REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA MEDICAL SUPPLIES AUTHORITY

FOR THE YEAR ENDED 30 JUNE, 2022

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KENYA MEDICAL SUPPLIES AUTHORITY

YOUR PARTNER IN HEALTHCARE

Kenya Medical Supplies Authority

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2022

KEMSA (CEO's Office)
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1. Key Entity Information and Management

(a) Background Information

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

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

KEMSA's main supply chain centre is in Nairobi. In addition, the authority has 2 regional distribution centres (Mombasa and Kisumu) and 5 regional warehouses (Kakamega, Eldoret, Nakuru, Nyeri, and Meru) across the country to enhance flexibility and quick response to customers' demand.

(b) Principal Activities

➢ **Core Mandate**

The Authority's Core Mandate as defined in the Act is to;

i. Procure, warehouse and distribute drugs and medical supplies for prescribed public health programmes, the national strategic stock reserve, prescribed essential health packages and national referral hospitals;
ii. Establish a network of storage, packaging and distribution facilities for the provision of drugs and medical supplies to health institutions;
iii. Enter into partnership with or establish frameworks with county Governments for purposes of providing services in procurement, warehousing, distribution of drugs and medical supplies;

iv. Collect information and provide regular reports to the national and county governments on the status and cost-effectiveness of procurement, the distribution and value of prescribed essential medical supplies delivered to health facilities, stock status and on any other aspects of supply system status and performance which may be required by stakeholders;

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

- **Vision**

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

- **Mission Statement**

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

- **Strategic Objectives of the Authority**

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

(c) Key Management

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

- Board of Directors
- The Chief Executive Officer
- Management

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2022 and who had direct fiduciary responsibility were;

No.	Designation	Name
1.	Chief Executive Officer	Dr. Jonah Manjari Mwangi
2.	Ag. Chief Executive Officer/Director - Operations	Mr. Edward Njoroge
3.	Ag. Chief Executive Officer/ Head, KEMSA-USAID MCP Program	Mr. John Kabuchi
4.	Chief Executive Officer	Terry Kiunge Ramadhani
5.	Director- Legal	Mr. Fredrick Wanyonyi
6.	Ag. Legal Officer	Ms. Silvia Kanyi
7.	Director- Procurement	Mr. Charles Juma Ezekiel
8.	Ag. Director- Procurement	Mr. Edward Buluma
9.	Ag. Director- Procurement	Dr. Silas Njeru
10.	Director, Commercial Services	Mr. Eliud Mureithi
11.	Ag. Director, Commercial Services	Dr. Simon Wahome
12.	Head, KEMSA-USAID MCP Program	Mr. Douglas Onyancha
13.	Ag. Head, KEMSA-USAID MCP Program	Dr. Evans Imbuki
14.	Internal Audit Manager	Ms. Teresa Mute
15.	Director Finance & Strategy	Mr. Waiganjo Karanja
16.	Director Human Resource & Administration	Ms.Ebla Mohamed
17.	Head of Finance	Ms. Caroline Wanjiru Ogongi
18.	Ag. Head of Finance	Mr. James Macharia

(e) Fiduciary Oversight Arrangements

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

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

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

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

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

Finance, Strategy & Development Committee	Human Resources Committee	Audit and Risk Committee	Supply Chain Committee
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	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	Oversee QA & control systems, warehousing & distribution of medicines, customer services, co-ordinate updates of EMMS list, commodities procurement systems

recommended structural developments including ICT installations and make appropriate recommendations		of risk management.	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
Chairperson	**Chairperson**	**Chairperson**	**Chairperson**
Linton Kinyua Nyaga (Current chair)	Capt. (Rtd) Lawrence Wahome (Current chair)	Dr. Robert Nyarango (FM exited in March , 2022)	Capt. (Rtd) Lawrence Wahome (Current chair)
Members	**Members**	**Members**	**Members**
Mary Atieno Awino Terry Kiunge Ramadhani (FM)	Dr. Josphat Mbuva (FM) Dr. Robert Nyarango(FM) Dr. Tom Menge (FM) Mary Atieno Terry Kiunge Ramadhani (FM)	Mary Atieno Awino Capt. (Rtd) Lawrence Wahome	Dr. Josphat Mbuva (FM) Linton Nyaga Kinyua Dr. Tom Menge (FM)

NOTE:

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

(f) Headquarters

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

(g) Contacts

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

(h) Bankers

1. National Bank of Kenya
   Harambee Avenue
   P. O. Box 72866 – 00200
   NAIROBI, KENYA

2. NCBA
   Mara Road, Upper Hill
   P. O. Box 44599 – 00100
   NAIROBI, KENYA

3. Kenya Commercial Bank
   Industrial Area
   P. O. Box 18031 – 00500
   NAIROBI, KENYA

4. Co-operative Bank of Kenya
   Enterprise Road
   P. O. Box 17928 – 00500
   NAIROBI, KENYA

5. Equity Bank Ltd
   Westlands Supreme Centre
   P. O. Box 75104 - 00200
   NAIROBI, KENYA

(i) Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084 - 00100
NAIROBI, KENYA

(j) Principal Legal Advisers

The Attorney General
State law office, Harambee Avenue
P.O. Box 40112 - 00200
NAIROBI, KENYA

2. The Board of Directors

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

Mary Chao Mwadime

DOB: 28/09/1956
Non-Executive Director
Chairperson – Board of Directors
Effective 30th April 2021

Profession/Academic Qualifications: PhD-Business Leadership ongoing, MBA, BCOM-Business Administration / Marketing

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

Rtd. Captain Lawrence M. Wahome

DOB: 21/07/1968
Non-Executive Director
Chair of Supply Chain Board Committee
Effective 30th April 2021

Profession/Academic Qualifications: (Masters, Public Proc. & Sustainable Devp., MBA-Total Quality Management, Post Graduate Cert-Logistics & international Transport, LLM-Public Procurement Law & Policy Devlp, BB Logistic & Supply Chain Management, Dip-Purchasing & Supply (CIPS), DIP-Aeronautical Navigation).

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

Terry Kiunge Ramadhani

DOB: 16/01/1980

Non-Executive Director

Chair of Human Resources Board Committee

30th April 2021 - 18th March 2022

Profession/Academic Qualifications: Professional Human Resources Society of Tanzania, Professional Membership & working towards Charter status, Certified Prince 2 Practitioner, LLB-ongoing, MBA-HRM, CIPD, Bachelor of Education.

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

Linton Nyaga Kinyua

DOB: 24/11/1962

Non-Executive Director

Effective 30th April 2021

Profession/Academic Qualifications: Member (CPS(K), Member CPA(K), MBA, BBA-Accounting, Dip. Business Management

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

Reema Doshi-Lewis

DOB: 04/07/1979

Non-Executive Director

Effective 18th March 2022

Profession/Academic Qualifications: CIM-Marketing, Chartered Institute of Marketing (CIM), Level 6, BSC, Telecommunications & IT, Diploma in Professional Marketing.

Work Experience: Marketing Expert, - SNDBX | The Village Experts, Founder & CEO - Ardy Marketing, Business Development Manager - MBM Africa, Manager - Refinery Grooming, Marketing Manager - Kingsway Tyres Ltd, Marketing Executive - Prime Outdoor Network, and Customer Service Multichoice (Kenya) Ltd

Dr. Nancy Njeru

DOB: 04/07/1979

Non-Executive Director

Profession/Academic Qualifications: MHSM, BPharm

Work Experience: Ministry of Health, Kenya Head – Division of Health Products and Technologies, Division of Health Care financing, Health Economist, Kenya Healthcare Financing Officer, Department of Health Sector Coordination & Intergovernmental Affairs, and Head, Free Maternity Reimbursement Program, National Quality Control Lab (NQCL), Acting Director, National AIDS and STI Control Program (NASCOP), Program Pharmacist, Head, Wet Chemistry & Instrumentation Units Quality Control Analyst, (NQCL), Quality Control Analyst

Dr. Robert Nyarango

DOB 30/09/1974

Non-Executive Director

Chair of Audit Board Committee

Effective 30th April 2021 – 18th March 2022

Profession/Academic Qualifications: Member-Association for Healthcare Quality, Certified Processional in Healthcare Quality & Safety by the Healthcare Quality Certification Commission, MSC-Clinical Pharmacy, MBA-Strategic Management, Post Graduate Dip.-Health System Management.

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

Mary Atieno Awino

DOB 25/12/1964

Non-Executive Director – Alt. to PS, The National Treasury

Profession/Academic Qualifications: MBA, BCOM, Dip-Supply Chain Management. Part III

Work Experience: Currently Deputy director, supply chain management/public procurement department, National Treasury. Deputy head of procurement unit Ministry of Health (Feb 2004 to Nov 2008) Deputy head of procurement unit Ministry of health (2003-2004). Head of procurement National Assembly (1992-1996)

3. Management Team

Terry Kiunge Ramadhani
Chief Executive Officer
MBA -HRM, BEd.
Effective 19th May 2022

John Kabuchi
Ag. Chief Executive Officer
MBA, BA
28th December 2021 – 27th May 2022

Dr. Jonah Manjari
Chief Executive Officer
(up to 13th May 2022)
MBA, M. Med, MBChB

Edward Njoroge
Director-Operations / Ag. Chief Executive Officer 14th August 2020 to 28th December 2021

Dr. Jarred Nyakiba
Ag. Director Operations
MPharm, BPharm
Effective 10th Feb 2022

Dr. Silas Njeru
Ag. Procurement Director
Effective 10th Feb 2022

Dr. Evans Imbuki
Ag. Head Medical Commodity Program
BPharm
Effective 10th Feb 2022

Dr. Simon Wahome
Ag. Commercial Director
Effective 10th Feb 2022
MPharm, BPharm

CPA James Macharia
Ag. Finance Manager
Effective 10th Feb 2022
MBA, BBM, CPAK

Tecla Chepchumba Lel
MSc Procurement, BBM, KISM
Ag. Warehouse Manager
Effective 10th Feb 2022

Hilary Tiony
Ag. ICT Manager
Effective 10th Feb 2022
MDY, MSS, Security +, BCFE,CFCE,CEH

Vainora Kerubo
Ag. HR Manager
Effective 10th Feb 2022

Fred Wanyonyi
Director-Legal Services
LLB, DIP. Law

CPA Geoffrey Mochache
Principal Auditor
MCom, BCom, CPAK, CPSP, CQA

Silvia Kanyi
Ag. Legal Officer
Effective 10th Feb 2022
MBA, LLB, Dip. Law

Charles Juma
Procurement Director
MBA, BA

Eliud Murithi
Director Commercial Services
MBA, BA

Douglas Onyancha
Head Medical Commodity Program
BSc. Electrical Eng.

Waiganjo Karanja
Director Finance & Strategy
MBA, BA Econ., CPAK

Ebla Mohamed
Director Human Resources and Administration
MBA, BA

Fredrick Wanyonyi
Director Legal Services
LLB

Dr. George Walukana
B.Pharm

Edward Buluma
Ag. Procurement Director
BA, Dip. Purchasing & Supplies

Teresa Mute Internal
Audit and Risk
Manager
MBA, B.Ed, ACCA

Ms. Caroline Ogongi
(CPA)
Finance Manager
MBA, BCom, CPAK

4. Chairperson's Statement

Over the years, KEMSA's capacity to meet its mandate has been significantly eroded by several systemic challenges, including poor corporate governance, lack of accountability and foggy visibility of the supply chain. In the last Financial Year, the reform agenda at KEMSA has therefore centred on addressing challenges in the national supply chain, specifically by establishing end-to-end visibility of Health Products and Technologies (HPTs), strengthening accountability and reporting at all levels of the supply chain. The Kenya Medical Supplies Authority (KEMSA) Board is immensely proud of the reform and transformative pace maintained in the last Financial Year. The reform journey was initiated to restore KEMSA on the path of optimum organisational performance.

The Kenya Medical Supplies Authority, as the lead government supply chain agent for HPTs, is structured and resourced to act as a commercial agency, complete with a balance sheet. In this role, KEMSA provides quality HPTs supply chain solutions to more than 11,500 last-mile locations and aspires to be the supply chain partner of choice for the public health system.

Commitment

Conscious of the challenges facing KEMSA and responding to stakeholder calls, the Government appointed the Board I currently lead as the chairperson at the start of the last Financial Year. This Board, established through a Gazette Notice on April 28, 2021, has maintained a united front in its commitment to transformational leadership at KEMSA. As the public institution mandated to ensure last-mile delivery of Health Products and Technologies countrywide, we continue to carry a life and death obligation to power the national health engine. We therefore take our operational responsibility with utmost seriousness and we unreservedly commit to delivering to the satisfaction of our stakeholders, because, we are here to serve!

The KEMSA statutory mandate places upon us a patriotic mission to be our compatriots' keeper. We are mission conscious and well-equipped to deliver quality services to facilitate positive health outcomes. Undoubtedly, our success this far would not have been possible without the support of the dedicated KEMSA Management and Staff teams. Our new journey to success recognises the Authority's position as a service and results-oriented public, not for profit commercial agency. As with any other commercial agency, we are called upon to maintain high customer experience standards while profitably running the business with the highest management and ethical standards possible. Our stakeholders expect nothing less than an Authority that contributes to the national efforts toward creating a more equitable, healthier and prosperous country.

Business Performance highlights

Underpinned by the KEMSA 2.0 reform strategy, the KEMSA reform journey has focused on the business turnaround pillar with considerable success. The business reform strategies executed in the last Financial Year returned positive results with several growth areas notwithstanding the global COVID-19 pandemic challenges that continue to affect supply chain agencies. We have, therefore, actively focused on building resilience for KEMSA to improve its service delivery capacity. As facility ordering capacities continue to grow, we have also continued to grow with our order fill rates and order turnaround times (TAT) rapidly improving.

In the last Financial Year (FY2021-2022), our bottom line revenues registered a 98% drop to close at **Kshs 89.6 Million**, down from **Kshs3.68 billion** posted in the previous financial year 2020-2021. We attribute this decline to Sale of COVID-19- Medical commodities at a loss. The downslide is also attributable to reduced supply chain fees due to exit of USAID Medical Commodity Programme. The Authority anticipate to grow its revenue by entering to new strategic partnership.

Corporate Governance

The Board of Directors and the management of the Authority shall endeavour to see to it that the Authority continues to execute its mandate, particularly in playing its role towards improving healthcare in Kenya, in light of the National Government's central pillar of

Universal Health Coverage. We will continue to count on the invaluable support from the Ministry of Health, National Treasury, strategic partners and all our stakeholders.

As a KEMSA Board we will always strive ensure high level of effectiveness of and compliance with the key principles of corporate governance such as transparency and disclosure, accountability, risk management, internal controls, ethical leadership and good corporate citizenship.

Outlook

The Board maintains a positive outlook on the Authority's growth prospects with the reform agenda now at more than 85% implementation and the recent appointment of a substantive Chief Executive Officer. This positive outlook will be underpinned by a disciplined focus on the transformation strategy execution. The Board has committed to ensuring a 100% completion rate for all the priority areas of reform identified in the KRIC report and the strict adoption of the KEMSA 2.0 strategy. The KEMSA 2.0 strategy will focus on building momentum for organisational productivity; to guarantee efficient last-mile delivery of health commodities countrywide. The new strategy has been formulated to position the Authority as the supply chain solutions provider of choice for the local health system. The KEMSA 2.0 strategy is founded on three pillars focusing on driving operational excellence, enhancing customer experience and repositioning the organisation.

KEMSA will continue to work closely with the development partners and forge strong partnerships to share knowledge and optimise capacity to build a better and more efficient supply chain in Kenya and beyond.

Mary Chao Mwadime
Chairperson - Board of Directors

5. Report of the Chief Executive Officer

The Kenya Medical Supplies Authority (KEMSA) celebrates the hard work put in by all the organisational stakeholders towards steadying the ship. All our stakeholders have continued to provide much-needed support for the transformation and reform agenda. The execution of the reform agenda under the KEMSA 2.0 strategy is geared at addressing systemic challenges in the national supply chain by establishing end-to-end visibility of health products and strengthening accountability and reporting at all levels of the supply chain.

The reform process initiated by the Government through the Ministry of Health (MoH) kicked off in earnest in the last financial year and now counts several milestones already achieved. Functionally, KEMSA is a strategic national security institution charged with the wholesale procurement of Health Products and Technologies (HPTs), warehousing, quality assurance and last mile distribution of health commodities. Without a functional KEMSA, the national health system engine can be greatly compromised to the detriment of our national security and development plans. The reform agenda, therefore, aims to position KEMSA as a world-class health commodity supply chain solutions provider of choice to save and transform lives.

HPTs availability

To ensure that KEMSA effectively plays its role in the local health system, the Management and Staff teams are committed to establishing a robust product selection, quantification, procurement, distribution and use of Information Technology systems. We are working closely with the Ministry of Health and other stakeholders to guarantee optimum availability of HPTs at all public health facilities as the national UHC scale-up progresses. To this end, we are working to ensure the availability of all tracer items and other commodities on the Kenya Essential Medicines List and other MoH HPTs lists. KEMSA has already partnered with the county governments to enhance the supply of HPTs through a comprehensive, coordinated and coherent approach. We have stepped up the delivery of regular capacity-building programmes on commodity and data management to help the counties strengthen their inventory management at the facility level and improve on-demand predictability to avert stock outs.

The stock availability for KEMSA sales of HPTs improved marginally during the year from 63% to **68%** from the previous year, owing to various reform initiatives. In the Financial Year 2021-22, the average Order Fill Rate stood at **50%** and **77%** for EMMS and programme orders against a target of **90%** and **100%**, respectively. The annual Order Turnaround Time (OTT) previous year stood at **17.7** days and has since improved to **12.6** days against the target of 7 days. The average OTT for Primary Health Facilities was **25.2** days and has reduced to **19.8** days against the target of **10** days.

In the Financial Year, the Authority significantly enhanced the long-running efforts to improve operating efficiencies by integrating Information Technology systems. KEMSA is banking on ICT systems to build operational resilience and ensure operating efficiency rates are maintained at high scores. Our procurement function has also been greatly expanded and aligned with the Big Four Agenda to provide opportunities for a diverse supplier base, including local manufacturers and preference and reservations such as women, youth, people living with disabilities and other disadvantaged groups under Access to Government Procurement Opportunities (AGPO).

Emergency Supply Chain

In the broader building back better national strategy, we have continued to build the Authority's resilience and capacity to act as an emergency response platform. The Authority has completed an internal process to align its operating procedures to provide adequate support for public health emergencies. The alignment, including updates to the KEMSA Emergency Finance and Procurement policies, will allow the Authority to support the national public health emergency response mechanisms.

Several public agencies have been undertaking policy alignments based on learnings from the COVID-19 pandemic response in 2020 and 2021. As part of the learnings, the Ministry of Health set up the Public Health Emergency Operation Centre (PHEOC) to provide an effective, well-coordinated and efficient system for response to the pandemic and any other public health emergency that may emerge in the future using the Kenya Public Health Emergency Supply Chain Framework. The Kenya Public Health Emergency Supply Chain Framework offers a structured approach to deploying medical countermeasures during a public health emergency (PHE).

In the quest to eliminate parallel supply chain systems for HIV commodities, KEMSA was awarded a five-year contract, effective October 1, 2015. The KEMSA Medical Commodities Program (MCP) contract, which lapsed in the last financial year, is a cost-plus-award-fee completion type of contract for procuring warehousing and distributing US Government funded health commodities. As previously designed, the KEMSA MCP activities are integrated with the broader Authority's operations and structures and leverages on the existing KEMSA infrastructure to enhance effectiveness and efficiency. The Government through MOH, the KEMSA Board, and Management have all remained actively involved in the ongoing efforts to win back the trust of all donors including USAID as we seek the renewal of the USAID/KEMSA Medical Commodities Program.

Financial Performance

The Authority's total income for the FY **2021-2022** was **Kshs89.6 million** against a target of **Kshs 3.35 billion**, representing **a 97%** performance below the target. Total expenditure amounted to Kshs **3.08 billion** representing **a 102% absorption of the approved Kshs 3.03 billion expenditure budget.** The Authority realised a deficit of **Kshs 2.99 billion,** whereas Capital Expenditure was **Kshs 455 million.** The main capital expenditure cost relates to the project cost of the ongoing construction of the National Commodity Storage Centre/National Supply Chain Centre. Within the period under review, the Authority received **Kshs 100 million** as a recurrent grant and **Kshs 333 Million** for development grant from the national Government.

Strategic partnerships

Besides the existing commercial relationships with all county governments and other Public Health Facilities, KEMSA collaborated with the following strategic partners during the Financial Year i.e. World Bank, The Global Fund, United Nations International Children's Emergency Fund (UNICEF), AMREF Health Africa, CDIC Kenya, Clinton Health Access Initiative (CHAI); UNFPA, Bill & Melinda Gates Foundation (BMGF) and the KAIZEN Institute Association of Supply Chain Management (ASCM)

KEMSA reforms

Recent global developments, including the COVID-19 management, have highlighted the need for efficient and effective supply chain systems for health commodities. The ongoing strengthening of governance and institutional reforms will enhance the efficiency and transparency of KEMSA. A significant highlight of the reforms is the near completion of the KEMSA National Supply Chain Centre, which is setting the pace for institutional reforms. This centre, covering more than 12,000 square metres of storage space, now allows the Authority to consolidate and centralise all national supply chain operations. This centre has been purpose-built for inward and outward logistical management and provides robust quality assurance, cold chain solutions, and administrative functions, allowing for end-to-end visibility. The facility has seen 141% increase in the Authority's holding capacity from 9,176 Pallet spaces to 22,131. This significant volume increase will enable KEMSA to provide buffer stock for emergency responses. The development of the National Supply Chain Centre has been funded to a tune of Kshs 1.73 Billion by the Government of Kenya and the Global Fund. It will receive and dispatch more than 1,812 stock keeping units with a throughput value of close to Kshs 27 billion. By operating from the National Supply Chain Centre, the Authority will make annual savings amounting to more than Kshs 240 million as it has been working from 16 leased warehousing facilities.

Donations management

The Authority, together with the Ministry of Health, and the Department of Health Products Technologies, is working on developing a donations portal to ease compliance and operationalisation of requirements of donations. As part of the Board and Management teams focus on fostering consultative engagements, we are reaching out to the Council of Governors to establish a liaison partnership that allows us to engage through established frameworks effectively.

Overcoming challenges

The Authority continued to wade through some operational challenges as reforms progressed. With increasing sales, debt management remained an uphill task for the Authority, necessitating concerted credit management interventions. The credit management interventions are beginning to provide positive returns as we seek to mitigate the liquidity risks.

The management teams are also actively engaging the county governments, national referral hospitals, among other public sector clients, to facilitate supply chain management capacity building. Such capacity building involves advocacy for adopting information technology systems that allow real-time end-to-end visibility at the KEMSA and health facility levels.

At KEMSA, we have aligned all our business processes and fully automated them through the Authority's Enterprise Resource Planning (ERP), Logistics Management Information System (LMIS) and the KEMSA e-mobile service that facilitate on-time stocks fulfilment to public health facilities countrywide. The award winning KEMSA Proof of Delivery (e-POD) App has enhanced efficiency and effectiveness in the delivery of Health Products and Technologies to the last mile. Systems integration with our clients helps manage erratic ordering/skewed demand for certain products by the county governments. Such integration also allows for efficient route optimisation at the logistics management level with robust order scheduling.

Gratitude

To this end, I would like to thank our parent Ministry and the National Treasury for the continued financial and technical support. I also thank the Board under Chairperson Mary Mwadime for their policy direction and guidance and all KEMSA staff for their dedication to delivering against our mandate.

Terry Kiunge Ramadhani
Chief Executive Officer

6. Corporate Governance Statement

Board Membership and Attendance

To effectively discharge its mandate, the Board has established four (4) committees with specific terms of reference. The Board appoints into these committees, members with the requisite skills and competence to discharge allocated responsibilities. The committees report to the Board any actions taken for ratification and any major developments that they become aware of. The Board receives a report of the committee's findings and actions. These Committees include; the Finance, Strategy & Development Committee, Audit & Risk Committee, Supply Chain Committee and the Human Resource Committee.

