

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**KENYA MEDICAL SUPPLIES
AUTHORITY**

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



KEMSA

KENYA MEDICAL SUPPLIES AUTHORITY



YOUR PARTNER IN HEALTHCARE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2020

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

TABLE OF CONTENT

KEY ENTITY INFORMATION AND MANAGEMENT.....	2
THE BOARD OF DIRECTORS.....	8
KEY MANAGEMENT.....	11
CHAIRMAN'S STATEMENT.....	13
CHIEF EXECUTIVE OFFICER'S STATEMENT.....	17
CORPORATE GOVERNANCE STATEMENT.....	27
MANAGEMENT DISCUSSION AND ANALYSIS.....	32
CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT.....	38
REPORT OF THE DIRECTORS.....	51
STATEMENT OF DIRECTORS' RESPONSIBILITIES.....	53
REPORT OF THE AUDITOR GENERAL.....	55
STATEMENT OF FINANCIAL PERFORMANCE.....	57
STATEMENT OF FINANCIAL POSITION.....	58
STATEMENT OF COMPARISON BUDGET AND ACTUAL AMOUNTS.....	62
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	66
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020.....	67
Appendix 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....	95
Appendix 3: PROJECTS IMPLEMENTED BY THE STATE CORPORATION/SAGA FUNDED BY DEVELOPMENT PARTNERS.....	103
Appendix 4: INTER-ENTITY TRANSFERS.....	104

KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

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

The Health Laws (Amendment) Act, No. 5 of 2019 amended the 2013 Act to provide for collaboration between KEMSA and County Governments. The Health Laws (Amendment) Act further provides that national and county health facilities would refer to KEMSA for their Health Products and Technologies.

(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

KEMSA intends to continue pursuing its current dream of: *"A world class provider of health supply chain solutions that save and transform lives"*.

➤ Mission Statement

This statement of purpose expresses Authority's reason for existence. The statement herein below sets out KEMSA mission is: *"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.

(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 2020 and who had direct fiduciary responsibility were:

1.	Dr. Jonah Manjari Mwangi	Chief Executive Officer
2.	Mr. Fredrick Wanyonyi	Director- Legal
3.	Mr. Charles Juma Ezekiel	Director- Procurement
4.	Mr. Edward Njoroge	Director - Operations
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 Chairman 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, the Principal Secretary Ministry of Devolution and Planning or his representative, four members who are not public officers with diverse medical supply chain management experience appointed by the Minister.

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

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

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

Finance, Strategy & Development Committee		Human Resources Committee	Audit and Risk Committee	Supply Chain Committee
Composition		Composition	Composition	Composition
Directors and the CEO		Directors and the CEO	Directors and the Internal Audit Manager	Directors and the CEO
Main Function		Main Function	Main Function	Main Function
Review and monitoring of KEMSA financial position, accounts, financial statements and statutory reports, Consideration of 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
Frequency of meetings per annum		Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum
Quarterly or on need basis		Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis

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

Chairman		Chairman	Chairman	Chairman
Tom Wambua (exited in March, 2020) Prof. Timothy Waema (Current chair)		Peninah Lung'adzo Mukabane (exited in March, 2020) Dr. Dorothy Aywak (Current chair)	Mr. Tom Wambua (exited in March, 2020) Mr. Joel Gesuka (Current chair)	Peninah Lung'adzo Mukabane (exited in March, 2020) Dr. Bibiana Njue (Current chair)
Members		Members	Members	Members
Mr. Bernard Ndun'gu (CM) Mr. Titus Muriithi (ISC Rep till September 2019) Dr. Jonah Manjari Mr. Fredrick Wanyonyi Dr. Josphat Mbuva (CM) Mr. George Ombua (current ISC rep)		Mr. Titus Muriithi (ISC Rep till sept) Dr. Jonah Manjari Mr. Fredrick Wanyonyi Mr. Bernard Ndun'gu (FM) Dr. Josphat Mbuva Mr. Joel Gesuka (CM) Mr. George Ombua (current ISC rep) Dr. Bibiana Njue (CM)	Mr. Titus Muriithi (ISC Rep till sept) Ms. Teresa Mute Ms. Peninah Mukabane (FM) Mr. Benard Ndung'u (CM) Dr. Dorothy Aywak (CM) Mr. George Ombua (current ISC rep)	Mr. Tom Wambua (FM) Mr. Titus Muriithi (ISC Rep till sept) Dr. Jonah Manjari Mr. Fredrick Wanyonyi Dr. Josphat Mbuva (CM) Prof. Timothy Waema (CM) Mr. George Ombua (current ISC rep)

NOTE:

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

(e) Headquarters

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

(f) Contacts

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

(g) Bankers

- | | |
|---|---|
| 1. National Bank of Kenya
Harambee Avenue,
NAIROBI | 2. Commercial Bank of Africa
Nyerere Road,
NAIROBI |
| 3. Kenya Commercial Bank
Kenya
Industrial Area
NAIROBI | 4. Co-operative Bank of

Enterprise Road
NAIROBI |
| 5. Equity Bank Ltd
Westlands Supreme Centre
NAIROBI | |

**(h) Independent Auditors
Advisers**

Auditor-General

Kenya National Audit Office,
Anniversary Towers, University Way,
P.O Box 30084
NAIROBI

(i) Principal Legal

The Attorney General

State law office,
Harambee Avenue
P. O Box 40112
NAIROBI

THE BOARD OF DIRECTORS

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



Sen. Kembi Gitura
Chairman-Board of Directors

Work Experience: Former Member of Parliament for Kiharu Constituency and Assistant Minister in the Ministries of Agriculture and Foreign Affairs. He served as Kenya's Ambassador to Belgium and Europe union. He served as Senator Muranga County from 2013 -2017. He is a lawyer by profession - (Kembi -Gitura & CO-Advocates)



Dr. Josphat Mbuva
Alt to PS Ministry of Health

Work Experience: Hospital pharmacist-District Hospital under MOH. Policy formulation and development in pharmaceutical services/health products and technologies (HPT). Currently working as the Ag. Director Pharmaceuticals-MOH



Prof. Timothy M. Waema
**Chairman-Finance, Strategy
& Development Committee**
(Effective May 26th 2020)

B B.Sc. Hons. (EEE, Bath, UK), Ph.D. (Information Systems, Cambridge, UK)

Work experience: Professor of Information Systems in the School of Computing and Informatics. He also has extensive ICT consultancy experience that spans over 30 years in both private and public sector organizations in Kenya and the African region in many aspects of ICT. He has consulted for numerous ministries, private firms and NGOs in Kenya and other African countries on ICT and related issues. Prof. has particular consultancy expertise in strategy development and execution, at both corporate and IT function levels. He has been involved in developing literally all the national policy and strategy documents relating to ICT and Science, Technology and Innovation. He has also been key in leading the innovation agenda of the University of Nairobi. He is also a member of the Advisory Board of the Carnegie Mellon University - Africa in Rwanda. He is a Professional Member of the Association for Computing Machinery (ACM).



Mr. Benard Ndung'u
**Alt. to PS, The National
Treasury**

B. Com (Finance), CPAK

Work Experience: Accountant General at the National Treasury. He is a member of ICPAK. He is an expert in Public Finance Management

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



Dr. Bibiana Kanduka Njue
Independent Director

Work Experience: KNH Pharmacies, Ministry of Health Headquarters and Pharmacy and Poisons Board as a Director Products Evaluation Registration Pharmacist by Profession-Retired from Public Service



Mr. Joel Gesuka
Independent Director

Work Experience: Former Chairman Water & Service Trust Fund in Audit and Risk Management (2015-2018)
Served in Minister of Finance in Uasin Gishu, Turkana, Kisumu and Trans Nzoia Counties



Dr. Dorothy Atieno Aywak
Independent Director
(Effective 26th May 2020)

B. Pharm (UoN), M.Pharm (UoN), MPSK, MHOPAK

Work Experience: Assistant Chief Pharmacist Kenyatta National Hospital, She has worked as a Pharmacist in Kenya Society for the Blind –National Eye Drop Production Unit. She has also done several Publications and has been involved in Research Activities, Scientific Presentations and Speaker Engagements among others.



Mr. Tom Mboya Wambua
*Independent Director (Retired
march 2020)*

MBA (UON), BCOM (UON)

Work Experience: Tom Wambua is a business man and a consultant in Strategic management and risk management. He has interests in banking, insurance, Distribution, real estate and security services. He holds MBA degree, Bachelor of Commerce from both the University of Nairobi and currently pursuing a Ph.D. in Strategic Management in Jomo Kenyatta University. He is the Honorary Consular General for Iceland in Kenya. He is the founder and CEO of various companies. Previously, he worked for British American Tobacco Company, until 2009 when he ventured in private business. He has wide international business exposure.



Peninah Lung'adzo Mukabane
Independent Director
Retired march 2020

M.SC Agric. Econ. (Moi), B.SC Agric. Econ. (Egerton), PGDE(Kenyatta)
Work Experience: Chief Advisor special programs and Gender affairs – Kakamega County, CEC Health Services –Kakamega County, Senior Lecturer and Head of Department-Bukura Agricultural College, Lecturer, Kilifi Institute of Agriculture, High School Teacher (Various) in Agriculture, Biology, Physics, Chemistry and Business Studies.



Jonah Manjari
Chief Executive Officer

(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



Mr. Fred Wanyonyi
Director-Legal

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

KEY MANAGEMENT

Dr. Jonah Manjari
Chief Executive Officer



Mr. Fred Wanyonyi
Director, Legal



Mr. Charles Juma
Procurement Director



Mr. Eliud Muriithi
Director, Commercial Services



Mr. Douglas Onyancha
Head of KEMSA/USAID MCP Program



Waiganjo Karanja CPA, CISA
Director, Finance and Strategy



Ms. Ebla Mohamed
Director, Human Resource & Admin



Mr. Edward Njoroge
Operations Director



Ms. Teresa Mute
Internal Audit Manager



Ms. Caroline Anunda (CPA)
Finance Manager

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it gives me great pleasure to present to you KEMSA's financial performance for the financial year ended 30th June 2020.

KEMSA recorded a remarkable performance because of continued focus on the Authority's key strategic pillars; Financial Stewardship, Customer Focus, Internal Business Processes and Systems, Strategic Partnerships, Leadership and Governance anchored in the new Strategic Plan 2019-2024 rolled out in the financial year under review. The Strategic Plan will give impetus to the ongoing infrastructure expansion such as the new modern warehouse and office block as well as redesigned distribution centres in Mombasa and Kisumu.

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

KEMSA as a state corporation is mandated to procure, warehouse and distribute Health Products and Technologies to public health facilities at both levels of government. KEMSA 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 Authority is committed to ensure value for money procurement of health commodities.

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

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

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.

Business Continuity

We have activated our Business Continuity Management Team that is to ensure that the safety and well-being of our employees, partners, customers, suppliers and other stakeholders remain our top priority while enabling the business to operate during this pandemic. In addition, have taken precautionary measures in line with the guidelines issued by the Government.

Business Performance

KEMSA revenue grew by 9% from Kshs 3.7 Billion in 2018-2019 to Kshs 4.7 in year 2019-2020. With this growth in business, operational expenses of the Authority, also increased by 19% from Kshs 2.557 Billion to Kshs 3.035.

KEMSA's performance contract score in the year 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 Mr. Joel Gesuka, Dr. Bibiana Njue, Dr. Dorothy Aywak and Prof. Timothy Waema to the KEMSA Board. I would also like to thank Mr. Tom Wambua, Mr Andrew Wanyonyi and Ms Peninah Mukabane whose term of service ended during the financial year, for their invaluable commitment, dedication and contribution in the Board.

Challenges faced by the Authority;

- Debt management remained a big task for the Authority especially the long outstanding debt owed by the Ministry of Health and County Governments, 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.
- Delay in issuance of tax exemption approvals from 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.

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:

- (i) Continue supporting efforts geared towards strengthening the Authority's Partnerships with the National Government, County Governments, and development partners in provision of better health to Kenyans.
- (ii) Capacity enhancement to increase performance levels.
- (iii) Cost reduction in all areas of operations, including increasing operating efficiencies and reducing administrative overheads.
- (iv) Partnerships with Strategic partners to deliver healthcare to the Kenyan public through various programs.
- (v) The expanded UHC program provides an opportunity to increased/
Widen KEMSA's product range
- (vi) Reengineered Supplementary services division with the hopes to leverage on the new areas of business.
- (vii) Enforcement of governance and ethics in all our day-to-day operations.

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.

A handwritten signature in blue ink, appearing to read "M. Chao Mwadime", is positioned above the printed name.

MARY CHAO MWADIME

CHAIRPERSON, BOARD OF DIRECTORS

(Appointed 28th April 2021)

CHIEF EXECUTIVE OFFICER'S STATEMENT

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 six (6) regional warehouse 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 KEML, KMSL List 2019 and developed a comprehensive UHC list of products based on demand projections. KEMSA stocks over 1,050 essential medicines and medical supplies (EMMS). 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. In addition, the Authority has invested in its infrastructure by operationalization of Kisumu and Mombasa as distribution centers.

Non-Financial Performance

In FY 2019-20, The Average KEMSA Sales Order Fill Rate was 68% and 69% for Non-UHC and UHC commodities respectively against a target of 90%.

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

There was an increased OFR under UHC at the end of the year due to the increased commodity availability during the period. It is important to note the UHC scale-up was rolled out in March 2020.

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 12.3 days, 12.6 days, 8.4 days for EMMS and Programs orders respectively against the target of 7 days. The average OTT for RHF orders was 17.5 days against the target of 10 days. EMMS took an average of 21.6 days while programs took an average of 9 days from order date to receipt at the facilities.

Financial Performance

KEMSA's total income for the year 2019-20 was Ksh 4.7 Billion against a target of Ksh 4.3 Billion which was 9% above the target. The increase was mainly due to growth in net sales from **Kshs 1.164 Billion** to **Kshs 1.82 Billion**. Which is attributed to UHC scale up program rolled out by the Ministry of Health together with the Authority.

Total expenditure amounted to Ksh 3.038 Billion which was a 98% of the approved expenditure budget of Kshs 3.102 Billion.

The authority realized a surplus of Ksh 1.663 Billion. The growth in capital expenditure 5% is attributed to the ongoing construction of the National Commodity Storage Centre which is a Vision 2030 Flagship project. The Authority received Ksh 390.7M recurrent grant and Kshs 262.5M development grant from the Ministry of Health, and 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.

The Authority also developed a cost allocation policy whose objective is to ensure the Authority's self-sustenance. The cost allocation policy and pricing strategy for KEMSA is aimed to ensure the adequacy of KEMSA's capital structure and capability

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

by assessing the adequacy of the fees charged by KEMSA on programs, KEMSA's operating margins and break-even point. This will ensure the Authority has minimum dependency on grants/funding from the GOK.

Financial year 2019-2020 marks the final year (Year 5) of the KEMSA MCP contract with USAID. The contract ends in December 2020 after a 3 months extension. 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 Ministry of Health and counties posing liquidity risks to its operation. KEMSA has been following up on the settlement of these debts with the Ministry of Health and the counties through correspondences and meetings.

The Authority experienced delays in issuance of tax exemption approvals from the Ministry of Health and The National Treasury that resulted to delays in achieving the targeted completion of the National Commodity Storage Centre which has since been resolved through stakeholder engagement.

