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REPUBLIC OF KENYA

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, 2025

PREAMBLE

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

A. Report on 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 the 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,

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

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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

Qualified Opinion

I have audited the accompanying financial statements of Kenya Medical Supplies Authority set out on pages 1 to 83, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts, for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Medical Supplies Authority as at 30 June, 2025 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. Inaccuracies in Receivables from Exchange Transactions

The statement of financial position and Note 24 (a) to the financial statements reflect receivables from exchange transactions balance of Kshs.6,283,872,478. The balance includes Kshs.2,700,126,261 owed by the forty-three (43) County Governments. However, confirmations indicated outstanding balance Kshs.1,154,926,374 resulting to an unexplained variance of Kshs.1,545,199,887. Further, the balance includes Kshs.244,364,978 owed by the National Referral Hospitals. However, confirmations from the hospitals revealed outstanding balances of Kshs.22,628,792 resulting to an unexplained variance of Kshs.221,736,186. In addition, the balance includes Kshs.2,991,756,026 in respect to various customers which have been outstanding for durations exceeding one year with no agreed payment plan while there were no provisions for bad and doubtful debts made in the books. Further, analysis of the current year's receivables performance indicates a receivable turnover ratio of 0.75 times or an average collection period of 487 days.

In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.6,283,872,478 as at 30 June, 2025 could not be confirmed.

2. Inaccuracies in Property, Plant and Equipment

The statement of financial position and Note 27 to the financial statements reflects property, plant and equipment balance of Kshs.9,954,540,028. However, the balance excludes fully depreciated assets with historical cost of is Kshs.369,545,065 that are still in use but had not been revalued. Further, physical inspection revealed unserviceable office equipment, furniture and equipment, computer equipment, plant and machinery and motor vehicles which the Authority has accumulated over the years. In addition, review of the valuation report indicated that the ownership documents for three (3) parcels of land in Nairobi, Mombasa and Garissa valued at Kshs.496,500,000 remained unprocessed.

In the circumstances, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.9,954,540,028 as at 30 June, 2025 could not be confirmed.

3. Inappropriate Disclosure of Inventories

The statement of financial position and Note 26(b) reflects inventories balance of Kshs.7,609,978,044 classified as third-party stocks. However, review of contracts and correspondence indicates that the Authority only provides storage and handling services for the third-party stocks (donor-funded commodities) and does not have ownership or control over these inventories. This was contrary to IPSAS 12, which requires an entity to recognize inventory only when it controls the goods and can derive service potential or economic benefits from them.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.7,609,978,044 as at 30 June, 2025 could not be confirmed.

4. Failure to Recognize Liabilities

Note 26(c) to the financial statements reflects expensed damaged inventories amounting to Kshs.21,927,374, out of which Kshs.21,420,377 relates to third-party (donor-owned) stocks. Despite these losses being attributable to the Authority's actions or failure to maintain adequate storage and handling conditions, Management did not recognize the liability or provision for its potential obligation to compensate donors for the damaged third-party inventories.

In the circumstances, the accuracy and completeness of the inventory balance of Kshs.21,420,377 as at 30 June, 2025 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Medical Supplies Authority Management in accordance with ISSAI 130 on the 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.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts combined reflects final receipts budget of Kshs.15,211,098,220 and actual on comparable basis of Kshs.11,684,171,750 resulting to underfunding of Kshs.5,256,518,385 or 33% of the budget. Similarly, the Authority of the realized receipts of Kshs.11,684,171,750, the authority incurred total expenditure including capex payments of Kshs.8,820,888,699 resulting in an under absorption of Kshs.2,863,283,051 or 25 % of the receipts.

The underfunding and under-expenditure may have affected the Authority's mandate and may have impacted negatively on service delivery to the public.