During the Financial Year 2021-2022, there were a total number of twenty-two (22) Full Board Meetings, nine (9) Finance Strategy and Development Committee meetings, seventeen (17) Human Resources Committee meetings, three (3) Audit and Risk Committee meetings and seven (7) Supply Chain Committee meetings

Table 1: Board Membership and Attendance for the Current Directors for the FY 2021-2022

Board Member	Classification	Designation	Committee Meetings	Full Board Meetings
Ms. Mary Mwadime	Appointed by the President	Chair (from 30th April, 2021	0	22
Ms. Mary Awino	Representing PS, The National Treasury	Member	18	16
Dr. Josphat Mbuva	Representing, MOH	Member (exited on 20th August 2021	9	1
Dr. Tom Menge	Representing, MOH	Member exited on 24th May 2022	15	12
Dr. Nancy Njeru	Representing MOH	Member	0	0
Mr. Linton Kinyua Nyaga	Independent	Member	18	20
Capt. (Rtd.) Lawrence Wahome	Independent	Member	27	15
Dr. Robert Nyarango	Independent	Member (exited on 18th March 2022 ……..	6	3

Board Member	Classification	Designation	Committee Meetings	Full Board Meetings
Terry Kiunge Ramadhani	Independent	Member (exited on 5th March 2022	10	6
Reema Doshi Lewis	Independent	Member	0	0
Mr. Isaac Odek	Representative of Inspectorate of State Corporations	Member	6	4

Succession Plan

The Authorities' board members may be appointed for a cumulative term not exceeding six (6) years. These appointments are staggered so that the respective expiry dates of the members' terms fall at different time to ensure continuity.

Board Charter

The Authority has a Board Charter in place which sets out the principles, functions and responsibilities of the Board in a way that supports the members in carrying out their strategic oversight function. The Charter compliments and does not replace or supersede any statutory laws and regulations that govern the Authority.

Board Appointment and Removal of Directors

The Authority's Board of Directors comprises the Chairperson who is appointed by the President, three independent board members who are not public officers with diverse skills and experience in management or in the health sector who are appointed by the Cabinet Secretary, two who are representatives of the Principal Secretary of the Ministry of Health and The National Treasury, and one recruited by the Council of Governors and appointed by the Cabinet Secretary for Health.

The appointment of a board member ceases if the member resigns by giving notice, is absent for three consecutive meetings, is convicted of an offence, is incapacitated by physical or mental illness or conducts himself in a manner deemed by the appointing Authority to be inconsistent with membership of the Board.

Roles and functions of the Board

The Chairperson acts as the link between the Board and the Chief Executive Officer and plays a lead role in consensus building between the board members, the Chief Executive Officer and senior management. The Board has delegated the authority for day-to-day management to the Chief Executive Officer. It however retains the overall responsibility for decisions with regard to finances and operations of the Authority. In this regard the main roles are;

a. Strategic management
b. Corporate governance
c. Key personnel management
d. Financial management

Induction and Training

The Board provides new board members with an effective induction programme in order to familiarize them with their responsibilities as directors, general principles of corporate governance and Board practices. The induction programme also provide the board members 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, 7 new board members were taken through the induction programme.

Board and Member Performance

The Board undergoes an annual evaluation conducted by the State Corporations Advisory Committee to appraise its performance. The board evaluation provides an opportunity for board members to identify strengths, collective skill gaps and individual areas of improvement. For the year under review the board evaluation will be conducted within the first quarter of financial year 22/23.

Conflict of Interest

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

Board Remuneration

Board members are remunerated for their services in accordance with the prevailing relevant legislative provisions and/ or guidance from the relevant authority. In line with best practice, board members are entitled to a sitting allowance for every meeting attended, lunch allowance, accommodation allowance and mileage reimbursement where applicable. In addition, the Chairperson is paid a monthly honorarium.

Ethics and Conduct

To govern its dealings with stakeholders, the Authority has developed a Code of Conduct and Ethics which the Board, Management and the employees subscribe to in addition to the Principles of Public Service, the provisions of the Public Officers Ethics Act, 2003 and all other statutory regulations issued from time to time.

Governance Audit

In order to ensure that the Authority conforms to the highest standards of good governance, governance audits are undertaken annually at the Authority in accordance with guidelines developed and issued by the State Corporations Advisory Committee. For the year under review, a governance Audit will be conducted within the first quarter of the FY 22/23. The Audit will cover; Leadership and strategic management, transparency and disclosure, compliance with laws and regulations, communication with stakeholders, board independence and governance, board, systems and procedures, consistent shareholder and stakeholder value enhancement, corporate social responsibility and investment.

7. Statement of Performance against Predetermined Objectives for FY 2021/2022

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

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

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

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

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

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

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

KEMSA develops its annual work plans based on the above 6 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis.

KEMSA achieved its performance targets set for the FY 2021/2022 period for its 6 strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: Financial Stewardship	To ensure a robust financial framework for concrete financial base.	a) Value of Capitalization b) Budget Absorption rate c) Gross Profit Margin	I. Increase revenue from supply chain services. II. Share Health Supply Chain Expertise. III. Enhance KEMSA capitalization from KES 8 Billion to KES 10 Billion. IV. Develop and implement cost management mechanism. V. Ensure Business sustainability.	a) KES 8.4 Billion Capitalization b) 92% Budget Absorption c) -9.3% Gross Profit Margin
Pillar 2: Customer Focus	To increase Market Share from 70% to 90%.	a) % of debt recovered b) Value of sales c) Customer Satisfaction rate.	I. Increase demand for KEMSA Health Products & Technologies. II. Enhance commercial performance. III. Improve marketing communication. V. Improve customer relationship management. V. Strengthen the capacity of SSD.	a) 32% of debt recovered b) KES 6.3 Billion c) Customer satisfaction survey underway results to be released in Q1 FY2022-2023.
Pillar 3: Internal Business Processes and Systems.	To have robust physical facilities, internal business processes, systems and infrastructural upgrades that support	a) % Order fill rate b) Order Turn Around Time. (for Hospitals and RHFs)	i. Bi-annual Review of Health Products and Technologies demand - strengthen selection, forecasting and quantification. ii. Develop and update appropriate products and specifications in collaboration with MOH guidelines and customers. iii. Advocate for the enactment of new regulations for the PPAD Act 2015 to	a) Average OFR KEMSA EMMS- 50% b) average order turnaround time-Hosp-14.7days Average Turnaround time PHFs-19.8 days

	business growth.		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 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.	**a)** Number of new partners on board **b)** Number of existing key stakeholders	**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	a) 1 partners b) 7 Partners (stakeholders)
Pillar 5: Leadership and Governance	To develop a dynamic, transparent and accountable governance structure	**a)** % increase in employee engagement index **b)** % Audit Recommendations accepted and Implemented	i) Provide effective leadership and oversight ii) Strengthen management systems for enhanced efficiency iii) Improve public opinion, attitude and behaviour of key stakeholders iv) To Strengthen Enterprise Risk Management and Strengthen BCM v) Strengthen corporate security risk and disaster management programmes	a) To be carried out in the FY 2021/22 to finalise in Q1 FY 2022-2023 b) 77%

			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.	
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.	**a)** No. of functional modules in the ERP implemented **b)** % Procurements done through e-Procurement	**i)** Offer automated online enterprise facing and customer facing services **ii)** Enhance availability of business systems and ensure continuity of business operations. **iii)** Improve the efficiency and availability of ICT service delivery. **iv)** Proactively identifying and mitigating ICT risks, threats and vulnerabilities. **v)** Enhance compliance with best practice frameworks, standards, procedures and governance policies.	Activity budgeted under FY 21/22 and its progressing to finalise in Q2 FY2022-2023

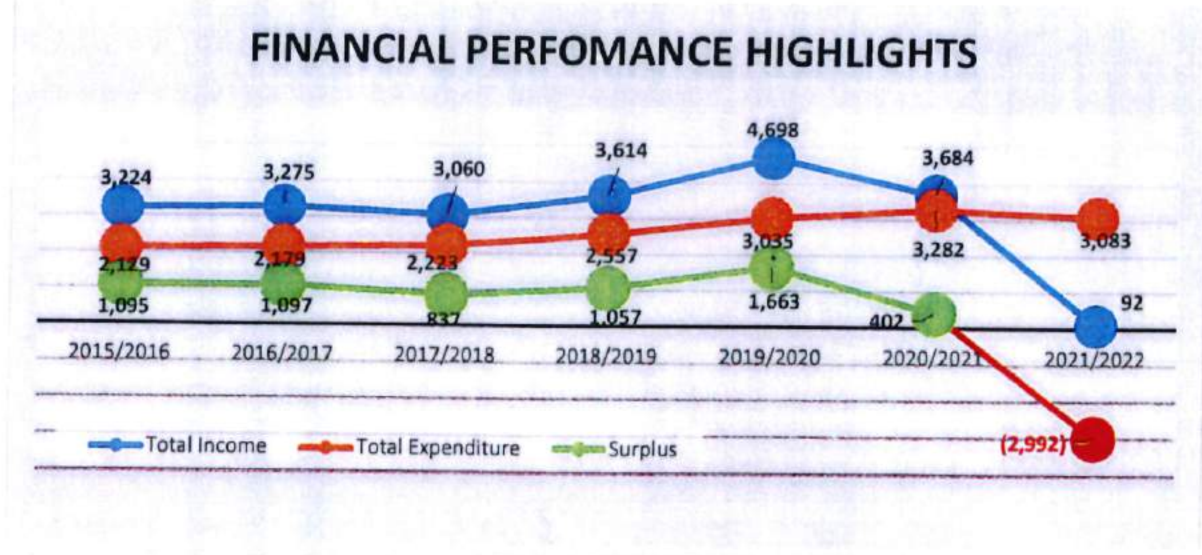
The Authority has cascaded the strategy and its activities downwards through the various departments. It has developed a Performance Management Plan which details all KPIs (Strategic, Tactical and Operational indicators) and responsible parties. This too has been cascaded and captured in the individual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

8. Management Discussion and Analysis

The Financial year 2021/2022 has seen the Kenya Medical Supplies Authority make remarkable strides with regard to ensuring continued execution of its mandate as outlined in the KEMSA Act of 2013. The Authority's performance for Financial Year under review was however the lowest performance, occasioned by several systemic factors hence the Authority is currently implementing priority reforms that guarantees an end to end accountability.

FINANCIAL HIGHLIGHTS

The Authority's performance in FY 2021/22 was a deficit of **Ksh. 2.99 Billion** against a budgeted surplus of **Ksh.3.22Million.**



The factors that have caused the Authorithy's negative perfromance are;

- Negative Sales Margin from sale of COVID-19 commodities of **Ksh. 1.264 Billion**
- Expired Stock of Covid-19 commodities of **Ksh.908 Million**
- Reduced Supply Chain Fees of **Ksh 805.7 Million** due to exit of USAID and slow operations for other development partners.
- Lost Sales on KEMSA Capital due to low Order Fill Rate; Estimated Lost Sales is **Ksh 5.192 Billion,** hence possible lost net revenue of **Ksh. 1.038 Billion**

Revenue

The Authority's revenue for the period ended 30th June 2022 was made up of Net sales, Supply chain fees, Bank Interest, Grants from MOH for Personal emoluments and other miscellaneous incomes.

KEMSA's total revenue reduced from **Ksh.3.684 Billion** in FY 2020/21 to **Ksh. 89.59Million** in FY 2021/22 as a result of negative sales margins of **Ksh.1.351Million** attributable to loss in sale of Covid-19 commodities, closure of the USAID/KEMSA Medical commodities program and slow operations for other development partners.

Expenditure

The overall expenditure for the period was **Ksh. 3.083Billion**. This was a 6% decrease compared to **Ksh.3.282Billion** realized in the FY 2020/21 hence a saving of **Ksh. 198.6Million.** when compared against the budget the expenditure was slightly above by budget **2%** of **Ksh. 3.027 Billion.**

Employee expenses decreased by **3%** from **Ksh. 1.264Billion** to **Ksh 1.22Billion** due to staff retirement and non-renewal of expired staff contracts.

Rental expenses decreased by **60%** from **Ksh 217Million** to **Ksh 86Million**. This was as a result of exits from leased warehouses at Sunflag Properties Limited and Astra-Kikora Limited.

Business Operations

In the FY 2021-2022 KEMSA managed to procure health products and technologies (HPTs) worth **Kshs. 29.097 Billion** out of which **Kshs. 7.946 Billion** being procurement of KEMSA Sales items and **Kshs. 21.151 Billion** being procurement of program items.

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

Table 1: HPTs distribution per financial year 2018/2019-2020-2021-22

Financial Year	KEMSA Sales Commodity Value	Programs Commodity Value	Totals Commodity Value - (kes)
2018-19	4,729,597,711	23,421,155,915	28,150,753,626
2019-20	11,956,113,932	25,691,698,383	37,647,812,315
2020-21	8,245,609,962	21,444,688,359	29,690,298,321
2021-22	20,335,659,587	6,636,627,027	26,972,286,614

The order fill rate in the FY 2018/19, 2019/20, 2020/21 and 2021/22 stood at 83%, 69%, 54% and 50% respectively against a target of 90%, while that of Programs stood at 95%, 90%, 94%, and 77% respectively against a target of 98%. In addition to the above KEMSA managed to fulfil EMMS orders and Program Orders as shown in table 5.

Table 2: EMMS Orders and Program Orders

Category of Order fill rate	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022
Order fill rate for KEMSA EMMS	83%	69%	54%	50%
Target for KEMSA EMMS	90%	90%	90%	90%
Order fill rate for Programs EMMS (HIV, TB, FP, Malaria)	95%	90%	94%	77%
Target for Programs EMMS (HIV, TB, FP, Malaria)	98%	98%	98%	98%

The order turnaround for Hospitals in the FY 2018/19, 2019/20, 2020/21 and 2021/22 stood at 9.7 days, 12.3 days, 12.6 days and 14.7 respectively against a target of 7 days, while that of Primary Health Facilities (PHFs) stood at 14.6 days, 17.5 days, 18.1 days and 19.8 Days respectively against a target of 10 days during the same period. The performance for the year was below that target due varous factor which includes;

i. Single orders do not form truck loads leading to longer Rack days
ii. Uncertainty due to ongoing reforms.
iii. Unable to have 100% visibility of GIT-depends on 3PL System.
iv. Bad terrain in Hard to reach areas/regions.
v. Insecurity.
vi. Picking from Different Warehouses affecting route integration for direct dispatches.
vii. Uncoordinated flow of orders into KEMSA for both Counties & programs.

National Commodity Storage Centre

The National Commodity Storage and Distribution Centre aims at strengthening and optimizing the warehousing and distribution of medicines and other health products to health facilities. The completion rate of the project is currently at 92% equipping and ongoing operationalization in order to meet the scheduled completion date of December 2022. The Highlights of what has been achieved so far include completion of the construction of the warehouse consisting of a storage warehouse, operation warehouse, mezzanine offices, cold rooms and power center. Additionally, structural works and finishes have been completed, only awaiting smoke vents and operationalization items. The Flammable Goods Storage (FGS) is complete awaiting connection to firefighting pipe works to underground water tank and smoke vents installation. The civil/external works for installation of joint sealant and concrete road works are ongoing.

The Centre will enhance effective and efficient handling of medical supplies countrywide thus improving access to essential medicines regularly as well as shorter supply turn-around times guaranteed to the public health facilities, safety and quality of commodities. Savings will also be realized on warehouse leasing costs hence value for money in total cost and also reduction on prices of pharmaceuticals and medical supplies.

Compliance

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

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

i. Submission of Quarterly Financial Statements to the national Treasury by the 15th day of the next following quarter
ii. Submission of the Performance contracting Evaluation Reports to the National Treasury, inspectorate of State Corporation and the Ministry of Health within by the 15th day of the next following quarter
iii. KEMSA Submitted its budget to National Treasury through the Ministry of Health by 31st of January 2021.
iv. Submission of Annual Procurement Plan by 15th August 2021.
v. Compliance with other circulars from National treasury issued in FY 2021/2022

Enterprise Risk Management In KEMSA

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

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

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

The Authority's top risks are;

TOP RISKS				
Risk Index	**Risk Description**	**Risk Level**	**Mitigation**	**Risk Owner**
CR1	A failure to implement Strategic plan	High	Implement activity-based budget.	Ag. FM
			Implement change management.	Ag. HR
CR2	A loss of business with County Government	High	Good corporate governance	CEO
			Enhance stakeholder's management	Ag. DCS
			Enhance Corporate communication	PRCM
			Implement strategies for improving performance	CEO
CR3	Loss of key partners	High	Good corporate governance	CEO
			Enhance stakeholder's management	Ag. DCS
			Enhance Corporate communication	PRCM
			Implement strategies for improving performance	CEO

CR4	Cyber risks, data management and system risks and ICT inadequacies	High	Implement Cyber security surveillance tools	
			Implement ICT Information security policy	
			Implement new technologies	ICTM
CR5	Liquidity and cashflow challenges to meet mandate and objectives	High	Develop and implement financial planning policies	
			Review credit control measures	
			Implement budget and control policies	
			Comply with PFM act and other regulations	Ag. FM
			Good corporate governance	CEO
CR6	Non-competitive HPTs prices	Medium - High	Robust Market survey system	Ag. PD
			Use competitive methods of procurement	
CR7	Disruptions of KEMSAs operations	High	Implement Business Continuity Management	CEO
CR8	Negative public perception on KEMSAs brand	High	Media training	PRCM
			Implement targets-based performance	Ag. FM
			Implement corruption prevention measures	Ag. HR
			Improve in information flow	PRCM
			Develop and implement staff motivation programs	Ag. HR
CR9	Non- compliance with Legal, regulatory and other global standard requirements	High	Training and sensitization	Ag. HR
			Develop financial planning policies	Ag. FM
CR10	Operational Inefficiencies in Procurement, Warehousing and Distribution processes and support functions	High	Implement activity-based budget	Ag. FM
			Implement change management	Ag. HR
			Reengineering procurement process	Ag. PD

CR11	Inadequate EHS (Environment, Health and Safety) and security on staff and customers of the authority	Medium - High	Creating awareness on emergency response and evacuation procedures.	SO
			Implement OSH	Ag. HR
			Prioritize budgets	SO
CR12	Weak governance and leadership structures in the Authority	Medium - High	Implement Mwongozo code of corporate governance	BOARD
			Implement succession management	Ag. HR
CR13	Inadequate Human resources capacity	High	Develop and implement financial planning policies	Ag. HR
			Implement HR instruments	
			Develop training plan	
			Adhere to HR manual and policy	

Information and Communication Technology –

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

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

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

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

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

In addition, the Authority implemented a call center and complaint handling system to enhance customer support. This is a complimentary solution giving customers, suppliers and other stake holders a reliable window to raise and track issues. Finally, KEMSA implemented the time and attendance module (biometric system) at Commercial Street, Embakasi Supply Chain Centre, Kisumu, Mombasa and Eldoret.

9. Environmental and Sustainability Reporting

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

i) Sustainability strategy and profile

Kenya Medical Supplies Authority continuously pursues its Strategic Plan as a roadmap for sustainability and success. The Authority ensures effective institutionalization and operationalization during strategy implementation. The Authority strategic plan 2019-2024 is embedded on the following six pillars: Financial stewardship, Customer focus, Internal business processes and systems, Strategic partnerships, Leadership and governance, Innovation and technology. To ensure sustainability, there is a performance management framework that covers all staff in all levels, it enables staff to appreciate their individual linkage and contributions to the implementation of the Strategic Plan and the attainment KEMSA objectives.

Indeed, Sustainable Development Goals No. 3 reads; Ensure healthy lives and promote wellbeing for all at all ages thereby thrusting the prominence of citizen's health to the forefront of responsibility for all governments. As the government Authority mandated to procure, warehouse and distribute Health Product and Technologies (HPTs) to public health facilities at both levels of government, the Authority has always been in a unique position to deliver this constitutional promise to the people of Kenya even as Kenya strives to meets its obligations to the global

ii) Environmental Performance

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

The Authority disposed 87.44 tonnes of medical waste in the Financial Year 2021/ 2022. The tonnage has remained the same over the last two Financial Years.

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

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

The Authority also improved on water conservation which is evidenced by the reduction of costs from **Ksh 898,798** in the Financial Year 2020/2021 to **Kshs 651,786** in the FY 2021/2022.This was as result of digging a bore hole and putting up a water treatment plant to make water fit for its desired end-use and save on the costs incurred purchasing from vendors at inflated prices.

The Authority reported a significant drop in the cost of electricity to **Kshs. 12.6 Million** in the FY 2021/2022 from the previous **Kshs 15.7 Million**. The savings were achieved from the termination of leases in Sunflag and Garissa Depots. Plans are underway to set up a solar farm thanks to the architectural roofing design of the new ultra-modern National Supply Chain Centre in Embakasi. The solar farm will produce enough energy to power up the two mega go downs.

In an effort to lessen negative impact to the environment occasioned by heavy reliance on use of paper, the Authority is scaling up digitisation in most of its business processes. The expenditure on paper dropped to **Kshs 2,113,560** in the FY 2021/2022 compared to the previous year which recorded **Kshs 3,480,000**. This improvement is credited to the KEMSA Reforms agenda.

iii) Employee welfare

KEMSA has a policy document that provides standard procedures and guidelines for filling established vacant positions. These procedures are strictly followed in order to maximize chances of recruiting the best personnel with the prerequisite experience, professional qualifications, skills and competencies required by the Authority to fulfil its mandate.

a) Recruitment, Selection and Deployment

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

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

b) Health and Safety

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

c) Gender Analysis

- The Authority staff establishment is aligned with the organizational requirements. As at 30th June 2022, the Authority had a total workforce of **754** comprising **38%** Female & **62%** Male.

d) 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 disruptions of KEMSAs operations.

Performance Appraisal

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

e) Employee Wellness

- The Authority continued offering staff medical insurance cover to employees and their families. The medical insurance package consists of in-patient; outpatient, maternity dental and optical cover. This is meant to enhance employee health and wellness, which in turn boosts employee morale, hence increased productivity.
- Other wellness programs included offering psychosocial support to staff. KEMSA managed to bring on board a counsellor to offer psychosocial support services and other EAPs to staff, as at 30th June 2022, **213** members of staff had received the services both in group and one on one basis. This was aimed at improving staff mental wellness.

f) COVID-19 Measures

- In a bid to prevent the spread of the COVID-19 pandemic, the Authority initiated the following activities
    - Testing of staff for COVID-19
    - Vaccination of staff against COVID-19
    - Provision of face masks to staff
    - Provision of sanitizers
    - Ensuring that there is adequate water and soap for washing hands
    - Disinfecting of work places.

g) Diversity and Inclusivity

- The Authority ascribes to the Government requirements on diversity and inclusivity in all its programs and activities. The Authority has set up the following

Committees to address issues of diversity and inclusivity: Gender Mainstreaming Committee, National Cohesion and Values Committee and Disability Mainstreaming Committee.

h) Ethics and Integrity

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

i) Employee Relations

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

HEALTH & SAFETY POLICY STATEMENT

KEMSA is committed to using sound and responsible practices to safeguard the health, safety and welfare of its employees, contractors, customers and any other person affected by its operations.

Occupational Health and Safety issues shall be addressed in systematic, proactive and explicit manner to ensure that they are an integral part of day to day business of the organization.

To fulfil this commitment KEMSA undertakes to:

- Conform to the set company policies and comply with applicable national and international regulations and code of practice governing occupational health and safety;

- Ensure the management properly supervises all processes and systems of work that are designed to take account of health and safety and are held accountable for results on safety performance by setting yearly key performance indicators;
- Support each employee with appropriate safety and health awareness training, supervision and other resources as necessary to enable safe performance of work in accordance with company policy;
- Facilitate the necessary forums where employees can raise issues of health and safety through the established Health and Safety Committees;
- Encourage consultation with and active participation of employees by continuously seeking to improve the performance of health and safety systems in place;
- Ensure the provision and maintenance of adequate resources to take care of safety issues;
- Ensure that persons in workplace take responsibility for aspects of OH&S over which they have control and provide a forum for continuous identification of workplace hazards;
- Protect the health and safety of identified vulnerable employees including the disabled staff, pregnant and nursing women, and ensure they perform work appropriate to their physical capacity and those that pose no health hazards;
- Ensure visitors, contractors and customers abide by laid down safety health guidelines and procedures on site;
- Consult with external experts and other interested parties on OH&S issues; and
- Ensure the corporate health and safety management system is fully implemented within its business.

