

# **REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL SUPPLIES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019**

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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 29 to 69, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Medical Supplies Authority as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Medical Supplies Authority Act, 2013 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Inaccuracy in Net Sales**

As disclosed under Note 3 to the financial statements, the statement of financial performance reflects net sales balance of Kshs.1,164,120,025 which is net of cost of sales balance of Kshs.4,747,574,351. The cost of sales balance includes an amount of Kshs.128,604,791 for expired/damaged drugs that were unsaleable. This has the effect of increasing the cost of sales instead of proposing for write-off in the statement of financial performance. Management has not given reasons for the accounting of the expired/damaged drugs as cost of sales.

Consequently, the accuracy, completeness and validity of the net sales balance of Kshs.1,164,120,025 for the year ended 30 June, 2019 could not be confirmed.

#### **2. Unsupported Other Income**

Further, the statement of financial performance reflects other income of Kshs.2,051,110,240. The balance includes supply chain fees totalling to Kshs.1,449,443,349 composed of USAID Kshs.675,711,309, Global Fund Kshs.517,524,508, UNICEF Kshs.35,672,444, Ministry of Health Kshs.161,744,537 and other Strategic Partners Kshs.58,790,551. However, the Management did not provide

supporting documents such as agreements, approved programmes and budgets, receipts and expenditure for audit review.

In the circumstances, the accuracy and validity of supply chain fees totalling to Kshs.1,449,443,349 for the year ended 30 June, 2019 could not be confirmed.

### **3. Unaccounted for Funds**

A review of the Kenya Health Sector Support Project-Essential Medicine and Medical Supplies (EMMS)-Ministry of Health and East Africa Public Health Laboratory Networking Project (EAPHLNP)-Ministry of Health financial statements for the year ended 30 June, 2019 revealed that a total of Kshs.419,058,786 comprising of Kshs.333,194,208 from EMMS and Kshs.85,864,578 from EAPHLNP was disbursed to Kenya Medical Supplies Authority to finance projects under Kenya Health Sector Support Project-KEMSA and East Africa Public Health Laboratory Networking Project-KEMSA. However, the amount has not been reflected in the financial statements and Management has not explained how the funds were accounted for.

In the circumstances, the accountability of Projects' funds totalling to Kshs.419,058,786 for the year ended 30 June, 2019 could not be confirmed.

### **4. Unsupported Expenses - Staff Costs**

As disclosed in Note 5 to the financial statements, the statement of financial performance reflects staff costs of Kshs.980,575,930. The balance includes salaries and allowances of Kshs.25,717,843 paid to fifty-six (56) officers employed during the year. However, the Management did not provide supporting documents outlining the recruitment process, advertisement for vacancies, interviewing panel recommendations and approval for hiring for audit review.

Further, the balance includes bonus payments of Kshs.43,689,870 paid to staff during the year. However, the Management did not provide supporting documents such as attained set targets, bonus approved budget and approval from Salaries and Remuneration Commission, (SRC). Management did not also provide the basis for paying allowances amounting to Kshs.17,212,000 to staff participating in tender evaluation committees.

In addition, the Authority had seven hundred and ninety one (791) employees against an approved staff establishment of three hundred and forty one (341) resulting in unapproved and unexplained over establishment of four hundred and fifty (450) officers.

Consequently, the accuracy, completeness and validity of bonus and committee allowances expenditure totalling to Kshs.86,619,713 for the year ended 30 June, 2019 could not be confirmed.

### **5. Unsupported Legal Expenses**

As disclosed in Note 9 to the financial statements, the statement of financial performance reflects legal expenses balance of Kshs.63,602,437 paid to private legal firms. However, the Management did not provide supporting documents such as the basis for charging the legal fee, approval and a no-objection from the Attorney General to engage the private firms for audit verification.

Consequently, the accuracy, completeness and validity of legal fee expense of Kshs.63,602,437 reflected in the statement of financial performance for the year ended 30 June, 2019 could not be confirmed.

## **6. Inaccuracy in Inventories**

As disclosed in Note 20 to the financial statements, the statement of financial position reflects inventories balance of Kshs.11,027,341,453. The balance includes KEMSA capital stocks of Kshs.470,556,334 and third party stocks of Kshs.456,382,477 that have been lying in the stores for periods between two (2) and eight (8) years. No explanation has been provided for holding the stocks for that long. Management has not provided for obsolescence or impairment of inventories.

Further, the balance includes an amount of Kshs.97,535,372 in respect of Kenya Health Sector Support Project (KHSSP) which was meant to be transferred to the Counties. The KHSSP project came to an end in June, 2018. It is therefore, not clear why the stocks that were meant for Counties were still held in the Authority's stores.

In the circumstances, the accuracy, completeness and validity of the above inventories balance of Kshs.1,024,474,183 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

## **7. Property, Plant and Equipment**

As disclosed in Note 22(a) to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.5,137,553,566. The following observations were made:

### **7.1 Unsupported Land**

As previously reported, the balance includes land at a cost of Kshs.1,786,967,270 which includes various parcels of land spread across the country all valued at Kshs.158,000,000 whose ownership documents were not availed while other parcels of land had not been valued.