2. Unfavourable Liquidity Position

The statement of financial position disclosed net assets and liabilities balance of Kshs.30,529,989,375. It was noted that the current ratio was 1.46, the quick ratio 0.68 while the cash ratio was 0.22. However, the quick and cash ratios remain below the acceptable threshold of 1.0.

In the circumstances, the Authority does not have sufficient liquid assets to meet its short-term obligations without relying heavily on inventory and receivables and available cash is inadequate to cover immediate liabilities.

3. Long Outstanding Trade Payables

The statement of financial position and Note 28 to the financial statements reflect trade and other payables balance of Kshs.5,707,941,158 out of which Kshs.1,727,306,447 has been outstanding for more than ninety (90) days and there was no evidence of an approved payment plan or documented strategy to clear the overdue amounts.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of these matters.

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 effect of the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

In the prior years' audit reports, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of the Authority in 2024/2025 revealed that matters detailed in **Appendix I** remained unresolved as at 30 June, 2025.

Other Information

The Management is responsible for the Other Information set out on page v to l which comprise of Key Authority's Information and Management, The Board of Directors, Key Management Team, Chairperson's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, and the Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Authority's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

Missed Performance Targets

The Authority had seven (7) strategic pillars, including operation excellence, customer experience, financial sustainability, people and culture, and governance. However, the Authority did not achieve five (5) strategic objectives as indicated in **Appendix II**.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Unbalanced Budget

The statement of comparison of budget and actual amounts reflects total revenue budget of Kshs.15,211,098,220 and total expenditure budget of Kshs.15,154,098,218 resulting to an unbalanced budget of Kshs.57,000,002. This was contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015 which states that the budget should be balanced.

In the circumstances, Management was in breach of law.

2. Deficiencies in the Sale of Medical Commodities

The statement of financial performance and Note 9 to the financial statements reflects total sales revenue of Kshs.4,885,886,910 generated from sale of medical commodities. However, review of the warehouse issue report revealed that twenty-three thousand, three hundred and eight (23,308) medical commodities were sold below the prescribed 15% markup required by KEMSA's Pricing Policy, resulting in a loss of Kshs.234,369,838. Further, the report indicated that eight thousand, seven hundred and seventy-nine (8,779) medical commodities were sold below the initial purchase price incurred by the Authority resulting in a loss of Kshs.124,105,379. In addition, the report indicates that health commodities and technologies with a total purchase cost of Kshs.558,569,265 were received despite being below 75% shelf life while others with sales value of Kshs.283,901,154 were issued to various facilities with a shelf life of less than six (6) months.

In the circumstances, value for money on the sale of various health products and technologies amounting to Kshs.4,885,886,910 could not be confirmed.

3. Commingling of Supplier Retention Funds

The statement of financial position and Note 28 to the financial statements reflect trade and other payables balance of Kshs.5,707,941,158. The amount includes suppliers' retained money of Kshs.166,472,677. However, the funds were commingled in the Authority's other operational bank accounts without depositing them in a separate bank account. 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.

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

4. Non-Compliance with One Third of Basic Salary Rule

The statement of financial performance and Note 13 to the financial statements reflects employee costs of Kshs.1,095,277,570 which includes basic pay of Kshs.11,307,558 paid to ninety-three (93) employees who earned less than ⅓ of their basic salary. This was contrary to Section19(3) of Employment Act 2007 which stipulates that Without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

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

5. Unidentified Receipts

The statement of financial position and Note 28 to the financial statements reflect trade and other payables balance of Kshs.5,707,941,158, which includes trade debtors - unidentified receipts of Kshs.6,876,495. However, the amount has remained outstanding between the years 2014 to 2023 without resolution or allocation to the respective customer accounts. Further, there was no evidence that the Authority made a report to the Unclaimed Financial Assets Authority (UFAA) regarding these presumed abandoned assets. This was contrary to Section 20(1) of the Unclaimed Financial Assets Act, 2011, which requires any person holding assets presumed abandoned and subject to the custody of the Authority to report such assets to UFAA in accordance with the Act.