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

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

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

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

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

iv) Market place practices

a) Responsible competition practice

KEMSA believes in fair competition in procurement and tendering. Procurement at KEMSA is conducted strictly in adherence to the Public Procurement and Disposal Act, 2015. KEMSA has aligned to the Treasury's Integrated Financial Management Information System (IFMIS) portal further enhancing procurement in an open and transparent manner that encourages open competition and open to public examination and review. This process enables KEMSA to obtain high quality goods and services at reasonable cost.

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

KEMSA is free from political interference as it is governed by an Act of parliament and other relevant legislation. Governance at KEMSA is overseen by an independent Board of Directors. At KEMSA we recognize that adherence to the principles of competition while dealing with our customers is essential to the maintenance of the integrity of the Authority. KEMSA seeks to achieve responsible commercial success and compete on a level playing ground, we are committed to promoting fair competition and healthy marketplaces. We operate in compliance with the applicable competition laws in the country. KEMSA prides itself as a market leader and being a government agency is committed to making health products and technologies affordable by offering the best prices in the market whilst enhancing customer experience.

b) Responsible supply chain and supplier relations

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. KEMSA has implemented an automated supplier performance measurement tool that helps track performance of each supplier against outlined key performance indicators (KPIs). The KPIs aim at measuring delivery timeliness, quantity, quality and cost. Suppliers who perform well are eligible to be awarded future contracts at KEMSA. Punitive measure also applies to suppliers whose performance is below the required threshold. Such measures include and not limited to Contract termination, Liquidation of Performance Security and debarment in line with the procurement law.

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

c) Responsible marketing and advertisement

As part of the marketing and advertising of KEMSA's Health Products and Technologies, we always consider 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 endeavour 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. One of the most important points to note is the KEMSA ensures that the independence of health professionals is maintained at all times while marketing and advertising. We do this by not giving any gift or benefit in kind that would influence the prescription patterns of healthcare professionals. Our marketing Staff ensure that any interactions with healthcare professionals is focused on informing health professionals about products, providing scientific and educational information and supporting medical research and education. Such interactions always endeavour to benefit the patients and to enhance the practice of medicine. When advertising and promotion we encourage the appropriate use of pharmaceutical products with no exaggeration. We also seek approvals for the advertisement materials from PPB whenever we need the HPTs advertised. We **DON'T** advertise prescription-only medicines to the general public.

d) Product stewardship

Product stewardship for KEMSA means that our products satisfy the highest quality standards and are safe for the consumers. KEMSA endeavours 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.

v) Corporate Social Responsibility/ Community Engagements

In realizing KEMSA's Strategic Objective No. 4; to develop and strengthen strategic alliances and partnerships for improved health supply chain systems, in FY 2021/2022 the Authority allocated Kshs. 2,000,000 towards Corporate Social Responsibility. The funds were used to complete three initiatives which were kicked off in the previous Financial Year as envisaged in KEMSA's Corporate Social Responsibility (CSR) policy 2019 - 2024. Our approved Annual CSR Work Programme for the year was however greatly affected by the negative publicity generated by irregular Covid-19 Health

Products and Technology procurement. Below is a tabulation of the activities carried out in the reporting period.

No.	Project Name	Participant	Description	Location	Date	Amount (Ksh)
1.	*Msambweni County Referral Hospital. (Phase 2)*	KEMSA and Kwale County Government	It is the largest hospital in Kwale county. Categorized as a level five facility. Serves a population of more than 23,307 people. **Scope of Work** Fitting additional racks, installation of two air conditioners (24000 BPU) to create a cool environment and co-branding.	Msambweni Kwale County	January 2022	Ksh 495,000/-
2.	*Mtwapa Health Centre Pharmaceutical Store Renovation*	KEMSA and Kilifi County	It is categorized as a health center. Serves a catchment area with a population of about 63,000 people. Plans are underway to upgrade it to a Sub County Hospital. **Scope of Work** Installation of air conditioners Shelving Painting and co-branding Replacement of iron sheets Paving the slab Electrical works	Mtwapa Health Centre	January 2022	Ksh 949,750/-
3.	*Nyonjoro Health Centre, Nakuru*	KEMSA and Nakuru County Government	It is strategically located a stone throw away from the area earmarked for setting up an airport. The only public health facility within a radius of 12 kilometers.	Nyonjoro, Nakuru County	January 2022	Kshs 500,000/-

No	Project Name	Participant	Description	Location	Date	Amount (Ksh)
			Serves a population of more than 10,000 people. **Scope of Work** Setting up a laboratory. Built working tops, shelves, partition, sinks, fridge, wash bottles, PSA Strips. Gluco Strips, Training Rack, H.B Cuvettes, Blood Grouping A, B, D, Drying Rack, HPylori AG Strips, Hrs Swabs, Grandset Violet 500 Ml,Rotator, Vaccutainer edta, Vaccutainer redtops, urinalysis strips, pregnancy test strips, stool containers, microscope slides, Rheumatoid factor, Brucekceka lait, trolley, timer, dryer, acetol among others item. Painting and co-branding			

Msambweni Pharmaceutical Store, Kwale

Before

After

Total cost for Phase 1 and 2 Kshs 992,000

Mtwapa Health Centre Pharmaceutical Store Renovation

Before **After**

Total cost of Phase 1 and 2 was Ksh 1,449,250/-.

Nyonjoro Health Centre, Nakuru

Before *After*

Total cost for Phase 1 and 2 Ksh 1,000,000/-.

Benefits of Corporate Social Responsibility For KEMSA

- Visibility and improved reputation of the Authority
- Enhanced service delivery
- Make the world a better place
- Make KEMSA a public sector role model

Building relationships with key stakeholders

10. Report of the Directors

The directors submit this report together with the financial statements for the year ended June 30, 2022, which show the state of Kenya Medical Supplies Authority's affairs.

i) Principal Activities

The authority's principal activities are;

a) To procure, warehouse and distribute drugs and medical supplies for the prescribed public health programs, the national strategic reserve stock reserve, prescribed essential health packages and national referral hospitals.
b) To establish a network of storage, packaging and distribution facilities for the provision of drugs and medical supplies to health institutions.
c) To enter into partnership with or establish frameworks with county Governments for purposes of providing services in procurement, warehousing, distribution of drugs and medical supplies.
d) Collect information and provide regular reports to the national and county governments on the status and cost effectiveness of procurement, the distribution and value of prescribed essential medical supplies delivered to health facilities, Stock status and on any other aspect of supply system and performance that may be required by stakeholders.
e) Support county governments to establish and maintain appropriate supply chain systems for drugs and medical supplies.

ii) Results

The results Kenya Medical Supplies Authority for the year ended June 30, 2022 are set out on pages 1-116.

iii) Directors

The members of the Board of Directors who served during the year are shown on pages viii - xi. During the year Two Directors resigned and Two Were appointed with effect from 18th March 2022

iv) Surplus remission

In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year.

The Kenya Medical Supplies Authority Made a deficit of Ksh 2,991,725,431 during the year (FY 2020/2021 Surplus of Ksh. 401,701,539). The balance of funds of the Authority at the end of the Financial Year, as stated in KEMSA Act 2013, shall be retained for the purposes for which the Authority was established, hence no remission made to the Consolidated Fund.

Auditors

The Auditor-General is responsible for the statutory audit of the Kenya Medical Supplies Authority (KEMSA) in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of the Kenya Medical Supplies Authority (KEMSA) for the year/period ended June 30, 2022.

By Order of the Board

....

Fredrick Wanyonyi

Corporate Secretary/Secretary to the Board

11. 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 of the Kenya Medical Supplies Authority (KEMSA) for that year. The Directors are also required to ensure that KEMSA keeps proper accounting records which disclose with reasonable accuracy of the financial position of the Kenya Medical Supplies Authority (KEMSA). The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of Kenya Medical Supplies Authority (KEMSA)'s financial statements, which give a true and fair view of the state of affairs of the Kenya Medical Supplies Authority (KEMSA) as at the end of the financial year ended June, 2022. This responsibility includes: The Directors are responsible for the preparation and presentation of the Kenya Medical Supplies Authority (KEMSA)'s financial statements, which give a true and fair view of the state of affairs of the Entity for and as at the end of the financial year (period) ended on June 30, 2022. 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 Kenya Medical Supplies Authority (KEMSA); (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Kenya Medical Supplies Authority (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 Kenya Medical Supplies Authority (KEMSA) 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 Kenya Medical Supplies Authority (KEMSA)'s transactions during the financial year ended June 30, 2021, and of the financial position as at that date.

The Directors further confirm the completeness of the accounting records maintained by Kenya Medical Supplies Authority (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 Kenya Medical Supplies Authority (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)'s financial statements were approved by the Board on 29/07/ 2022 and signed on its behalf by:

Mary Chao Mwadime	**Terry Kiunge Ramadhani**
Chairperson of the Board	**Accounting Officer**

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

A. Report on the financial statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in use of public resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Control, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal control developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Medical Supplies Authority (KEMSA) set out on pages 1 to 102, which comprise the statement of financial position as at 30 June, 2022 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kenya Medical Supplies Authority (KEMSA) as at 30 June, 2022 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Kenya Medical Supplies Authority Act, 2013 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Misclassification

The following financial statements components were misclassified;

Classification in Financial Statements	Financial Statement Element	Correct Classification	Amount (Kshs.)
Work in progress - Purchase of Motor vehicles	Statement of Financial Position	Property, Plant and Equipment - Motor Vehicles	36,912,165
Disclosure note - tax liability	Statement of Financial Position	Trade and other payables from exchange transactions - tax liability	1,265,576,505
Operating activities - credit notes	Statement of cash flows	Not included in the statement - no cash movement	108,439,677
Operating activities - damages, expiries and donations	Statement of cash flows	Not included in the statement - no cash outflow movement	1,056,356,865

In the circumstances, the accuracy, completeness, presentation and disclosure of the above balances as at 30 June, 2022 could not be confirmed.

2. Unsupported Finance Income

The statement of financial performance and as disclosed in Note 11 to the financial statements reflects finance income of Kshs.518,452,886. However, the schedule presented for audit did not indicate the principal amounts, interest rates applied and details of negotiations with the various financial institutions to arrive at the interest rates.

In the circumstances, the accuracy and completeness of finance income amount of Kshs.518,452,886 could not be confirmed.

3. Inaccuracies of Land and Buildings

The statement of financial position reflects Property, Plant and Equipment balance of Kshs.8,440,170,153 as disclosed in Note 24 (a) to the financial statements. Included in the balance is land at Kshs.1,786,967,270 and buildings at Kshs.1,248,058,816 whose analysis revealed the following unsatisfactory matters;

i. The land balance is not supported by valuation reports while two parcels of land in Isiolo and Meru of unknown value have been omitted.

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

iii. The land balance includes Kshs.284,538,002 for seven (7) parcels of land whose original title documents were not provided for audit.

iv. Interviews with management revealed that a parcel of land in Kisumu municipality valued at Kshs.25,000,000 has been encroached by a private developer, acquired ownership rights but the matter is under investigation by Directorate of Criminal Investigation.

v. A parcel of land in Kakamega municipality measuring 0.9852 hectares valued at Kshs.7,500,000 was exchanged for a parcel of land valued at Kshs.3,000,000. However, details of the exchange were not provided for audit review and both parcels have been disclosed in the financial statements.

vi. Physical verification in January, 2023 revealed that two parcels of land in Nyeri town measuring approximately 0.56 hectares were partially fenced exposing it to encroachment and undisclosed developer had erected a temporary fence on the unfenced portion of land. Although management indicated the matter is being pursued, there was no document on its progress.

vii. The land balance includes four parcels of land in Mombasa, Kisumu, Kakamega and Garissa amounting to Kshs.115,000,000 which have not been surveyed.

viii. Included in the land balance is a parcel of land situated at Embakasi in Nairobi acquired in August, 2016 at a cost of Kshs.1,980,000,000 while the financial statements reflects a balance of Kshs.1,232,429,268 resulting to unexplained reduction in land value of Kshs.747,570,732.

In the circumstances, the accuracy, valuation and fair statement of land and buildings balance of Kshs.3,035,026,086 as at 30 June, 2022 could not be confirmed.

4. Unaccounted Scanners

The statement of financial position reflects property, plant and equipment balance of Kshs.8,440,170,153 as disclosed in Note 24 (a) to the financial statements. The balance includes office equipment balance of Kshs.43,549,295 out of which additions were Kshs.11,613,558. Analysis revealed additions of Kshs.3,226,593 for only four (4) scanners that were delivered instead of eight (8) scanners procured and paid for at Kshs.8,208,800 resulting to unaccounted nor explained variance of Kshs.4,982,207.

In the circumstances, the accuracy and completeness of office equipment balance of Kshs.43,549,295 could not be confirmed.

5. Inaccuracies in Trade Creditors

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.8,256,459,842 as disclosed in Note 26 to the financial statements. However, the amount excluded unpaid goods and services as at 30 June, 2022 amounting to Kshs.22,690,890. In addition, Kshs.2,909,006,616 relates to supplies of medical commodities, distribution costs and other general operations from sixty-eight (68) suppliers but the respective invoices indicating the goods, works or services rendered were not provided for audit. Further, the amount includes Kshs.1,081,672,924 on procurement of medical commodities from thirty (30) suppliers whose invoices were in multiple currencies but the supplier statements did not indicate the local and the foreign currency and the applicable exchange rates.

In the circumstances, the accuracy and fair statement of trade and other payables from exchange transactions balance of Kshs.8,256,459,842 as at 30 June, 2022 could not be confirmed.

6. Inaccuracies in Inventories

The statement of financial position reflects inventories balance of Kshs.13,962,897,325 as disclosed in Note 23 to the financial statements. However, the following unsatisfactory matters were noted.

6.1. Inventory Variance

The balance includes Kshs.8,233,257,797 for six hundred and one (601) stock items whose analysis of schedules revealed a balance Kshs.3,644,778,750 resulting to unexplained variance of Kshs.4,588,479,047. In addition, the amount includes Kshs.1,405,592,596 for co-financing commodities whose supporting schedules reflects valuation of Kshs.999,646,838 resulting to unreconciled variance of Kshs.405,945,758. Further, the inventories balance omitted 500,712 units of twenty-three (23) medical commodities of undetermined value.

6.2. Improper Adjustment

The inventories balance was arrived after adjusting Kshs.6,130,735 for untraced commodities in the warehouse, Kshs.12,756,385 for excess issues to undisclosed health facilities and Kshs.29,951,849 for damaged stock which should have been expensed.

6.3 Unreconciled Stock Issuance

The amount includes sixty-two (62) medical commodities whose available stock for issue was 11,727,738 units valued at Kshs.794,137,087 but the warehouse issue report indicated issuance of 11,820,490 units valued at Kshs.842,510,836 resulting to unexplained nor reconciled over issuance of 92,752 units valued at Kshs.48,373,749.

6.4 Use of Wrong Valuation Method

Re-computation of inventories using the lower of cost and net realizable value revealed a balance of Kshs.4,309,172,340 resulting to unreconciled variance of Kshs.9,653,724,985.

In the circumstances, the accuracy, valuation and fair statement of inventories balance of Kshs.13,962,897,325 could not be confirmed.

7. Unsupported Sales Revenue

Note 8 to the financial statements reflects sales revenue of Kshs.6,317,198,727 net of credit notes of Kshs.108,439,677 for goods returned due to either being damaged on transit, not ordered by the customers or had quality issues but they were not traced in the warehouse management systems. In addition, the damaged commodities and those with quality issues were not physically verified and were not traced in the goods returns ledger. In addition, sales adjustments of Kshs.974,495,736 were done without evidence of credit notes/ entries explaining the reasons for adjustments and sales of Kshs.4,990,278 made ten (10) health facilities which were not invoiced.

In the circumstances, the accuracy and completeness of sales revenue amount of Kshs.6,317,198,727 for the year ended 30 June, 2022 could not be confirmed

8. Unconfirmed Purchase of Medical Commodities

Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778 out of which items worth Kshs.56,582,084 were sold at Kshs.68,351,228. However, these items were not in the opening inventory balance and although they were assigned purchase order numbers, there was no evidence of details of the suppliers and dates of supplies.

In the circumstances, the accuracy, validity and completeness of cost of sales amount of Kshs.56,582,084 for the year ended 30 June, 2022 could not be confirmed.

9. Omitted Intensive Care Unit (ICU) Patient Ventilators

Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778. However, the expenditure omits Kshs.57,400,000 for twenty-one (21) ventilators purchased from two (2) suppliers using funds from Ministry of Health. In addition, a donation five (5) Intensive Care Unit Patient (ICU) ventilators valued at Kshs.5,472,560 was not reflected under medical commodity fund. Further, these ventilators were issued to fifteen (15) counties but details of the specific health facilities that received them were not indicated in the issue report and installation reports were not provided for audit.

In the circumstances, the accuracy and completeness of Kshs.62,872,560 expenditure on ventilators could not be confirmed.

10. Undisclosed Liability

Note 26 to the financial statements reflects trade and other payables from exchange transactions balance of Kshs.8,256,459,842. However, an amount of Kshs.29,370,267 received from unidentified customers was not disclosed as a liability. In addition, this balance was not supported by a schedule indicating the opening balance, receipts, amounts transferred from the unidentified/suspense account to the specific customer and closing balance.

In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.29,370,267 could not be confirmed.

11. Un-approved Exchange of Parcels of Land

The statement of financial position reflects property, plant and equipment balance of Kshs.8,440,170,153 as disclosed in Note 24 (a) to the financial statements. The balance includes land balance of Kshs.1,786,967,270 out of which a parcel of land along commercial street Nairobi measuring 0.1329 with net book value of Kshs.151,538,002 was exchanged with a private company's land measuring approximately 0.7676 in the same location of undetermined value. In addition, the lease of this parcel lapsed on 30 June, 2019 and there was no evidence of renewal. Further, there was no evidence of approval of the exchange transaction by the Cabinet Secretaries responsible for Health and the National Treasury. This was contrary to Section 13(1)(c) of the State Corporations Act, 2015 which states that 'The assets of a state corporation may be disposed of—by way of sale or otherwise with the approval of the Minister and the Treasury where such disposal has not been taken into account in the estimates.

In the circumstances, the valuation and ownership of parcel of land with net book value of Kshs.151,538,002 as at 30 June, 2022 could not be confirmed.

12. Unconfirmed Receivables from County Governments

Note 21 to the financial statements reflects receivables from exchange transactions of Kshs.5,642,303,360 out of which Kshs.2,819,806,723 relates to county governments. However, only three (3) counties with a balance of Kshs.193,792,617 responded to audit circularization resulting to unconfirmed balance of Kshs.2,626,014,106 by third parties. In addition, there was no evidence of half and end of the financial year circularization as required by Paragraph 2.14 of the Kenya Medical Supplies Authority Credit Policy 2014.

In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.2,626,014,106 could not be confirmed.

13. Long Outstanding Receivables

Note 21 to the financial statements reflects receivables from exchange transactions of Kshs.5,642,303,360 out of which Kshs.399,326,318 relates to ten (10) customers which has been outstanding for more than three hundred and sixty (360) days with no agreed payment plan. In addition, there was no provision for bad and doubtful debts contrary to Paragraph 2.16 of the Kenya Medical Supplies Authority Credit Policy 2014 which requires adequate provision for bad and doubtful debts for any outstanding debts above three hundred and thirty (330) days.

In the circumstances, the accuracy and recoverability of receivables from exchange transactions balance of Kshs.399,326,318 could not be confirmed.

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

Emphasis of Matter

Material Uncertainty to Going Concern

The statement of financial performance reflects a deficit of Kshs.2,991,725,431 in comparison with surplus of Kshs.401,701,539 for the comparative period leading to a decline in the revenue reserves from Kshs.8,851,950,562 in 2020/2021 to Kshs.5,860,225,131 in the current period. If the trend continues into the foreseeable future, the Authority may not be able to meet its obligations as and when they fall due.

In the circumstances, the Authority's sustainability of procurement, warehousing and distribution of drugs and medical supplies is heavily dependent on continued support by the Government, donors and creditors.

My opinion is not modified with respect to the above matter.

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. Failure to Purchase Global Fund Commodities

During the year under review, Kshs.1,835,607,005 was budgeted to procure, warehouse and distribute program commodities under the co-financing requirements. However, review of records revealed that only commodities worth Kshs.1,366,506,543 were procured resulting to underfunding of Kshs.469,100,462.

In the circumstances, Management may have failed to procure, warehouse and distribute enough program commodities as intended by the donors.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Incomplete Construction of Capital Work in Progress

The statement of financial position reflects property, plant and equipment balance of Kshs.8,440,170,153 as disclosed in Note 24 to the financial statements. The amount includes capital work in progress balance of Kshs.5,177,536,340 for construction of KEMSA modern warehouse and office block. However, the following unsatisfactory matters were noted;

i. The amount includes interest on delayed payments of Kshs.17,036,034 but details on the certified amounts, the number of days outstanding and computation of this interest were not provided for audit.

ii. The contract was for a duration of one hundred and eight two weeks (182) ending 25 September, 2020 but physical verification in the month of December 2022 about twenty-seven months later, revealed that the project is incomplete. In addition, the contract sum was Kshs.3,079,998,860 but as at 30 June, 2022 Kshs.3,847,352,076 had been paid resulting to excess or price variation of Kshs.767,353,216 of 25%.

iii. The Authority changed the initial floor finishing from power float finish estimated at Kshs.3,393,500 to epoxy floor surfaces at Kshs.100,200,800.00 resulting to a price increase of Kshs.96,807,300 without justification.

iv. Further, the change of underground water tank from initial cost in the bills of quantities of Kshs.10,000,000 to Kshs.32,779,190 exceeded the recommended 25% variation.

v. Also, gate house provisional sum of Kshs.3,480,000 increased to Kshs.14,885,701 or 328% variation.

vi. In addition, the contract for ventilation, smoke vents and air conditioning were awarded at a sum of Kshs.38,367,131 and audit inspection in December, 2022 revealed that the inflammable warehouse was operational but the smoke vents were not fixed.

vii. Retention amount of Kshs.384,735,208 equivalent to 10% of Kshs.3,847,352,076 payments made was not withheld.

In the circumstances, value for money on Kshs.5,177,536,340 for construction of KEMSA modern warehouse and office could not be confirmed.

2. Missing Invoices from Suppliers

The statement of financial position and as disclosed in Note 26 to the financial reflects a balance of Kshs.8,256,459,842 in respect to trade and other payables from exchange transactions. The amount includes trade creditors – not invoiced receipts balance of Kshs.437,723,132 (2021 - Kshs.2,588,017,507). However, for over eighteen (18) months after the procurement of Covid-19 items, no invoices were raised despite a payment of Kshs.1,465,017,506. This is contrary to Regulation 99(3) of the Public Finance Management (National Government) Regulations, 2015 states that 'Every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates'.

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

3. Irregular Payment of Full Salaries

The board of directors issued a directive on 04 November, 2021 to three hundred and ninety-seven (397) employees to work from home and who continue to draw their full salaries and allowances which amounted to Kshs.365,823,891. This was contrary to Section197(1)(i) of the Public Finance Management Act, 2012 provide a public officer employed by the national government, or a national government entity commits an offence of financial misconduct if, without lawful authority, the officer incurs wasteful expenditure on behalf of that government or entity.

In the circumstances, Management was in breach of the law and the value for money on Kshs.365,823,891 paid to employees working from home could not be confirmed.

4. Un-Procedural Extension of Employee Contracts

The statement of financial performance reflects employee costs of Kshs.1,223,659,186 as disclosed in Note 14 to the financial statements. The amount includes Kshs.7,479,840 paid to fifty-six (56) employees whose contracts had lapsed and were being renewed after every month instead of after a minimum of three (3) months without explanations. This was contrary Section 9(1)(a) of the Employment Act, 2007 which states that a contract of service is for a period or a number of working days which amount in the aggregate to the equivalent, of three months or more.

In the circumstances, Management was in breach of law.

