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REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

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Financial Management

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA HEALTH SECTOR SUPPORT (EMMS) PROJECT (IDA NO.4771 AND 5034 – KE)

FOR THE YEAR ENDED 30 JUNE 2018

MINISTRY OF HEALTH

Project Name: KENYA: Health Sector Support Project (EMMS/KEMSA COMPONENT)
Implementing Entity: MOH &KEMSA

PROJECT GRANT/CREDIT NUMBER: CR NO: 4771-KE & 50340 - KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

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

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: The Kenya health sector support project and health sector support programme- The Essential Medicines and Medical supplies Component.

Objective: The key objective of the project is to improve the quality of Health services at the lower levels of service, by providing adequate and quality drugs so as to reduce the level of stock-out and increase funding budgets for KEMSA.

Address: The project headquarters offices are Nairobi (city), Nairobi County, Kenya.
The address of its registered office is: Ministry of Health
Afya House – cathedral Road
P.O. Box 30016-00100 Nairobi.

The project is based at the National Level but it supports all the facilities at the Lower levels of service i.e. Level 1, 2, 3and Sub District Hospitals.

Contacts: The following are the project contacts
Telephone: (254) -20-2717077
E-mail: PS @health.go.ke
Website: www.go.ke

1.2 Project Information

Project Start Date:	The project start date is 30/09/2010
Project End Date:	The project end date is 06/30/2018
Project Manager:	The project manager is Dr. David Kariuki
Project Sponsor:	The project sponsor is -**Dr. Gandham N.V. Ramana**

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Health Ministry.
Project number	CR 47710 & 50340
Strategic goals of the project	The strategic goals of the project are as follows: (i) To ensure an improved availability of commodities in the lower level of health Facilities. (ii) Help to address the problem of insufficient budget for the commodities and build up a buffer stock foe EMMS for level 2 and 3 and limit extend for level 4.
Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) The product lists will be rationalized and standardized through evidence-based reviews of the Essential Medicines List and Essential Medical Supplies List (EMSL). (ii) The creation of buffer stock will be used to address the problem of late starts in procurement procedures, pegged to the availability of funds in the annual budget of the ministry.
Other important background information of the project	The project aims at strengthening pharmaceutical and medical supplies procurement; regulation and management system need major investment.

Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: (i) The availability of essential medicines and medical supplies has improved in the public facilities. (ii) The project has provided financing to commodities and has strengthened the logistics system.
Project duration	The project started on 30th Sep 2010 and is expected to run until 30th June 2018.

1.4 Bankers

The following are the bankers for the current year:

I. CENTRAL BANK OF KENYA – (PROJECT ACCOUNT)
ACCOUNT NAME: HEALTH SEC SUP PRJ AND HSSP 111-EMMS (KES)
ACCOUNT: 1000187468
P.O BOX 60000 - 0200

II. COOPERATIVE BANK – DEPOSIT ACCOUNT
ACCOUNT NAME: HEALTH SEC SUP PROJECT -KEMSA
ACCOUNT: 02120134337900
P.O. BOX 74956-00100

1.5 Auditors

The project is audited by the:
Auditor - General
P.O Box 30084 – 00100
Nairobi.

1.6 Roles and Responsibilities

List the different people who will be working on the project. This list would include the project manager and all the key stakeholders who will be involved with the project. Also, record their role, their positions, and their contact information.

Names	Title designation	Key qualification	Responsibilities
Dr. David Kariuki	Head, Directorate of policy, planning and Health care Financing.	MB chB, Msc	Project oversight and overall coordination of activities of the Directorate and Project Coordinator
Dr. Valeria Makory	Project Coordinator	MBChB, MSc Medical Statistics (Nbi), MSc Public Health (Kemri)	Project Coordinator - Kenya Health Sector Support Project
Alice Olango	Project Accountant	B.com, CPA(K)	Preparation of Financial reports as required from time to time e.g. Bank reconciliation, preparation of project F/S ,
Kevin Ogollah	Accountant	CPA II	Preparation of Quarterly reports e.g. (IFR) ,Bank reconciliations,
Aulgah Achieng	Accountant	CPA II	Voucher preparation and processing and filing.

Note: The Project operates within the MOH structures and systems and therefore involves multiple parties beyond the names provided above.