In the circumstances, it has not been possible to confirm the accuracy and ownership of the value of land of Kshs.158,000,000, as at 30 June, 2019.

### **7.2 Motor Vehicles without Log Books**

The balance constitutes motor vehicles net book value of Kshs.44,515,628. The balance includes four (4) vehicles with a net book value of Kshs.2,574,000 whose ownership

documents such as log books were not availed for audit review. Available information indicates that these vehicles are owned by the National Government and have not been officially transferred to the Authority.

In the circumstances, the accuracy, completeness and ownership of motor vehicles net book value of Kshs.2,574,000 as at 30 June, 2019 could not be confirmed.

### **7.3 Unsupported Expenditure**

Additions to work in progress of Kshs.1,243,061,943 include provisional sums totalling Kshs.76,518,559 under certificate number 14 in respect of proposed construction of KEMSA modern warehouse and office block at Embakasi. However, the supporting schedule attached included items of expenditure which were based on unsubstantiated provisional items such as 'interest on anticipated delayed payments' and 'substructure' balance of Kshs.21,657,121 and Kshs.25,000,000 respectively, the provision which was not justified with approved and validated details.

Consequently, the accuracy, completeness and validity of Kshs.76,518,559 paid from provisional sum for the year ended 30 June, 2019 could not be confirmed.

### **7.4 Unsupported Buildings**

The balance includes additions to buildings amounting to Kshs.3,581,000. However, the existence of the buildings could not be verified as no contracts, ownership documents or completion certificates, were availed for audit review.

In the circumstance, the accuracy and validity of additional buildings valued at Kshs.3,581,000 as at 30 June, 2019 could not be confirmed.

## **8. Unsupported Payments Received in Advance**

As disclosed in Note 25 to the financial statements, the statement of financial position reflects payments received in advance amounting to Kshs.221,483,033. A review of the supporting schedules indicated that the amounts are due to various organizations such as Ministry of Health, dispensaries and other private organizations. However, Management have not provided details of the nature and basis of these advance receipts.

Consequently, the accuracy, completeness and validity of the payment received in advance balance of Kshs.221,483,033 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed

## **9. Unsupported Project Fund**

As disclosed under Note 27 to the financial statements, the statement of financial position reflects project fund balance of Kshs.405,729,772 which includes a balance of Kshs.216,881,203 for Kenya Health Sector Support Project (KHSSP) KEMSA. However,

a review of the KHSSP project's financial statements for the year ended 30 June, 2019 revealed that the project had cash and cash equivalent balance of Kshs.911,916,874 which when compared against the reported balance of Kshs.216,881,203 resulted to an unexplained difference of Kshs.695,035,671.

Consequently, the accuracy and completeness of the project fund balance of Kshs.405,729,772 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

## **10. Unsupported Medical Commodity Fund**

As disclosed under Note 28 to the financial statements, the statement of financial position reflects medical commodity fund balance of Kshs.7,407,088,246 comprising of third-party stocks balance of Kshs.7,390,181,509 and global funds account balance of Kshs.16,906,736. However, supporting documents and schedules for the two balances were not provided for audit review.

Consequently, the accuracy and validity of the medical commodity fund balance of Kshs.7,407,088,246 reflected in the statement of financial position as at 30 June, 2019 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 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 qualified opinion.

## **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. There were no key audit matters to report in year under review.

## **Other Matter**

### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.4,356,834,000 and Kshs.3,707,974,000 respectively resulting to revenue shortfall of Kshs.648,860,000 or 15% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.2,583,703,000 and Kshs.2,557,267,000 respectively resulting to an under

expenditure of Kshs.26,436,000 or 1% of the budget. The revenue shortfall was in respect of other income which had actual collection of Kshs.2,051,110,000 against budgeted receipts of Kshs.2,676,285,000 resulting in a shortfall of Kshs.625,175,000.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## **2. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved all the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/12/1/(44) of 25 June, 2019.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Non-Compliance with Internal Recruitment Guidelines**

The Authority's career progression guideline of 2016 and roles profile require distribution loaders and drivers to have a minimum requirement of Kenya Certificate of Secondary Education (KCSE) D+ for job entry. A review of personal files however, revealed that four distribution loaders and one driver were recruited during the year despite the fact that they did not have KCSE certificates.

Consequently, the Management is in breach of law.

#### **2. Delay in Completion of Work**

During the year under review, the Authority continued to implement a contract for Phase 1 of the Proposed Construction of KEMSA Modern Warehouse and Office Block at Embakasi. Although the contract had provided for completion of work within a duration of fifty-two (52) weeks ending 28 March, 2018, the project had taken one hundred and

sixteen (116) weeks by 30 June, 2019, and was therefore behind schedule by sixty-four (64) weeks which may lead to cost escalation.