5. Irregular Procurement Through Call-Off Orders

Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778 out of which Kshs.506,577,959 relates to goods procured through call off orders which were received after the scheduled delivery dates. In addition, the call off orders include Kshs.349,246,671 whose framework contracts had expired at the time the call off orders were made. This was contrary to Section 114(4) of the Public Procurement and Asset Disposal Act, 2015 which states that; For the purposes of subsection (3)(a), "call-offs order" means an order made using a framework agreement with one or more contractors, suppliers or consultants for a defined quantity of works, goods, consultancy covering terms and conditions including price that users require to meet the immediate requirements.

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

6. Unlawful use of Direct Procurement – Non-Pharmaceuticals

Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778 out of which Kshs.1,940,300,934 relates to non-pharmaceutical commodities out of Kshs.60,261,197 were direct procurements. However, the commodities did not meet the conditions set for direct procurement under section 103 of the Public Procurement and Asset Disposal Act, 2015 neither did the accounting officer report to the Public Procurement Regulatory Authority within fourteen days after the notification of the award contrary to Regulation 90(1)(b) of the Public Procurement and Asset Disposal Regulations, 2020.

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

7. Over Procurements

Note 23 to the financial statements reflects inventory balance of Kshs.13,962,897,325. However, one hundred and fifty-seven (157) medical commodities amounting to Kshs.1,842,162,067 were procured against the approximate annual demand of Kshs.590,791,788 resulting to over procurement of Kshs.1,251,370,278. This was contrary to Regulation 140(1) of the Public Finance Management (National Government) Regulations, 2015 states that 'Accounting Officer shall be responsible for the proper custody, care and use of government inventories under their control'

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

8. Under-Performance of Contracts

Note 9 to the financial statements reflects revenue earned from rendering of services to Global Fund of Kshs.512,669,708. A company was awarded to supply 215,000 packs of antiretroviral (ARV) medicines worth USD 3,165,660 or Kshs.347,399,528 but only 90,000 packs were delivered and certified by the inspection and acceptance committee to be the full quantity ordered. The variance of 125,000 packs of ARVs amounting to Kshs.201,976,470 remained undelivered as at 30 June 2022, fifteen (15) months after the contract was awarded. This was contrary to section 5.1-1(e) of the Global Fund Grant Regulations, 2014 which stipulates that; "Contracts shall be awarded only to contractors that possess the ability to successfully perform the contracts" Further, Section 140 of Public procurement and Disposal Act, 2015 stipulates that "-the contractor shall be liable to liquidation damages for delayed performance."

In the circumstances, Management was in breach of law.

9. Loss on Sale of Covid-19 Commodities

Note 8 to the financial statements reflects a gross loss of Kshs.1,350,617,051 out of which Kshs.1,271,897,145 relates to loss on sale of Covid-19 commodities. This loss relates to sale of four (4) commodities at Kshs.431,681,615 procured at a cost of Kshs.1,703,578,760. This was contrary to Section 72(1) of the Public Management

Finance Act, 2012 which states that, "The accounting officer for a national government entity shall— (a) be responsible for the management of the entity's assets and liabilities; and (b) manage those assets in a way which ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets."

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

10. Irregular Extension of Contracts

Note 9 to the financial statements reflects rendering fees revenue of Kshs.787,689,106 in respect of procurement, warehousing and distribution of third-party commodities where the services of clearing and forwarding were procured at a price of USD 388,305 or Kshs.43,101,855 for a period of three (3) months ending 08 October, 2019 but renewed four (4) times up to 30 June, 2022. In addition, Note 13 to the financial statements reflects consulting fees of Kshs.37,910,274 out of which Kshs.19,941,120 was for consultancy services on board support and coordination services whose contracts were extended for more than three (3) months. This was contrary to Section 88 (3) of the Public Procurement and Asset Disposal Act, 2015 which requires contract extension be restricted to not more than thirty days (30) and may only be done once.

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

11. Award of Tenders above the Prevailing Market Price.

Note 9 to the financial statements reflects revenue earned from rendering of services amount of Kshs.787,689,106 out of which Kshs.512,669,708 relates to fees earned to procure, warehouse and distribute Global Fund commodities. However, the Authority awarded tenders amounting to Kshs.1,360,073,270 at rate higher than the prevailing market price resulting to incurring an excess amount of Kshs.84,255,585. This was contrary to Section 5.1 1(f) of the Global Fund Grant Regulations, 2014 which stipulates that "No more than a reasonable price (as determined, for example, by a comparison of price quotations and market prices) shall be paid to obtain goods and services."

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

12. Unapproved Fees for Services Rendered

Note 8 to the financial statements reflects total sales revenue of Kshs.6,317,198,727 being revenue from sale of various medical commodities. However, the prices of these commodities were only reviewed by a pricing committee and were not presented to the board for approval before implementation. This is contrary to Section 6 (2) (d) of the Kenya Medical Supplies Authority Act 2013 states that 'Without prejudice to the generality of the foregoing, the Board shall have power to—levy fees for services rendered by the Authority as may be determined from time to time by the Board'.

In the circumstances, Management was in breach of law.

13. Extension of Tender Validity Period

Note 8 to the financial statements reflects cost of sales balance of Kshs.7,667,619,015 out of which Kshs.2,660,997,894 relates to procurement of medical commodities on contracts extended for sixty-nine (69) suppliers. The Authority extended these contracts for more than thirty days and continued to trade with the suppliers without competitive bidding or giving notice of extension to each of the person who submitted the tender. This is contrary to Section 88 (2) and (3) which requires contract extension be not more than thirty days and a notice of extension be given to each of the persons who submitted the tender.

In the circumstances, Management was in breach of Law.

14. Irregular Use of Framework Contracting

Management discussion and analysis under Section 8 to the financial statements reflects total procurement of Kshs.29,097,000,000 out of which Kshs.21,182,231,387 was procurement through framework contracting but there was no list of vendors undertaking these contracts and there was no evidence of mini competition among registered suppliers. In addition, after the first year of award, there was no evidence of conducting a value for money assessment to determine whether the terms designated in the framework agreement were still competitive. Further, suppliers through restricted method of Kshs.749,364,646, open tender of Kshs.2,448,96,611 and direct procurement method of Kshs.1,307,117,628 were continuously engaged for two (2) years under framework agreements contrary Section 114(1) and (2) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, Management was in breach of law.

15. Inclusion of VAT in Global Fund Commodities

Note 9 to the financial statements reflects revenue earned from rendering of services amounting to Kshs.787,689,106. Included in this balance is Kshs.512,669,708 in respect to Global Fund out of which Kshs.11,861,000 was earned to procure Global Fund HIV commodities of USD.2,132,400, or Kshs.232,717,555 and VAT amounting to Kshs.1,636,000 charged. This was contrary to article 3, Section 3.5 of the Global Fund grant regulations, 2014, which states that the host country for Global Fund should ensure that all the program commodities are exempted from tax.

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

16. Stock out of Medical Commodities

Note 23 to the financial statements reflects inventory balance of Kshs.13,962,897,325. Inventory records indicated three hundred and sixty-four (364) commodities were stocked out for an average of two hundred and ninety (290) days while one hundred and seventy-nine (179) commodities were below the minimum required stock levels resulting to missed sales of Kshs.3,113,453,816. This was contrary to Regulation 140(1) of the Public Finance Management (National Government) Regulations, 2015 which states that 'Accounting Officer shall be responsible for the proper custody, care and use of government inventories under their control'.

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

17. Failure to Procure Essential Medical Commodities

Note 26 to the financial statements reflects payables from development partners of Kshs.4,798,798,971. Included in the amount is Kshs.1,270,815,146 for family planning, nutrition and tuberculosis commodities which had not been utilized for eighteen (18) months as at December, 2022 while an additional Kshs.1,281,580,000 for Antiretroviral (ARVs), lab reagents, vaccines and blood bags remained unutilized for a period of six (6) Months. This is contrary to Regulation 214(b) of the Public Financial Management (National Government) Regulations, 2015 which requires activities of a corporation be effective in achieving national objectives and represent value for money for the expenditure of taxpayer'.

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

18. Non-Adherence to Credits Limits

Note 21 to the financial statements reflects receivables from exchange transactions of Kshs.5,642,303,360 out of which Kshs.5,554,133,989 relates to trade debtors – receivables with County Governments accounting for Kshs.2,819,806,723 and other customers Kshs.2,734,327,266. However, the Authority continued to trade with these customers beyond the 30 to 45 days credit limits period contrary to Paragraph 2.7 of the Kenya Medical Supplies Authority Credit Policy 2014. In addition, the Authority did not maintain Floating Deposits Funds for credit customers in the KEMSA trading account where invoices will be drawn from as required by Paragraph 2.8 of the Kenya Medical Supplies Authority Credit Policy, 2014.

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

19. Unaccounted Donations to KEMSA Dispensary

Note 8 to the financial statements reflects cost of sales balance of Kshs.7,667,817,778. This balance includes donations of medical commodities of Kshs.221,991,558 to eighty-six (86) health facilities out of which Kshs.23,373,737 relates to donations made to KEMSA staff dispensary whose physical verification in the month of December, 2022 revealed that they did not exist. This is contrary to paragraph 17.6 of the KEMSA Standard Operating Procedures, 2018 which requires KEMSA to donate medical commodities upon request by the customer.

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

20. Failure to Maintain a Master Vote Book

The statement of financial performance reflects total expenditure of Kshs.3,083,384,361 which was not supported by a vote book. This was contrary to Regulation 52(1)(d) of the Public Finance Management (National Government) Regulations, 2015, which states when the AIE is issued by the Ministry or State Department or Agency, the allocation shall be entered as a commitment in the Ministry's or State Department's or Agency's master vote book so as to ascertain at all times the availability of uncommitted funds.

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

21. Failure to Maintain an Imprest Register

Note 13 to the financial statements reflects a balance of Kshs.1,689,600,811 in respect to use of goods and services which includes an expenditure of Kshs.85,821,747 in relation to travel, accommodation, subsistence and other allowances. However, an imprest register to account for imprests issued and surrendered was not maintained. This was contrary to Regulation 93 (4) of the Public Finance Management (National Government) Regulations, 2015 which provides that before issuing temporary imprests under paragraph (2), the Accounting Officer shall ensure that— *(c)* the applicant has been recorded in the imprest register including the amount applied for.

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

22. Failure to Open a Retention Bank Account

Note 26 to the financial statements reflects trade and other payables from exchange balance of Kshs.8,256,459,842 which includes customer retention money of Kshs.21,639,338. However, these funds were comingled in the Authority's other operational bank accounts without depositing them in a separate bank account exposing them to unintended use. This was contrary to Regulation 43 (b) of the Public Finance Management (National Government) Regulations, 2015 which states that "An accounting officer shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly. Further Regulation 33 (f) (ii) states that "Appropriation shall be for a specific purpose or a specific programme or item of expenditure".

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

23. Irregular Issuance of Medical Commodities as Donations

Note 8 to the financial statements reflects cost of sales balance of Kshs.7,667,817,778 out of which Kshs.221,991,558 was donated to eighty-six (86) health facilities. However, the expenditure includes donations Kshs.6,138,171 whose shelf life was more than six months. This was contrary to Paragraph 17.6 of the KEMSA Standard Operating Procedures 2018 requires donations to be for commodities with a remaining shelf life of less than six months.

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

24. Delay in Deliveries of Medical Commodities

Note 23 to the financial statements reflects inventories balance of Kshs.13,962,897,325 out of which medical commodities of Kshs.10,918,542,217 were received beyond the scheduled delivery timelines. In addition, commodities amounting to Kshs.2,471,498,717 had not been received by 30 June, 2022 despite lapse of over six (6) months after ordering them. This was contrary to Regulation 53(1) Public Finance Management (National Government) Regulations, 2015 states that a local purchase order or local service order shall be valid for a period of thirty days from the date of issue. (2) Any public officer who receives goods or services beyond the stipulated period specified in paragraph (1) commits an offence under the Act.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 3000 and 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 statement comply, 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 CONTROL, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, and based on the audit procedures performed, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that internal control, risk management and governance were not effective.

Basis for Conclusion

1. Staff Over-Establishment

Review of human resource records revealed approved staff establishment of three hundred and forty-one (341) position, but the master staff register reflects nine hundred and sixty-two (962) employees as at 30 June, 2022 resulting to unapproved staffing of six hundred and twenty-one (621).

In the circumstances, the effectiveness of controls on human resource management could not be confirmed.

2. Lack of Fuel Register

The statement of financial performance reflects use of goods and services expenditure of Kshs.1,689,600,811 as disclosed in Note 13 to the financial statements. The amount includes fuel and oil balance of Kshs.29,488,949. However, a fuel register was not maintained and no reconciliation was performed on the supplier fuel statements. In addition, two vehicles fuelled at Ksh.985,428 were not in the asset register and their log books not provided for audit.

In the circumstances, the effectiveness of internal controls on fuels and oils could not be confirmed.

3. Duplicate Inventory Records

The statement of financial position reflects inventories balance of Kshs.13,962,897,325 as disclosed in Note 23 to the financial statements. However, review of Information Technology (IT) environment revealed creation of duplicate inventory records amounting to Kshs.70,224,025. In addition, the system allowed excess return of inventories from facilities amounting Kshs.8,839,027. Further, commodities valued at Kshs.42,526,804 with longer shelf life were sold before those with short shelf life against principle of First Expiry First Out (FEFO).

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

4. Undefined Rendering Fee Charges

Note 9 to the financial statements reflects rendering of services of Kshs.787,689,106 being fees charged for procurement, warehousing and distribution. However, a warehousing fee of 3% on the value of commodities is charged but the contract agreements do not specify the storage period. In addition, commodities amounting to Kshs.8,229,260 from different donors were stored for a period between three and seven years but only charged at constants rate. Further, there is no standard policy for charging these services since different partners are charged rates at 8%, 7% and 6% for the same services.

In the circumstances, the value for money on procurement, warehousing and distribution services rendered to the donor partners could not be confirmed.

5. Weaknesses in Delivery System

Note 13 to the financial statements reflects administrative costs of Kshs.842,506,072 out of which Kshs.786,643,283 relates to distribution costs of medical commodities amounting to Kshs.1,694,489,668 that were delivered after the due dates with delays ranging from eight (8) days to two hundred and fifteen days (215) days. In addition, the warehouse system indicated goods amounting to Kshs.15,704,410 were delivered to various health facilities before they were issued from the warehouse and commodities of Kshs.240,854,066 dispatched to various facilities and hospitals but could not be confirmed as having been received. Further, some of the delivery notes were not dated, stamped or signed as proof of delivery.

In the circumstances, the effectiveness of internal controls of the warehouse system could not be confirmed.

6. Failure to Hedge Against Foreign Exchange Losses

Note 13 to the financial statements reflects use of goods and services expenditure of Kshs.1,689,600,811 out of which Kshs.184,184,990 relates to foreign exchange loss. However, contracts were entered using foreign currency but payments made through the Kenyan currency resulting to a foreign exchange loss of Kshs.184,184,900 and there were no hedging strategies. In addition, the realized loss was not supported by schedule indicating the exchange rate both at the invoice date and the payment date.

In the circumstances, value for money on the foreign exchange loss of Kshs.184,184,990, could not be confirmed.

7. Failure to Re-Negotiate Covid-19 Commodities

Note 8 to the financial statement statements reflects cost of sales of Kshs.7,667,817,778 out of which Kshs.1,787,954,354 relates to Covid-19 commodities. The Ministry of Health approved the disposal of Covid-19 items subject to re-negotiation with suppliers to lower the quoted prices. However, commodities with quoted price of Kshs.90,000,000 were not renegotiated.

In the circumstances, value for money for Covid-19 items quoted at Kshs.90,000,000 could not be confirmed.

8. Inefficiencies in Distribution

Note 13 to the financial statements reflects administrative costs of Kshs.842,506,072 out of which Kshs.786,643,283 relates to distribution costs. Review of dispatch and turn around reports revealed that distributions were not coordinated with incidences of not loading tracks to their optimal levels with a view of increasing their frequency to the same dispatch stations.

In the circumstances, the effectiveness of internal control of the distribution as at 30 June, 2022 could not be confirmed.

9. Procurements Outside E-Procurement System

The statement of management analysis and discussion to the financial statement indicates procurement of health products and technologies of Kshs.29,097,000,000. However, there was no evidence to show that e-procurement platform was used to procure them. This was contrary to executive order No. 2 of 2018 that required all procuring entities to undertake all their procurement through the e-procurement module.

In the circumstances, and in view of lack of Enterprise Resource Planning (ERP) functional modules, the Authority did not procure through e-procurement and did not achieve the set objectives under pillar number 6 on innovations and technology.

10. Refund of Ineligible Expenditure

Note 26 to the financial statements reflects trade and other payables from exchange transactions of Kshs.8,256,842 which includes Kshs.4,798,798,971 in respect to trade creditors-development partner's grants. The balance includes Kshs.320,000,000 refund to the World Bank due to ineligible expenditure resulting from failure to carry out due diligence on proper procurement process. This was contrary to section 68(1)(a) of the Public Finance Management Act, 2012 which requires an accounting officer for a national government entity, Parliamentary Service Commission and the Judiciary be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the accounting officer are used in a way that is lawful and authorized.

In the circumstances, the value for money on refunded expenditure of Kshs.320,000,000 could not be confirmed.

11. Unfulfilled Customer Orders

Note 8 to the financial statements reflects total sales revenue of Kshs.6,317,198,727. The Authority received customer orders of Kshs.9,875,931,228 from various health facilities. However, only orders amounting to Kshs.5,341,340,265 or 56% were processed and distributed resulting to unfulfilled customer orders of Kshs.4,534,590,963 or 44%. In addition, the processing and distribution of orders took an average of nineteen (19) days against a target of ten (10) days.

In the circumstances, the effectiveness of internal control on servicing customer orders could not be confirmed.

12. Loss of Revenue

Note 8 to the financial statement reflects total sales revenue of Kshs.6,317,198,727 which includes Kshs.1,020,631,175 for one hundred and thirteen (113) medical commodities. However, these commodities should have been sold at Kshs.1,494,065,638 hence resulting to unexplained loss of Kshs.473,434,463. The amount also includes Kshs.71,261,137 for fifty-two (52) medical commodities that had been purchased at Kshs.87,460,544 resulting to an unexplained loss of Kshs.16,199,407.

In the circumstances, valued for money on medical commodities sold at Kshs.1,091,892,312 could not be confirmed.

13. Issues under Universal Health Coverage (UHC)

During the year under review, it was noted that since the year 2018, Kshs.12,766,762,552 had been received for Universal Health Coverage (UHC) commodities but only Kshs.10,519,028,352 was utilized by 30 June, 2022 resulting to a balance of Kshs.2,247,734,200. However, the following unsatisfactory matters were noted;

i. Analysis of UHC supporting schedules revealed a balance of Kshs.1,619,138,203, resulting to unexplained nor justified variance of Kshs.628,595,997.

ii. The UHC funds were comingled in other operational bank accounts instead of receiving them in a separate bank account contrary to Regulation 76 (1) of the Public Finance (National Government) Regulations, 2015 which requires each project have a separate bank account at the Central Bank of Kenya into which all funds shall be kept.

iii. Donor fund commodities worth Kshs.318,880,601 were erroneously distributed and accounted under UHC commodities instead of the respective donor.

iv. UHC commodities worth Kshs.30,857,471 were distributed to seventy-eight (78) private and faith-based health facilities contrary to a letter Ref: MOH/ADM/1/2/16 VOL1 (70) dated 24 January, 2020 which indicates the beneficiaries of the supplies be public health facilities whose county management will have signed the Intergovernmental Participatory Agreement (IPA) with the Ministry.

v. Physical verification in twenty-six health facilities spread across six (6) counties in the month of September, 2022 revealed stock out of the GeneXpert cartridges for up to three months.

In the circumstances, the efficiency and effectiveness of the Authority to procure, store and distribute Universal Health Coverage (UHC) products could not be confirmed.

14. Medical Commodities Received Beyond the Acceptable Shelf Life

Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778 which includes Kshs.688,316,531 for commodities that were received with a remaining shelf life of less than six months. These commodities were due for donation in line with Paragraph 17.6 of the KEMSA Standard Operating Procedures 2018 which categories commodities with a remaining shelf life of less than six months as having short expiry and are earmarked for donations. In addition, the warehouse management system could not generate a report indicating the manufacture date of the commodities.

In the circumstances, the effectiveness of internal control on purchases of medical commodities could not be confirmed.

15. Expiries of Medical Commodities

Note 8 to the financial statements reflects cost of sales of Kshs.7,667,817,778. Included in this amount is Kshs.1,054,972,887 being expiries of medical commodities. The expiries include Covid-19 commodities of Kshs.908,890,295 and other medical commodities of Kshs.146,082,592 but no explanations for large quantity purchases despite low demand. In addition, commodities valued at Kshs.3,322,168 expired on transit to the respective health facilities. Further, face masks and Personal Protective Equipment (PPE) kits amounting to Kshs.478,620,200 received in June 2022 were set to expire on 31 July, 2022 without justification for the short shelf life of less than two months. Also, incineration costs of Kshs.1,900,000 for disposing expired stock were incurred with a likelihood of incurring additional costs to dispose third party expired commodities valued at Ksh.206,960,047 which are still in the stores.

In the circumstances, effectiveness of internal controls on management and monitoring of stock for expiry could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 2315 and 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the 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 Authority's activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

The Board of Directors is responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

19 April, 2023

13. Statement of Financial Performance for the year ended 30 June 2022

	Note	FY 2021-2022 Kshs	FY2020-2021 Kshs
Revenue from non-exchange transactions			
Transfers from other government entities	6	100,000,000	125,000,000
Public contributions and donations	7	6,383,639	6,383,639
Total Revenue from non-exchange transactions		**106,383,639**	**131,383,639**
Revenue from exchange transactions			
Net Sales	8	(1,350,619,051)	1,317,254,777
Rendering of Services	9	787,689,106	1,543,484,208
Rental Revenue	10	1,298,428	11,205,348
Finance Income	11	518,452,886	616,085,847
Other Income	12	26,392,466	64,299,118
Total Revenue from exchange transactions		**(16,786,165)**	**3,552,329,297**
Total revenue		**89,597,474**	**3,683,712,937**
Expenses			
Use of goods and services	13	1,689,600,811	1,847,724,361
Employee costs	14	1,223,659,186	1,264,329,720
Board expenses	15	28,107,161	17,681,305
Depreciation and amortization expense	16	119,174,766	117,830,125
Repairs and maintenance	17	21,134,746	32,677,211
Finance costs	18	1,707,691	1,768,676
Total expenses		**3,083,384,361**	**3,282,011,397**
Other gains/(losses)			
Gain on sale of assets	19	2,061,456	0
Surplus before tax		**(2,991,725,431)**	**401,701,539**
Taxation			
Surplus for the period		**(2,991,725,431)**	**401,701,539**

Disclosure: The Authority is in receipt of a demand note from the Kenya Revenue Authority for a tax obligation of Sh. 3.010. A tax consultant has been engaged and after reconciliation with KRA the tax owed has reduced to Sh. 1.1 Billion. A repayment of Sh. 50 Million per month has been reached with the first instalment already settled in August 2022.

The notes set out on pages 12 to 116 form an integral part of these Financial Statements.