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
- Korea Foundation for International Healthcare (KOFIH)
- Elizabeth Glaser Paediatric AIDS Foundation (EGPAF)
- Other International Donors

Global Awards

The KEMSA MCP program was accorded a rare opportunity to make two presentations at the 12th GHSCS in Johannesburg, South Africa. The program submitted two presentations titled;

Systems integration and decentralization of commodity management; A case of Kenya Medical Commodities supply chain.

Value stream descriptive analytics: lessons learnt and gains in the management of acquisition lead time. A case of Kenya Medical Commodities Program.

KEMSA was privileged to be named the **12th GHSCS prize winner**.

The Global Health Supply Chain Summit focused on maximizing global health supply chain impact: data and analytics, entrepreneurship and

accessibility.



Figure 1: Mr. Martin Mwenda, Program Officer, USAID KEMSA MCP being Awarded GHSCS Prize

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

To this end I would like to appreciate our parent Ministry, the National Treasury and Planning 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.

A handwritten signature in blue ink, appearing to read "E. Njoroge", is positioned above the printed name.

MR. EDWARD NJOROGE

Ag.CHIEF EXECUTIVE OFFICER

REVIEW OF KENYA MEDICAL SUPPLIES AUTHORITY PERFORMANCE FOR FY 2019/2020

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	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.	a) 8 Billion b) 98% c) This is a new indicator

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

		c) Sustainability index.	IV. Develop and implement cost management mechanism. V. Ensure Business sustainability.	
Pillar 2: Customer Focus	To increase Market Share from 70% to 90%.	a) % of debt recovered b) Customer Satisfaction rate.	I. Increase demand for KEMSA Health Products & Technologies. II. Enhance commercial performance. III. Improve marketing communication. IV. Improve customer relationship management. V. Strengthen the capacity of SSD.	a) 68% of debt recovered. b) Customer satisfaction survey will be carried out the FY 2020/21.
Pillar 3: Internal Business Processes and Systems.	To have robust physical facilities, internal business processes, systems and infrastructural upgrades that support business growth.	a) % Order fill rate b) Order Turn Around Time.(for Hosp and RHF)	i. Bi-annual Review of Health Products and Technologies demand - strengthen selection, forecasting and quantification. ii. Develop and update appropriate products and specifications in collaboration with MOH guidelines and customers. iii. Advocate for enactment of new regulations for the PPAD Act 2015 to ensure the regulations meet KEMSA's needs iv. Strengthen quality assurance processes and systems throughout the supply chain v. Improve operational performance management vi. Improve Order Fill rate vii. Improve order turnaround time	a) Average OFR UHC- 69% Average OFR for programmes- 98% b) average order turnaround time- Hosp-14.3 days Average Turnaround time RHF-17.5 days

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

			<ul style="list-style-type: none"> viii. Improve Staff welfare by provision of amenities and recreational activities ix. Establish employee assistance programmes 	
Pillar 4: Strategic Partnerships	To develop and strengthen strategic alliances and partnerships for improved health supply chain systems.	<ul style="list-style-type: none"> a) Number of new partners on board b) Number of existing key stakeholders 	<ul style="list-style-type: none"> i) Develop and sustain transformational relationships with development partners ii) Leverage on the strength of local manufacturers and industry players. iii) Build and sustain partnerships with key stakeholders iv) Strengthen collaboration with Ministry of Health and the National Treasury 	<ul style="list-style-type: none"> a) 3 partners b) 15 Partners(stakeholders)
Pillar 5: Leadership and Governance	To develop a dynamic, transparent and accountable governance structure	<ul style="list-style-type: none"> a) % increase in employee engagement index b) % Audit Recommendations accepted and Implemented 	<ul style="list-style-type: none"> i) Provide effective leadership and oversight ii) Strengthen management systems for enhanced efficiency iii) Improve public opinion, attitude and behavior of key stakeholders iv) To Strengthen Enterprise Risk Management and Strengthen BCM v) Strengthen corporate security risk and disaster management programmes vi) Review Human Capital Management Systems vii) Strengthen Authority's Culture viii) Provide assurance on internal controls, governance and risk management systems ix) Review the KEMSA Act. 	<ul style="list-style-type: none"> a) To be carried out in the fy 2020/21 b) 65%

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

Pillar 6: Innovation and technology	To develop and maintain highly effective, reliable and secure ICT solutions that enhance user experience in health supply chain Delivery.	<p>a) No. of functional modules in the ERP implemented</p> <p>b) % Procurement s done through e- Procurement</p>	<p>i) Offer automated online enterprise facing and customer facing services</p> <p>ii) Enhance availability of business systems and ensure continuity of business operations.</p> <p>iii) Improve the efficiency and availability of ICT service delivery.</p> <p>iv) Proactively identifying and mitigating ICT risks, threats and vulnerabilities.</p> <p>v) Enhance compliance with best practice frameworks, standards, procedures and governance policies.</p>	NB: this is a new pillar that was introduced in July 2020 and therefore no reporting was done during the FY in question.
---	--	--	---	---

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.

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.

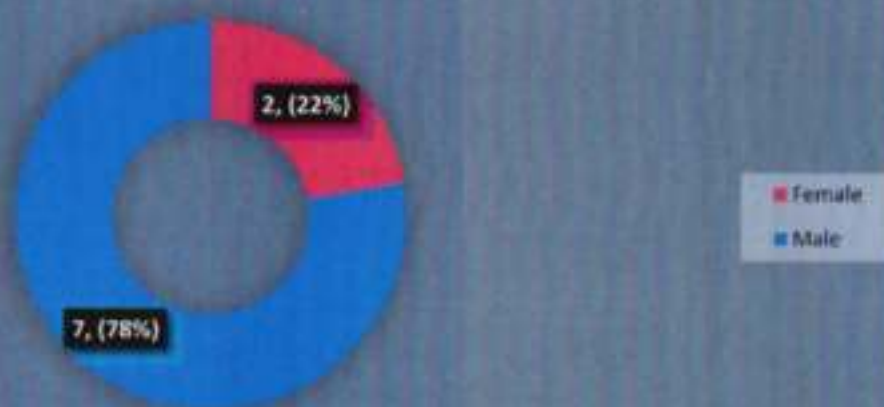
At Kenya Medical Supplies Authority, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the Authority's activities. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre for Corporate Governance (Kenya) as its benchmark in developing its corporate governance principles. In addition, KEMSA is in compliance with Code of Governance-Owned Entities (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 Chairman 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, the Principal Secretary Ministry of Devolution and Planning or her representative, four private sector members who are not public officers with diverse skills and experience in medical supply chain, finance, law and business management 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;

Board Gender Presentation

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 Chairman provides the overall leadership to the Board without limiting the principle of collective responsibility for Board decisions. He 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 Chairman 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 Director Legal Services.

Table 1: Board Membership and Attendance for the Current Directors for the FY 2019-2020

Board Member	Classification	Designation	Finance, Strategy & Development Committee	Human Resources Committee	Audit and Risk Committee	Supply Chain Committee	Full Board Meetings
TOTAL NUMBER OF MEETINGS (JULY,2019-JUNE,2020)			5	4	4	5	14
1.Sen.Kembi-Gitura	Appointed by the President	Chairman	n/a	n/a	n/a	n/a	13
2. Mr. Bernard Ndung'u	Representing P.S, The National Treasury	Member	2	n/a	-	n/a	3
3.Dr. Josphat Mbuva	Representing MOH	Member	5	4	n/a	5	12
4.Mr. George Ombua	Representative of SCAC	Member	4	2	1	2	3
5.Ms. Peninah Mukabane	Independent	Member (expired 13/03/2020)	n/a	4	4	3	11
6. Mr. Tom Mboya	Independent	Member (expired 13/03/2020)	5	n/a	3	5	10
7.Dr.Bibiana Njue	Independent	Member	1, from March n/a	1	1, from March n/a	2	5
8.Mr.Joel Gesuka	Independent	Member	1 from March n/a	1	1	n/a	6
9.Prof. Timothy Waema	Independent	Member	-	n/a	n/a	-	1
10.Dr.Dorothy Aywak	Independent	Member	n/a	-	n/a	-	1
11. Mr. Titus Muriithi	Representative of SCAC (till August, 2019)	Member	-	1	-	-	2

Process of appointment and Removal of Directors

Board structure, composition and method of appointing and removing directors are detailed section 7 of the Authority's KEMSA Act 2013 establishing KEMSA.

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 Chairman is paid a monthly honorarium.

Conflict of Interest

Directors 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 with the Directors or related parties.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

The Financial year 2019/2020 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 31st of January 2019
- iv. Submission of Annual Procurement Plan by 15th August 2019.
- v. Compliance with other circulars from National treasury issued in 2019/2020

Financial Highlights

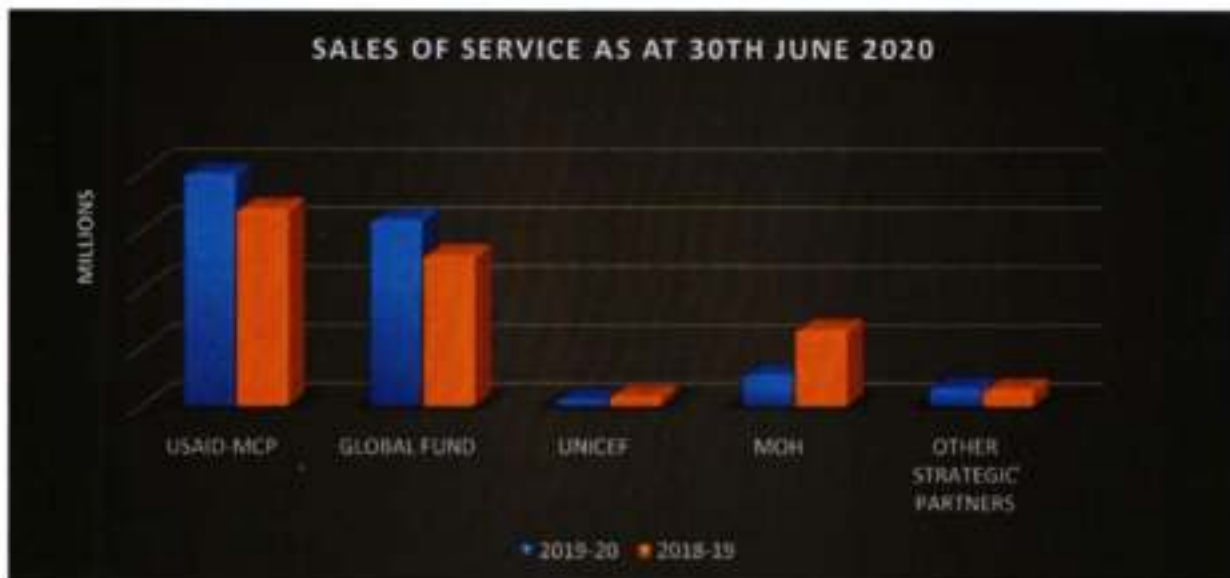
KEMSA's total revenue for the financial year 2019-20 was **KES 4.7 Billion** which is composed of grants from the Ministry of Health of Ksh 653 Million, net sales of Ksh 1.82 Billion, supply chain fees of Ksh 1.627 Billion, Interest income of Ksh 489 Million and other incomes of Ksh 112 Million.

The compounded annual growth rate (CAGR) for the Authority's revenue in last five years is 8% as presented below;

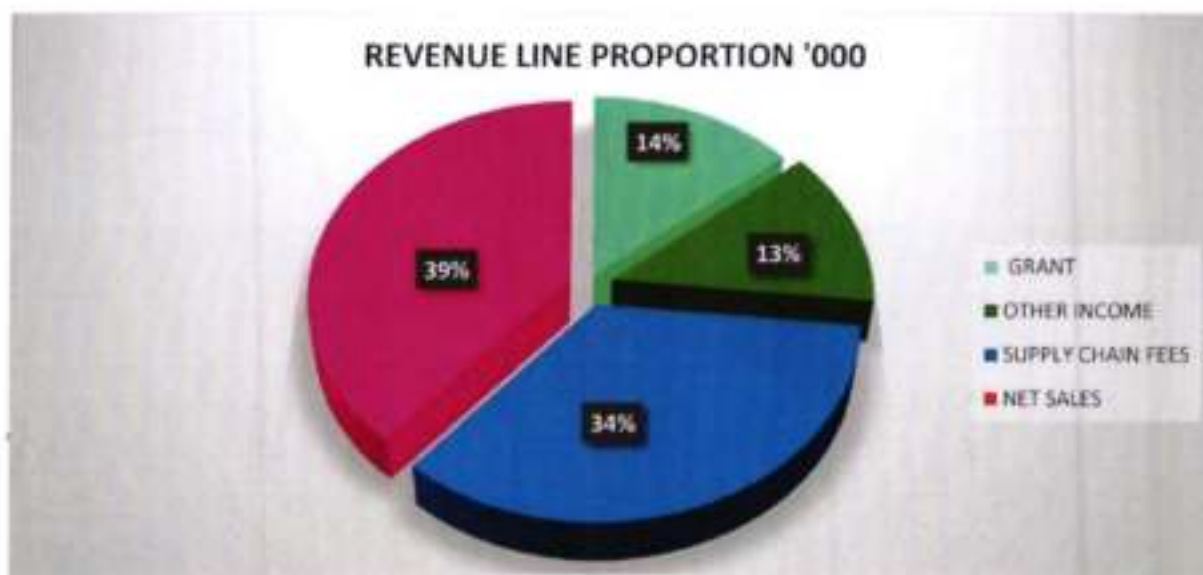


Sales of Service

KEMSA earned **KSh. 1.626 Billion** from sale of procurement, warehousing and distribution services from key strategic partners. 49% of this earnings came from USAID, 39% from Global fund, the distribution of sales services for the year is as shown below;

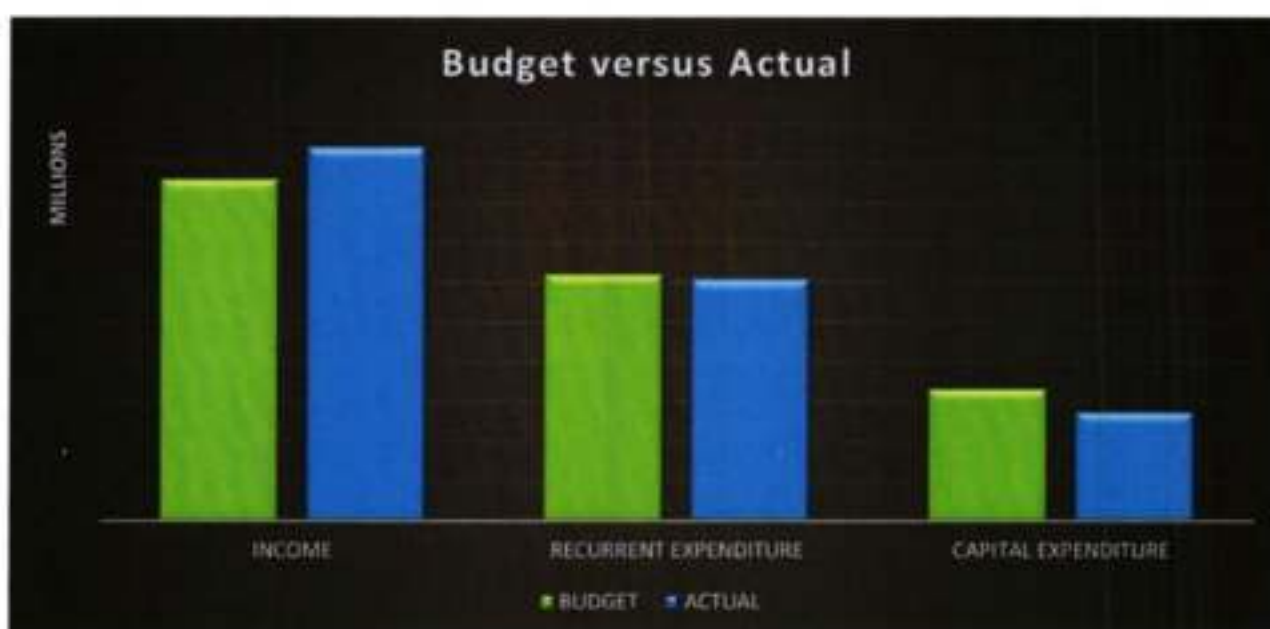


The highest sources of revenue in the year 2019-2020 came from Net sales at **KSh. 1.819 Billion** at **41%** followed by supply chain fees at **KSh 1.626 Billion** at **37%**, with other income and government grant being **13%** and **14%** respectively.