1.7 Funding summary

The Project is for duration of 4 years from 30/09/2010 to 30/6/2018 with an approved budget of Kshs 12,820,345,356.00 as highlighted in the table below for the Bank. Other Partners are Danida and GOK whose contribution is given at the budgeting period.

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date – (30 June, 2018)		Undrawn balance to date (30th June 2018)	
	Donor currency	*Kshs*	*Donor currency*	*Kshs*	*Donor currency*	*Kshs*
	(A)	*(A')*	*(B)*	(B')	*(A)-(B)*	*(A')-(B')*
(i) Grant						
Royal Danish Embassy-Danida	95,535,706.00	1,624,107,002.00	95,129,382.35	1,617,199,500.00	406,323.65	6,907,502.00.00
(ii) Loan						
IDA-International Development Agency.	104,800,000.00	8,908,000,000.00	104,562,438.99	10,456,243,899.00	237,561.01	23,756,101.00
(iii) Counterpart funds					-	
Government of Kenya	-	2,288,238,354.00		2,002,419,177		285,819,177.00
Total	**200,335,706.00**	**12,820,345,356.00**	**199,691,821,.34**	**14,075,862,576.00**	**643,884,66**	**316,482,780**

Note : As a result of devolution funds for GOK were devolved to the counties in 2015/2016

Exchange rate 1USD=KSH85 1DKK=SH 17

1.8 Summary of Overall Project Performance:

- The Project was able to achieve the targeted objectives as they were set in the work plan of 2017/2018.

1.9 Summary of Project Compliance:

- The project complied with applicable laws and regulations, and essential external financing agreements/covenants and this helped us to achieve the objectives set.

2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Principal Secretary for the Ministry of Health and the Project Coordinator for KHSSP & HSSP III are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2018. This responsibility includes:

(i) Maintaining adequate financial management arrangement 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 Project;

(iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud;

(iv) Safeguarding the assets of the Project;

(v) Selecting and applying appropriate accounting policies; and

(vi) Making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for the Ministry of Health and the Project Coordinator for KHSSP & HSSP III accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the Ministry of Health and the Project Coordinator for KHSSP & HSSP III are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2018, and of the Project's financial position as at that date. The Principal Secretary for Ministry of Health and the Project Coordinator for KHSSP & HSSP III further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary for the Ministry of Health and the Project Coordinator for KHSSP & HSSP III confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Principal Secretary for the Ministry of Health and the Project Coordinator for KHSSP & HSSP III on _____ 2018 and signed by them.

Mr. Peter K. Tum
Principal Secretary

Dr. David Kariuki
Project Coordinator

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA HEALTH SECTOR SUPPORT (EMMS) PROJECT (IDA NO.4771 AND 5034 – KE) FOR THE YEAR ENDED 30 JUNE 2018 – MINISTRY OF HEALTH

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Health Sector Support (EMMS Component 2) Project Credit No.4771 and 5034 - KE set out on pages 1 to 17, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, statements of comparative budget and actual amounts and special account statement 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, Section 35 of the Public Audit Act, 2015 and the Financing Agreement Credit No. 4771 and 5034 - KE dated 21 January 2014 between the International Development Association (IDA) and the Republic of Kenya. 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 matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Health Sector Support (EMMS Component 2) Project as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement dated 21 January 2014.

In addition, the special account statement presents fairly, the transactions for the year and the closing balance has been reconciled with the books of account.

Basis for Qualified Opinion

Cash and Cash Equivalent

The bank balance of Kshs.365,626,247 included in the statement of financial assets and liabilities as at 30 June 2018 include long outstanding payment in bank statement not in cashbook of Kshs.2,380,000 dating back to July 2016. No explanation has been provided for failing to clear these long outstanding items. Consequently, the accuracy and validity of the bank balance of Kshs.365,626,247 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSSAIs). I am Independent of Kenya Health Sector Support (EMMS Component 2) Project in accordance with ISSAIs 30 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 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. Except for the matter 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.

Report on Compliance with Lawfulness and Effectiveness in Use of Public Resources

As required by Article 229(6) of the Constitution, based on the procedures performed, other than as stated under basis for qualified opinion part of my report, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Report on Internal Control Effectiveness Governance and Risk Management Systems

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

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash 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.

In preparing the financial statements, management is responsible for assessing the ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the project or to cease operations, or have no realistic alternative but to do so.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance 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 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 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 Entity's 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 ability to continue as a going concern or 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 project to cease to continue to sustain its services.