The Financial Statements set out on pages 1 to 10 were signed on behalf of the Board of Directors by:

…………………………	…………………………	…………………………
Terry Kiunge Ramadhani	**James Macharia**	**Mary Chao Mwadime**
Accounting Officer	**Head of Finance**	**Chairman of the Board**
	ICPAK M/No: 10124	
Date 20/09/2022	**Date** 20/9/2022	**Date** 20/9/2022

14. Statement of Financial Position as at 30 June 2022

	Note	Financial Year 2021/2022 Kshs	Financial Year 2020/2021 Kshs
Assets			
Current assets			
Cash and cash equivalents	20	8,656,053,238	8,113,988,990
Receivables from exchange transactions	21	5,642,303,360	5,863,800,694
Receivables from non-exchange transactions	22	7,383,812	4,430,114
Inventories	23	13,962,897,325	17,558,529,935
Total current assets		**28,268,637,735**	**31,540,749,734**
Non-current assets			
Property, plant and equipment	24(a)	8,440,170,153	7,167,704,659
Intangible assets	24(b)	2,263,994	3,557,706
Long Term Deposit	25	62,376,526	53,815,430
Total non-current assets		**8,504,810,673**	**7,225,077,795**
Total assets		**36,773,448,408**	**38,765,827,529**
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	26	8,256,459,842	7,015,398,881
Trade and other payables from non-exchange transactions	27	6,139,529	2,761,333
Payment Received in Advance	28	1,532,648,721	3,025,877,078
Current Provisions	29	330,717,836	167,673,093
Project Fund	30	57,344,216	45,723,831
Medical Commodity Fund	31	9,818,892,141	9,356,110,719
Total current liabilities		**20,002,202,285**	**19,613,544,935**
Non-current liabilities			
Deferred income	32	1,408,863,935	798,174,974
Total non-current liabilities		**1,408,863,935**	**798,174,974**
Total liabilities		**21,411,066,220**	**20,411,719,910**
Net assets		**15,362,382,187**	**18,354,107,619**
KEMSA Capital	33	8,461,576,303	8,461,576,303
Accumulated Funds		256,950,298	256,950,298
Revenue reserves		5,860,225,131	8,851,950,562
Revaluation reserve		783,630,456	783,630,456
Total net assets and liabilities		**36,773,448,408**	**38,765,827,529**

The financial statements set out on pages 1 to 10 were signed on behalf of the Board of Directors by:

....	....	....
Terry Kiunge Ramadhani	**James Macharia**	**Mary Chao Mwadime**
Accounting Officer	**Head of Finance**	**Chairman of the Board**
	ICPAK M/No: 10124	
Date 20/9/2022.	Date 20/9/2022	Date 20. 9. 2022.

15. Statement of Changes in Net Assets for the Year Ended 30 June 2022

	Attributable to the owners of the controlling entity				
		Reserves			
	KEMSA Capital	Accumulated Funds	Revenue Reserve	Revaluation Reserve	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Balance as at 30th June 2019	8,461,576,303	256,950,298	6,950,595,922	783,630,456	16,452,752,979
Surplus for the period			1,663,393,620		
Balance as at 30th June 2020	8,461,576,303	256,950,298	8,613,989,542	783,630,456	18,116,146,599
Prior Year Adjustment			(163,740,520)		
Surplus for the period			401,701,540		
Balance as at 30th June 2021	8,461,576,303	256,950,298	8,851,950,562	783,630,456	18,354,107,619
Surplus for the period			(2,991,725,431)		
Balance as at 30th June 2022	8,461,576,303	256,950,298	5,860,225,131	783,630,456	18,354,107,619

The financial statements set out on pages 1 to 10 were signed on behalf of the Board of Directors by:

Terry Kiunge Ramadhani	James Macharia	Mary Chao Mwadime
Accounting Officer	**Head of Finance**	**Chairman of the Board**
	ICPAK M/No: 10124	
Date 20/9/2022.	Date 20/9/2022	Date 20.9.2022.

16. Statement of Cash Flows for the year ended 30 June 2022

	Note	FY 2021/2022	FY 2020/2021
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfers from other government entities	1	100,000,000	125,000,000
Public contributions and donations	2	6,383,639	6,383,639
Net Sales	3	(1,350,619,051)	1,317,254,777
Rendering of Services	4	787,689,106	1,543,484,208
Rental Revenue	5	1,298,428	11,205,348
Finance Income	6	518,452,886	616,085,847
Other Income	7	26,392,466	64,299,118
Total Receipts		**89,597,474**	**3,683,712,936**
Payments			
Use of goods and services	8	1,689,600,811	1,847,724,360
Employee costs	9	1,223,659,186	1,264,329,720
Board expenses	10	28,107,161	17,681,305
Depreciation and amortization expense	11	119,174,766	117,830,125
Repairs and maintenance	12	21,134,746	32,677,211
Finance costs	13	1,707,691	1,768,676
Total Expenses		**3,083,384,361**	**3,282,011,396**
Net Surplus		**(2,993,786,887)**	**401,701,540**
Decrease/(Increase) in Current Assets		3,814,176,247	1,445,079,896
Increase/(Decrease) in Current Liabilities		388,657,350	(3,927,571,096)
Increase/(Decrease) in Deferred Income		610,688,961	740,028,640
Asset Disposal(NBV)			
Depreciation and amortization expense	18	119,174,766	117,830,125
In cash support on Expenditure			
Net cash flows from operating activities		**1,938,910,437**	**(1,222,930,896)**
Cash flows used in investing activities			
Purchase of property, plant, equipment and intangible	24	(1,391,206,362)	(964,164,992)
Proceeds From Disposal Of Fixed Assets	14	2,921,270	
Increase/decrease in non current receivable		(8,561,096)	(5,300,000)
Net cash flows used in investing activities		**(1,396,846,188)**	**(969,464,992)**
Cash Flows from Financing activities			
KEMSA Capital		-	-
Accumulated Funds		-	-
Revaluation reserve			
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		**542,064,248**	**(2,339,533,600)**
Cash and cash equivalents at 1 July 2021		8,113,988,990	10,453,522,590
Cash and cash equivalents at 30th June 2022	20	8,656,053,239	8,113,988,990

The financial statements set out on pages 1 to 10 were signed on behalf of the Board of Directors by:

………………………	………………………	………………………
Terry Kiunge Ramadhani	**James Macharia**	**Mary Chao Mwadime**
Accounting Officer	**Head of Finance**	**Chairman of the Board**
	ICPAK M/No: 10124	
Date 20/9/2022.	Date 20/9/2022	Date 20.9.2022.

17. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2022

	Note	Original budget Kshs a	Adjustments Kshs b	Final budget Kshs C=(a+b)	Actual on comparable basis Kshs d	Performance difference Kshs e=(c-d)	% of utilization Kshs f=d/c*100
Revenue from non-exchange transactions							
Transfers from other government entities	6	100,000,000	300,000,000	400,000,000	100,000,000	300,000,000	25%
Public contributions and donations	7	-	-	-	6,383,639	(6,383,639)	0%
Total Revenue from non-exchange transactions		**100,000,000**	**300,000,000**	**400,000,000**	**106,383,639**	**293,616,361**	**27%**
Revenue from exchange transactions							
Net Sales	8	2,145,942,007	0	2,145,942,007	(1,350,619,051)	3,496,561,058	-63%
Rendering of Services	9	797,412,840	-	797,412,840	787,689,106	9,723,734	99%
Rental Revenue	10	12,000,000	-	12,000,000	1,298,428	10,701,572	11%
Finance Income	11	293,727,729	0	293,727,729	518,452,886	(224,725,156)	177%
Other Income	12	-	-	-	26,392,466	(26,392,466)	0%
Total Revenue from exchange transactions		**3,249,082,576**		**3,249,082,577**	**(16,786,165)**	**3,265,868,742**	**-1%**
Total revenue		**3,349,082,576**	300,000,000	**3,649,082,577**	**89,597,474**	**3,559,485,103**	**2%**

	Note	Original budget Kshs a	Adjustments Kshs b	Final budget Kshs C=(a+b)	Actual on comparable basis Kshs d	Performance difference Kshs e=(c-d)	% of utilization Kshs f=d/c*100
Expenses							
Use of goods and services	13	1,576,880,142	5,713,173	1,582,593,315	1,689,600,811	(107,007,496)	107%
Employee costs	14	1,218,669,000	37,796,940	1,256,465,940	1,223,659,186	32,806,754	97%
Board expenses	15	14,442,344	15,977,656	30,420,000	28,107,161	2,312,839	92%
Depreciation and amortization expense	16	170,660,000	(48,652,976)	122,007,024	119,174,766	2,832,258	98%
Repairs and maintenance	17	43,130,790	(9,384,793)	33,745,998	21,134,746	12,611,252	63%
Finance costs	18	3,170,000	(1,450,000)	1,720,000	1,707,691	12,309	99%
Total expenses		**3,026,952,276**	**(0)**	**3,026,952,276**	**3,083,384,361**	**(56,432,085)**	**102%**
Other gains/(losses)							
Gain on sale of assets	19	(842,000)	842,000	-	2,061,456	(2,061,456)	
Surplus before tax		**321,288,299**	**300,842,000**	**622,130,300**	**(2,991,725,431)**	**3,613,855,732**	**-481%**
Taxation						0	
Surplus for the period		**321,288,299**	**300,842,000**	**622,130,300**	**(2,991,725,431)**	**3,613,855,732**	**-481%**

Budget notes

Grants from National Government is 75% below budget. In FY 2021/2022 the original budget on GoK funding was **Ksh. 100 Million** which was revised to **Ksh. 400 Million** being Ministry of Health Support towards KEMSA reforms. Whereas the funds were received, the Authority did not implement the planned reform activities due to inevitable circumstances hence the funds will be utilized in FY 2022/23. On this regard the funds were not recorded as revenue for FY 2021/22 but will be matched with expenditure in FY 2022/23.

Net Sales is negative 63 % below budget; FY 2021/22 actual performance was however a low performance of **Ksh.6.317 Billion** for gross sales representing **44**% below budget with cost of medical commodities of **Ksh 7.668 Billion** being **16**% below budget hence a negative margin of **Ksh. 1.351 Billion** as net sales which was way far unfavorable performance of negative 63% of targeted net sales. The negative net sales were due to sale of Medical commodities for Covid-19 at a loss.

Finance Income was 77% **above Budget;** In FY 2021/2022 the Original Budget was **Ksh. 293 Million** without any revision. The actual performance was a favorable performance of **Ksh. 518 Million** being 77% above budget. The favorable performance on interest is attributed to non-utilization of the MOH program funds in the FY 2021/22 worth **Ksh 7 Billion** and negotiation of bank interest rates from 3% to 8 %.

Rental Revenue was 89% below budget. The lease for the tenant who was occupying the premise lapsed in FY 2021/22 and the Authority has not renewed the lease due to new developments for the premise to be used by another Government Agency Biovax.

18. Notes to the Financial Statements

1. General Information

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

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Kenya Medical Supplies Authority (KEMSA)'s accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act *(include any other applicable legislation),* and International

Notes to the Financial Statements (Continued)

Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. Adoption of New and Revised Standards

i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2022.*

IPSASB deferred the application date of standards from 1st January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.

ii. ***New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.***

Standard	Effective date and Impact:
IPSAS 41: Financial Instruments	**Applicable: 1st January 2023:** 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: • Applying a single classification and measurement model for financial assets that considers the characteristics

Standard	Effective date and impact:
	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	**Applicable: 1st January 2023** The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess: (a) The nature of such social benefits provided by the Entity.

Standard	Effective date and impact:
	(b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	**Applicable: 1st January 2023:** a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other improvements to IPSAS	*Applicable 1st January 2023* • *IPSAS 22 Disclosure of Financial Information about the General Government Sector.* Amendments to refer to the latest System of National Accounts (SNA 2008).

Standard	Effective date and impact:
	• *IPSAS 39: Employee Benefits* Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • **IPSAS 29: Financial instruments: Recognition and Measurement** Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.
IPSAS 43	***Applicable 1st January 2025*** The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.
IPSAS 44: Non- Current Assets Held	***Applicable 1st January 2025*** The Standard requires,

Standard	Effective date and impact:
for Sale and Discontinued Operations	Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.

iii. *Early adoption of standards*

The Entity did not early - adopt any new or amended standards in year 2021/2022.

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

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.

Rendering of services

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

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

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably, and it is probable that

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

the economic benefits or service potential associated with the transaction will flow to the Entity.

Interest income

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

ii) Revenue from exchange transactions

Dividends

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

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

The original budget for FY 2021-2022 was approved by the National Assembly on *June 30, 2021*. 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 Entity didn't recorded additional appropriations

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Budget information (continued)

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

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

There is no reconciling amount between the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented in page 1 of these financial statements.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

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

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Entity and the same taxation authority.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

i) When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
ii) When receivables and payables are stated with the amount of sales tax included The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model. Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

e) Property, plant and equipment

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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

f) **Leases**

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) **Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

h) Research and development costs

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

i) The technical feasibility of completing the asset so that the asset will be available for use or sale
ii) Its intention to complete and its ability to use or sell the asset
iii) How the asset will generate future economic benefits or service potential
iv) The availability of resources to complete the asset
v) The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

i) Financial instruments

a) Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an Entity of financial assets is impaired. A financial asset or an Entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

future cash flows of the financial asset or the Entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

i) The debtors or an Entity of debtors are experiencing significant financial difficulty.
ii) Default or delinquency in interest or principal payments
iii) The probability that debtors will enter bankruptcy or other financial reorganization.
iv) Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults)

b) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

j) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

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

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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

k) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

l) 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.

m) Contingent assets

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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

n) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. KEMSA maintains four types of reserves; KEMSA Capital, Accumulated funds reserve, revenue reserve and revaluation reserve.

KEMSA Capital- this reserve is made up of the value of inventory, owned by Ministry of Health, as at the time held by KEMSA.

Changes in accounting policies and estimates

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

o) Employee benefits

Retirement benefit plans

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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

p) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

q) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

r) Related parties

KEMSA regards a related party as a person or an Entity with the ability to exert control individually or jointly, or to exercise significant influence over the authority, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

s) Service concession arrangements

KEMSA analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the authority recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price.

In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the authority also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

t) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

u) Comparative figures

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

v) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. State all judgements, estimates and assumptions made:

Estimates and assumptions

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

Notes to the Financial Statements (Continued)

Significant Judgments and Sources of Estimation Uncertainty (Continued)

Useful lives and residual value

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

a) The condition of the asset based on the assessment of experts employed by the Entity.
b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
c) The nature of the processes in which the asset is deployed.
d) Availability of funding to replace the asset.
e) Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 40.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. KEMSA records accruals for revenue earned but not received as at the date of reporting and for expenses when the expense is due but not invoiced as at the date of reporting. The revenue earned and expenses due are estimated based on contracted rates between the Authority and Business Partner.

Notes to the Financial Statements (Continued)

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

Name Of The Entity Sending The Grant	Amount recognized to Statement of Financial performance	Amount deferred under deferred income	Amount recognised in capital fund.	Total transfers 2021-22	Prior year 2020-2021
	Kshs	Kshs	Kshs	Kshs	Kshs
Ministry of Health	100,000,000	-	-	75,000,000	125,000,000
Ministry of Health	-	333,100,000	-	-	262,500,000
Total Grants from National Government	100,000,000	**333,100,000**	-	**75,000,000**	**387,500,000**

Notes to the Financial Statements (Continued)

7. Public Contributions and Donations	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Income From Donations	6,383,639	6,383,639
Total Public Contributions and Donations	**6,383,639**	**6,383,639**

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

8. Net Sales	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Sale Revenue -Pharmaceutical	3,452,060,711	2,070,014,129
Sale Revenue -Non-Pharmaceuticals	2,170,585,375	1,998,080,253
Sale Revenue -Non-Pharmaceuticals -Covid-19 commodities	523,716,900	-
Sales Revenue -UHC-Pharmaceuticals	78,418,435	2,398,910,944
Sales Revenue-UHC-Non-Pharmaceuticals	92,417,306	1,755,828,455
Total sales revenues	**6,317,198,727**	**8,222,833,780**
Cost of Sales		
Cost of Sales CGS (Pharms)	3,797,919,253	1,853,919,861
Cost of Sales -CGS (Non-Pharms)	1,940,300,934	1,770,542,066
Cost of Sales -CGS (Non-Pharms)-Covid-19 commodities	1,787,954,354	-
Cost of Sales-CGS-UHC (Pharms)	60,185,726	1,849,244,865
Cost of Sales-CGS-UHC (Non-Pharms)	81,457,510	1,431,872,213
Total cost of sales	**7,667,817,778**	**6,905,579,004**
Net Sales	**(1,350,619,051)**	**1,317,254,777**

The revenue earned and cost incurred in selling relates to sale of medical commodities to all public health facilities in the counties and other supplementary customers like Faith Based institutions and Universities. The cost of sales includes value of expired/damaged stocks amounting to sh. 147,466,570 and Donated stocks valued at sh. 221,991,557.9. KEMSA also incurred expiries on Covid 19 commodities valued at sh. 908,890,295

Notes to the Financial Statements (Continued)

9. Rendering of Services		FY 2021-2022 Kshs	FY 2020-2021 Kshs
Supply Chain Fees:	-USAID	12,671,423	400,376,053
	-Global Fund	512,669,708	936,352,570
	-UNICEF	15,541,387	20,831,142
	-Ministry of Health	216,643,654	177,204,106
	-Other Strategic Partners	30,162,935	8,720,338
Total income		**787,689,106**	**1,543,484,208**

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

10. Rental Revenue	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Rental Income	1,298,428	11,205,348
Total income	**1,298,428**	**11,205,348**

Rental Income for prior year was from KEMSA tenants Bollore and Kenya Airways during the Financial Year but their leases ended in 30th June 2021. Rental income for the period is an accrual for Kenya Airways rent.

11. Finance Income	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Bank Interest Received	518,452,886	616,085,847
Total income	**518,452,886**	**616,085,847**

This is income earned from the funds in the Authorities bank current accounts at negotiated interest rates.

12. Other Income	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Sale of Tender Documents	2,000	-
Sale of Waste Materials	4,510	-
Forex Realized Gain	1,829,205	11,461,706
Direct Revenue (MCP-Cost Recovery)	-	50,174,089
Other Miscellaneous Income	24,556,751	2,663,323
Total other income	**26,392,466**	**64,299,118**

These are revenues earned from other sources as highlighted above

Notes to the Financial Statements (Continued)

13.Use of Good and Services	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Electricity	12,655,812	15,795,502
Water	651,786	898,798
Professional services		
Subscriptions	1,895,445	1,917,290
Advertising	15,583,811	18,799,355
Admin Expenses	842,506,072	900,576,996
Audit fees	4,273,300	3,500,000
Conferences and delegations	14,183,760	7,940,795
Consulting fees	37,910,274	14,548,418
Fuel and oil	29,488,949	25,044,665
Insurance	149,650,484	159,102,627
Legal expenses	126,365,772	99,993,837
Licenses and permits	8,424,434	7,225,526
Chemicals		
Water purification cost		
Postage	266,339	577,304
Printing and stationery	7,853,885	14,880,502
Hire charges		
Rental	86,394,150	217,175,902
Security costs	21,416,733	20,149,703
Vehicle Maintenance	15,078,397	13,299,735
Fork Lift Maintenance	1,422,045	3,622,426
Maintenance of own Trucks	2,239,229	2,228,676
Sewage treatment costs		
Skills development levies		
Inventory scrapping		
Telecommunication	24,698,985	19,146,035
Training	16,634,411	16,604,253
Travel, accommodation, subsistence and other allowances*	85,821,747	124,014,172
Other general expenses	184,184,990	179,832,681
Total Use of Good and Services	**1,689,600,811**	**1,866,875,197**

Notes to the Financial Statements (Continued)

14. Employee costs		
	FY 2021-2022	FY 2020-2021
	Kshs	Kshs
Basic Pay	782,169,114	810,404,905
Overtime	8,350,464	11,675,220
Arrears	713,749	855,851
House Allowance	179,282,000	189,745,806
Acting Allowance	3,657,470	4,940,993
Bonus	-	-
Leave Allowance	10,095,000	8,622,500
Entertainment Allowance	2,754,000	2,777,226
NSSF (Kemsa Part)	2,084,800	2,238,000
Gratuity and Pensions	136,550,511	144,396,940
Committee Allowances	10,388,000	11,427,200
Special Duty Allowances	166,840	38,235
Transport Allowance	46,860,000	50,111,516
Other Taxable Benefits	13,077,766	16,518,528
Casual and Contract Employees	498,000	-
Ex-Gratia Payments	13,176,863	1,002,506
Shift Allowance	(31,208)	360,618
Staff Seconded to Kemsa	13,865,817	8,682,676
Internship Stipends	-	531,000
Total employee costs	**1,223,659,186**	**1,264,329,720**

The Employee cost for the year ended was Ksh.1,223 Billion representing a 97% budget absorption.

15. Board expenses		
	FY 2021-2022	FY 2020-2021
	Kshs	Kshs
BOD Sitting & Lunch Allowances	13,856,000	8,844,000
BOD Travel & Accommodation Exp.	11,724,281	5,995,585
BOD Conferences	1,482,880	1,797,720
BOD Honoraria & Other Allowances	1,044,000	1,044,000
Total BOD expenses	**28,107,161**	**17,681,305**

Notes to the Financial Statements (Continued)

16. Depreciation & amortization	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Buildings - Depreciation	32,596,898	32,588,150
Plant & Machinery - Depreciation	21,716,403	17,873,421
Office Equipment - Depreciation	7,682,611	4,954,666
Furniture & Fittings - Depreciation	4,671,862	4,714,010
Computer Equipment - Depreciation	12,042,074	7,854,777
Intangible Assets - Depreciation	1,293,711	323,428
Motor Vehicles - Depreciation	39,171,206	49,521,674
Total depreciation & amortization	**119,174,766**	**117,830,125**

17.Repair & Maintenance	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Repairs to Buildings and Roads	1,898,350	3,576,840
Maintenance of QA Tools & Equipment	378,901	2,783,075
Plant Repairs & Maintenance	1,231,779	803,743
Computer Stationery Expenses	11,512,003	5,461,473
Computer Maintenance Expenses	1,537,504	2,442,816
Computer Maintenance Agreement	4,576,209	3,089,612
Purchase of Tools & Maintenance	-	1,634,031
Total Repair & Maintenance	**21,134,746**	**19,791,591**

18. Finance costs	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Bank Charges	1,707,691	1,768,676
Total finance costs	**1,707,691**	**1,768,676**

19. Other gains/(losses)	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Gain on Disposal of Assets	2,902,916	-
Loss on Disposal of Assets	(841,460)	-
Total Other gains/(losses)	**2,061,456**	-

Notes to the Financial Statements (Continued)

20a. Cash and Cash Equivalents	FY 2021-2022 Kshs	FY 2020-2021 Kshs
PETTY CASH	0	0
NBK - OPERATIONS	16,909,238	812,741
WORLD BANK E.A LAB PROJECT	18,843,438	18,843,438
NBK DISTRIBUTION	6,163,761	70,432
KCB DRUGS	297,207,049	412,412,454
KCB DISTRIBUTION	921	1,221
CBA	635,438,430	262,789,312
CO-OP - MEDICAL GRANTS	997,925,867	1,243,065,882
CO-OP BANK GF OPERATIONS (KSH)	738,301,227	66,665,526
CO-OP BANK GF OPERATIONS (USD)	753,725,118	339,857,900
CO-OP BANK GF ATM R4P1 (USD)	-	1,920,371
CO-OP BANK GF ATM R5P1 (USD)	-	1,959,665
CO-OP BANK GF ATM R6 (USD)	-	125,683
CO-OP BANK GF ATM R4P2 (USD)	-	9,760
CO-OP BANK GF ATM R5P2 (USD)	-	22,373
CO-OP BANK GF ATM R7P1	-	7,092,339
CO-OP BANK GF ATM R4P2	-	909
CO-OP BANK GF ATM R5P1	0	1,069,586
CO-OP BANK GF ATM R6 (KSH)	-	1,029,785
CO-OP BANK GF ATM R7P1	0	4,195,195
WORLD BANK HSSP NON-POOLED	0	174,107
WORLD BANK HSSP POOLED PROJECT	(0)	40,480,896
SSD CO-OP BANK	700,457,202	1,351,267,598
SSD EQUITY BANK	4,341,306,340	3,237,732,786
KEMSA EQUITY WAREHOUSE CONSTRUCTION PROJECT	144,599,872	1,077,171,295
KEMSA EQUITY BANK OPERATIONS (KSH)	495,137	1,657,647
KEMSA EQUITY BANK OPERATIONS (USD)	453,077	43,558,621
MPESA BULK PAYMENT	4,226,560	1,467
Total cash and cash equivalents	**8,656,053,238**	**8,113,988,990**

Included in the cash and cash equivalents balance of sh. 8,656,053,238 is an amount of sh. 8,147,226,860.35 ringfenced for specific activities and Development Partners funds hence not available for Authority's use. The only funds available for the Authority's utilization is sh. 508,826,377.38. During the FY2021/2022 the Authority was instructed by National Treasury to close all Global funds account held at KEMSA.

