

# REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of Kenya Medical Supplies Authority, set out on pages 24 to 62, which comprise the statement of financial position as at 30 June 2017, 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, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Medical Supplies Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Medical Supplies Authority Act, 2013.

In addition, as required as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Qualified section of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### Basis for Qualified Opinion

#### 1. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.3,535,246,933 as at 30 June 2017 includes various parcels of land spread across the country and valued at Kshs.183,000,000 for which the Authority does not possess ownership documents as detailed below.

Location	Letter of Allotment/Parcel Number	Value Kshs.
Eldoret	Block 10/155 & 10/156	25,000,000
Garissa	PDP Ref. No. 326/2003/58	6,500,000
Kakamega – Green Site	Block 4/168 Part	7,500,000
Kakamega – PGH	Block 4/168 Part	3,000,000
Kisumu	209163/IX of 26/10/2005	25,000,000

Mombasa	R.54/95/10	76,000,000
Nakuru	PDP Ref. No. R7/2006/06	25,000,000
Nyeri	Block 3/173 & 3/174	15,000,000
<b>Total</b>		<b>183,000,000</b>

Further, the property, plant and equipment balance of Kshs.3,535,246,933 excludes unspecified value of parcel of land in Meru Municipality measuring 0.3 Ha which also belongs to the Authority. No explanation has been provided for failure to obtain the title deeds for these parcels of land and to bring into account the parcel of land in Meru.

In the circumstance, it has not been possible to confirm the validity and accuracy of the property, plant and equipment balance of Kshs.3,535,246,933 included in the statement of financial position as at 30 June, 2017.

## 2. Receivables from Exchange Transactions

As similarly reported in the previous year, the receivables from exchange transactions balance of Kshs.3,964,035,099 reflected in the statement of financial position as at 30 June 2017 includes long outstanding receivables balance totaling Kshs.3,404,520,984 comprising of Ministry of Health Kshs.1,054,806,083 and Counties Kshs.2,349,714,901 as detailed below whose recovery is doubtful.

<u>County</u>	<u>Kshs.</u>
Baringo County	(6,337,929.22)
Bomet County	63,841,235.45
Bungoma County	39,213,362.00
Busia County	33,722,894.09
Elgeyo Marakwet County	36,220,062.10
Embu County	28,809,719.29
Garissa County	29,435,980.42
Homa Bay County	91,620,619.40
Isiolo County	13,833,202.38
Kajiado County	72,910,137.77
Kakamega County	62,823,047.46
Kericho County	26,210.66
Kiambu County	40,718,540.60
Kilifi County	96,332,760.43
Kirinyaga County	31,781,035.50
Kisii County	82,125,996.55
Kisumu County	35,748,735.98
Kitui County	97,925,471.37
Kwale County	59,002,946.16

Laikipia County	20,477,607.33
Lamu County	15,670,912.32
Machakos County	59,655,732.55
Makueni County	32,164,680.94
Mandera County	22,737,929.75
Marsabit County	37,529,431.85
Meru County	78,779,433.55
Migori County	29,009,389.86
Mombasa County	269,109.00
Murang'a County	61,944,447.50
Nairobi County	285,501,728.28
Nakuru County	147,204,788.57
Nandi County	56,766,202.39
Narok County	98,524,087.18
Nyamira County	28,491,247.68
Nyandarua County	19,945,667.69
Nyeri County	90,593,134.31
Samburu County	21,986,744.62
Siaya County	51,161,954.00
Taita Taveta County	24,231,712.11
Tana River County	38,282,273.86
Tharaka Nithi County	33,907,404.12
Trans Nzoia County	41,407,560.59
Turkana County	1,554,131.45
Uasin Gishu County	9,313,763.78
Vihiga County	47,547,096.22
Wajir County	56,669,456.52
West Pokot County	28,633,244.57
<b>Grand Total</b>	<b>2,349,714,900.98</b>

No explanation has been provided for failing to recover these long outstanding debts. In the circumstance, the accuracy and validity of the exchange transactions balance of Kshs.3,964,035,099 reflected in the statement of financial position as at 30 June 2017 is doubtful.

### 3. Staff Costs

The staff costs of Kshs.695,779,767 in the statement of financial performance for the year ended 30 June, 2017 includes Kshs.25,891,540 paid to forty seven (47) officers

employed during the year and eight (8) promoted during the same period whose supporting recruitment / promotion documents including approval by the Board were not availed for audit review. Further, the Authority has six hundred and ninety-five (695) employees against the approved staff establishment of three hundred and forty one (341) resulting to an unapproved over employment of three hundred and fifty four (354) officers. No explanation has been provided for the excess employment. Consequently, the propriety of the staff cost of Kshs.695,779,767 for the year ended 30 June 2017 could not be confirmed.

#### **4. Expired / Damaged Drugs**

As explained in note 3 to the financial statements for the year ended 30 June, 2017, the net sales of Kshs.900,094,880 is arrived at after deducting cost of sales for (pharms) of Kshs.2,693,328,090. The cost of sales figure includes an amount of Kshs.92,392,937 for commodities/expired drugs that were unsaleable due to expiry or damage. In the previous year, the expired drugs amounted to Kshs.259,741,614.

No explanation has been provided for stocking expired/damaged drugs thereby causing unnecessary loss to the Authority when the country's hospitals are short of drugs. In the circumstance, it has not been possible to determine the propriety of the inventory balance of Kshs.11,776,786,528 included in the statement of financial position as at 30 June, 2017 as well as the net sales of Kshs.900,094,880 included in the statement of financial performance for the year ended 30 June, 2017. Further, in the two financial years, public money on purchase of drugs worth Kshs.352,134,551 have not been applied in an effective way.

#### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no key audit matters to communicate in my report.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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 such 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the Government either intends to liquidate the Authority or to cease its operations, or has no realistic alternative but to do so.

The 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.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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 of Kenya. 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 when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern 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 as a going concern. 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 as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



**FCPA Edward R.O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**08 March 2018**