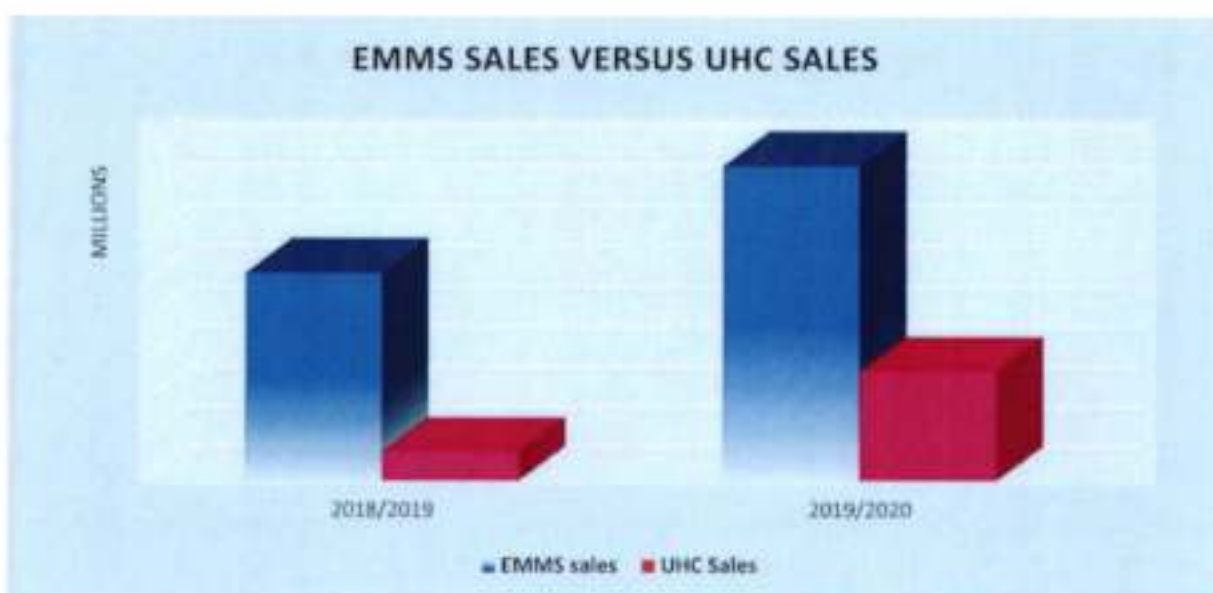
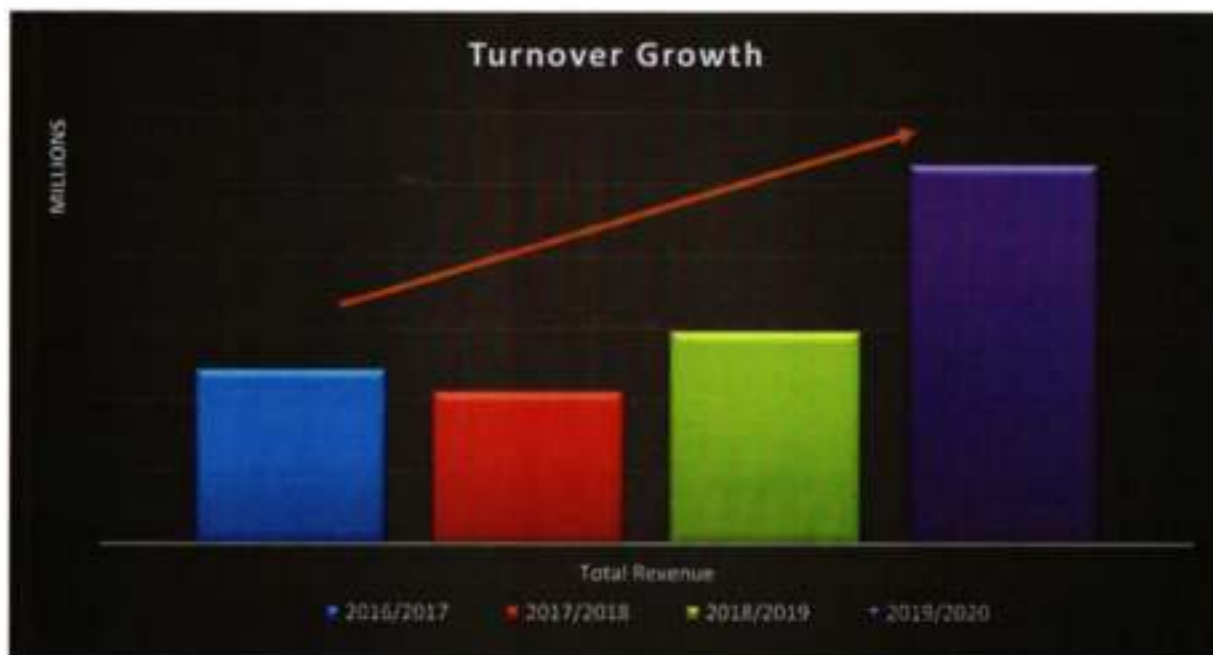
Expenditure Absorption Rate

During the financial year ended 30th June, 2020, the Authority's recurrent expenditure amounted to Kshs 3.035 Billion against a target of Kshs 3.102 Billion. Translating into 98% absorption of the total funds allocated while Capital Expenditure amounted to KSh 1.366 Billion against a target of KSh 1.662 translating into 82% absorption.



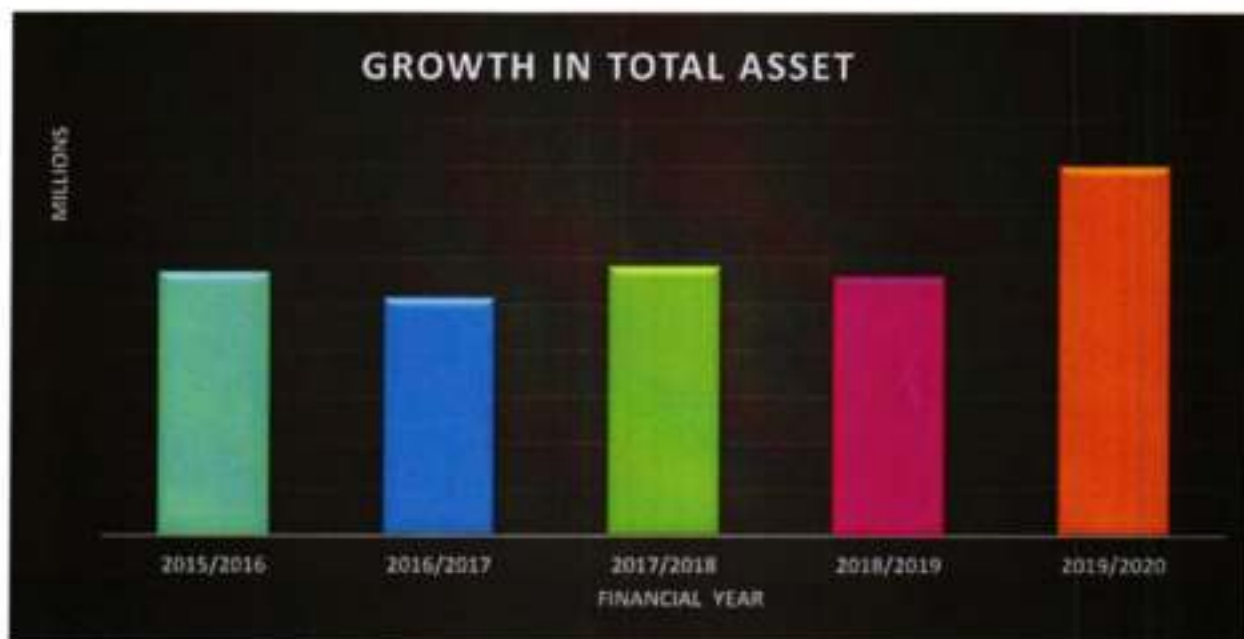
Sales revenue analysis:

KEMSA's Sales revenue amounted to **Kshs 10.5Billion**, with a cost of sales of **Kshs 8.76 Billion**. The gross profit was **Ksh 1.8 Billion**. The realized sales revenue were 126% above budget due to increase in sales to counties and SSD customers as a result of UHC pilot and Scale up orders.



The UHC sales for FY 2019-2020 has grown three times the sales of year 2018-2019 while EMMS sales increase by 0.5 times.

The Authority has experience tremendous growth in its assets book value, mainly attributed to increase in inventory and Cash and Cash equivalents.



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), a systems used by the counties for ordering medical commodities. The LMIS is an e-platform that enables county health facilities to accesses 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 ring and management of Universal Healthcare commodities.

The authority also operationalized the 3CX video conferencing and call center systems to improve service delivery to the county health facilities. This is an online e-platform that enables customer service and KEMSA staff to receive customer calls over Wi-Fi and other data connectivity channels on their laptops, desktops, tablets and mobiles phones. This has enables county customers and other customers to be serviced by staff even when they are not on their desks hence improving productivity. The 3cx platform is integrated with the complaint handling system.

During the year under review the Authority procured an E-Board Management Systems to automate the operations of the Board and enhance its efficiency. The system will enable the Board

to management meeting effectively, with the advantage of reducing paperwork and enhancing remote attendance capabilities thus reducing traveling and printing. The implementation will be carried out in the following year.

Data analytics is central to making informed business decisions in the Authority. The authority embarked in developing dashboards and reports to derive insights from its data and moving its main supply chain systems to the web technologies with aim of supporting a highly mobile workforce. The development is ongoing and will be commissioned in the next financial year.

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.

- I. Stock-outs
- II. Delays in collection and non-payments for sales made and services offered
- III. Reduced support from development partners
- IV. Expiries and/or short-dated commodities
- V. Negative media publicity
- VI. Disruptions in KEMSA's operations

KEMSA has established and implemented an effective risk management framework. The Authority has adopted ISO 31000:2009 Risk Management Principles and Guidelines in the establishment and implementation of KEMSA's Risk Management Framework that requires strong and sustained commitment from the Board and Management as well as strategic and rigorous planning to achieve commitment at all levels of the Authority.

The management of risk at strategic, operational and project levels is integrated so that the levels of activity support each other. In this way, implementation of the Risk Management Strategy led by the Board and Management ensures risk management is embedded in the normal working routines and activities of KEMSA. KEMSA has defined policies and procedures to ensure that the system of internal controls provide reasonable assurance that the assets are safeguarded, transactions are authorized and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

Sustainability strategy and profile -

KEMSA overall goal is geared towards "Innovation and excellence for expanded market share, enhanced customer satisfaction, strengthened financial performance & sustainability". KEMSA is focused on building a resilient health supply chain organization through effective capital management, expanding our product and customer range, effective stakeholder engagement and business innovation.

At KEMSA in order to ensure sustainability, a culture of performance management and innovation is ingrained in all staff irrespective of their levels. This enables staff to appreciate their individual linkage and contributions to the implementation of the Strategic Plan and the attainment of KEMSA objectives.

KEMSA Sustainability focus is on Regulatory environment, big-4 agenda (UHC), Kenya Vision 2030(MTP III), macro -economic factors, Financing, business and revenue growth, cost containment, competition, Human Resource and diversity, innovation, customer and stakeholder's satisfaction.

In order to achieve our sustainability goal, KEMSA has developed the KEMSA 2019-2024 strategic plan that is not only geared towards achieving its mandate as stipulated in the KEMSA Act 2013 but also towards business growth and sustainability amidst the ongoing pandemic, COVID-19, and other challenges encountered within the health sector in Kenya.

Environmental performance

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

The Authority's activities seek to contribute to a better environment, including better use of water and electricity, increasing tree cover, proper waste disposal, reducing air and noise pollution and addressing the effect of climate change.

In fulfilling our CSR promises, KEMSA have adopted a 'Value to the Planet Pillar' under which the following activities are undertake;

A. Outdoor Environment Programmes**i. Adopt-a-Forest Programme**

KEMSA has a seven-member committee to undertake environmental sustainability initiatives. In response to the Government national campaign dubbed "Adopt a forest initiative" to achieve two per cent forest coverage, The Authority is in the process of drawing an MOU for adopting two acres of land at Ngong forest at a cost of Kshs 457,200. So far, KEMSA in partnership with Kenya Forestry Service has planted about 3,000 indigenous tree seedlings and maintained three acres at the semi-arid area of Kibiku forest. In 2019, KEMSA partnered with the community and the Agricultural Society of Kenya -Young Farmers club where we donated KShs 100,000 towards purchase of 1,000 seedlings. The tree seedlings were planted at Embakasi Garisson Secondary school.

ii. Indoor Environment Programmes

- a. In the FY 2019/2020, the Authority planted 300 tree seedlings with a survival rate of 90 percent across the depots. The tree planting initiative was led by Sen.Kembi Gitura, Chair, KEMSA Board.