Notes to the Financial Statements (Continued)

20 (b) Cash and Cash Equivalents	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Current accounts	8,656,053,238	8,113,988,990
Cash on Hand and On Transit	(0)	(0)
Total cash and cash equivalents	**8,656,053,238**	**8,113,988,990**

21. Receivables from Exchange Transactions	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Trade Debtors -Receivable	**5,554,133,989**	**5,756,958,122**
Supplier prepayment	**88,169,371**	**106,842,572**
Total receivables from exchange transactions	**5,642,303,360**	**5,863,800,694**

22. Receivables from Non-Exchange Transactions	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Other Debtors – Uninvoiced Receivables	-	-
Insurance Receivables	-	-
Travel Imprest Debtors	2,358,757	23,802
Staff Salary Advances Debtors	191,708	186,708
Standing Imprest Debtor	438,208	22,700
Staff Petty Cash Debtor	-	-
Board imprest debtor	81,482	-
Staff Medical Advances	2,778,321	2,196,128
Staff Accountable Imprest	98,000	200,000
Rent Deposit	-	
Interest Receivable	1,437,335	1,800,775
Withheld vat receivable	-	-
Utility Deposit	-	-
Total receivables from non-exchange transactions	**7,383,812**	**4,430,114**

Notes to the Financial Statements (Continued)

23. Inventories	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Medical Supplies-Pharmaceutical & Non-Pharmaceutical Stocks	13,958,506,662	17,554,455,351
Consumable stores-Stationery	3,815,509	2,939,878
Consumable stores-Beverages & Others	575,154	1,134,706
Total inventories at the lower of cost and net realizable value	**13,962,897,325**	**17,558,529,935**

Out of stock value of sh. 13.958 billion the entity is holding 3rd party stocks valued at sh. 8.083 Billion.

24 a. Property, Plant and Equipment

	LAND	BUILDINGS	OFFICE EQUIPMENT	PLANT & MACHINERY	FURNITURE	MOTOR VEHICLE	COMPUTER HARDWARE	WIP	TOTALS
COST AS AT 30/6/2020	1,786,967,270.37	1,573,963,889.68	51,814,676.06	184,827,741.50	48,879,530.75	211,524,420.02	113,440,037.79	2,981,916,457.79	6,953,334,023.96
SCRAPING FOR UNVERIFIED FIXED ASSETS		(123,510,557.59)	(21,496,720.76)	(6,093,597.98)	(13,032,870.48)	(13,416,482.80)	(59,127,881.82)		(236,678,111.43)
PRIOR YEAR ADJUSTMENTS									-
DISPOSAL OF FIXED ASSET									-
ADDITIONS	-	963,000.00	30,111,412.03	37,668,129.49	3,018,013.00	13,325,601.92	20,460,638.00	854,737,064.70	960,283,859.14
WIP Transfer						36,912,165.36		(36,912,165.36)	-
COST AS AT 30/6/2021	1,786,967,270.37	1,451,416,332.09	60,429,367.33	216,402,273.01	38,864,673.27	248,345,704.50	74,772,793.97	3,799,741,357.13	7,676,939,771.67
COST RESTATEMENT AT FAIR VALUES									
DISPOSAL OF FIXED ASSET			(1,796,038.40)	(56,000.00)	(1,376,453.52)	(5,640,000.00)	(2,842,460.00)		(11,710,951.92)
ADDITIONS	-	466,600.00	11,613,558.00	744,816.00	386,885.00	-	199,520.00	1,377,794,983.36	1,391,206,362.36
WIP Transfer				-				-	-
COST AS AT 30/6/2022	1,786,967,270.37	1,451,882,932.09	70,246,886.93	217,091,089.01	37,875,104.75	242,705,704.50	72,129,853.97	5,177,536,340.48	9,056,435,182.10
DEPRECIATION AND IMPAIRMENT									
ACCUMULATED DEPRECIATION AS AT 1ST JULY 2020	-	247,422,131.73	12,812,596.06	69,121,379.20	18,272,209.75	93,251,519.69	23,786,170.71		
DEPRECIATION FOR YEAR		32,588,149.62	4,954,665.53	17,873,420.88	4,714,010.06	49,521,674.12	7,854,776.52		117,506,696.73
TRANSFERS/ADJUSTMENTS (Accumulated depreciation reversal on disposal of assets)	-	(108,783,063.18)	2,603,286.02	3,762,287.99	144,074.10	12,564,752.01	16,771,071.47		(72,937,591.60)
ACCUMULATED DEPRECIATION AS AT 30/6/2021	-	171,227,218.17	20,370,547.61	90,757,088.07	23,130,293.91	155,337,945.81	48,412,018.70	-	44,569,105.13
DEPRECIATION FOR YEAR	-	32,596,898.34	7,682,611.14	21,716,403.12	4,671,862.50	39,171,205.67	12,042,074.13		117,881,054.90
TRANSFERS/ADJUSTMENTS (Accumulated depreciation reversal on disposal of assets)		-	(1,355,566.48)	(33,600.96)	(979,510.24)	(5,640,000.00)	(2,842,460.00)		(10,851,137.68)
ACCUMULATED DEPRECIATION AS AT 30/6/2022	-	203,824,116.51	26,697,592.27	112,439,890.23	26,822,646.17	188,869,151.48	57,611,632.83	-	151,599,022.35
ACCUMULATED DEPRECIATION REVERSAL ON SALE OF ASSETS		-	(1,355,566.48)	(33,600.96)	(979,510.24)	(5,640,000.00)	(2,842,460.00)	-	(10,851,137.68)
ACCUMULATED DEPRECIATION	-	171,227,218.17	20,370,547.61	90,757,088.07	23,130,293.91	155,337,945.81	48,412,018.70	-	509,235,112.27
PRIOR YEAR ADJUSTMENTS	-							-	-
DEPRECIATION CHARGE FOR THE YEAR	-	32,596,898.34	7,682,611.14	21,716,403.12	4,671,862.50	39,171,205.67	12,042,074.13	-	117,881,054.90
ACCUMULATED DEPRECIATION	-	203,824,116.51	26,697,592.27	112,439,890.23	26,822,646.17	188,869,151.48	57,611,632.83	-	616,265,029.49
NBV AS AT 30/6/2022	1,786,967,270.37	1,248,058,815.58	43,549,294.66	104,651,198.78	11,052,458.58	53,836,553.02	14,518,221.14	5,177,536,340.48	8,440,170,152.61
Net Book Values									
As at 30th June 2021	1,786,967,270.37	1,280,189,113.92	40,058,819.72	125,645,184.94	15,734,379.36	93,007,758.69	26,360,775.27	3,799,741,357.13	7,167,704,659.40
As at 30th June 2020	1,786,967,270.37	1,326,541,757.95	26,306,786.92	107,192,141.22	22,442,390.72	80,472,648.47	9,690,851.48	2,981,916,457.79	6,341,530,304.92

Notes to the Financial Statements (Continued)

24 b. Intangible Assets

	COMPUTER SOFTWARE	INTANGIBLE	TOTALS
COST			
COST AS AT 30/6/2020	130,204,894.00	12,578,610.00	142,783,504.00
ADDITIONS	-	3,881,133.31	3,881,133.31
COST AS AT 30/6/2021	130,204,894.00	16,459,743.31	146,664,637.31
ADDITIONS	-	-	-
COST AS AT 30/6/2022	130,204,894.00	16,459,743.31	146,664,637.31
AMORTIZATION AND IMPAIRMENT			
AT THE BEGINNING OF THE YEAR	130,204,894.00	12,902,037.78	143,106,931.78
AMORTISATION CHARGE FOR THE YEAR	-	1,293,711.12	1,293,711.12
AT THE END OF THE YEAR	130,204,894.00	14,195,748.90	144,400,642.90
NBV AS AT 30/6/2022	-	2,263,994.41	2,263,994.41

Notes to the Financial Statements (Continued)

25. Long Term Receivables from Non-Exchange Transactions		
	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Long-term Deposit	62,376,526	53,815,430
Total long-term receivables from non-exchange transactions	**62,376,526**	**53,815,430**

These are rental deposits paid for warehouses that the Authority has rented to store medical commodities

26.Trade and other payables from exchange transactions		
	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Trade Creditors - Medical	2,464,270,152	2,786,573,806
Trade Creditors - Not Invoiced Receipts	437,723,132	2,588,017,506
Trade Creditors - Operations	508,122,729	180,784,194
Trade Creditors - Distribution	16,470,010	112,882,794
Trade Creditors - Development Partner's Grants	4,798,798,971	1,322,468,816
Stale Cheques - Unclaimed Payments	-	-
Rent deposit's - tenants	3,032,428	3,032,428
Withheld vat	(2,333)	(1)
Vat output – due	666	(0)
Withheld tax- consultancy	4,804,936	0
Withheld tax- contractors	1,599,513	1
Withheld Tax - Rental Income	0	0
Suppliers Funds Retained	21,639,338	21,639,338
ADVANCES RECOVERY	300	(0)
VAT output liability	0	0
Total trade and other payables from exchange transactions	**8,256,459,842**	**7,015,398,882**

Out of 8.3Billion liabilities there is a liability that relates to COVID supplies valued at 437 million that have been delivered but not paid for. There is also a liability for balance of funds meant to pay government taxes and MOH programme commodities valued at 4.8 Billion

Notes to the Financial Statements (Continued)

27. Trade and other payables from non-exchange transactions	FY 2021-2022 Kshs	FY 2020-2021 Kshs
NSSF PAYABLE	1	1
NHIF PAYABLE	(0)	(0)
PAYE PAYROLL PAYABLE	1,557,256	0
SACCO DEDUCTIONS	1	-
PAYROLL CONTROL	(7)	(5)
PAYE IMPREST PAYABLE	-	13,200
EMPLOYEE IMPREST PAYABLE (REFUNDS)	1,128,028	1,147
BOARD IMPREST PAYABLE (REFUNDS)	15,400	-
EMPLOYEE PETTY CASH PAYABLE (REFUNDS)	-	-
EMPLOYEE PAYABLES	3,438,851	2,746,989
Total payables from exchange transactions	**6,139,529**	**2,761,332**

28. Payments Received in Advance	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Customer Prepayment	1,532,648,721	3,025,877,078
Total Prepayment	**1,532,648,721**	**3,025,877,078**

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

29. Current Provisions	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Balance Brought Forward	167,673,093	117,961,863
Additional Provisions	330,717,836	167,673,093
Provision Utilized	(167,673,093)	(117,961,863)
Total provisions	**330,717,836**	**167,673,093**

Notes to the Financial Statements (Continued)

30. Project Fund	FY 2021-2022 Kshs	FY 2020-2021 Kshs
BAL B/F	45,723,831	18,843,438
Add: Cumulative bank interest earned on EAPHLNP Account	11,343,918	-
Add: Prior period adjustment on KHSSP interest earned	276,467	-
Less: Cumulative bank interest earned on EAPHLNP Account	-	(11,343,918)
Add: Interest refundable to DANIDA	-	38,224,311
Total project fund	**57,344,216**	**45,723,831**

31. Medical Commodity Fund	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Medical Commodity Fund	9,818,892,141	9,356,110,719
Total medical commodity fund	**9,818,892,141**	**9,356,110,719**

32. Deferred income	FY 2021-2022 Kshs	FY 2020-2021 Kshs
Public Contribution and donations (Current Portion recognized from Donated Assets)	1,408,863,935	798,174,974
Total deferred income	**1,408,863,935**	**798,174,974**

The Authority has recognized the absorption of the Grant from Global fund as work in progress on the funds paid to the supplier by the Global fund-at the National Treasury.

33. KEMSA Capital	FY 2021-2022 Kshs	FY 2020-2021 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**

Notes to the Financial Statements (Continued)

34 Cash Generated from Operations

	Note	FY 2021/2022	FY 2020/2021
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfers from other government entities	1	100,000,000	125,000,000
Public contributions and donations	2	6,383,639	6,383,639
Net Sales	3	(1,350,619,051)	1,317,254,777
Rendering of Services	4	787,689,106	1,543,484,208
Rental Revenue	5	1,298,428	11,205,348
Finance Income	6	518,452,886	616,085,847
Other Income	7	26,392,466	64,299,118
Total Receipts		**89,597,474**	**3,683,712,936**
Payments			
Use of goods and services	8	1,683,604,923	1,847,724,360
Employee costs	9	1,223,659,186	1,264,329,720
Board expenses	10	28,107,161	17,681,305
Depreciation and amortization expense	11	119,174,766	117,830,125
Repairs and maintenance	12	27,130,634	32,677,211
Finance costs	13	1,707,691	1,768,676
Total Expenses		**3,083,384,361**	**3,282,011,396**
Net Surplus		**(2,993,786,887)**	**401,701,540**
Decrease/(Increase) in Current Assets		3,814,176,247	1,445,079,896
Increase/(Decrease) in Current Liabilities		388,657,350	(3,927,571,096)
Increase/(Decrease) in Deferred Income		610,688,961	740,028,640
Asset Disposal (NBV)			
Depreciation and amortization expense	18	119,174,766	117,830,125
In cash support on Expenditure			
Net cash flows from operating activities		**1,938,910,437**	**(1,222,930,896)**

Notes to the Financial Statements (Continued)

35 Financial Risk Management

The Entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Entity's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Entity does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

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 Entity's management based on prior experience and their assessment of the current economic environment.

Financial Risk Management

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

Notes to the Financial Statements (Continued)

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
As at 30 June 2022				
Receivables from exchange transactions	5,642,303,360	1,569,852,985	4,072,450,374	-
Receivables from non-exchange transactions	7,383,812	7,383,812	-	-
Bank balances	8,656,053,238	8,656,053,238	-	-
Total	**14,305,740,410**	**10,233,290,035**	**4,072,450,374**	**-**
As at 30 June 2021				
Receivables from exchange transactions	5,863,800,694	1,489,551,996	4,374,248,698	-
Receivables from non-exchange transactions	4,430,114	4,430,114	-	-
Bank balances	8,113,988,990	8,113,988,990	-	-
Total	**13,982,219,798**	**9,607,971,100**	**4,374,248,698**	**0**

Financial Risk Management

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The Entity has significant concentration of credit risk on amounts due from counties. The board of directors sets the Entity's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

Notes to the Financial Statements (Continued)

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Entity's directors, who have built an appropriate liquidity risk management framework for the management of the Entity's short, medium and long-term funding and liquidity management requirements. The Entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Entity under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Liquidity Risk	0-30 Days	31-90 Days	Over 90 Days	Total
	Kshs	Kshs	Kshs	Kshs
As at 30 June 2022				
Trade payables	1,685,516,546	977,465,859	325,880,486	2,988,862,891
Creditors-Not invoiced Receipts			437,723,132	437,723,132
Development Partners	1,580,461,492	600,000,000	2,180,461,493	4,798,798,971
Rent Deposits- Tenants			3,032,428	3,032,428
Retentions	0	0	21,639,338	21,639,338
Customer Prepayments				1,532,648,721
Provisions	299,924,535	0	30,793,301	330,717,836
Total	**3,265,978,038**	**1,577,465,859**	**2,968,736,877**	**8,250,056,760**
As at 30 June 2021				
Trade payables	1,604,213,725	935,252,673	540,774,395	3,080,240,793
Creditors-Not invoiced Receipts			2,588,017,506	2,588,017,506
Development Partners			1,322,468,816	1,322,468,816
Rent Deposits- Tenants			3,032,428	3,032,428
Retentions	0	0	21,639,338	21,639,338
Customer Prepayments		89,276,165	2,936,600,913	3,025,877,078
Provisions	148,971,107	0	18,701,986	167,673,093
Total	**1,753,184,832**	**1,024,528,838**	**7,431,235,382**	**10,208,949,052**

Notes to the Financial Statements (Continued)

Financial Risk Management

iii) Market risk

The Entity has put in place an internal audit function to assist it in assessing the risk faced by the Entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The Entity's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the Entity's exposure to market risks or the manner in which it manages and measures the risk.

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. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The *Entity* manages foreign exchange risk form future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments

Notes to the Financial Statements (Continued)

Financial Risk Management

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

b) Interest rate risk

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

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Financial Risk Management

Sensitivity analysis

The Entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year. Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs-(67,919,884.04) and KShs 67,919,884.04 respectively.

Decrease/increase of 5% rate would result in a profit before tax of KShs (339,599,420.19) and KShs 339,599,420.19 respectively.

Notes to the Financial Statements (Continued)

36 Related Party Disclosures

Nature of related party relationships

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

Government of Kenya

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

Other related parties include:

i) The Parent Ministry.
ii) County Governments
iii) Other SCs and SAGAs
iv) The National Treasury
v) Key management.
vi) Board of directors.

37 Segment Information

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

Notes to the Financial Statements (Continued)

38 Contingent Assets and Contingent Liabilities

Contingent Assets

The following Assets which are in Financial Statements have Ownership disputes

	2020-2021	2019-2020
	Kshs	Kshs
CONTINGENT ASSETS		
EMBAKASI GREEN SITE LR Number 28464 and 28465	220,000,000	220,000,000
KAKAMEGA GREENSITE ALLOTMENT LETTER 209163/A11	7,500,000	7,500,000
KISUMU MUNICIPALITY BLOCK B/128	25,000,000	25,000,000
Total	**252,500,000**	**252,500,000**

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

In January 2019 Kenya Air Ports Authority filed a complaint before the National Land Commission seeking revocation of several parcels of land excised from land parcel No. LR 21919 which is registered in 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 represented by Gathii Irungu and Co. Advocates. As per the latest update from the counsel, the Attorney General, Public Service Commission and the Kenya Airports Authority are in negotiations through our

Notes to the Financial Statements (Continued)

lawyer to secure the parcel of land. This parcel currently holds a value of KES 220,000,000.00 (two hundred and twenty million shillings) as our books of financials. In the case where the revocation is upheld, we will have to expunge the properties from our books of accounts.

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 successfully engaged the county of Kakamega seeking a replacement and managed to secure an allocation of approximately 1.9 hectares (4.7 acres) currently registered under Kakamega County. KEMSA, through the Legal office has engaged the county to facilitate the transfer of the parcel of land to the Authority. The request has been presented though our counsel to the county cabinet seeking to resolve to transfer execute a deed transfer to KEMSA. KEMSA has also engaged Lawyers Ong'anda and Advocates for conveyance of the same. A valuation of the parcel has been initiated to determine the fair value of the land. This might result in the de-recognition of the previous parcel of land recognized with a carrying value of KES 7,500,000.00

KISUMU MUNICIPALITY BLOCK B/128

KEMSA had earlier been issued with a parcel of land in Kisumu whose land reference number is KISUMU MUNICIPALITY BLOCK B/128 by way of 99-year Lease from 01st October, 2005. The Lease was issued to the Authority. However, it erroneously indicated that the Lease is issued in favour of the Cabinet Secretary to the Treasury (as trustee for the Ministry of Health), a body corporate duly established under the Cabinet to the Treasury Act (Cap 102) of the laws of Kenya. The Authority instructed counsel Ong'anda

Notes to the Financial Statements (Continued)

and Advocate to make an application to correct the error and have KEMSA registered as the proprietor. The said counsel advised that on following up the issue with the land's registry in Kisumu, it transpired that the said land is registered as above and is also registered in the name of Unga Limited Kisumu. The matter is with the DCI (Frauds Unit)-Kisumu.

39 Surplus Remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. ***Kenya Medical Supplies Authority Made a deficit of Ksh 2,991,725,431 during the year, in (FY 2020/2021 Surplus of Ksh. 401,701,539). The balance of funds of the Authority at the end of the Financial Year, as stated in KEMSA Act 2013, shall be retained for the purposes for which the Authority was established, hence no remission made to the Consolidated Fund.***

40 Events after the Reporting Period

There were no material adjusting and non- adjusting events after the reporting period

41 Ultimate and Holding Entity

The Entity is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Health. Its ultimate parent is the Government of Kenya.

42 Currency

The financial statements are presented in Kenya Shillings (Kshs).

19. Appendix

Appendix 1: Implementation Status of Auditor-General's Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.1	**Over Expenditure of Plant & Machinery:** The statement of financial position reflects property, plant and machinery of Kshs.7,167,704,659 (2020 Kshs.6,341,530,305) as disclosed in Note 33(a) to the financial statements. Included in the amount are plant and machinery addition of Kshs.37,668,129 comprising forklifts and reach tracks whose budget was Kshs.33,200,000. This led to unapproved over expenditure of Kshs.4,276,387.	The management takes note of the auditor's observations and hereby responds as follows; In line with the Standard bidding document requirements, bidders are allowed to quote in any freely convertible currency. The exchange rate for purpose of conversion to Kenya shillings during evaluation and comparison of prices, KEMSA applies the CBK selling rate of the tender closing date. During the tendering period the MHE did not attract 16% VAT, however upon issuance of purchase order no. 828616, the supplier wrote to the KEMSA vide letter ref. HY20/021B/GR dated 23rd March 2021 indicating the change of tax regime. Authority to allow inclusive of 16% VAT was approved via memo dated 30th April 2021.	Resolved. The Authority has a budget Implementation Committee that will review and propose for approval any purchases above approved budget within manageable thresholds. IT controls under votebook/budget controls do not progress a purchase order and payment if they are	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status (Resolved / Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)
			above approved budget	
1.2	**Over Expenditure on Employee Costs** The statement of financial performance reflects employee cost of Kshs.1,264,329,720 while the approved budget indicates Kshs.1,199,280,000 resulting to unexplained over expenditure of Kshs.65,049,720. The Authority is in breach of section 12 of the State Corporations Act provide that; No state corporation shall, without the prior approval in writing of the Minister and the Treasury, incur any expenditure for which provision has not been made in an annual estimate prepared and approved in accordance with section 11. Consequently, the propriety of Kshs.69,326,107 could not be	The Management takes note of the auditors' observation and hereby responds as follows; The approved budget for staff cost was Kes.1,199,280,000, however this budgeted forecast was understated compared to the final actual expenditure on payroll contractual obligation of Kes Kes.1,264,329,720. In view of this, The Board approved a supplementary budget of Kes 1,243,068,491 in February 2021, however, this was equally not sufficient to cater to changes in payroll due to under stated forecast of the actual Gratuity for staff under contracts who had to be paid after their contract ended. This being a contractual obligation the Authority considered savings from other votes within the approved ceiling to cater for the payroll obligation. The revised Budget was shared with the Auditors. The Authority was guided by section 48 of the PFM Regulations 2015 Which States; 48. (1) For purposes of section 43(3) of the PFM Act, Accounting Officers, may authorize reallocation of funds within programmes or sub-votes provided that— (a) this does not affect the total voted provision; (b) the provisions in the budget of the programme or sub-vote from within which the funds are to be transferred are unlikely to be utilized; (c) reallocation is in accordance with donor conditions	Partially resolved	Oct-23