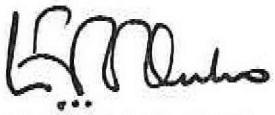
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the project 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

05 December 2018

4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2018

	Notes	2018 Receipts and payments controlled by the entity Kshs	2018 Receipts and Payments made by third parties Kshs	2017 Receipts and payments controlled by the entity Kshs	2017 Payments made by third parties Kshs	Cumulative date Kshs
RECEIPTS						
Transfer from Government entities	8.2	-	-	8,300,000	-	2,002,419,
Proceeds from domestic and foreign grants	8.3	-	-	-	-	1,617,199,
Loan from external development partners	8.4	165,163,425	665,514,870	830,000,000	-	8,935,444,
Miscellaneous receipts	8.5	1,363,425	-	508,245,204	-	548,603,
Total receipts		**166,526,850**	**665,514,870**	**859,753,796**	**-**	**13,103,666,**
PAYMENTS						
Purchase of goods and services	8.6	-		41,494,169	-	10,416,772,
Transfers to other government entities	8.7	590,627,134	665,514,870	556,881,254	-	2,321,268,
TOTAL PAYMENTS		**290,627,134**	**665,514,870**	**598,375,423**	**-**	**12,738,040,**
SURPLUS/DEFICIT FOR THE YEAR		**(424,100,284)**	-	**748,169,782**	-	**365,626,**

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.

Mr. Peter K. Tum
Principal Secretary

22/11/18
Date

Dr. David Kariuki
Project Coordinator

22/11/18
Date

Project Accountant
Alice Olango
ICPAK NUMBER: 15259

22/11/2018
Date

5. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2018

	Notes	2018 Kshs	2017 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	**8.8**	365,626,247	789,726,531
TOTAL FINANCIAL ASSETS		**365,626,247**	**789,726,531**
REPRESENTED BY:			
Fund Balance b/fwd.	**8.8**	789,726,531	41,556,749
Surplus/Deficit for the year		(424,100,284)	748,169,782
Prior year adjustments			
NET FINANCIAL POSITION		**365,626,247**	**789,726,531**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on _____2018 and signed by:

Mr. Peter K. Tum
Principal Secretary

22/11/18
Date

Dr. David Kariuki
Project Coordinator

22/11/18
Date

Project Accountant
Alice Olango
ICPAK NUMBER: 15259

22/11/2018
Date

6. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30TH JUNE 2018

	Notes	2017-2018 Kshs	2016-2017 Kshs
Receipts for operating income			
Transfer from Government entities	8.2	-	8,300,000
Proceeds from domestic and foreign grants	8.3	-	-
Miscellaneous receipts	8.5	1,363,425	508,245,204
Payments for operating expenses			
Purchase of goods and services	8.6	-	(41,494,169)
Transfers to other government entities	8.7	(590,627,134)	(556,881,254)
Adjustments during the year		-	-
Net cash flow from operating activities		**(589,263,709)**	**(81,830,219)**
CASHFLOW FROM BORROWING ACTIVITIES			
Loan from external development partners	8.4	165,163,425	830,000,000
Net cash flow from financing activities		**165,163,425**	**830,000,000**
NET INCREASE IN CASH AND CASH EQUIVALENT		**(424,100,284)**	**748,169,782**
Cash and cash equivalent at BEGINNING of the year		**789,726,531**	**41,556,749**
Cash and cash equivalent at END of the year		**365,626,247**	**789,726,531**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on _____ 2018 and signed by:

Mr. Peter K. Tum	**Dr. David Kariuki**	**Project Accountant**
Principal Secretary	**Project Coordinator**	**Alice Olango**
		ICPAK NUMBER: 15259
	22/11/18	22/11/2018
Date	**Date**	**Date**

7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Final Budget	Actual on Comparable basis	Budget utilization variance	% of utilization variance to final budget	Comments on Variance
	a	b	c=a-b	d=c/a%	e=d-c
Receipts					
Transfer from Government entities	-	-	-	-	
Loan -Revenue - IDA	-	165,163,425	-	-	
Miscellaneous receipt	-	1,363,425	-	-	
Total Receipts	-	**166,526,850**	-		
Payments					
Purchase of goods and services	-	-	-		
Transfer to other Government entities	-	590,627,134	-	-	During the financial year 2017/18 the KHSSP EMMS/KEMSA didn't have an allocated budget
Total Payments	-	**590,627,134**	-	-	

Note: The significant budget utilization/performance differences in the last column are explained in **Annex 1** to these financial statements.