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

6. Delays in Implementation of Enterprise Resource Planning System

The statement of financial position and Note 27(a) reflects property, plant and equipment balance of Kshs.9,954,540,028, which includes Kshs.499,730,020 for the procurement of an Enterprise Resource Planning (ERP) system. The contract was scheduled to run from 16 November, 2023 to 15 May, 2024 but as at the time of this audit in May 2025, the ERP system was only about 70% complete.

In the circumstances, value for money on Kshs.499,730,020 for the procurement of an Enterprise Resource Planning (ERP) system could not be confirmed.

7. Delays in Completion of the Modern Warehouse and Office Block

The statement of financial position and Note 27(a) reflects property, plant and equipment balance Kshs.9,954,540,028. The amount includes Kshs.3,079,998,860 contract awarded in March 2018 for the construction of Modern Warehouse and Office Block, which was expected to be completed by 13 September 2021. However, physical verification in the month of May 2025 revealed that the defects reported in the joint inspection report of October 2024 remained unresolved despite extending the defects liability period to 30 April 2025 and the contractor was not on site. Further, a subcontractor was engaged in March 2018 to install mechanical ventilation, smoke vents, and air conditioning at Kshs.38,367,131 but abandoned the project for more than seven years. Later, a joint inspection committee report of October 2024 determined that the subcontractor should pay the Authority Kshs.14,457,307 for uncompleted works and unrecovered advances which has remained outstanding to date.

In the circumstances, value for money on the expenditure incurred in the construction of modern warehouse and office block could not be confirmed.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 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 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 effect of the matters described in the Basis 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 governance were not effective.

Basis for Conclusion

1. Failure to Develop Regulations

During the year under review, it was noted that Management had not made recommendations to Cabinet Secretary to develop regulations. This was contrary to Section 21 (1) of the Kenya Medical Supplies Authority Act 2013 which states that (1) the Cabinet Secretary may, on recommendation of the Authority, make regulations generally for the better carrying out of the objects of this Act.

In the circumstances, the effectiveness of overall governance of the Authority could not be confirmed.

2. Expired Medical Commodities

The statement of financial performance and Note 12(a) to the financial statements reflects use of goods and services amount of Kshs.5,513,699,516. Included in the amount are expiries & adjustments amount of Kshs.237,147,686. However, the expired inventories were still being held at the central warehouses, with no evidence of an operational reverse logistics framework to guide on the timely redistribution, return to suppliers, or proper disposal of non-usable commodities.

In the circumstances, the effectiveness of internal controls for handling expired inventories could not be confirmed.

3. Customer Unallocated Payments

The statement of financial position and Note 28 to the financial statements reflect trade and other payables balance to Kshs.5,707,941,158. The balance includes an amount of Kshs.17,769,717 in respect to customer unallocated payments due to missing details of order numbers, facility codes, or specific invoices being settled. There is risk of unallocated payments being misapplied.

In the circumstances, the effectiveness of internal controls on identifying customers against payments made could not be confirmed.

4. Outdated Policies

During the year under review, it was noted that the credit policy had not been reviewed or updated for the last ten (10) years ago since the year 2014, while the Stock Holding Policy was approved seven (7) years ago in December 2017.

In the circumstances, the effectiveness of internal controls on updating policies could not be confirmed.

5. Low Order Fill Rate

The statement of financial performance and Note 9 to the financial statements reflects sales revenue of Kshs.4,885,886,910. However, page xxxiii on Management Discussion and Analysis reported an order fill rate of 41% for Essential Medicines and

Medical Supplies, which is significantly below the required key performance indicator of 90%. This shortfall indicates widespread supply failures and gaps in meeting client demand.

In the circumstances, the effectiveness of internal controls in the management of sales revenue could not be confirmed.