Reference No. on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	confirmed for the year ended 30 June , 2021.	in the case of reallocation impacting on donor-funded expenditure; (d) the reallocation does not affect the voted provisions from wage to non-wage expenditure or from capital to recurrent expenditure; In view of above the Authority confirms that the Overall expenditure were within the overall Recurrent Approved Ceilings of Kes. 3.285 Billion as per the Financial Statements.		
2.0	**Prior Year Adjustment** The statement of financial position reflects property, plant and equipment of Kshs.7,167,704,659 (2020 – Kshs.6,341,530,305) as disclosed in Note 33(a) to the financial statements. The amount includes negative prior year adjustment of Kshs.236,678,112 in the value of various PPE items and the accumulated depreciation of Kshs.72,937,592 following valuation of assets and scraping of unverified items this resulted into a net	The Management takes note of the auditors' observation and hereby responds as follows; The Authority undertook 100% verification of assets in the FY 2020/2021 to ascertain the physically available assets owned by the Authority. The exercise resulted to prior year adjustment recommended by the Authority to be adjusted prospectively from FY 2020/2021. The errors herewith recorded by the Authority related to disposals done in previous years as "lots" and revaluation done as batches under some classes of assets and could not be attached to some specific assets in the register. This necessitated prospective correction on the opening balances of the PPE movement schedule which were occasioned by prior years disposal of assets physically done but not done on the system/fixed as assets register. In addition, the items disposed as "lots" could not be traced to the register hence could not be	Partially Resolved. A base line verification of assets was done and report to be tabled to the Board for approval on the current status of KEMSA assets. There is need to have an approved asset management policy that is still in draft.	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status (Resolved / Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)
	prior year adjustments of Kshs.163,740,520 which is reflected in the statement of changes in net assets. This presentation of prior year adjustments in the two statements is not in line with provisions of Paragraph 48 of the International Public Sector Accounting Standard (IPSAS) 3 which states that a prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error. In the circumstances, the accuracy and completeness of prior year adjustments of Kshs.163,740,520 for the year ended 30 June, 2021 could not be confirmed.	removed from the asset register individually on specific periods. Also, assets disposed as a lot, had been mixed with waste materials and had been paid for as a whole, in such cases prices could not be separated and apportioned to specific asset for proper disposal in the ERP/ Asset register. IPSAS 3 recommends retrospective correction of errors, however it provides for limitations of retrospective adjustment under paragraph 48 that "A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error". The Authority has since developed a fixed asset policy as internal control to guide fixed assets management in the Authority.		
3.0	<u>**Unsupported Rendering of Services :**</u> The statement of financial	The Management takes note of the auditors' observation and herby responds as follows; a) The management has provided a detailed report-indicating ledger from each customer opening balances,	Resolved and droped from final management letter	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	performance reflects rendering of services revenue of Kshs.1,543,484,208 (2020 – Kshs.1,624,822,909) as disclosed in Note 4 to the financial statements. However, the amount charged to arrive at total rendering of services revenue for each business partner and per transaction were not indicated. Also, the presented schedules did not show separately the rendering of services components revenue which includes management fees, warehousing and distribution fees. Consequently, the accuracy and completeness of rendering of services revenue of Kshs.1,543,484,208 for the year ended 30 June, 2021 could not be confirmed.	services offered, amounts paid and closing balance. See attached report Appendix 3a- Revised Rendering of services Schedule b) The management has provided approved rates used to determine amounts to be charged. The fee earned from rendering of services is determined by the negotiated contracts with the respective strategic partner. The Supply chain fees are earned as detailed below: I. Global Fund- For services rendered the PR remits to KEMSA the payment of 8% value of goods procured, delivered, warehoused and distributed as follows; • 2%-Procurement • 3%-Warehousing The above costs are invoiced immediately commodities are received in KEMSA Warehouse. • 3%-Distribution-KEMSA invoices for this cost once stamped delivery notes are received back as proof of delivery of commodities to various facilities. II. USAID –MCP- KEMSA has been contracted by USAID through a Cost-Plus-Award Fee (CPAF) completion type of a contract referred to as USAID/KEMSA Medical Commodities Program. As part of Program Management, KEMSA is permitted to bill 4.5% indirect costs on the value of ALL direct costs as well as bill a handling charges for the warehousing and distribution services it provides for medical		

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		commodities that KEMSA handles for USAID which are acquired outside of this contract III. KEMSA provides Supply Chain Services to UNICEF through warehousing and distribution of Nutritional commodities in the Country. The MOU allows KEMSA to bill UNICEF for the services rendered as follows; a) Warehousing- Standard rate (Shs.16 per CBM per day) b) Distribution- 7% of the value of commodities distributed usually supported with proof of delivery of these commodities to designated facilities. IV. OTHER STRATEGIC PARTNERSHIP-KEMSA has also entered into partnership with other strategic partners to provide supply chain services including; procurement, warehousing and distribution services in support of programs and projects in Kenya. The fees area earned as per the contract terms indicated in the MoU signed. In summary; PARTNER COST CLASSIFICATION USAID -4.5% Indirect Costs charged on Direct Costs GLOBAL FUND 2%-Procurement 3%-Warehousing 3%-Distribution UNICEF Warehousing-Standard rate (Shs.16 per CBM per day) 7%-Distribution AMREF 2%-Procurement		

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		3%-Warehousing 3%-Distribution MINISTRY OF HEALTH 2%-Procurement 3%-Warehousing 5%-Distribution JHPIEGO KENYA 3%-Warehousing 5%-Distribution Partnership for Supply Chain Management, INC.(PFSCM) 3%-Warehousing 5%-Distribution (See Appendix 3b –Agreements between KEMSA and USAID-MCP, GLOBAL FUND, UNICEF & other Strategic Partners) The amount charged for rendering of procurement, warehousing and distribution services were based on the rates stipulated in the MoU agreements between KEMSA and the donor and value of commodities. The management has provided a detailed report separating Procuring, warehousing and distribution fees. The fees earned from supply chain fees for the year ended 30 June 2021 was Kes. 1,543,484,208 broken down as follows; **Category Amount** Procurement fees 663,175,721.58 Warehousing fees 540,258,400.05 Distribution fees 340,050,086.46		

Reference No. for the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.1	**Distribution Cost:** Included in the amount is Kshs.729,351,595 paid to outsourced distributors for delivery of medical commodities to various counties. However, the corresponding signed and sampled delivery notes that were to be returned to the Authority were not provided for audit.	The Management takes note of the auditors' observation and hereby responds as follows; When making payment to the Transporter, a payment voucher is drafted, and supported by invoices, contract and waybill. NB: Way bill is a distribution document that makes reference to the Proof of Delivery. The main purpose of this document is to indicate how many boxes the facility expects to receive. When all the boxes are received as indicated on the document, the receipt officer signs and stamps the way bill to acknowledge complete receipt of cartons as well as the Proof of Delivery to acknowledge receipt of actual HPTs. The document is then used by the 3rd Party Logistics as proof that the boxes were received by the facility to bill the authority. 2. Delivery note A document showing the items ordered by the facilities. This also becomes a proof of delivery once goods have been received. However, once received back at KEMSA, the same is used for billing the counties and development partners and the remaining copy either blue or pink retained by the distribution department for future reference.	Resolved. Payment was made on waybills. Waybills substituted delivery notes as PoDs	
4.2	**Unaccounted Personal Protective Equipment:** Note 9 to the financial statement	The Management takes note of your observation and responds as follows; The consignment was delivered to Kisumu Central MOH Store as per attached delivery note.	Resolved. The delivery to Kisumu was confirmed as	

Reference No. on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	reflects distribution costs of Kshs.859,488,800 out of which Kshs.33,075,000 was for assorted PPE kit dispatched to Nyanza Province (PGH)-Jaramogi (JOOTRH) on 07/08/2020 vide delivery note No EMX-2-001840-2020/2021. Physical verification at Nyanza Province (PGH)-Jaramogi and Kisumu County revealed that there was no entry of this consignment in the respective store records. Also, the copy of delivery note provided did not indicate the date of receiving these items.		delivered to Kisumu Medical store.	
4.3	<u>Previous Years Audit Finding:</u> As previously reported, the authority entered into a contract agreement with a Courier Services Company on 24 September, 2016 for provision of Courier Services to health facilities countrywide. However, from April 2019 to September 2019, the firm was	The Management takes note of the auditors' observation and hereby responds as follows; The Authority is holding a claim invoice for Timeless Courier Services, of Kes.14,975,296 awaiting outcome of the court ruling. The KEMSA Legal office is following up on the matter in the court to have the money recovered. See Appendix 4.3-Correspondece between KEMSA and the arbitrator & correspondence between KEMSA & The High Court of Kenya	Not Resolved. The Timeless issue is under Judicial review through the High court and arbitration process.	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	overpaid by Kshs.19,352,250 and the amount had not been recovered as 30 June, 2021 without explanation. Consequently, the accuracy and completeness of distribution costs of Kshs.859,488,800 for the year ended 30 June, 2021 could not be confirmed.			
5	**Unsupported Staff Travel Expenditure:** The statement of financial performance reflects staff travel expenses of Kshs.124,014,172 as disclosed in Note 14 to the financial statements. Examination of sampled payment vouchers of Kshs.5,347,000 revealed issuance of imprest before previous ones are surrendered or recovered in full from the salary. In addition, the schedules presented for audit to support hire of taxi, staff travel lacked key details of nature of	The Management takes note of the auditors' observation and hereby responds as follows; The KEMSA management have put in place enhanced internal controls that will ensure that imprest is not issued to an officer who has an un-surrendered imprest. The ERP system has also been enhanced to record detailed reporting.	Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	the activities, location, purpose and number of days. Consequently, the accuracy and completeness of staff travel expenses of Kshs.124,014,172 for the year ended 30 June, 2021 could not be confirmed.			
6	**Unsupported Journal Entries:** The statement of financial performance reflects other operating expenses of Kshs.398,193,149 (2020 – Kshs.411,440,778) as disclosed in Note 19 to the financial statements which includes computer stationery of Kshs.9,419,029. However, examination of ledgers revealed posting of journals amounting to Kshs.1,799,791 of which sufficient explanations, authorizations and documentation to justify the adjustments was not provided for audit. Consequently, the	The Management takes note of the auditors' observation and hereby responds as follows; A Journal Voucher is done at the end of the FY to recognize the value of items held in KEMSA's consumable store. The entries create a debit of consumable store inventory and credit the expenditure account used to procure the items. The value of Kes. 1,799,791 was the value of computer stationery procured within the FY2020/21 that was still un-consumed at end of the financial year. The Authority is in the process of acquiring a new ERP that will assist in accounting for Consumable store inventories. Appendix 6-Approved Consumable stores stock take report & Journal voucher KEMSA-JV-65-20/21	Resolved	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	propriety,accuracy and completeness of stationery of Kshs.9,419,029 for the year ended 30 June, 2021 could not be confirmed.			
7	**Long Outstanding Receivables:** The statement of financial position reflects receivables from exchange transactions of Kshs.5,863,800,694 (2020 – Kshs.6,605,189,547) as disclosed in Note 21 to the financial statements. Included in the amount is long outstanding receivables of Kshs.4,362,709,769 owed by various agencies whose recovery is doubtful and have been outstanding for more than ninety (90) days. Consequently, the accuracy and completeness of receivables from exchange transactions of Kshs.5,863,800,694 as at 30 June, 2021 could not be confirmed.	The Management takes note of the auditors' observation and herby responds as follows; Most of these debts are owed by County Governments, which are subject to audit by Office of the Auditor General, and there is no county whose existence is in doubt. Hence, there is no need for provision of bad debts. The outstanding debt is followed up aggressively until repayment of the same is made by the customers. A good example is the 195M remitted 6th April 2022 by NMS which had been outstanding for more than 360 days Ageing but it was eventually paid. KEMSA has been aggressively making physical follow ups through meetings with the customers, we have drafted debt confirmation letters as well as demand letters to these customers copies of which have been attached. KEMSA also maintains debt tracker reports for each customer which monitors the debt ageing to facilitate the monitoring of the customer debt Ageing, a copy of which is also attached. See Appendix 7-Receipt report as at 30 April 2022 and	Not Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		Letters to Mama Lucy Hospital, Nairobi County and Murangá County.		
8.1.	**Inaccurate Inventories:** Included in the inventory is third party stock valued at Kshs.12,599,525,163 which is wrongly disclosed under Authority's inventory. Inventory also includes dormant stocks of Kshs.87,593,383 which were received between the year 2010 to 2016 and out of which Kshs.27,840,799 was financed using KEMSA Capital fund. In addition, the schedules provided for audit did not indicate opening balances, additions and issues but only reflected closing balances as at 30 June, 2021. Consequently, the propriety,accuracy and completeness of inventory balance of Kshs.17,558,529,935	The Management takes note of the auditors' observation and hereby responds as follows; The Authority would like to clarify that 3rd party stocks was Kes. 7,063,985,435.1218 and not Kes. Kes.12,599,525,163. See Appendix 8.1a- Schedule of 3rd party stocks. Reasons for dormancy have been provided. See Appendix 8.1b-Schedule providing explanation for dormant stock. Schedule for stock movement has been provided. See Appendix 8.1c-stock movement schedule	Resolved The Annual stock take and reconcilliations done.	

Reference No. on the external Audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	as at 30 June, 2021 could not be confirmed.			
8.2	**i. Expired KEMSA Capital Stock:** Audit exercise revealed that expired stock for the year under review was worth Kshs.328,237,158.49 out of which Kshs.191,870,834 was financed by KEMSA Capital Fund and the balance of Kshs.136,366,324 to third parties. In addition, the schedule of expired stock worth Kshs.114,389,834 did not indicated the reasons for expiry.	The Management takes note of the auditors' observation and hereby responds as follows; The reason for expiry has been detailed in the expiry report attached (Appendix 8.2a-reason for expiry for stocks valued at Kes. 114,389,834)	Resolved The reasons were provided for the Expiries	
8.2	**ii. Expired Covid-19 Stocks:** The Covid-19 expired stock as at 30 June, 2021 were worth Kshs.124,513,400. However, the supporting schedule provided for audit by the warehouse department lacked the receiving dates, their location (i.e. particular warehouse), date of the manufacture, unit of the	The Management takes note of the auditors' observation and hereby responds as follows; The expiries report with details as requested is attached.	Resolved The reasons were provided for the Expiries	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	manufacture e.g. dozens or per piece, batch number, pallet number, shelf life and the reasons for expiry.			
8.2	**iii. Non-Disclosure:** These expired stocks were not disclosed in the annual reports and financial statements. The huge expired stock quantities points to non-compliance to section 162 (3) of the Public Procurement and Asset Disposal Act, 2015 States that Stores, inventory and assets that are procured by a public entity shall not be allowed to suffer deterioration from any preventable cause and overstocking of any particular item shall be avoided. In absence of disclosure of expired stocks, the accuracy and completeness of the financial statements as at 30 June, 2021 could not be confirmed.	The Management takes note of the auditors' observation and hereby responds as follows; The value of expired stock was expensed as cost of sale which was disclosed in the statement of financial performance under revenue from exchange transactions. The KEMSA management has been engaging in proactive efforts to ensure that commodities do not expire by: - ü KEMSA is in the process of development of a stock holding policy. ü Donating Commodities that are nearing expiry to Counties. See attached sample of correspondences between county health facilities and KEMSA (See Appendix 8.2c - sample of letters from facilities requesting short dated commodities) ü Participation in various health camps across the country through donation of short expiry commodities that are good for immediate human use.	Resolved The value of expired stock is expenses as cost of sale in the financial performance.	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
9	**Lack of Ownership Documents:** The statement of financial position reflects property, plant and machinery of Kshs.7,167,704,659 (2020 – Kshs.6,341,530,305) as disclosed in Note 33(a) to the financial statements. Included in the amount are plant & machinery addition of Kshs.37,668,129 whose ownership documents were not provided for audit verification. In circumstances, the propriety and ownership of property, plant and machinery of Kshs.37,668,129 as at 30 June, 2021 could not be confirmed.	The forklift and reach trucks are considered machinery and hence there are no log books issued for the same. The supplier has provided a commissioning report attached in the copy of payment voucher. The Management takes note of the auditors' observation and hereby responds as follows; The forklift and reach trucks are considered machinery and hence there are no log books issued for the same. The supplier has provided a commissioning report attached in the copy of payment voucher. See appendix 9-Copy of payment voucher	Resolved The forklift and reach trucks are considered machinery and hence there are no log books issued for the same.	
10.1	**Unsupported Trade and Other Payables:** Included in the figure are trade creditors Kshs.2,588,017,506 that lacked invoices, goods received	The Management takes note of the auditors' observation and hereby responds as follows; This was an accrual of Covid 19 medical commodities that were already received in the warehouse and formed part of the stocks. The valuation was based on indicative prices of similar commodities from other suppliers within the same period. The invoices had not been delivered because the retrospective procurement	Not resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	notes and respective stock cards.	had not been completed. See appendix 10.1-copies of KEMSA funded Covid-19 stock cards		
10.2	**Long Outstanding Trade and Other Payables** The amount also includes operations creditors of Kshs.180,784,194 out of which Kshs.36,370,448 has been long outstanding since year 2012. In addition, trade creditors – medical of Kshs.2,786,573,806 includes Kshs.250,044,341 which has been outstanding for over one year. Also, supplier funds retained of Kshs.21,639,338 includes Kshs.10,977,837.50 dating back 01 July, 2012 Consequently, the accuracy and completeness of trade and other payables from exchange transactions of Kshs.2,588,017,506 as at 30 June,2021 could not be confirmed.	The Management takes note of the auditors' observation and hereby responds as follow; The long outstanding amount of Kes. 36,370,448 is explained below; SUPPLIER Above 360 Days REMARKS CROWN AGENTS KENYA LIMITED 11,361,832.91 This was pending Awaiting resolution of the pending bills incurred during operation of the consortium. The National Treasury-Global Fund office is currently processing the outstanding pending bills. We confirm that the matter has since been closed and vendors paid. Ref: KEMSA-APP-304-21/22 KEMSA-APP-301-21/22 KEMSA-APP-298-21/22 GTZ 11,361,832.91 This was pending Awaiting resolution of the pending bills incurred during operation of the consortium. The National Treasury-Global Fund office is currently processing the outstanding pending bills. We confirm that the matter has since been closed and vendors paid Ref: KEMSA-APP-843-21/22 KEMSA-APP-842-21/22 KEMSA-APP-841-21/22 ISUZU EAST AFRICA LIMITED 49,590.80 Payment in	Not resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved/Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		progress JOHN SNOW INCORPORATED 11,361,832.91 This was pending Awaiting resolution of the pending bills incurred during operation of the consortium. The National Treasury-Global Fund office is currently processing the outstanding pending bills. We confirm that the matter has since been closed and vendors paid. KEMSA-APP-293-21/22, KEMSA-APP-290-21/22, KEMSA-APP-287-21/22 THE STANDARD GROUP LTD 42,774.00 Payment in progress TOTAL SECURITY SURVEILLANCE LTD 1,596,478.07 Ongoing court case TUSKER MATTRESSES LIMITED 577,994.83 Ongoing reconciliation before settlement WARSAN TOYOTA GARISSA 18,125.00 Payment in progress Grand Total 36,370,461.44		
Reference No. on the external audit Report	**Issue / Observations from Auditor**	**Management comments**	**Status (Resolved / Not Resolved)**	**Timeframe (Put a date when you expect the issue to be resolved)**
1	1. Loss of Revenue	The Management takes note of the auditor's observation and hereby responds as follows;	Resolved There is a pricing	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Note 8 reflects sale revenue - pharmaceutical of Kshs.2,070,014,129 (2020 - Kshs.4,066,305,161) while the corresponding cost of pharmaceutical products was Kshs.1,853,919,861. However, a comparison of cost versus revenue revealed various pharmaceuticals drugs that were procured at Kshs.14,133,303 but sold at Kshs.12,329,965 resulting to unexplained loss Kshs.1,803,338. Incurring of this loss contravenes section 23 (2) (e) of the Public Finance Management (National Government) Regulations, 2015 which states that "In addition to the responsibilities of Accounting Officers provided for in the Act, an Accounting Officer designated under the Constitution, the Act or any other Act, the Accounting Officers shall take into account all relevant financial	Nine items out of the full list of twelve items had positive margins as indicated in the excel worksheet (Appendix 1-Report on negative margin sales). The only two items which had negative margins arose from the fact that the pricing was computed using the realized prices for the open tender procurements while same two items were also procured directly from MEDs at a slightly higher price due to the urgent need that existed at that particular time. A decision was made to do the pricing using the Open tender pricing as this was a framework contract while the direct procurement was a one-off procurement.	committee that tracks prices esnsuring no negative Variances.	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	considerations, including issues of propriety, regularity and value for money, where policy proposals affecting the Accounting Officer's responsibilities are considered, and where necessary, bring those considerations to the attention of the relevant authority." In the circumstances, the Authority did not get value for money in the transaction for sale of pharmaceutical products procured at Kshs.14,133,303			
2	<u>Irregular Transfer and Use of Development Funds</u> The statement of financial position reflects cash and cash equivalent of Kshs.8,113,988,990 (2020 – Kshs.10,453,522,589) as disclosed in Note 20 to the financial statements. The amount includes Equity Bank warehouse development account balance of	The Management takes note of the auditor's observation and hereby responds as follows; KEMSA Equity warehouse construction bank account was opened and earmarked to hold funds to facilitate construction of the National Commodity Distribution Centre in Embakasi. The funds totaling to Kes. 2,052,251,479 transferred from the account was meant for recurrent expenditure erroneously deposited by The Ministry of Health into the capital expenditure account. The authority further confirms that the funds received were accompanied by authority letters from MOH for	Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status (Resolved / Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)
	Kshs.1,077,171,295 whose analysis of this account revealed transfers of Kshs.2,052,251,479 to various recurrent commercial bank accounts. These interbank transfers were only approved through e-mails from the Accounts, Finance and Chief Executive Office but no approvals were granted by the finance committee. Also, the funds were used to defray recurrent expenditure contrary to Section 43 (1) (b) of the Public Finance Management Act, 2012 which states that an accounting officer may reallocate funds from the authorized use but may not reallocate funds where- (b) the funds are appropriated for capital expenditure except to defray other capital expenditure." In the circumstances, the Authority Management is in breach of the law	specific respective programs, hence, the Chief Executive Officer's approval was sufficient.		
3.1	**Irregular Use of Direct Procurement**	The management takes note of the auditor's observations and hereby responds as follows;	Resolved. The Authority has	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Note 3 to the financial statements reflects cost of sales - CGS (Non-Pharms) of Kshs.1,770,542,066 out of which Kshs.536,752,879 were goods procured using direct procurement method. In addition, Note 3 to the financial statements reflects cost of sales - CGS (Pharms) of Kshs.1,853,919,861 out of which Covid-19 items of Kshs.95,439,349 and paracetamol tablets 500mg of Kshs.9,255,716 were through direct procurement method. However, there was no justification of using this method This is contrary to section 103 (2) of the Public Procurement and Asset Disposal Act, 2015 which requires that the goods, works or services are available only from a particular supplier or contractor and urgency of supplies and other conditions	The procurement process was initiated using direct procurement method pursuant to Section 103 (b), (c) and 104 and Section 69 (2) of the PPADA 2015. Suppliers were first issued with an authority letter (Commitment letter) to supply the goods and then procurement process followed. Deliveries were made on the strength of the authority letter and the contract was signed. KNCCI and Rivatex are government entities and therefore are waived from pre-qualification exercise in line with section 2 of the PPADA 2015. Steplabs is the sole authorized distributor of the test kits and therefore direct procurement was carried out pursuant to section 103 (2) (a) (Appendix 3.1- copy of manufacturer authorization). A Market survey was not carried out because the covid-19 pandemic had affected many Countries leading to high demand of protective gears for response activities to the pandemic, due to this most of the items were not readily available in the market. Therefore, the suppliers were supplying what was available ex- stock provided they were of the recommended quality in readiness and be able to respond to the high demand for the protective gears by health workers and health facilities for the management of the pandemic.	developed an emergency procurement procedure. The SOP was also updated and signed off.	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	be met. Further, three suppliers who won bids worth Kshs.258,974,400 through direct procurement were not in the prequalified list of suppliers. Also, there was no evidence carrying out market surveys or reporting direct procurements of values exceeding five hundred thousand shillings (Kshs.500,000) to the Public Procurement Regulatory Authority as required by the law. In the circumstances, the Authority Management is in breach of law.			
3.2	<u>Delays in Delivery of Goods</u> Note 3 to the financial statements reflects cost of sales - CGS (Non-Pharms) of Kshs.1,770,542,066 (2020 - Kshs.3,192,584,356) out of which goods worth Kshs.368,536,692.05 were delivered after the due dates.	The Management takes note of the auditor's observation and hereby responds as follows; Delays in deliveries was occasioned by the outbreak of COVID 19 worldwide restricting movement and closure of most of the manufacturing factories.	Resolved All the PO that were long overdue were cancelledby 31/03/2022 and And a clean up done.The current PO have expiry dated such that when the pO	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Similarly, note 3 to the financial statements reflects cost of sales - CGS (Pharms) of Kshs.1,853,919,861 out of which drugs worth Kshs.178,440,091 were delivered after the due dates. The delays ranged between fifteen (15) days to six hundred and eighteen (618) days. This is contrary to section 48 (4) (c) of the Public Procurement and Asset Disposal Act, 2015, which states that the inspection and acceptance committee shall (c) ensure that the goods, works or services have been delivered or completed on time, or that any delay has been noted. In addition, all the contracts stated that the supplier covenants to adhere to the delivery schedules attached and agreed upon between the supplier and the purchaser. Failure to adhere to the delivery schedule would results in termination of the contract.		expires its null and void. And automatically expires and reverses thus realeasing the budgets. There is a Supplier measurement tool that has been introduced.	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	In the circumstances, the Authority Management is in breach of the law			
3.3.	**Contract Variations** Note 3 to the financial statements reflects cost of sales - CGS (Non-Pharms) of Kshs.1,770,542,066 (2020 - Kshs.3,192,584,356). The amount includes Kshs.211,019,769 for addendum contracts that were varied and signed before the lapse of twelve (12) months contract period. This is contrary to section 139 (b) of the Public Procurement and Asset Disposal Act, 2015 which provides that; (3) No contract price shall be varied upwards within twelve months from the date of the signing of the contract. In the circumstances, the Authority Management is in breach of the law	The management takes note of the Auditors observation and responds as follows; The outbreak of COVID-19 pandemic affected the supply market and therefore invitation to tender would not attract prospective bidders. The planned tenders could therefore not progress and the existing contracts were extended to facilitate continuous supply of medical commodities and avoid interruption in service delivery to Public Health Facilities. KEMSA has since closed out the expired contracts and entered into new framework contracts for supply of HPTs.	Resolved. New contracts in place and all previous contracts have been closed out. The new ammendment of the act provided that price variations can be done before the lapse of one year	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
3.4	**Irregularities in Tender Opening** Note 3 to the financial statements reflects cost of sales - CGS (Non-Pharms) of Kshs.1,770,542,066 (2020 - Kshs.3,192,584,356). The amount includes purchase of dispensing envelopes (khaki) worth Kshs.10,534,000. However, two members in the opening committee had no letters of appointment to the committee. This is contrary to section 78 (1) of the Public Procurement and Asset Disposal Act, 2015 which provides that; An accounting officer of a procuring entity shall appoint a tender opening committee specifically for the procurement. In the circumstances, the Authority Management is in breach of the law	The appointed officers' that is; Edward Buluma and Joyce Tito were unavailable on the tender opening date due to other official engagements. The failure to rescind their appointments and appoint Permenas David Muttu (PN0031) and Emmanuel Kipruto Barmasai (PN0363) was an oversight.	Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
3.5	**Irregular Extension of Contracts** Note 3 to the financial statements reflects total cost of sales of Kshs.6,905,579,004 (2020 - Kshs.8,672,709,768). Included in the amount are purchases of pharmaceutical and non - pharmaceuticals goods from fourteen (14) suppliers worth Kshs.1,062,371,472. The purchases were based on expired contracts and a memo dated 14 August 2020 that extended the contracts to facilitate additional call down. However, the extensions were not based on the recommendation of an evaluation committee. This is contrary to section 139(2) of Public Procurement and Asset Disposal Act, 2015 which states that an accounting officer of a procuring entity, on the recommendation of an evaluation committee, may	The Management takes note of the auditor's observation and hereby responds as follows; The outbreak of COVID-19 pandemic affected the supply market and therefore invitation to tender would not attract prospective bidders. The planned tenders could therefore not progress and the existing contracts were extended to facilitate continuous supply of medical commodities and avoid interruption in service delivery to Public Health Facilities. KEMSA has since closed out the expired contracts and entered into new framework contracts for supply of HPTs.	Resolved Authority was granted by the CEO. Clause cited by the auditors is for works 139 (2).The contracts were extended several times. There were delays in advertising for new tenders. There are new contracts in place and new procurement will be within reasonable time to avoid supply gaps.	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	approve the request for the following, which request shall be accompanied by a certificate from the tenderer making a justification for such cost— (a) extension of contract period. In the circumstances, the Authority Management is in breach of the law			
3.6	**Procurement Outside Approved Budget** The statement of financial performance reflects other operating expenses of Kshs.398,193,149 (2020 – Kshs.411,440,778) as disclosed in note 19 to the financial statements. The amount includes packaging materials and expenses of Kshs.10,026,476 out of which Kshs.4,975,050 was paid for supply and delivery of packaging boxes printed with KEMSA logo. The tender committee awarded the supply at Kshs.8,267,000 while the	The management takes note of the auditors' observation and hereby responds as follows; Approval for budget reallocation to cater for the variance has been provided. Refer to Appendix 3.6 This was a framework contract with an initial budget of kes.5,759,500.00 hence the subsequent orders were funded under the preceding quarters for the financial year 2019-2021.	Resolved Before an opinion is given the procurement team will be liaising with budgets function to ensure availability of budgets. However, market surveys will be done to ensure that there is sufficient fund for any requisition for a procurement.	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	budget was Kshs.5,759,500 resulting to unexplained nor reconciled a variance of Kshs.2,507,500. This is in contravention of section 45 (3) (a) of the Public Procurement and Asset Disposal Act, 2015 which states that all procurement should be done within the approved budget of the procuring entity.			
3.7	**Irregular Extension of Insurance Covers** The statement of financial performance reflects utilities expenses of Kshs.18,933,084 (2020 – Kshs.20,967,539 as disclosed in note 13 to the financial statements. Included in the balance is insurance costs of Kshs.15,795.502 out of which Kshs.4,261,566 relate to renewed/extended insurance covers. The contracts were renewed/ extended without approval by the Authority Board of Directors and review	The Management takes note of the auditors' observation and hereby responds as follows; The procurement process delayed due to late approval of the budget and the loading of the same in IFMIS hence the need to extend the contracts to cover KEMSA from possible risks in case of damages and losses.	Resolved New Tenders were floated and awarded.	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	by the contract implementation team and for more than thirty (30 days. This is contrary to section 88 (3) of the Public Procurement and Asset Disposal Act 2015 which provides that an extension under subsection (1) shall be restricted to not more than thirty days (30) and may only be done once			
3.8	**<u>Irregular Extension of Distribution Contracts</u>** The statement of financial performance reflects distribution costs Kshs.859,488,800 (2020 – Kshs.772,369,557) as disclosed in note 9 to the financial statements. Included in this amount is Kshs.738,510,883.90 paid to suppliers under outsourced distribution costs. It was noted that the expenditure was based on double extension of contracts and for more than thirty (30) days. This is contrary	The Management takes note of the auditors' observation and hereby responds as follows; Tender No. KEMSA/ONT2/2020-2023 for distribution of EMMS was advertised on 17th March 2020 and closed on 7th April 2020. The evaluation was completed however, the tender was terminated due to inadequate budget. The realized price was higher than the budgeted price. Therefore contract No. KEMSA/ONT6/16-19 was extended up to 31st Dec 2020 to avoid interruption of service and facilitate reallocation of additional budget, initiation and finalization the procurement process. Bulto supplies was contracted for transport services as a third-party carrier of KEMSA/MCP medical commodities effective 30th November 2016 until 30th April 2021. USAID extended the MCP project for one	Resolved New Tenders were floated and awarded.	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status (Resolved/Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)
	to section 88 (3) of the Public Procurement and Asset Disposal Act 2015 which provides that an extension under subsection (1) shall be restricted to not more than thirty days (30) and may only be done once.	month necessitating an extension of the transport contract for a period of one month.		
3.9	**Unapproved Incineration of Assorted Expired Medical Drugs** The Authority engaged a Company to incinerate assorted expired medical drugs of 52,632Kgs worth Kshs.316,590,086. However, the management did not provide the disposal committee minutes approving this disposal. This is contrary to section 163. (1) of the Public Procurement and Asset Disposal Act 2015 on disposal of assets states that an accounting officer shall establish a disposal committee as and when prescribed for the purpose of disposal of	The Management takes note of the auditors' observation and hereby responds as follows; Disposal Committee minutes are hereby attached. See appendix 3.9-Disposal Committee minutes	Resolved Moving forward the minutes will be mainted and updated promptly.	