Employee welfare

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.

i. Gender Analysis:

The Authority staff establishment is aligned with the organizational requirements. As at 30th June 2020, the Authority had a total workforce of 870 comprising various cadres distributed as detailed here-below:

Category/Level	Total No. of staff per category/level	Gender	
		Gender	No.
Senior Management (SA1-SA3)	28	Male	20
		Female	8
Middle & Supervisory (SA4-SA7)	248	Male	119
		Female	129
Operational staff & Support (SA8-SA12)	594	Male	402
		Female	192
TOTAL	870		870

ii. 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	64
2.	Performance Contract	145
3.	Professional programs	88
4.	Other programs	89

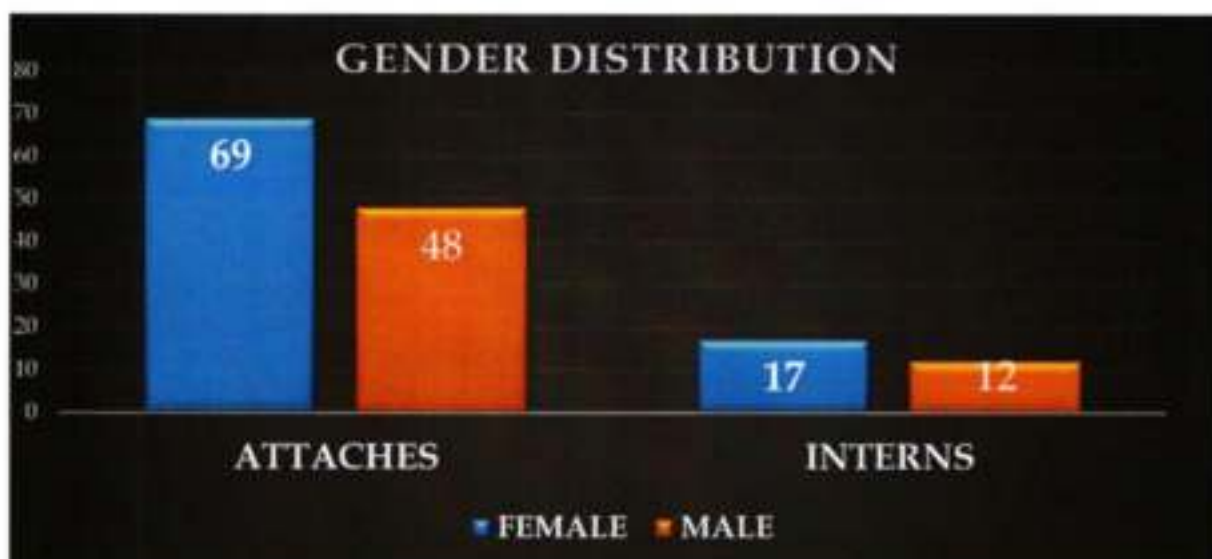
iii. Youth Attachments & Internships

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:

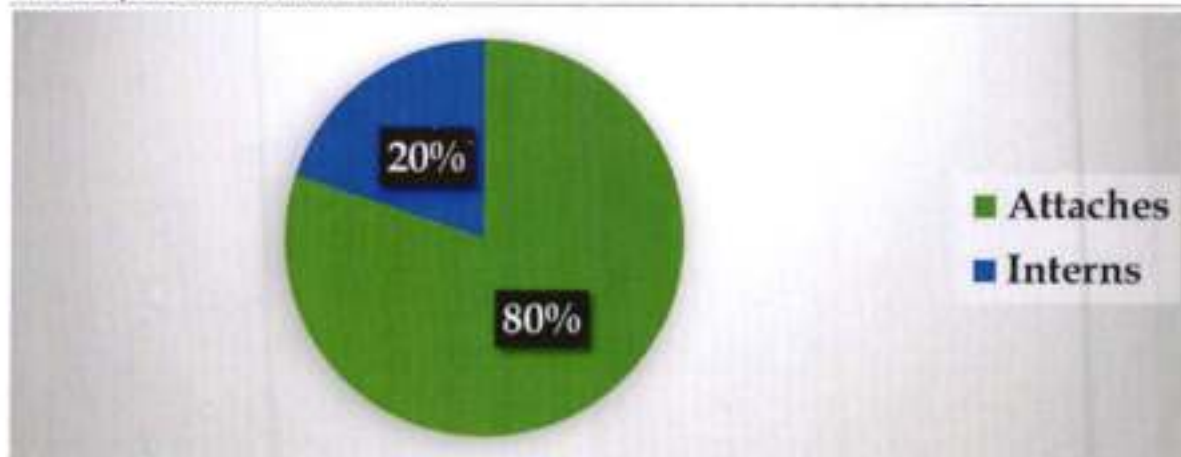
- a) Attachments - for ongoing/continuing students
- b) Internships - as a post qualification for graduates from various Universities, Colleges & tertiary institutions.

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

Youths on attachment/Internship- Gender.



As at the end of the year, KEMSA had engaged 117 Attaches, and 29 interns in total. Attaches represented 80% while interns represented 20% of student intake in the year as illustrated in the chart below:



iv. 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.

v. 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:

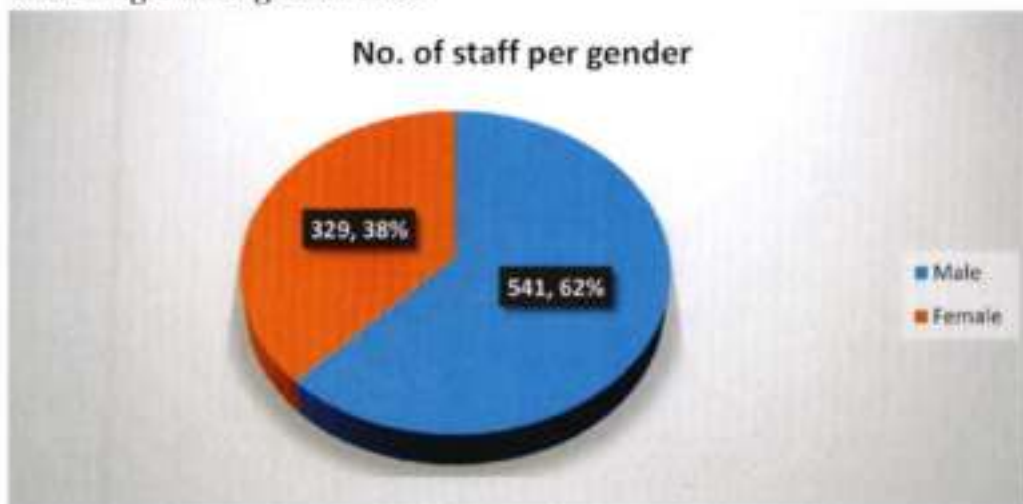
S/No.	Activities	No. per category
1.	No. of employees sensitized on HIV/AIDS	620
2.	No. of external community members reached out by KEMSA on HIV/AIDS awareness	169 Through a Medical Camp in Nyandarua
3.	No. of staff who attended rehabilitation program	4

vi. Diversity and Inclusivity

The Authority ascribes to the Government requirements on diversity and inclusivity in all its programs and activities. The Authority has set up the following Committees to address issues of diversity and inclusivity:

- Gender Mainstreaming Committee.
- National Cohesion and Values Committee.
- Disability Mainstreaming Committee.

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



vii. 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.

viii. 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
- c) Cross departmental team building
- d) Holding of Staff end-of-year party. During the staff party, employees who had excelled in various fields were recognized and rewarded

Market place practices

i) 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. Procurement is conducted 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 non-EMMS categories e.g. Oncology, Urology, Laboratory and Theatre. 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.

ii) 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.

iii) 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. 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.

Community Engagements-

KEMSA appreciates the need to participate in Corporate Social Responsibility (CSR) activities since it gives the Authority an opportunity to give back to the society, country and environment. The main objectives of undertaking CSR include;

- Enhancing the Authority's reputation among its stakeholders.
- Supporting the business objectives of the Authority.
- Building relationships with key stakeholders.
- Enhancing and maximising staff talents, by giving them an opportunity to excel in areas not directly related to the core business.

It is against this backdrop that KEMSA endeavoured to undertake the following CSR activities during the year

a) Cash Donations

- In Q1, KEMSA donated Kshs. 100,000 towards *KICE foundation* that was offering 106 students full school scholarships.
- Q2, KEMSA donated Kshs. 150,000 to Community Based Organisation that was partnering with Red Cross, Kenya National Blood Transfusion Service and Coca Cola to host a *Blood Drive* event where 96 units of blood was donated.



- Q3, The Authority supported *Beyond Zero Half Marathon* to a tune of Kshs. 100,000 for the medical scholarship programme which was earmarked to benefit 100 medical students in their education.



b) Medical Camps

i. Tumaini and Baari Health Centres, Nyandarua County

The Ministry of Health and KEMSA organised a medical outreach at Tumaini and Baari Health Centres, Nyandarua County respectively.

Over 300 patients attended the medical camp and were screened for different ailments.

Gracing the event was Dr. Jonah Manjari, Chief Executive Officer, KEMSA and Dr.T.B Menge, Dep. Director KNH. By organising medical camps, KEMSA is able to bring healthcare access closer to the community who would otherwise result in self-medicating.



ii. Manunga Health Centre Nyandarua County

KEMSA held a medical camp at Manunga Health Centre Nyandarua County in partnership with Ministry of Health and Kenyatta National Hospital on 5th October 2019. The community received health talks from the doctors and nurses who were available on site. This empowered the residents on ways of managing various health concerns.



c) Medical Donations

i. Ong'ielo and Siaya Counties

KEMSA donated medical commodities worth Kshs.900,000 to residents of Ong'ielo in Siaya County. The importance of Health Products and Technologies (Health Products and Technologies) is critical in aiding practitioners discharge their duties. Lack of Health Products and Technologies forms a broken chain health care as patients have to go elsewhere to buy drugs. It is with this in mind that KEMSA makes it part of its CSR to donate HEALTH PRODUCTS AND TECHNOLOGIES to communities to ensure that patients prescriptions are available for quick return to good health.



ii. Uhuru Camp

KEMSA donated medical commodities worth Sh490,000 to Uhuru Camp to assist the institution render services to the communities surrounding the institutions. Uhuru Camp located on the precincts of the largest slum in Kenya Kibera, usually receives a high number of patients in need of care. This leads to low supplies of Health Products and Technologies due to budgetary constraints. In this regard, KEMSA identifies most needy facilities and donates products to promote good health.

D. Exhibitions**i. Africa Renal Health Sector Stakeholders Conference**

KEMSA exhibited at the Health Sector Stakeholders Conference that was held in Mombasa County in September 2019. During the event, participants exchanged knowledge and experience on effective management of kidney diseases in Africa.





KEMSA Staff explains to participants the Authority's operations and business mandate.

ii. East Africa Healthcare Federation Conference

KEMSA participated at the East Africa Healthcare Federation Conference that was held at the Safari Park Hotel in September 2019.

The conference drew together global leaders committed to positively transform health systems and provide a catalytic platform to transfer knowledge, share best practices and innovation in health, engage and network.



REPORT OF THE DIRECTORS

The directors submit this report together with the financial statements for the year ended 30 June 2020, which show the state of affairs of Kenya Medical Supplies Authority.

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.

RESULTS

KEMSA's results for the year ended 30th June 2020 are set out on pages 57-106.

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.



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

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, 2020 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

A handwritten signature in black ink, appearing to be "Fred Wanyonyi", written over a horizontal dotted line.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Kenya Medical Supplies Authority Act of 25th 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 30th June, 2019. 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 2020, and of the financial position as at that date.



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

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

Mr. Edward Njoroge

Ag. CHIEF EXECUTIVE OFFICER

Signature.....

Mary Chao Mwadime

BOARD CHAIRPERSON

(Appointed 28th April 2021)

Signature.....



REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Medical Supplies Authority set out on pages 57 to 104, which comprise of the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and the statements of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Medical Supplies Authority as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Medical Supplies Authority Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Net Sales

The statement of financial performance and Note 3 to the financial statements reflects revenue from exchange transactions, net sales balance of Kshs.1,818,997,228 which includes expired/damaged drugs valued at Kshs.120,882,715 compared to previous year 2018/2019 figure of Kshs.128,604,791. No explanation was provided for stocking expired/damaged drugs. Further no signed report by the disposal committee was provided on the drugs for audit confirmation.

Consequently, 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.

2.0 Staff Costs

The statement of financial performance and Note 5 to the financial statements reflects total staff costs balance of Kshs.1,083,420,635. However, 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 approval was provided to support the over establishment of 571 officers. Further, 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 B.33 (1) of the Public Service Commission Human Resource Policy which state that secondment of officers from the Public Service to other organizations is applicable to pensionable officers for a period of three (3) years, renewable once. No explanation was provided for this anomaly.

In the circumstances, the accuracy and validity of staff costs balance of Kshs.1,083,420,635 for the year ended 30 June, 2020 could not be confirmed.

3.0 Distribution Costs

Note 6 to the financial statements reflects distribution costs totalling to Kshs.772,369,557 for the year ended 30 June, 2020 which include an amount of Kshs.19,352,250 overpaid to a supplier through a contract entered into between the Authority and a Courier Services Company on 24 September, 2016 for provision of courier services to health facilities countrywide. The overpayment of Kshs.19,352,250 had not been recovered as at 30 June, 2020. No explanation was provided for failure to recover the overpayment.

In the circumstances, the accuracy and authenticity of distribution costs balance of Kshs.772,369,557 for the year ended 30 June, 2020 could not be confirmed.

4.0 Receivables from Exchange Transactions

The statement of financial position and Note 18 to the financial statements reflects receivables from exchange transactions balance of Kshs.6,605,189,547 which includes an amount totalling Kshs.4,974,361,317 comprising of Kshs.2,848,869,446 receivable from Counties and Kshs.2,125,491,871 receivable from the Ministry of Health that have been outstanding for more than twelve (12) months and whose recovery is doubtful as at **Appendix 1** attached. No explanation was provided for failing to recover these long outstanding debts.

Further, the receivables from exchange transactions balance of Kshs.6,605,189,547 differs with the balance of Kshs.6,601,968,773 reflected in the supporting schedule provided for audit resulting to an unreconciled and unexplained variance of Kshs.3,220,774.

In the circumstances, the accuracy and validity of receivable from exchange transactions balance of Kshs.6,605,189,547 as at 30 June, 2020 could not be confirmed.

5.0 Unsupported Covid-19 Inventories

The statement of financial position and Note 20 to the financial statements reflects inventories balance of Kshs. 17,738,279,406 as at 30 June, 2020. The inventories balance includes pharmaceutical and non-pharmaceutical stocks balance of Kshs. 17,734,238,206 which includes an amount of Kshs. 5,639,656,550 in respect of Covid-19 related stocks. Information available indicates that during the year under review, the Authority procured COVID-19 items amounting to Kshs. 7,632,065,588, out of which stocks amounting to Kshs. 1,992,409,038 were issued out, leaving a balance of Kshs. 5,639,656,550 which includes a net positive adjustment of Kshs. 1,680,377,225 that was supported.

Further, it was noted that the adjustment of Kshs. 1,680,377,225 was effected through Journal Voucher KEMSA-JV-1-20/21 debiting non-pharmaceutical stocks and crediting medical commodity fund. However, the credit entry was not traced under the medical commodity fund.

In the circumstances, the validity and accuracy of the inventory balance of Kshs. 17,738,279,406 as at 30 June, 2020 could not be confirmed.

6.0 Property, Plant and Equipment

6.1 Land

The statement of financial position and Note 22(a) to the financial statements reflects property, plant and equipment balance of Kshs. 6,341,530,305 as at 30 June, 2020. This balance includes land valued at Kshs. 1,786,967,270 which includes various parcels of land spread across the country valued at Kshs. 158,000,000 for which the Authority does not possess ownership documents as detailed below:

Location	LR No./Allotment No.	Value Kshs.
Eldoret	BLOCK 10/155/6	25,000,000
Garissa	PDP Ref.No.326/2003/58	6,500,000
Kakamega – Green Site	4/168	7,500,000
Kakamega – PGH	4/168	3,000,000
Kisumu	209163/IX	25,000,000
Mombasa	209163/A	76,000,000
Nyeri	3/173/174	15,000,000
Total		158,000,000

Further, the property, plant and equipment balance of Kshs. 6,341,530,305 excludes an unspecified value of a parcel of land in Meru Municipality measuring 0.3 Ha which belongs to the Authority. The explanation provided for failure to obtain the title deeds for these parcels of land and to bring into account the parcel of land in Meru is that the land was converted from establishment of medical store to establishment of a stadium and no documentary evidence was provided confirming change in use.

In the circumstances, it has not been possible to confirm the ownership of the eight (8) parcels of land and ascertain whether the land cost of Kshs.1,786,967,270 is fairly stated as at 30 June, 2020.

