	-	1,200,000,000.00	300,000,000.00
5/26/2021	Ministry of Health	-	-	-	68,090,405.65	100,000,000.00
6/23/2021	Ministry of Health	-	-	-	116,153,445.25	100,000,000.00
	Ministry of Health					100,000,000.00
	Ministry of Health					2,682,852,853.40
	Ministry of Health					1,802,997,659.80
	Ministry of Health					333,470,837.30
<b>TOTAL DIRECT RECEIPT</b>					<b>5,592,491,721.90</b>	<b>11,811,395,897.89</b>
<b>TOTAL RECEIPTS</b>					<b>5,717,491,721.90</b>	<b>12,464,635,893.89</b>