Reference No. on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	unserviceable, obsolete, obsolescent, or surplus stores, equipment or assets. (2) The disposal committee shall be responsible for verification and processing of all disposal recommendations in liaison with the head of procurement function as prescribed.			
4	**Purchase of Laboratory Equipment** Note 33a to the financial statements for the year ended 30 June 2021 reflects additions of Kshs.964,164,992. Included in these additions is Kshs.5,438,354 in respect to leakage tester. The Authority procured using restricted tender laboratory equipment among them leakage tester for gloves, male and female condoms at a cost of Kshs.5,438,354. It was noted that fifteen (15) firms submitted bids and three (3) were responsive out of which the highest bidder at	The management takes note of the auditor's observations and hereby responds as follows; Suppliers were required to submit a detailed brochure for technical evaluation. The brochure provided Nesvax Innovation Limited did not meet technical specifications	Resolved Pre award reviews to be proposed	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Kshs.5,438,354 was awarded. The lowest bidder was disqualified for providing brochure for leak and seal strength detector instead of combined visual leak tester for condoms and gloves which was not in the initial conditions sent to bidders. This is contrary to Section 184 (1) of the Public Procurement and Asset Disposal Regulations, 2015 states that "(1) A procuring entity shall use standard asset disposal documents and formats issued by the Authority in accordance with section 70(1) of the Act (2) An accounting officer of a procuring entity shall ensure the disposal document prepared contains sufficient information to allow fair competition among those who may wish to submit tenders." Consequently, the Authority			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	breached the law and may not have gotten value for money			
5	**Staff on Secondment** The statement of financial performance reflects employee cost of Kshs.1,264,329,720 (2020 – Kshs.1,083,420,635) as disclosed in note 8 to the financial statements. The amount includes payment of salaries of Kshs.8,682,676 to five (5) staffs who are on secondment and have served for more than six (6) years in this capacity without explanations for continued contract extensions. This is contrary to Part B.33 of the Public Service Commission (PSC) Human Resource Policies and Procedures Manual, May 2016 which provides that: (1) secondment of officers from the public service to other organizations is applicable to pensionable officers, for a period not exceeding three (3)	The Management takes note of the auditors' observation and herby responds as follows; KEMSA management has been in contact with Ministry of Health who deployed the 5 seconded staff to KEMSA in February 2021, as per the attached letter, requesting them to recall the five (5) officers seconded to KEMSA. KEMSA then did a follow up in July 2021 (letter attached) to which a response has not been received. Appendix 5-Letters from KEMSA to PS MOH reference KEMSA/ST/HR/0207/2021, KEMSA/ST/HR/05/02/2021	Not Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	years and may be renewable once. In the circumstances, the Authority Management is in breach of the law			
6	**Incomplete Warehouse Works** Note 33a to the financial statements for the year ended 30 June 2021 reflects additions of Kshs.964,164,992.45. Included in these additions is Kshs.4,740,000 in respect to storage racks. The Authority awarded tender to assemble and fix metal storage racks in Kisumu and Mombasa warehouses on 07 July 2020 at a cost of Kshs.4,740,000 with a duration of one month ending 10 August 2020. Physical verification in February 2022 revealed that some metal bars were delivered to Kisumu warehouse but were not assembled while none were delivered to Mombasa	The management takes note of the auditor's observations and hereby responds as follows; After signing of the contract for fixing of metal racks in Mombasa, it was noted that floor could not be drilled in order to erect the racks. Therefore, the implementation of the works could not proceed until the floor is repaired. The Authority has contracted Ms. Apt Designs Solutions to develop drawings, BQs and supervision of small works and renovation project. The contract for installation of racks in Kisumu was handed over and the contractor commenced the works however in relation to the reforms, going on in KEMSA and being undertaken by KEMSA Reforms Implementation Committee (KRIC) pointed out that the existing layout had a lot of space and proposed a new design/layout be done. The contractor Tashmi will be engaged to amicably terminate the contract. The racks belong to KEMSA, which were delivered to Kisumu warehouse. No racks were delivered to Mombasa. The initial design was done by KEMSA, however, this later changed and contract stopped. Appendix 6-New Kisumu layout.	Not Resolved	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	warehouse. In addition, the designs, bills of quantities and technical supervision reports were not provided for audit. In the circumstances, and in view of incomplete works, the projects remain unused and not serving the intended purpose.			
7	7 Work in Progress As previously reported, property plant and equipment movement schedule at note 33(a) to the financial statements reflects work in progress of Kshs.3,799,741,357. Included in the amount are two contracts for proposed refurbishment of Mombasa at Kshs.26,458,460 and Kisumu warehouses Kshs.30,667,130. The award was on 13 February, 2019 using restricted tendering which revoked the condition of urgency. At the time of this audit (February, 2022) payments of Kshs.29,725,273 for Mombasa warehouse works	The management takes note of the auditor's observations and hereby responds as follows; The renovation works for Kisumu depot was completed as per the Bills provided and the project successfully handed over to the authority. The amount for forklift shade at a cost of Ksh. 308,000.00 will be deducted from the contractor's final payment which has not been effected. Renovation works for Mombasa depot has not been handed over however, the contractor has been on site and the following works were undertaken; installation of water pump, removable of debris and installation of switch board. The CIT intents to hand over the project after confirmation of the defects and submission of the final account for verification by the consultant. Going forward, all small works projects will be channeled through the CIT to ensure the specified works are fully measured.	Not Resolved	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	had been made but it remained incomplete. The firefighting system was not tested, electrical wiring and switchboard for the strong rooms were not completed, wall ventilation was not completed thus letting birds in to the store while tiling and ceiling for three offices inside the warehouse were also not done. In Kisumu warehouse, payments of Kshs.42,921,216 were made, however additional work of construction of a fork lift shed at a cost of Kshs.308,000 had not been built. In the circumstances, and view of incomplete works, the projects remain unused and not serving the intended purposes.			
8	**<u>Non-Disclosure of Tax Demand</u>** The Kenya Revenue Authority has made tax demands to KEMSA relating to unpaid Income Tax, Value Added Tax	*The management takes note of the auditor's observations and hereby confirms that the disclosure has been included in the amended financial statements.*	Resolved	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	(VAT) and Withholding Tax, however no provision nor disclosure for the tax claims had been made in the financial statements for the year 2020-2021. In the circumstances, the financial statements have not complied with the Generally Accepted Accounting Practice that requires full disclosure.			
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Realized Exchange Loss The statement of financial performance reflects other operating expenses of Kshs.398,193,149 (2020 - Kshs.411,440,778) as disclosed under Note 19 to the financial statements. Included in the amount are bank charges and commission realized forex exchange loss of	The Management takes note of your observation and responds as follows; The loss of Kes. 174,723,450.00 is the difference in exchange rate between the Purchase order rate and the payment rate. KEMSA uses two-year framework contracts for supply of Health Products and Technologies hence it is not possible to have a fixed exchange rate to run for the two-year period hence the exchange rate fluctuation. The KEMSA management shall come up with measures to mitigate further loss from exchange rate differences.	Partially Resolved The Authority will put controls through contractual agreement to ensure protection of financial turbulance risks by ensureing that payments are made using kenya	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Kshs.174,723,450 which exposed the Authority to financial loss and no mitigating measures have been put in place. In the circumstances, the management of fiscal responsibilities and controls of projecting, analyzing and hedging forex exchange losses are weak.		shilling at conversion rate at the tender opening date.	
2	**Governance of the Authority** The financial statements under fiduciary management indicates that key departments are headed by officers in acting capacity for more than six (6) months who have been paid cumulative salary of Kshs 29,703,231. This contrary to Section C.14 (1) of the Human Resource Policies and Procedures Manual for the Public Service 2016 states that "When an officer is eligible for appointment to a higher post	The Management takes note of the auditors' observation and hereby responds as follows; In the FY 2020/2021 some officers were on acting appointment for a period longer than 6 Month. This was because the substantive office holders for those various positions had been suspended and were under investigations hence the positions could not be permanently filled. In addition to this some of the officers overstayed on acting capacity because Public Service Commission (PSC) had frozen all recruitments for a period of two years, this happened when some of our officers were already on acting appointments hence the Authority could not substantively recruit/fill up those positions.	Not Resolved	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	and is called upon to act in that post pending advertisement of the post, he is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary. Acting allowance will not be payable to an officer for more than six (6) months. Under circumstances, firm and effective decision making may not be realised.			
3	**Unapproved Staffing** The statement of financial performance reflects employee cost of Kshs.1,264,329,720 (2020 - Kshs.1,083,420,835) as disclosed in Note 8 to the financial statements. The Authority has an approved staff establishment of three hundred and forty-one (341) staff. However, the staff register indicates nine hundred and eleven (911) employees resulting to unapproved	The Management takes note of the auditors' observation and herby responds as follows; Through the minutes of the 35th Board of Directors meeting held on 15th October 2013 at the Commercial board room (attached), the Board granted authority for recruitment of staff on contractual basis to ensure success of the new business model & partners project. All the extra 570 staff were employed on this basis. The Authority's staff on Permanent & Pensionable terms are less than the approved 341.	Not Resolved	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved/Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	staffing of five hundred and seventy (570). Under the circumstances, it is not clear how the Authority identified the staffing needs thereby employing extra five hundred and seventy (570) members of staff which poses a risk of bloated staffing, duplication of duties which constrains Authority's finances.			
4	**Skewed Evaluation** The statement of financial position reflects property, plant and equipment of Kshs.7,167,704,659 (2020 – Kshs.6,341,530,305) as disclosed in Note 33(a) to the financial statements. It was noted that the Authority advertised for supply of four (4) forklift and four (4) reach trucks and five (5) firms responded using different currencies, one quoted with EURO, three USD and one KES. The wining company had	The management takes note of the auditor's observations and hereby responds as follows; In line with the Standard bidding document requirements, bidders are allowed to quote in any freely convertible currency. The exchange rate for purpose of conversion to Kenya shillings during evaluation and comparison of prices, KEMSA applies the CBK selling rate of the tender closing date. During the tendering period the MHE did not attract 16% VAT, however upon issuance of purchase order no. 828616, the supplier wrote to the KEMSA vide letter ref. HY20/021B/GR dated 23rd March 2021 indicating the change of tax regime. Authority to allow inclusive of 16% VAT was approved via memo dated 30th April 2021.	Resolved To include in the tenders that while financial evaluation is being done the different currencies will be converted to Kenya shillings. Payments will be done in Kenya shillings.	

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	quoted two (2) forklifts at EUR 74,000 and four (4) Reach Trucks at EUR 169,800 all totaling to EUR 243,800. The was no evidence of uniformity in evaluating using same currency by converting using prevailing market rates all bidders quotes to one currency. In absence of uniformity in evaluations, there is a likelihood of awarding tenders to other bidders other than lowest evaluated bidder. The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit			

Reference No. (on the external audit Report)	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.			

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TERRY RAMADHANI

CHIEF EXECUTIVE OFFICER

Date

Appendix II: Projects implemented

Projects implemented by the State Corporation/ SAGA Funded by development partners and/ or the Government.

Status of Projects completion

Status of Project Completion						
Project Title	Project Number	Donor	Period/duration	Donor commitment	Separate reporting required as per the donor agreement? YES/NO	Consolidated in these financial statements? Yes/no
National Commodities Storage(KEMS A Supply Chain Center)-Phase I	1081101800	GLOBAL FUND/KEMSA AIA/GOK	14th March 2018-24th August 2022	973,103,460.00	NO	YES

	Status of Project Completion					
Project	Total Project Cost (Ksh)	Total Expended to date	Completion %	Budget	Actual	Sources
National Commodities Storage(KEMS A Supply Chain Center)-Phase I	3,977,939,217	3,786,394,058	95%	3,977,939,217	3,786,394,058	GLOBAL FUND/KEMS A AIA/GOK

Appendix IV: Transfers from Other Government Entities

Name of the MDA/Donor Transferring the funds					Where Recorded/ Recognized				
	Date received as per bank statement	Nature: Recurrent/ Development/Others	Total Amount-KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others -	Total Transfers during the Year
RECURRENT GRANTS									
Ministry of Health	10/22/2021	Quarter I P&E Grant	25,000,000	25,000,000		-		Revenue from non-exchange transactions-Transfer from other govt entities	
Ministry of Health	11/11/2021	Quarter II P&E Grant	25,000,000	25,000,000		-			
Ministry of Health	4/1/2022	Quarter III P&E Grant	25,000,000	25,000,000					

Name of the MDA/Donor Transferring the funds					Where Recorded/ Recognized				
	Date received as per bank statement	Nature: Recurrent/ Development/Others	Total Amount-KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others -	Total Transfers during the Year
Ministry of Health	7/4/2022	Quarter IV P&E Grant	25,000,000	25,000,000			25,000,000		
TOTAL			100,000,000	100,000,000	-				75,000,000.00
DEVELOPMENT GRANT									
Ministry of Health	11/11/2021	Quarter I Development Grant	83,275,000	83,275,000	-	83,275,000			
Ministry of Health	12/29/2021	Quarter II Development Grant	83,275,000	83,275,000	-	83,275,000			
Ministry of Health	5/9/2022	Quarter III & IV Development Grant	166,550,000	166,550,000	-	166,550,000			
TOTAL			333,100,000	333,100,000	-	333,100,000			333,100,000.00

Name of the MDA/Donor Transferring the funds					Where Recorded/ Recognized				
	Date received as per bank statement	Nature: Recurrent/ Development/Others	Total Amount-KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others -	Total Transfers during the Year
FUNDS RECEIVED FOR THE PROCUREMENT OF HPT's									
Ministry of Health	7/6/2021	Procurement of Nutrition Commodities	80,000,000					Trade Creditor-Development Partners' grants	
Ministry of Health	7/6/2021	Procurement of Tb, Leprosy and Lung Disease HPT's	200,000,000					Trade Creditor-Development Partners' grants	
Ministry of Health	7/6/2021	Procurement of Family Planning Commoditi	559,316,112					Trade Creditor-Development	

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	Date received as per bank statement	Nature: Recurrent/ Development/Others	Total Amount-KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others -	Total Transfers during the Year
		es Under GoK Funding for The FY 2020-21						Partners' grants	
Ministry of Health	7/8/2021	Funds for the Mathari National Teaching & Referral Hospital Drawing Rights	51,000,000					Customer Prepayment	
Ministry of Health	7/8/2021	Disbursement of Funds for Implementation of Intervention	810,579,180					Customer Prepayment/Trade Creditor-Develop	

Name of the MDA/Donor Transferring the funds					Where Recorded/ Recognized				
	Date received as per bank statement	Nature: Recurrent/ Development/Others	Total Amount-KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others -	Total Transfers during the Year
		s under the World Bank funded transforming health systems for Universal Care Project						Partners' grants	
Ministry of Health	12/23/2021	Funds for procurement of COVID-19 related commodities under the World Bank funded transforming health systems for	27,044,485					Trade Creditor-Development Partners' grants	

Name of the MDA/Donor Transferring the funds					Where Recorded/ Recognized				
	Date received as per bank statement	Nature: Recurrent/ Development/Others	Total Amount-KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others -	Total Transfers during the Year
		s Under Gesdek Covid-19 Response Project (Afd)						ment Partners' grants	
Ministry of Health	7/9/2021	Meditec Pending Bills	31,028,267						
Ministry of Health	7/12/2021	Funds for Oxygen Support to The Government Of Uganda	2,785,165					Trade Creditor-Development Partners' grants	
Ministry of Health	12/23/2021	Funds for procurement of COVID-19 related commoditie	54,738,131					Trade Creditor-Development	

Name of the MDA/Donor Transferring the funds					Where Recorded/ Recognized				
	Date received as per bank statement	Nature: Recurrent/ Development/Others	Total Amount-KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others -	Total Transfers during the Year
		Universal Care Project							
Ministry of Health	12/28/2021	Procurement & Distribution of Chemotherapy medicines to regional cancer centres. AIE No. 685635	53,000,212					Customer Prepayment	
Ministry of Health	1/7/2022	Procurement Of Family Planning Commodities	431,499,034					Trade Creditor-Development Partners' grants	

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	Date received as per bank statement	Nature: Recurrent/ Development/Others	Total Amount-KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others -	Total Transfers during the Year
Ministry of Health	1/13/2022	Financial Support Towards KEMSA Agenda	300,000,000					Trade Creditor-Development Partners' grants	
Ministry of Health	4/11/2022	Procurement of HIV Commodities AIE No 685622	600,000,000					Trade Creditor-Development Partners' grants	
Ministry of Health	5/9/2022	Procurement & Distribution of Chemotherapy medicines to regional	53,000,212					Trade debtor-unallocated payment	