6.2 Motor Vehicles

The property, plant and equipment balance of Kshs.6,341,530,305 includes motor vehicles net book value of Kshs.80,472,648 which as previously reported includes four (4) vehicles with a net book value of Kshs.410,083 that are owned by the National Government as detailed below:

Registration No.	Make & Model	Year of Manufacture	Net Book Value Kshs
GK A538G	Isuzu FVR 23 Lorry	1998	137,500
GK A539G	Isuzu FVR 23 Lorry	1998	168,750
GK A960B	Toyota Land cruiser	1998	58,000
GK U127	Isuzu TX Lorry	1998	45,833
Total			410,083

Further, it was noted that the Ministry of Health vide letter Ref.MOH/ADM/TO/VO.II requested KEMSA to release GK A960B Toyota Land Cruiser. By the time of the audit, the vehicle had not been released and no explanation was provided for failing to transfer the ownership documents of these vehicles to the Authority.

In the circumstances, it was not possible to confirm the ownership of the four (4) motor vehicles and whether the motor vehicles net book value of Kshs.80,472,648 is fairly stated as at 30 June, 2020.

6.3 Work in Progress

The property plant and equipment movement schedule at Note 22(a) to the financial statements reflects work in progress balance of Kshs.2,981,916,458. Included in the additions balance of Kshs.1,247,723,582 are two contracts for proposed refurbishment of Mombasa and Kisumu warehouses. Contract No.KEMSA/RT24-2018-2019, for Mombasa Warehouse and Contract No. KEMSA/RT1-2018-2019 for Kisumu Warehouse amounting to Kshs.26,458,460 and Kshs.30,667,130 respectively which were awarded through restricted tender on grounds of urgency on 13 February, 2019. The work was to be completed on or before 30 April, 2019. As at 30 June, 2020, a total of Kshs.24,126,271 which is 91% of the contract price had been paid for the Mombasa Warehouse and Kshs.29,818,061 which is 97% of the contract price had been paid for the Kisumu Warehouse. However, by the time of the audit in January, 2021, work had not been completed although the contract period had lapsed.

In the circumstances, it is not clear whether the Authority obtained value for money in the two contracts.

6.4 Computer Hardware

Included in the property plant and equipment movement schedule at Note 22 (a) to the financial statements is accumulated depreciation reversal figure of Kshs.38,810,500 under computer hardware. However, no explanation or information was provided in support of the reversal.

In the circumstances, it was not possible to confirm the accuracy of computer hardware net book value of Kshs.2,981,916,458 as at 30 June, 2020.

7.0 Trade and Other Payables from Exchange Transactions

The statement of financial position and Note 24 to the financial statements reflects, trade and other payables from exchange transactions balance of Kshs.6,879,649,362 as at 30 June, 2020 which includes long outstanding operation creditors of Kshs.36,227,940 that have been outstanding for a long period of time. In addition, the trade and other payables from exchange transaction balance includes long outstanding suppliers' funds retained balance of Kshs.22,441,620 out of which an amount of Kshs.10,977,837 is dated 1 July, 2012. No reason has been provided for non payment of the long outstanding balances.

Consequently, the accuracy and validity of the trade and other payables from exchange transactions balance of Kshs.6,879,649,362 as at 30 June, 2020 could not be confirmed.

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

Key Audit Matters

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

Other Matter

1.0 Special Audit on Utilization of Covid-19 Funds

The Senate Standing Committee on Health and the Senate Ad Hoc Committee on COVID-19 jointly requested the Auditor-General vide a letter Referenced: SEN/SCH/KEMSA /CORR/ 2020/09/ (1), dated 15 September, 2020, to conduct a forensic audit on the procurements undertaken by the Kenya Medical Supplies Authority (KEMSA) in response to COVID-19 Pandemic. The special audit was concluded on 29 September, 2020 and has since been tabled in Parliament.

2.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.4,299,661,000 and Kshs.4,698,032,000 respectively resulting to an over-funding of Kshs.398,416,000 or 9% of the budget. Similarly, the Authority expended Kshs.3,034,639,000 against an approved budget of Kshs.3,102,265,000 resulting to an under-expenditure of Kshs.67,626,000 or 2% of the budget. There is need therefore for the management to re-look at its budgetary mechanism with a view to focusing on priority areas which will improve service delivery to the people of Kenya.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Non-Compliance with Public Procurement and Disposal Act, 2015

1.1 Procurement of COVID-19 Items

During the year under review, the Authority procured COVID-19 related items totalling to Kshs.7,632,065,588 on the basis of emergency procurement. However, the approval for the emergency procurement from the Parent Ministry and the Board of Management was not provided for audit verification. In addition, the budget and procurement plan for the Covid-19 related procurement was not provided for audit verification which is contrary to Section 53(8) of the Public Procurement and Assets Disposal Act, 2015 that requires Accounting Officers of Procuring entities not to commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in the approved budget estimates. This also contravenes Section 43(b) of the Public Finance Management Regulations, 2015 that require Accounting Officers to ensure public funds are only utilized for the purpose to which they were appropriated. Further, inventory schedule and reconciliation provided reflects Covid-19 stocks totalling to Kshs.5,639,656 as at 30 June, 2020. It was not clear why the Authority was holding the stock yet it was procured on the basis of emergency.

In the circumstances, the Authority was in breach of the law and it was not possible to confirm whether the Authority obtained value in the procurement of Covid-19 related items totalling to Kshs.7,632,065,588 for the year ended 30 June, 2020.

1.2 Supply of Surgical Gloves

During the year under review, KEMSA procured 93,730 pieces of surgical gloves for COVID-19 preparedness totalling to Kshs.79,670,500. It was noted that on 4 March, 2020, a memo from Sales and Marketing Manager through Director Commercial Services sought authority to use direct procurement method and seven different suppliers were awarded the tender. It was noted that one supplier was awarded a tender to supply 4,000 pieces at a unit price of Kshs.1,590 while the other suppliers supplied at higher unit prices ranging between Kshs.1,850 and Kshs.2,100 per unit. Had the tender been awarded to the lowest bidder at a unit price of Kshs.1,590, the 126,200 pieces procured would have cost the Authority Kshs.200,658,000 instead of the cost of Kshs.264,460,000 incurred. The Authority would therefore have made a saving of Kshs.63,802,000.

Further, it was noted that the authorized quantity to be procured was 93,730 pieces at an estimated cost price of Kshs.850 per unit totalling to Kshs.79,670,500 but the Authority ended up procuring 126,200 units at an average price of Kshs.2,095.56 totalling to Kshs.264,460,000 resulting to unauthorized excess expenditure of Kshs.184,789,500. This is contrary to Section 103 and 104(c) of the Public Procurement and Assets Disposal Act, 2015. No explanation has been provided for this anomaly.

The Management was therefore in breach of law.

1.3 Procurement of Pharmaceutical and Non- Pharmaceutical Items after Expiry of Contract

During the year under review, the Authority procured items totalling to Kshs.64,852,932 after the expiry of the respective contracts. Addendum to contracts were signed and purchase orders issued after the expiry of the contract as indicated in **Appendix II** attached.

Consequently, the Management is in breach of the law.

1.4 Delay in Deliveries

A review of sampled procurement contracts entered between the Kenya Medical Supplies Authority (KEMSA) and suppliers revealed instances of delays in delivery of goods between 3 months to 3 years by 13 suppliers with orders totalling to Kshs.149,188,185 as indicated below in **Appendix III** attached. The delay to deliver the goods if not addressed could adversely affect timely realization of the Authority's objectives. No plausible explanation was availed for the non-compliance with the contract agreements.

Consequently, the Management is in breach of the law and the Authority may be exposed to losses in case of expired goods.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

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

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how the Authority 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 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 review 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 Authority 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:

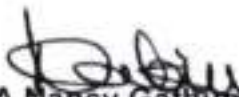
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

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 continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the revenue 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

11 February, 2022

Appendix I

Receivables from Exchange Transactions

KEMSA County Debtors			
		2019/20	2018/19
		Invoiced Amount	Invoiced Amount
S/No.	Customers	Kshs.	Kshs.
1	Baringo County	43,382,014.79	57,138,727.40
2	Bomet County	33,344,553.71	47,205,227.11
3	Bungoma County	64,536,437.14	42,222,594.02
4	Busia County	97,925,966.75	66,959,328.10
5	Elgeyo Marakwet County	2,130,944.99	23,121,135.10
6	Embu County	28,375,428.49	5,752,751.13
7	Garissa County	52,600,187.10	22,405,231.44
8	Homa Bay County	104,372,357.46	130,960,896.20
9	Isiolo County	0.38	2,340,061.38
10	Kajiado County	94,286,036.01	84,262,774.72
11	Kakamega County	173,168,611.57	47,286,094.61
12	Kericho County	44,227,070.12	26,138.66
13	Kiambu County	50,916,977.41	94,902,695.23
14	Kilifi County	144,218,088.06	140,288,148.90
15	Kirinyaga County	29,896,114.56	62,899,713.50
16	Kisii County	30,756,432.82	58,171,586.82
17	Kisumu County	41,437,727.98	77,524,350.98
18	Kitui County	42,915,114.94	190,935,722.29
19	Kwale County	70,473,519.36	10,527,598.11
20	Laikipia County	118,981.98	26,454,690.46
21	Lamu County	40,558,678.08	716,917.36
22	Machakos County	101,486,094.77	17,244,924.05
23	Makueni County	77,062,617.21	83,213,391.39
24	Mandera County	74,850,862.96	91,239,983.20
25	Marsabit County	29,473,261.66	32,903,446.05
26	Meru County	12,486,576.60	77,705,879.82
27	Migori County	64,546,548.03	52,221,065.71
28	Mombasa County	13,655,539.16	24,671,940.16
29	Murang'a County	81,576,878.50	16,944,447.50

KEMSA County Debtors			
		2019/20	2018/19
		Invoiced Amount	Invoiced Amount
S/No.	Customers	Kshs.	Kshs.
30	Nairobi County	454,844,397.10	284,539,666.28
31	Nakuru County	-18,902,748.91	-9,090.74
32	Nandi County	86,188,990.86	14,732,633.77
33	Narok County	12,824,305.18	104,584,708.18
34	Nyamira County	40,076,495.20	3,427,806.68
35	Nyandarua County	62,946,373.71	42,630,198.31
36	Nyeri County	32,829,012.91	6,666,314.81
37	Samburu County	37,977,170.83	29,803,309.45
38	Siaya County	51,070,285.59	41,092,240.00
39	Taita Taveta County	70,749,253.67	75,984,284.47
40	Tana River County	-	45,080,278.86
41	Tharaka Nithi County	53,121,584.06	52,422,499.98
42	Trans Nzoia County	51,115,644.57	92,023,866.19
43	Turkana County	68,511,210.53	72,848,227.37
44	Uasin Gishu County	41,774,254.70	112,478,015.60
45	Vihiga County	51,018,222.22	71,592,506.22
46	Wajir County	64,258,426.51	37,800.02
47	West Pokot County	43,686,945.35	4,324,943.64
	Total	2,848,869,446.67	2,642,507,670.49
	Ministry of Health	2,125,491,871.29	1,353,530,674.21
	Grand Total	4,974,361,317.96	3,996,038,344.70

Appendix II

Items Procured after Expiry of the Contract

Tender No	Description	Amount (Kshs)	Period of Contract	Date of Call down/ Purchase order
KEMSA/SSD-OIT-1/2015/2017	Supply of Nitrofurantoin Tablets	1,637,604	26/08/2016-25/08/2018	4/03/2019
KEMSA/OIT-2/2015/2017 KEMSA/OIT11/2015/2017	Supply of Metformin Tablets	10,004,626	24/06/2016-23/06/2018	3/12/2018
KEMSA/OIT-2/2015/2017	Supply of Surgical Mask Disposable	6,080,000	14/03/2016-13/03/2018	26/06/2019
KEMSA/OIT11/2015/2017	Supply of Salbutamol Syrup	6,029,753	26/08/2016-25/08/2018	3/12/2018
KEMSA/SSD-OIT-1/2015/2017	Supply of H Pyroli Kit	10,161,364	26/08/2016-25/08/2018	4/03/2019
KEMSA/SSD-OIT-1/2016/2018	Supply of Glucosamine	3,631,901	22/12/2016-21/12/2018	4/06/2019
KEMSA/OIT-1/2015/2017	Supply of Ferrous Sulp/ Folic	3,961,574	17/06/2016-16/06/2018	20/12/2018
KEMSA/SSD-OIT-1/2015/2017	Supply of Pregabalin 150mg Capsules	3,811,015	26/8/2016-25/8/2018	5/03/2019
KEMSA/OIT11/2015/2017	Supply of Paracetamol Syrup	4,496,145	26/08/2016-25/08/2018	10/09/2019
KEMSA/SSD-OIT-1/2015/2017	Supply of Meloxicam 7.5mg	2,993,854	26/08/2016-25/08/2018	5/3/2019
KEMSA/SSD-OIT-1/2015/2017	Supply of Lactulose Solution	4,875,804	26/08/2016-25/08/2018	2/08/2019
KEMSA/SSD-OIT-1/2015/2017	Supply of H Pylori Kit	16,169,292	26/08/2016-25/08/2018	27/06/2019
Total		64,852,932		

Appendix III

Delay in Deliveries

Details	Amount Kshs	Delivery date as per contract	Actual Delivery dates	Delay period
Supply of Soluset for Fluids	1,233,761	29/7/2016	14/11/2016 - 28/8/2019	3 Years
Supply of Ceftriaxone injection	17,948,915	8/11/2018	29/07/2019	8 Months
Supply of Bandages Cotton Crepe	4,355,817	8/02/2019	24/07/2019- 30/07/2019	6 Months
Supply of Sodium Chloride iv infusion	15,847,014	8/11/2018	12& 13/06/2019	7 Months
Supply of Amoxicillin	55,727,280	20/8/2019	4/10/19 - 22/11/2019	3 Months
Supply of Methylated Sprit	5,038,800	16/4/2019	1/8/19- 15/10/2019	6 Months
Supply of Suture Silk	3,463,765	14/2/2019	14/8/2019	6 Months
Supply of Sodium Chloride iv infusion	13,038,845	4/7/2019	13/01/2020	6 Months
Supply of Sodium Chloride iv infusion	13,038,845	4/7/2019	8/1/2020	6 Months
Supply of Sodium Chloride iv infusion	9,155,139	4/7/2019	30/1/2020	7 Months
Supply of Salbutamol	6,314,223	18/6/2019	29/10/2019	4 Months
Supply of Carbamazepine Tablets	950,841	1/5/2019	1/11/2019	6 Months
Supply of Glucose injection	3,074,940	16/4/2019	5/8/19-6/11/2019	6 Months
Total	149,188,185			

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Financial year 2019-2020 Kshs	Financial year 2018-2019 Kshs
Revenue from non-exchange transactions			
Grants from National Government	1	653,239,996	482,902,818
Public contributions and donations	2	8,044,545	9,840,844
		661,284,541	492,743,662
Revenue from exchange transactions			
Net Sales	3	1,818,997,228	1,164,120,025
Other Income	4	2,217,750,427	2,051,110,240
		4,036,747,656	3,215,230,265
Total revenue		4,698,032,196	3,707,973,927
Expenses			
Staff Costs	5	1,083,420,635	980,575,930
Distribution Costs	6	772,369,557	588,116,000
Insurance costs	7	92,417,174	112,336,867
Rental expenses	8	181,481,365	186,448,749
Legal expenses	9	139,772,928	63,602,437
Utilities expenses	10	20,967,539	22,221,996
Staff travel expenses	11	154,944,559	160,374,513
Finance costs	12	2,189,997	2,107,351
Audit fees	13	3,500,000	5,464,680
BOD expenses	14	10,954,944	14,307,173
Depreciation & amortization	15	161,179,098	135,061,202
Other Operating Expenses	16	411,440,778	286,650,314
Total expenses		3,034,638,576	2,557,267,213
Other gains/(losses)		-	-
Surplus before tax		1,663,393,620	1,150,706,715
Taxation			
Surplus for the period		1,663,393,620	1,150,706,715



STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	Financial Year 2019/2020 Kshs	Financial Year 2018/2019 Kshs
Assets			
Current assets			
Cash and cash equivalents	17	10,453,522,589	6,304,613,231
Receivables from exchange transactions	18	6,605,189,547	5,112,529,398
Receivables from non-exchange transactions	19	528,371,687	14,574,865
Inventories	20	17,738,279,406	11,027,341,453
Short-Term Investments	21	-	483,170,000
Total current assets		35,325,363,229	22,942,228,948
Non-current assets			
Property, plant and equipment	22 (a)	6,341,530,305	5,137,553,566
Intangible assets	22 (b)	-	66,000
Long Term Deposit	23	48,515,430	37,304,586
Total non-current assets		6,390,045,735	5,174,924,153
Total assets		41,715,408,964	28,117,153,100
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	24	6,879,649,362	3,481,233,696
Payment Received in Advance	25	7,594,224,973	221,483,033
Provisions	26	117,961,863	82,674,496
Project Fund	27	29,065,065	405,729,772
Medical Commodity Fund	28	8,920,214,768	7,407,088,246
Total current liabilities		23,541,116,031	11,598,209,243
Non-current liabilities			
Deferred income	29	58,146,334	66,190,879
Total non-current liabilities		58,146,334	66,190,879
Total liabilities		23,599,262,366	11,664,400,122
Net assets		18,116,146,599	16,452,752,979
KEMSA Capital	30	8,461,576,303	8,461,576,303
Accumulated Funds		256,950,298	256,950,298
Revenue reserves		8,613,989,542	6,950,595,922
Revaluation reserve		783,630,456	783,630,456
Total net assets and liabilities		18,116,146,599	16,452,752,979

The Financial Statements were approved on behalf of the Board of Directors by:

1. Mr. Waiganjo Karanja
DIRECTOR, FINANCE & STRATEGY
ICPAK No. 7023

Signature.....

Date.....03/08/2021.....

2. Mr. Edward Njoroge
Ag. CHIEF EXECUTIVE OFFICER

Signature.....

Date.....03/08/2021.....

3. Mary Chao Mwadime
CHAIRPERSON OF THE BOARD
(Appointed 28th April 2021)

Signature.....

Date.....03.08.2021.....

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 JUNE 2020

	Attributable to the owners of the controlling entity				
	Reserves				Total
	KEMSA Capital Kshs	Accumulated Funds Kshs	Revenue Reserve Kshs	Revaluation 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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019/2020	2018/2019
		Kshs	Kshs
Net Surplus for the Year		1,663,393,620	1,150,706,715
Adjustments for Non Cash Movements			
Depreciation Charge	15	161,179,098	135,061,202
Asset Disposal		943,875	536,667
Deferred Income	29	(8,044,545)	(12,763,529)
Decrease/(Increase) in Current Assets		(8,234,224,923)	1,251,090,851
Increase/(Decrease) in Current Liabilities		11,942,906,788	(2,262,048,182)
In cash support on Expenditure		-	-
Net cash flows from operating activities		5,526,153,914	262,583,723
Cash flows used in investing activities			
Purchase of property, plant, equipment and intangible assets	22	(1,366,033,712)	(1,304,478,787)
In Kind donations-Fixed Assets		-	-
Proceeds From Disposal Of Fixed Assets		-	-
Increase/decrease in non current receivable		(11,210,844)	(11,592,661)
Net cash flows used in investing activities		(1,377,244,556)	(1,316,071,448)
Cash Flows from Financing activities			
KEMSA Capital	30	-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		4,148,909,358	(1,053,487,725)
Cash and cash equivalents at 1 July 2019		6,304,613,231	7,358,100,957
Cash and cash equivalents at 30 June 2020	17	10,453,522,589	6,304,613,231

STATEMENT OF COMPARISON BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 30TH JUNE 2020

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Reasons for re-allocation-IPSAS 24.29
	2019/2020	2019/2020	2019/2020	2019/2020	2019/2020	
INCOME	Ksh.000's	Ksh.000's	Ksh.000's	Ksh.000's	Ksh.000's	
Grants from National Government	262,500	390,740	653,240	653,240	-	The actual expenditure is based on receipt as per the printed government estimates.
Public contributions and donations			-	8,045	8,045	This was recognition of deferred income from Donations of capital items from astrategic partners.
Net Sales	934,851		934,851	1,818,997	884,146	The net sales were above target as a result of increase in sales of UHC and EMMS commoditied.
Other Income	2,711,525		2,711,525	2,217,750	(493,775)	The decrease in receipts was due to reduced activities in KEMSA Development Partners Programmes.
TOTAL INCOME	3,908,876	390,740	4,299,616	4,698,032	398,416	

Payments							
Staff Costs	1,135,780	-	1,135,780	1,083,421	52,359	The P&E expenditure for the financial year was Kshs 1.083 Billions which was 5 % below budget.	
Distribution Costs	915,040	(141,000)	774,040	772,370	1,670	Distribution of Medical Commodities amounting to Kshs 772.36 Million was fairly within budget.Future savings are expected with the adoption of the intergrated system for both EMMS and programs,which will lead to efficiency and savings on distribution costs.	
Insurance costs	121,800	(29,000)	92,800	92,417	383	The expenditure is within budget	
Rental expenses	209,755	(25,000)	184,755	181,481	3,273	The expenditure is within budget	
Legal expenses	66,000	74,000	140,000	139,773	227	The expenditure is within budget	
Utilities expenses	23,306	(1,500)	21,806	20,968	838	The expenditure is within budget	
Staff travel expenses	163,374	(8,000)	155,374	154,945	429	The expenditure is within budget	
Finance costs	2,550	-	2,550	2,190	360	The expenditure is within budget	
Audit fees	6,366	(2,500)	3,866	3,500	366	The expenditure is within budget	
BOD expenses	12,020	-	12,020	10,955	1,065	The expenditure is within budget	
Depreciation & amortization	139,310	23,815	163,125	161,179	1,946	The expenditure is within budget	
Other Operating Expenses	306,964	109,185	416,149	411,441	4,708	The expenditure is within budget	
TOTAL EXPENSES	3,102,265	0	3,102,265	3,034,639	67,626		
SURPLUS FOR THE PERIOD	806,612	-	1,197,351	1,663,394	330,789		

Explanations for Material variances between the Budget and Actual Amounts

The Authority considers material variances as those that are above 15% from the Final budget for both revenue and expenditure. Overall, the Authority's expenditures were within the approved budgets. Any budget reallocations were approved by the Board of Management.

STATEMENT OF BUDGET COMPARISON MATERIAL VARIANCES EXPLANATIONS FOR THE YEAR ENDED 30 JUNE 2020

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Variance Percentage	Variance Explanation-IPSSAS 24.14
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020	
INCOME	Ksh. 000's	Ksh. 000's	Ksh. 000's	Ksh. 000's	Ksh. 000's		
Grants from National Government	262,500	390,740	653,240	653,240	-	0%	
Public contributions and donations	-	-	-	8,045	8,045	100%	This was recognition of deferred income from Donations of capital items from astrategic partners.
Net Sales	934,851	-	934,851	1,818,997	884,146	95%	
Other Income	2,711,525	-	2,711,525	2,217,750	(493,775)	-18%	
TOTAL INCOME	3,908,876	390,740	4,299,616	4,698,032	398,416	9%	

**STATEMENT OF BUDGET COMPARISON MATERIAL VARIANCES EXPLANATIONS
FOR THE YEAR ENDED 30 JUNE 2020**

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Variance Percentage	Variance Explanation- <i>IPSAAS 24.14</i>
	2019-2020	2019-2020	2019- 2020	2019-2020	2019-2020	2019-2020	
EXPENDITURE							
Staff Costs	1,135,780	-	1,135,780	1,083,421	52,359	5%	The expenditure is within budget
Distribution Costs	915,040	(141,000)	774,040	772,370	1,670	0%	
Insurance costs	121,800	(29,000)	92,800	92,417	383	0%	
Rental expenses	209,755	(25,000)	184,755	181,481	3,273	2%	The expenditure is within budget
Legal expenses	66,000	74,000	140,000	139,773	227	0%	
Utilities expenses	23,306	(1,500)	21,806	20,968	838	4%	The expenditure is within budget
Staff travel expenses	163,374	(8,000)	155,374	154,945	429	0%	
Finance costs	2,550	-	2,550	2,190	360	14%	The expenditure is within budget
Audit fees	6,366	(2,500)	3,866	3,500	366	9%	The expenditure is within budget
BOD expenses	12,020	-	12,020	10,955	1,065	9%	The expenditure is within budget
Depreciation & amortization	139,310	23,815	163,125	161,179	1,946	1%	The expenditure is within budget
Other Operating Expenses	306,964	109,185	416,149	411,441	4,708	1%	The expenditure is within budget
TOTAL EXPENSES	3,102,265	0	3,102,265	3,034,639	67,626	2%	
SURPLUS FOR THE PERIOD	806,612	390,740	1,197,351	1,663,394	330,789		

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

3. ADOPTION OF NEW AND REVISED STANDARDS

- i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2020.

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1 st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

- ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	<p>Applicable: 1st January 2022:</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. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • 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; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • 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.
IPSAS 42: Social Benefits	<p>Applicable: 1st January 2022</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p>

	<p>(a) The nature of such social benefits provided by the entity;</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p>
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1st January 2022:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
Other Improvements to IPSAS	<p>Applicable: 1st January 2021:</p> <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).</p> <p>Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</p>
--	--

iii. Early adoption of standards

KEMSA did not early - adopt any new or amended standards in FY year 2020/21.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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.

• **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 30th June 2020. Rental income has been recognized on the accrual basis of accounting.

b) Budget Information

The original budget for FY 2019-2020 was approved by the National Assembly in June 2019. 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 FOR THE YEAR ENDED 30 JUNE 2020**c) 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.

d) 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. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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%

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal. Depreciation and impairment of property, plant and equipment

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.

e) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020**f). 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 handing 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.

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.

g). Trade and Other Receivables

Trade and other receivables are recognized at fair values.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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.

i) Cash and Cash Equivalents

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

j) Trade and other payables

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

k) Exchange Rate Differences

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

l). Comparative figures

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

m). Subsequent events

There was material reduction on market prices for Covid-19 HPTs procured in the FY 2019/20. Using current market prices provided by the commercial division, there is an impending loss of realizable value from the covid-19 Health Products and Technologies amounting to approximately Ksh 2.338 Billion.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1.Grants from National Government	2019-2020 Kshs	2018-2019 Kshs
GRANTS FROM MOH - OPERATIONS	390,739,996	388,702,818
GRANTS FROM MOH - DEVELOPMENT	262,500,000	94,200,000
Total Grants from National Government	653,239,996	482,902,818

2. Public Contributions and Donations	2019-2020 Kshs	2018-2019 Kshs
Income From Donations	8,044,545	9,840,844
Total Public Contributions and Donations	8,044,545	9,840,844

3. Net Sales	2019-2020 Kshs	2018-2019 Kshs
Sale Revenue -Pharmaceutical	4,066,305,161	3,433,707,360
Sale Revenue -Non-Pharmaceuticals	3,813,485,429	1,753,085,333
Sales Revenue -UHC-Pharmaceuticals	1,641,519,411	<u>444,027,658</u>
Sales Revenue-UHC-Non Pharmaceuticals	1,060,396,995	<u>280,874,026</u>
Total sales revenues	10,581,706,996	5,911,694,376
Cost of Sales		
Cost of Sales CGS (Pharms)	3,337,254,253	2,758,070,739
Cost of Sales -CGS (Non-Pharms)	3,192,584,356	1,458,744,971
Cost of Sales-CGS-UHC (Pharms)	1,324,158,758	319,065,786
Cost of Sales-CGS-UHC (Non-Pharms)	908,712,400	211,692,855
Total cost of sales	8,762,709,768	4,747,574,351
Net Sales	1,818,997,228	1,164,120,025

The Cost of Sales (Pharms) includes a figure of Ksh. 120,882,715.06 for commodities that were unsalable due to either expiry or damage. Previous year the figure was Ksh. 128,604,791.83.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

4. Other Income	2019-2020	2018-2019
	Kshs	Kshs
Supply Chain Fees: -USAID	794,199,038	675,711,309
-Global Fund	638,546,361	517,524,508
-UNICEF	21,691,655	35,672,444
-Ministry of Health	105,262,297	161,744,537
-Other Strategic Partners	65,123,559	58,790,551
Proceed From Disposal of Fixed Assets	616,125	912,434
Sale of Tender Documents	115,000	168,000
Sale of Waste Materials	175,305	125,900
Bank Interest Received	489,361,413	441,246,391
Forex Realized Gain	24,192,553	29,358,092
Direct Revenue(MCP-Cost Recovery)	47,403,046	62,884,465
Other Miscellaneous Income	9,373,814	30,759,080
Rental Income	14,569,878	14,712,463
Income From Short term investment	7,120,385	21,500,068
Total other income	2,217,750,427	2,051,110,240

****Supply Chain Fees** are charged in line with signed Memorandum of Understanding (MOUs) with each strategic partner supporting healthcare in Kenya through KEMSA. Being a medical logistics service provider, KEMSA offers Procurement, Warehousing and distribution services at a fee to strategic partners. A strategic partner can request for one or more of these services. The fees are based on the value of the commodities handled.