6. Failure to Decentralize Warehousing and Distribution Functions

During the year under review, it was noted that out of the seven regional warehouses, only Kisumu is partially operational, handling limited functions. The remaining warehouses located in Eldoret, Mombasa, Nyeri, Meru, Kakamega, and Nairobi-Commercial Street (excluding the central hub) are functioning as passive holding stores (depots) with no distribution capacity. Further, no regional warehouse (except Nairobi's central hub) is equipped with the stock or systems to fulfill orders or dispatch supplies to the counties because the ordering process remains fully centralized, with all procurement routed through Nairobi regardless of proximity to regional facilities.

In the circumstances, the effectiveness of internal controls in the management of sales and inventories could not be confirmed.

7. Failure to Perform Governance Audit

During the year under review, Management did not perform governance audit which should cover the governance practices of the organization in the 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 stakeholders' value enhancement and Corporate social responsibility and investment.

In the circumstances, the effectiveness of overall governance could not be confirmed.

8. Operating Without a Strategic Plan

During the year under review, it was noted that the strategic plan expired in December 2024 and the Authority has been operating without a strategic plan. This was contrary Circular Number OP/CAB.1/31 dated 13 March, 2024 which requires all public entities to develop the Fifth Generation Strategic Plans and alignment to Bottom-Up Economic Transformation Agenda (BETA) by 30 June, 2024 and notify the Executive Office of the President.

In the circumstances, the effectiveness of internal controls and overall governance could not be confirmed.

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 controls, 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 the 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 controls 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 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 and using the going concern basis of accounting unless Management is aware of the intention 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 comply with the authorities which govern them and that public resources are applied in an effective way.

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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

05 December, 2025

APPENDICES

Appendix I- Prior Year Audit Matters

No	Financial Year	Audit Issue
1	2023/2024	Long outstanding receivable
2	2023/2024	Receivables from Ministry of Health
3	2023/2024	Receivables from County Governments
4	2023/2024	Budgetary Control and Performance
5	2023/2024	Inaccuracies in sale of medical commodities
6	2023/2024	Non-Compliance with the Climate Change Regulations
7	2023/2024	Undisclosed expired and damaged medical commodities
8	2023/2024	Staff Earning Less Than a Third of Basic Salary
9	2023/2024	Unconfirmed land ownership
10	2023/2024	Long outstanding trade payables
11	2023/2024	Irregular donations of medical commodities
12	2023/2024	Missed Performance Targets
13	2023/2024	Commingling of supplier retention funds
14	2023/2024	Irregular procurement of transport services
15	2023/2024	Long outstanding imprest
16	2023/2024	Staff over establishment
17	2023/2024	Non-adherence to set credit limits
18	2023/2024	Unallocated customer payments
19	2023/2024	Avoidable tax arrears and penalties
20	2022/2023	Unsupported Cash and Cash Equivalents
21	2022/2023	Un-Approved Exchange of Parcels of Land
22	2022/2023	Undisclosed Assets
23	2022/2023	Land Without Valuation Report
24	2022/2023	Land Without Ownership Documents
25	2022/2023	Misstated Inventory Values
26	2022/2023	Overstatement of Stock Balances
27	2022/2023	Unreconciled Stock Issuance
28	2022/2023	Improper Valuation of Inventories
29	2022/2023	Improper Stock Adjustments
30	2022/2023	Unaccounted for Inventory of Medical Commodities
31	2022/2023	Retrospective Receipts and Issuance of Commodities
32	2022/2023	Incorrect Inventory Transactions Due to Poor Information Technology Environment
33	2022/2023	Receivables from Other Government Entities
34	2022/2023	Prepayments
35	2022/2023	Long Outstanding Receivables
36	2022/2023	Inaccuracies in Receivables
37	2022/2023	Non-Adherence to Credits Limits
38	2022/2023	Unallocated Customer Account
39	2022/2023	Incorrect Credit Notes
40	2022/2023	Medical Commodities Sold Below the Set Price
41	2022/2023	Medical Commodities to Undisclosed Health Facilities