In the circumstances, it has not been possible to confirm whether value for money has been realized from the cost incurred on the incomplete project.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

#### 1. Long Outstanding Balances

##### 1.1 Receivables From Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.5,112,529,398 which constitutes receivables totalling Kshs.3,996,038,344 comprising of Kshs.2,642,507,670 from all the forty seven (47) Counties and Kshs.1,353,530,674 due from the Ministry of Health, that have been outstanding for more than one year and whose recovery is doubtful. No explanation has been provided for failing to recover these long outstanding debts.

##### 1.2 Trade and Other Payables From Exchange Transactions

Further, and as previously reported, trade and other payables from exchange transactions balance of Kshs.3,481,233,696 constitutes long outstanding amounts of Kshs.97,631,797 which constitute medical creditors of Kshs.17,888,530, operation creditors of Kshs.36,170,144, long outstanding suppliers' funds retained balance of Kshs.16,186,120 and VAT output due of Kshs.27,387,003, all which have been outstanding beyond one year.

In the circumstances, I am unable to confirm existence of effective debt collection measures put in place by Management and the Authority's ability to discharge its obligations as they fall due.

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

### **Responsibilities of Management and Board of Directors**

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

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 of services and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Authority or to cease operations.

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Authority monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to 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 audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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 control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the 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 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 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**05 August, 2021**

S/No.	Customers	KEMSA County Debtors	
		2018/19 Invoiced Amount Kshs.	2017/18 Invoiced Amount Kshs.
1	Baringo County	57,138,727.40	48,068,556.43
2	Bomet County	47,205,227.11	35,463,332.10
3	Bungoma County	42,222,594.02	25,712,619.50
4	Busia County	66,959,328.10	8,259,252.00
5	Elgeyo/Marakwet County	23,121,135.10	29,942,996.00
6	Embu County	5,752,751.13	10,672,646.59
7	Garissa County	22,405,231.44	20,697,722.42
8	Homa Bay County	130,960,896.20	111,584,756.40
9	Isiolo County	2,340,061.38	20,076,759.38
10	Kajiado County	84,262,774.72	47,641,962.32
11	Kakamega County	47,286,094.61	76,030,623.96
12	Kericho County	26,138.66	26,210.66
13	Kiambu County	94,902,695.23	84,195,731.60
14	Kilifi County	140,288,148.90	78,855,087.48
15	Kirinyaga County	62,899,713.50	43,983,030.50
16	Kisii County	58,171,586.82	68,542,061.55
17	Kisumu County	77,524,350.98	87,447,971.98
18	Kitui County	190,935,722.29	84,983,062.26
19	Kwale County	10,527,598.11	48,031,472.16
20	Laikipia County	26,454,690.46	1,685,940.33
21	Lamu County	716,917.36	18,692,662.32
22	Machakos County	17,244,924.05	70,202,331.55
23	Makueni County	83,213,391.39	38,136,508.15
24	Mandera County	91,239,983.20	(0.25)
25	Marsabit County	32,903,446.05	25,243,360.85
26	Meru County	77,705,879.82	90,164,923.80
27	Migori County	52,221,065.71	77,285,902.86
28	Mombasa County	24,671,940.16	16,828,306.00
29	Murang'a County	16,944,447.50	46,944,447.50
30	Nairobi County	284,539,666.28	285,663,343.28
31	Nakuru County	- 9,090.74	96,371,414.27
32	Nandi County	14,732,633.77	23,488,911.39
33	Narok County	104,584,708.18	104,584,708.18

S/No.	Customers	KEMSA County Debtors	
		2018/19 Invoiced Amount Kshs.	2017/18 Invoiced Amount Kshs.
34	Nyamira County	3,427,806.68	44,956,895.68
35	Nyandarua County	42,630,198.31	722,767.79
36	Nyeri County	6,666,314.81	4,381,675.81
37	Samburu County	29,803,309.45	30,397,881.62
38	Siaya County	41,092,240.00	28,868,646.40
39	Taita/Taveta County	75,984,284.47	49,409,857.11
40	Tana River County	45,080,278.86	38,282,273.86
41	Tharaka-Nithi County	52,422,499.98	8,692,559.12
42	Trans Nzoia County	92,023,866.19	41,407,560.59
43	Turkana County	72,848,227.37	87,473,020.45
44	Uasin Gishu County	112,478,015.60	(21,000.02)
45	Vihiga County	71,592,506.22	78,513,730.22
46	Wajir County	37,800.02	65,200,386.02
47	West Pokot County	4,324,943.64	41,827,398.03
	<b>Total</b>	<b>2,642,507,670.49</b>	<b>2,345,622,268.20</b>
	<b>Ministry of Health</b>	<b>1,353,530,674.21</b>	<b>1,054,806,083.00</b>
	<b>Grand Total</b>	<b>3,996,038,344.70</b>	<b>3,400,428,351.20</b>