- Global Fund fees are made up of 2% Procurement, 3% Warehousing, and 3% Distribution
- UNICEF fees are made up of 7% for distribution, and Kshs 16 per cubic Metre per day for warehousing. In addition, there are pre-determined offloading charges per truck capacity.
- Ministry of health Programs are made up of 2% Procurement, 3% warehousing, and 5% Distribution. However, for commodities procured by the Ministry and delivered to KEMSA for warehousing and distribution, the fees are 3% warehousing, and 5% for Distribution.
- Fees from other strategic partners Programs are made up of 2% Procurement, 3% warehousing, and 5% Distribution.
- USAID fees under the KEMSA-USAID MCP Program are reimbursement for actual direct costs which can be attributed to the activities of their specific engagement and a negotiated percentage of the value of commodities handled to
- cover for indirect costs. The current negotiated indirect Cost rate for KEMSA-USAID MCP Program is 4.5%.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

5. Staff Costs	2019-2020	2018-2019
	Kshs	Kshs
Basic Pay	705,408,504	587,052,446
Overtime	15,154,811	9,144,710
Arrears	2,978,812	1,128,659
House Allowance	169,167,000	149,327,000
Acting Allowance	2,153,987	3,910,670
Bonus	287,987	43,689,870
Leave Allowance	6,991,000	6,997,250
Entertainment Allowance	2,514,000	1,794,000
NSSF (Kemsa Part)	2,088,600	1,906,000
Gratuity and Pensions	96,136,078	102,390,769
Committee Allowances	10,548,000	17,212,000
Special Duty Allowances	-	-
Transport Allowance	45,405,000	40,673,000
Other Taxable Benefits	11,379,032	5,180,000
Casual and Contract Employees	215,780	94,040
Ex-Gratia Payments	485,911	196,212
Shift Allowance	2,329,686	395,618
Staff Seconded to KEMSA	7,709,051	7,793,686
Internship Stipends	2,467,396	1,690,000
Total staff costs	1,083,420,635	980,575,930

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

6. Distribution Costs	2019-2020 Kshs	2018-2019 Kshs
Fuel and Oil for own Trucks	2,566,155	4,982,755
Maintenance of own Trucks	982,341	2,281,198
Insurance and Govt. Levies	-	2,731,060
Hire of Transport	239,500	4,820
Outsourced Distribution Costs	734,720,653	542,723,383
Fuel and Oils	18,347,761	16,963,216
Vehicle Maintenance	11,888,468	12,708,991
Vehicle Insurance & Govt. Levies	1,211,917	616,338
Fork Lift Maintenance	2,382,841	5,045,999
Fork Lift Fuel and Oils	29,922	58,240
Total distribution costs	772,369,557	588,116,000

7. Insurance costs	2019-2020 Kshs	2018-2019 Kshs
Medical Premiums	78,215,813	86,527,274
Insurance Expenses - premiums	14,201,361	25,809,594
Insurance Expenses - Policy Excess	-	-
Total insurance costs	92,417,174	112,336,867

8. Rental expenses	2019-2020 Kshs	2018-2019 Kshs
Warehouse Rent	181,460,311	186,428,925
Hire of Space	21,054	19,824
Total rental expenses	181,481,365	186,448,749

9. Legal Expenses	2019-2020 Kshs	2018-2019 Kshs
Legal Fees	139,772,928	63,602,437
Total legal expenses	139,772,928	63,602,437

10. Utilities Expenses	2019-2020 Kshs	2018-2019 Kshs
Water and Conservancy Expenses	1,014,536	1,012,264
Electricity & Lighting Expenses	13,287,328	15,968,339
Generator Fuel & Maintenance	6,665,675	5,241,394
Total utilities expenses	20,967,539	22,221,996

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

11. Staff travel expenses	2019-2020	2018-2019
	Kshs	Kshs
Staff Travel Allowance - Local	123,018,487	111,989,592
Staff Travel Allowance - International	7,996,568	15,781,375
Air Tickets	8,482,518	10,333,349
Hire of Taxi & Other Transport	8,385,471	6,530,724
Mileage Claims -Use Own Cars	11,030	68,252
Travel and other Related Expenses-Donor Funded	7,050,485	15,671,221
Total staff travel expenses	154,944,559	160,374,513

12. Finance costs	2019-2020	2018-2019
	Kshs	Kshs
Bank Charges	2,189,997	2,107,351
Total finance costs	2,189,997	2,107,351

13. Audit fees	2019-2020	2018-2019
	Kshs	Kshs
Audit Fees & Others	3,500,000	5,464,680
Total audit fees	3,500,000	5,464,680

14. BOD expenses	2019-2020	2018-2019
	Kshs	Kshs
BOD Sitting & Lunch Allowances	5,938,200	6,856,549
BOD Travel & Accommodation Exp.	3,972,744	5,505,523
BOD Conferences	-	1,771,100
BOD Honoraria & Other Allowances	1,044,000	174,000
Total BOD expenses	10,954,944	14,307,173

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

15. Depreciation & amortization	2019-2020	2018-2019
	Kshs	Kshs
Buildings - Depreciation	39,349,097	39,349,097
Plant & Machinery - Depreciation	18,482,774	16,718,196
Office Equipment - Depreciation	6,476,835	6,072,391
Furniture & Fittings - Depreciation	6,109,941	5,874,405
Computer Equipment - Depreciation	37,813,346	35,892,507
Intangible Assets - Depreciation	66,000	66,000
Motor Vehicles - Depreciation	52,881,105	31,088,605
Total depreciation & amortization	161,179,098	135,061,202

16. Other Operating Expenses	2019-2020	2018-2019
	Kshs	Kshs
Training Expenses	22,644,268	37,659,327
Conference Expenses	20,421,778	22,058,427
Change Management Expenses	7,097,000	-
Recruitment Agency	3,295,560	499,917
Issues First Aid & Staff Disp.	-	239,190
Official Entertainment	20,265,413	15,576,345
Office Beverages	9,394,807	8,087,821
End Of -Year Staff Staff Party	12,965,660	5,388,843
Other Staff Parties	-	160,040
Staff Support Expenses	1,935,392	1,068,700
Purchase Of New Uniforms	1,420,352	757,440
Laundry and Cleaning	75,840	123,520
Telephone - Switchboard LLS	3,375,805	4,254,478
Cell Phones	8,909,348	7,785,199
E-mail/Internet	7,956,657	7,235,204
Postage & Courier	187,285	187,829
Computer Maintenance Expenses	6,168,012	4,603,586
Computer Maintenance Agreement	2,405,372	5,477,162
Computer Software and Licenses	7,151,855	2,101,931
Computer Stationery Expenses	9,308,922	2,410,908
Hire of Services - Security Firms	11,188,909	12,685,740
Hire of Services From Police	3,781,500	3,823,500
Security Equipment	502,680	225,629
Cleaning Materials & Implement	2,296,148	1,764,753
Pest Control Expenses	763,660	2,511,800
Outsourced Cleaning Expenses	4,237,461	1,882,800
Sanitation Expenses	2,605,070	489,860
Plant Repairs & Maintenance	264,877	158,648

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

Repairs To Buildings and Roads	3,028,533	7,598,393
Purchase of Tools & Maintenance	1,871,378	564,150
Rates Paid To The Local Govt.	-	100,652
Reagents	2,042,224	2,152,844
Third Party Services	19,321,270	20,112,329
Maintenance Of QA Tools & Equipment	1,332,144	220,632
Palleting cost	7,140,000	-
Packaging Material and Expenses	14,525,043	11,371,501
Protective Clothing & Gear	862,390	2,909,025
Cost -Disposing Damage Stock	2,995,655	4,850,520
Stationery Expenses	13,926,615	9,721,261
Office Expenses	5,804,164	4,548,128
General Admin expenses	77,862	155,883
Staff Subscription Expenses	1,364,241	1,936,525
Statutory Subscriptions	493,500	476,500
Total Subscription cost	-	-
Fire Fighting & Safety Equipment	2,222,024	2,017,444
Hire of Safety training Serv	90,000	-
Bank Charges And Commission - Realized Loss	93,238,620	18,404,092
Penalties And Fines	12,000	795,021
Consultancy	23,767,436	7,053,640
Public Relations Expenses	6,133,497	951,015
Donations	237,000	-
Sponsorships	3,950,000	722,877
Shows And Exhibitions	150,800	1,837,057
Communication & Infor. Exp.	-	38,400
Advertising Expenses	11,135,203	25,245,770
Corporate & Other Calendars	6,505,500	4,678,800
Advertising Of Tenders	16,704,620	3,578,212
Publicity & Advertising Expenses	1,374,500	4,226,464
Newspaper Expenses	514,928	857,772
Journals, Books & Periodicals	-	306,810
Total other operating expenses	411,440,778	286,650,314

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

17 a. Cash and Cash Equivalents	2019-2020	2018-2019
	Kshs	Kshs
PETTY CASH	22,659	3,422
NBK - OPERATIONS	6,371,491	43,649,351
WORLD BANK E.A LAB PROJECT	29,065,065	117,377,477
NBK DISTRIBUTION	96,679	2,281,857
KCB DRUGS	566,731,869	155,766
KCB DISTRIBUTION	2,412	3,603
CBA	1,240,139,032	512,078,336
CO-OP - MEDICAL GRANTS	1,615,789,011	1,146,584,054
CO-OP BANK GF OPERATIONS (KSH)	98,646,638	44,483,953
CO-OP BANK GF OPERATIONS (USD)	186,199,163	52,622,974
CO-OP BANK GF ATM R4P1 (USD)	1,915,053	1,856,708
CO-OP BANK GF ATM R5P1 (USD)	1,943,211	1,873,520
CO-OP BANK GF ATM R6 (USD)	131,805	133,944
CO-OP BANK GF ATM R4P2 (USD)	6,658	4,552
CO-OP BANK GF ATM R5P2 (USD)	29,768	35,953
CO-OP BANK GF ATM R7P1	7,012,704	6,741,984
CO-OP BANK GF ATM R4P2	905	901
CO-OP BANK GF ATM R5P1	1,065,051	1,060,522
CO-OP BANK GF ATM R6 (KSH)	1,025,419	1,021,059
CO-OP BANK GF ATM R7P1	4,181,004	4,177,594
WORLD BANK HSSP NON POOLED	177,679	216,881,203
WORLD BANK HSSP POOLED PROJECT	38,097,575	695,035,671
SSD CO-OP BANK	1,100,010,909	25,884,554
SSD EQUITY BANK	4,799,287,198	2,469,250,390
KEMSA EQUITY WAREHOUSE CONSTRUCTION PROJECT	579,863,638	837,991,585
KEMSA EQUITY BANK OPERATIONS (KSH)	36,777,924	934,859
KEMSA EQUITY BANK OPERATIONS (USD)	138,932,065	122,487,439
MPESA BULK PAYMENT	5	-
Total cash and cash equivalents	10,453,522,589	6,304,613,231

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

17(b) Cash and Cash Equivalents	2019-2020 Kshs	2018-2019 Kshs
Bank	10,453,499,930	6,304,609,809
Cash on Hand and On Transit	22,659	3,422
Total cash and cash equivalents	10,453,522,589	6,304,613,231

18. Receivables from Exchange Transactions	2019-2020 Kshs	2018-2019 Kshs
Trade Debtors -Receivable	6,483,414,850	5,057,746,108
Supplier prepayment	121,774,697	54,783,290
Total receivables from exchange transactions	6,605,189,547	5,112,529,398

19 Receivables from Non Exchange Transactions	2019-2020 Kshs	2018-2019 Kshs
Other Debtors – Uninvoiced Receivables	523,509,924	-
Travel Imprest Debtors	2	1,565,209
Staff Salary Advances Debtors	186,713	233,845
Staff Medical Advances	2,412,664	3,058,195
Staff Accountable Imprest	-	8,000
Interest Receivable	2,262,383	9,709,615
Total receivables from non exchange transactions	528,371,687	14,574,865

20. Inventories	2019-2020 Kshs	2018-2019 Kshs
Pharmaceutical & Non Pharmaceutical Stocks	17,734,238,206	11,022,597,472
Stationery	3,947,407	4,042,287
Beverages & Others	93,793	701,694
Total inventories	17,738,279,406	11,027,341,453

21. Short Term Investments	2019-2020 Kshs	2018-2019 Kshs
Short-Term Investments	-	483,170,000
Total short term investments	-	483,170,000

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

22(a) Property, Plant and Equipment
As at JUNE 2020

	LAND	BUILDINGS	OFFICE EQUIPMENT	PLANT & MACHINERY	FURNITURE	MOTOR VEHICLE	COMPUTER HARDWARE	WIP	TOTALS
COST AS AT 30/6/2019	1,786,967,270.37	1,571,963,699.68	88,379,179.06	167,181,961.86	46,995,243.75	124,354,420.00	107,677,521.54	1,774,192,876.03	8,588,912,812.24
COST RESTATEMENT AT FAIR VALUES									-
DISPOSAL OF FIXED ASSET						(2,612,000.00)			(2,612,000.00)
ADDITIONS	-	-	3,235,347.00	17,645,779.64	1,884,287.00	89,782,000.02	5,762,536.25	1,247,722,561.76	1,366,033,711.67
WIP Transfer				-				-	-
COST AS AT 30/6/2020	1,786,967,270.37	1,571,963,699.68	91,614,526.06	184,827,741.50	48,879,530.75	211,534,420.02	113,440,057.79	2,981,916,437.79	8,953,334,023.96
ACCUMULATED DEPRECIATION REVERSAL ON SALE OF COMPUTER HARDWARE						(11,868,125.10)	(38,810,500.00)	-	(10,678,625.10)
ACCUMULATED DEPRECIATION	-	169,282,534.49	19,031,054.63	39,152,826.13	20,327,198.69	79,838,791.65	104,746,340.26	-	432,356,741.96
ACCUMULATED DEPRECIATION REVERSAL ON REVALUATION								-	-
DEPRECIATION CHARGE FOR 12 MONTHS	-	36,349,097.24	6,476,834.51	18,482,774.15	6,109,941.34	52,881,103.81	37,813,345.93	-	161,113,098.18
ACCUMULATED DEPRECIATION	-	247,422,131.73	25,507,889.14	77,635,600.28	26,437,140.03	131,651,771.56	103,749,146.31	-	611,853,710.04
12.00									-
NRV AS AT 30/6/2020	1,786,967,270.37	1,326,541,757.95	26,306,786.92	107,192,141.22	22,442,998.72	80,472,644.47	9,690,851.48	2,981,916,437.79	6,341,330,364.92
Net Book Values									
As at 30th June 2019	1,786,967,270.37	1,404,791,355.20	29,548,074.43	108,029,135.73	26,668,045.06	44,519,628.35	2,831,151.16	1,774,192,876.03	5,137,553,966.33
As at 30th June 2020	1,786,967,270.37	1,440,469,452.44	33,287,140.46	105,822,479.46	30,345,664.53	62,315,900.00	15,029,328.40	494,320,412.59	3,968,606,648.27

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

22 (b) Intangible Assets As at June 2020			
	COMPUTER SOFTWARE	INTANGIBLE	TOTALS
COST AS AT 30/06/2018	130,204,894.00	12,578,610.00	142,783,504.00
COST RESTATEMENT AT FAIR VALUES			
DISPOSAL OF FIXED ASSET			-
ADDITIONS	-	-	-
WIP Transfer			-
COST AS AT 30/06/2019	130,204,894.00	12,578,610.00	142,783,504.00
COST RESTATEMENT AT FAIR VALUES			
DISPOSAL OF FIXED ASSET			-
ADDITIONS	-	-	-
WIP Transfer			-
COST AS AT 30/06/2020	130,204,894.00	12,578,610.00	142,783,504.00
ACCUMULATED DEPRECIATION REVERSAL ON SALE OF COMPUTER HARDWARE	-	-	-
ACCUMULATED DEPRECIATION	130,204,894.00	12,512,610.00	142,717,504.00
ACCUMULATED DEPRECIATION REVERSAL ON REVALUATION			
DEPRECIATION CHARGE FOR 12 MONTHS	-	66,000.00	66,000.00
ACCUMULATED DEPRECIATION	130,204,894.00	12,578,610.00	142,783,504.00
12.00			-
NBV AS AT 30/06/2020	-	-	-
Net Book Values			
As at 30th June 2019	-	66,000.00	66,000.00
As at 30th June 2018	-	132,000.00	132,000.00

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

23. Long Term Receivables from Non Exchange Transactions	2019-2020	2018-2019
	Kshs	Kshs
Long-term Deposit	48,515,430	37,304,586
Total long term receivables from non exchange transactions	48,515,430	37,304,586

24. Trade and other payables from exchange transactions	2019-2020	2018-2019
	Kshs	Kshs
Trade Creditors - Medical	2,930,241,847	2,171,986,525
Trade Creditors - Not Invoiced Receipts	2,742,577,146	
Trade Creditors - Operations	80,990,560	1,248,368,837
Trade Creditors - Distribution	-	-
Trade Creditors - Development Partner's Grants	1,100,301,588	-
Stale Cheques - Unclaimed Payments	-	-
Rent deposit's - tenants	3,032,428	3,032,428
Withheld vat	(1)	21,750
Vat output - due	64,174	35,982,372
Withheld tax- consultancy	-	-
Withheld Tax - Rental Income	-	-
Suppliers Funds Retained	22,441,620	21,841,784
VAT output liability	-	-
Total trade and other payables from exchange transactions	6,879,649,362	3,481,233,696

25. Payments Received in Advance	2019-2020	2018-2019
	Kshs	Kshs
Customer Prepayment	7,594,224,973	221,483,033
Total payments received in advance	7,594,224,973	221,483,033

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

26. Provisions	2019-2020 Kshs	2018-2019 Kshs
Balance Brought Forward	82,674,496	16,453,585
Additional Provisions	117,961,863	82,674,496
Provision Utilized	(82,674,496)	(16,453,585)
Total provisions	117,961,863	82,674,496

27. Project Fund	2019-2020 Kshs	2018-2019 Kshs
Project Fund	29,065,065	405,729,772
Total project fund	29,065,065	405,729,772

28. Medical Commodity Fund	2019-2020 Kshs	2018-2019 Kshs
THIRD PARTY STOCKS	8,031,348,661	7,390,181,509
FUNDS HELD ON BEHALF USAID FOR PAYMENT OF SUPPLIERS	55,383,692	-
UN-SPENT AIE's FUNDS RECEIVED	816,170,837	-
GLOBAL FUNDS ACCOUNT BALANCES	17,311,578	16,906,737
Total medical commodity fund	8,920,214,768	7,407,088,246

29. Deferred income	2019-2020 Kshs	2018-2019 Kshs
Current Portion recognized from Donated Assets	58,146,334	66,190,879
Total deferred income	58,146,334	66,190,879

30. KEMSA Capital	2019-2020 Kshs	2018-2019 Kshs
Balance at the end of the Financial Year	8,461,576,303	8,461,576,303
Total KEMSA Capital	8,461,576,303	8,461,576,303

31. 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.

32. OTHER DISCLOSURES**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.

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		
	2020	2019
Trade Receivables	6,911,196,221	5,057,746,108
Cash and Bank Balances	10,453,522,589	6,304,613,231
Total	17,364,718,810	11,362,359,339

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The ageing of accounts receivables that explain the Authority's exposure to credit risk as at 30th June 2020 was made up as follows:

Trade Receivables:		
	2019/2020 Kshs	2018/2019 Kshs
-by up to 30 days	1,289,179,419	580,547,822.74
-by 31-60 days	726,636,908	581,380,712
-by 61-90 days	446,704,170	427,036,806
-Over 91 days	4,448,675,274	3,421,680,767
TOTAL	6,911,196,221	5,010,646,108

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.

Liquidity Risk					
As at 30 th June 2020:	0-30 Days	31-60 Days	61-90 Days	Over 91 Days	TOTAL
Trade Payables	2,452,170,516	435,731,571	45,152,002	78,178,322	3,011,232,411
Stale Cheque					-
Retentions	22,441,620				22,441,620
Customer Prepayments	7,594,224,973				7,594,224,973
Provisions	117,955,191				117,955,191
TOTAL	10,186,792,300	435,731,571	45,152,002	78,178,322	10,745,854,195
As at 30 th June 2019:	0-30 Days	31-60 Days	61-90 Days	Over 91 Days	TOTAL
Trade Payables	1,938,528,849	874,048,044	23,001,487	584,776,983	3,420,355,363
Stale Cheque				-	-
Retentions	21,841,784				21,841,784
Customer Prepayments	221,483,033				221,483,033
Provisions	82,674,496				82,674,496
TOTAL	2,264,528,162	874,048,044	23,001,487	584,776,983	3,746,354,676

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.

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 2019/2020 was 8%.

33. Contingent Assets and Contingent Liabilities

(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 28th March, 2019. The matter is still in court.

The Directors are confident of a favorable verdict and therefore of the opinion not to expunge the said parcel of land from the financial statements

(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.

34. 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.

Related Party Transactions		
	2019/2020 Kshs	2018/2019 Kshs
Grants from the National Government	653,239,996	482,902,818
Sale of Medical Commodities to Public Health facilities	10,583,281,996	5,911,694,376
Board Expenses	10,954,944	14,307,173
Key Management Compensation	61,821,217	58,162,789
TOTAL	11,309,298,153	6,467,067,155

34. Operating Lease Commitments

The Authority's prepaid operating lease rentals paid are recognized as assets and are subsequently amortized over the lease period. Operating lease payments are recognized as an operating expense in profit or loss on a straight-line basis over the lease term.

The Authority has entered into operating lease agreements for leasing of warehouses in two locations (Nairobi-Mombasa Road, and Garissa) for warehousing of medical commodities. The leases are issued under non-cancellable terms for a period of five years with rental escalation after every two years.

The operating lease payments recognized in the year amounted to Kshs. 181,460,311
As at 30th June 2020 the future Minimum lease payments are as detailed below.

	2019/2020 Kshs	2018/2019 Kshs
Not Later Than 1 year	197,145,000	252,212,907
Later than 1 year and not later than 5 years	716,023,620	256,344,643
Later Than 5 Years	-	-
Total	913,168,620	508,557,549

35. Events after the Reporting Period

There was material reduction on market prices for Covid-19 HPTs procured in the FY 2019/20. Using current market prices provided by the commercial division, there is an impending loss of realizable value from the covid-19 Health Products and Technologies amounting to approximately Ksh 2.338 Billion.

36. 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	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Staff costs of Ksh.765,607,575 included Ksh.9,326,710 paid to forty staff employed in the year and two promoted. There were 759 staff compared to the approved establishment of 341. Cost also included Ksh.8,787,805 paid to seconded staff who had been working for KEMSA for more than 6 years. Further, out of the twenty six seconded staff twelve had no special skills.	As per the existing KEMSA HR Policies Manual the Board had mandated the Management to recruit and promote staff in grades SA4 and below. The staff in question fell in this category. The 759 employees indicated above is the total number of staff both KEMSA staff (324 in-post) and Program staff (435). The 435 are contracted staff by KEMSA to render services to the various programs that KEMSA has with its Strategic Partners. KEMSA 35th Board meeting, held on 15th October 2013, under minute No.44/FB/2013 ix (d) gave authority to the management for the recruitment of short term /contract staff based on the new business	Ebla Mohamed Director, Human Resource and Administration	Partially resolved	June 2020

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		model needs. KEMSA has released seconded Armed Police who had been there for more than 6 years and new officers have taken up their duties. KEMSA has also written to PS- MOH to take back Ministry seconded staff and as at 30 th June 2019, 21 staff had reported to their parent ministries.			
2	Net sale of 709,435,073 included expired/damaged commodities worth Kshs 150,423,159	<p>The expiries were mainly driven by:</p> <ul style="list-style-type: none"> KEMSA'S adoption of a new business model in the Financial Year 2012/2013 where many of the commodities inherited as capital stocks were under the "PUSH" system and thus quantification of health commodity needed to be determined by the National Government and commodities pushed to the public health facilities. Change of treatment regimen. Technological changes 	<p>Dr. John Aduda Quality Assurance Manager. Edward Njoroge Operation Director.</p> <p>Mr. Eliud Muriithi, Director Commercial Services</p>	Partially Resolved	June 2020

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<ul style="list-style-type: none"> Damages in the course of day to day operations <p>The KEMSA management has also been engaging in proactive efforts to ensure that commodities do not expire by: -</p> <ul style="list-style-type: none"> ✓ Donating Commodities that are less than six (6) Months to expiry to Counties. ✓ Participation in various health camps across the country through donation of short expiry commodities that are good for human use. ✓ Adoption of a First Expiry First Out strategy in commodities management at the warehouse. 			
3.	BOD expenses amounting to Ksh.1,660,999 paid to four BOD members whose supporting invitation letters and	There were increased board activities and consultations that required the presence of the board Session Chair and one member of the board on various ongoing developments as that included review of KEMSA Act,	Fredrick Wanyonyi Director Legal Services/	Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	minutes held had not been availed.	consultations on implementation of Modern warehouse and office complex project, restructuring to conform to new PP&D Act 2015 and recruitment of new CEO. The position of BOD Chairman and CEO has been substantively filled since. Effective July 2018 all BOD meetings had invitation letters and minutes.	Corporation Secretary		
4.	The Property, plant and equipment balance of Kshs 3,968,606,648 as at 30 June 2018 includes various pieces of land valued at Kshs 1,786,967,270 out of which the Authority does not possess ownership documents for land valued at Ksh.158,000,000	The Authority has however embarked on the process of realization of the titles and has engaged Conveyance experts to assist in the process. There have been continuous engagements with both the National Land Commission and the Lands Ministries in the respective counties and this has borne fruits with the realization of the title deed for the Property at Nakuru and Kisumu.	Mr. Fred Wanyonyi, Director Legal Services	Partially Resolved	June 2021
5.	Motor Vehicles with a net book value of Ksh.62,315,900 included four vehicles with a net	One vehicle registration GK A960B has since been returned to MOH while the rest are in serviceable	Ebla Mohammed Director, Human	Partially resolved	June 2021

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	book value of Ksh.2,574,000 that were owned by National Government	condition and KEMSA is pursuing transfer of ownership.	Resource and Administ ration		
6.	Work in Progress balance of Ksh.494,320,413 included Ksh.321,360,535 paid to a consultant engineer for design and supervision of construction of warehouse and office block, while the amount payable was Ksh.126,279,953. Ksh.22,466,643 was also paid to a consultant engineer, the amount payable was Ksh.5,754,638.	All fee notes submitted were accompanied with an invoice, a schedule of out of pocket expenses for architectural services, consultant's fee notes, notification for payment approval by KEMSA contract implementation team (CIT) and supporting documentation for out of pocket expenses. We therefore clarify that method used to calculate the professional fees paid to the consultant was based on the addendum conditions of engagement and scale of fees for professional services for building and civil engineering works (1987 Edition) Clause 208 of the and not the 12% cost of work method	CIT Committee	Partially resolved	June 2020

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
7.	The Receivables from exchange Transactions balance of Kshs 4,122,083,110 as at 30 June 2018 included long outstanding debtors of Kshs 3,400,428,351 comprising of counties Ksh 2,345,622,268 and Ministry of Health Kshs 1,054,806,083	Out of the overdue amount of Kshs 3,400,428,351, an amount totaling to Kshs 1,054,806,083 was due from National programs managed by the Ministry of Health. We have an assurance from the office of the Principal Secretary that they have been captured as pending bills and factored for settlement during the financial year 2018/2019. KEMSA has continued engaging the counties and the Ministry of Health in a bid to reduce the amounts owed.	Mr. Eliud Muriithi, Commercial Director	Partially Resolved	June 2020

<p>8.</p> <p>Trade and Other Payables balance of Ksh.833,920,091 includes long outstanding Medical Creditors of Ksh. 22,888,538.84 and operation creditors of Ksh. 35,681,976.80. Also included was long outstanding customer prepayment of Ksh. 3,829,479 and long outstanding suppliers retained fund of Ksh. 9,858,300</p>	<p>Medical Creditors</p> <p>Med Africa Ltd - award to supply, install and commission of incinerators was awarded, the supply delivered but sheds were not ready. PS MOH advised KEMSA to pay 70% and 30% was awaiting installation and commissioning. As at 30th June 2019 a total of Ksh.5,000,000 was approved to facilitate completion of the project.</p> <p>Meditec Systems Ltd - KEMSA has requested the Ministry of Health to facilitate extra funds as the funds provided for construction of bunker and civil works were not sufficient to pay the final certificate.</p> <p>Omaera Pharmaceuticals Ltd - In 2016, the Pharmacy and Poisons Board recalled the marketing authorization of Alimox (Amoxicillin Oral suspension due to quality issues. By the time the Market Authorization was reinstated the product had been delisted from Kenya Essential Medicines List and hence the manufacturer could not replace the product with fresh batches. The supplier has since engaged KEMSA and replaced Alimox suspension with Amoxicillin</p>	<p>David Mutitu Procurement Manager</p> <p>Caroline Gichinga Procurement Manager</p> <p>Dr. John Aduda QA Manager</p> <p>Waiganjo Karanja Director, Finance & Strategy</p>	<p>Resolved</p> <p>June 2020</p>
---	---	--	----------------------------------

				<p>Dispersible tablets and has since delivered and been paid. This issue is thus resolved.</p> <p>Operations Creditors Crown Agents Kenya Ltd, GTZ and John Snow Incorporated and KEMSA - were partners providing supply chain management services to the GFATM and were to share the profit of the project on an equal basis of 25%;25%;25%;25%.</p> <p>At the end of the Financial Year, KEMSA had received part of the Procurement and Supply Chain Management Consortium (PSCMC) fees from the Principle Recipient hence provided for payables to the partners. These payments are outstanding awaiting resolution of pending bills incurred during the operations of the consortium. Audit ongoing in August 2020.</p>			
--	--	--	--	---	--	--	--

Appendix 3: 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 st 2015 End : 30 th December 2020		NO	YES

Appendix 4: INTER-ENTITY TRANSFERS

Date R3:28received	Name of the Entity Sending the Grant	Amount recognized to Statement of Comprehensive Income	Amount Deferred under deferred income	Amount Recognized in Capital Fund	Total Grant Income during the Year
16/01/2020	Ministry of Health	131,250,000	-	-	131,250,000
27/04/2020	Ministry of Health	131,250,000			131,250,000
DEVELOPMENT GRANT		262,500,000.00			262,500,000
RECURRENT GRANT					
Date Received	Name of the Entity Sending the Grant	Amount recognized to Statement of Comprehensive Income	Amount Deferred under deferred income	Amount Recognized in Capital Fund	Total Grant Income during the Year
09/09/2019	Ministry of Health	97,684,999	-	-	97,684,999
27/12/2019	Ministry of Health	97,684,999	-	-	97,684,999
01/04/2020	Ministry of Health	97,684,999			97,684,999
08/05/2020	Ministry of Health	97,684,999			97,684,999
TOTAL RECURRENT		390,739,996.00			390,739,996
DIRECT PAYMENT					
Date Received	Name of the Entity Sending the Grant	Amount recognized to Statement of Comprehensive Income	Amount Deferred under deferred income	Amount Recognized in Capital Fund	Total Grant Income during the Year
09/07/2019	Ministry of Health	-	-	-	299,999,988
09/07/2019	Ministry of Health	-			5,799,085
09/07/2019	Ministry of Health	-			20,098,620
09/07/2019	Ministry of Health	-			58,000,915
04/11/2019	Ministry of Health	-	-	-	195,213,987
27/12/2019	Ministry of Health	-	-	-	931,373,369
28/01/2020	Ministry of Health	-	-	-	50,375,000
02/03/2020	Ministry of Health	-	-	-	245,000,000
04/03/2020	Ministry of Health	-	-	-	8,956,350
11/03/2020	Ministry of Health	-	-	-	4,034,382,278
27/04/2020	Ministry of Health	-			2,875,365
27/04/2020	Ministry of Health	-			39,999,590
30/04/2020	Ministry of Health	-			1,100,000,000
11/06/2020	Ministry of Health	-			2,682,852,853
11/06/2020	Ministry of Health	-			1,802,997,660
11/06/2020	Ministry of Health	-			333,470,837
TOTAL DIRECT RECEIPT		-			11,811,395,898