Mr. Peter K. Tum
Principal Secretary

22/11/18

Date

Dr. David Kariuki
Project Coordinator

22/11/18

Date

Project Accountant
Alice Olango
ICPAK NUMBER: 15259

22/11/2018

Date

8. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2018

The principal accounting policies adopted in the preparation of these financial statements are set out below:

8.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting. The financial statements comply with and conform to the form of presentation prescribed by the Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Project. The accounting policies adopted have been consistently applied to all of the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognizes transactions and events only when cash is received or paid out by the Project.

I. Recognition of revenue and expenses

The Project recognizes all revenues from the various sources when the event occurs and the related cash has actually been received by the Project. In addition, the Project recognizes all expenses when the event occurs and the related cash has actually been paid out by the Project.

II. In-kind donations

In-kind donations are contributions made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value of in-kind donations can be reliably determined, the Project includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the donation is not recorded.

III. 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 authorized public officers and/or institutions which had not been surrendered or accounted for at the end of the financial year.

IV. Pending bills

Pending bills consist of unpaid liabilities at the end of 30th June, 2018 arising from contracted goods or services during 30th June, 2018 or in past. As pending bills do not involve the payment of cash in the reporting period, they are simply disclosed as an Annex to the financial statements. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

V. Budget

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. A high-level assessment of the Project's actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

VI. Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the 30th June, 2018 are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of receipts and payments.

VII. Comparative figures

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

VIII. 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, 2018.

8.2 Receipts from Government of Kenya

These represent counterpart funding and other receipts from government as follows:

	2017/18 Kshs	2016/17 Kshs	Cumulative to-date
Counterpart funding through Ministry of Health			
Counterpart funds Quarter 1		-	-
Counterpart funds Quarter 2		-	-
Counterpart funds Quarter 3		-	-
Counterpart funds Quarter 4	-	8,300,000	2,002,419,177
	-	**8,300,000**	**2,002,419,177**

8.3 Proceeds from Domestic and Foreign Grants

During the 12 months to 30 June 2018 we received grants from donors as detailed in the table below:

Name of Donor	Date received (2017/18)	Amount received in donor currency	Grants received in cash(2017/18)	Grants received in cash (2016/17)	Grants received in kind	Total amount in Kshs
			Kshs	Kshs	Kshs	Kshs
Grants Received from Bilateral Donors (Foreign Governments)						
DANIDA		-			-	1,617,199,500
Total						**1,617,199,500**

8.4 Loan from External Development Partners

During the 12 months to 30 June 2018 we received funding from development partners in form of loans negotiated by the National Treasury donors as detailed in the table below:

Name of Donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment*	Total amount in Kshs		CUMULATIVE TO DATE
					FY 2017/18	FY 2016/17	
			Kshs	Kshs	Kshs	Kshs	Kshs
Loans Received from Bilateral Donors (Foreign Governments)							
Loans Received from Multilateral Donors (International Organizations)							
INTERNATIONAL DEVELOPMENT AGENCY	1/3/2017	830,678,295	165,163,425	665,514,870	165,163,425	830,000,000	8,935,444,853
Total		**830,678,295**	**165,163,425**	**665,514,870**	**165,163,425**	**830,000,000**	**8,935,444,853**

****KHSSP-EMMS/KEMSA received Kshs. 165,163,425 through the exchequer. This amount was made up of kshs. 50,727,102.65 drawn from EMMS/KEMSA special Account while the balance of Kshs. 114,436,321 was from KHSSP-SWAP.***

8.5 Miscellaneous Receipts

	Receipts controlled by the entity in Cash Kshs	Receipts controlled by third parties Kshs	FY 2017/18 Kshs	FY 2016/17 Kshs	Cumulat to- date
Interest earned	-	-	-	-	36,706,258
Reversal	-	-	-	-	1,923,538
Error posting	-	-	-	-	350
Refund received	1,363,425	-	1,363,425	508,245,204	509,608,629
	-	-	-	-	
	1,363,425		**1,363,425**	**508,245,204**	**548,603,390**

The refund of Kshs. 1,363,425 was an amount that was paid in error from this account to Artemis Health Institute in INDIA. This amount is now refunded back.

8.6 Purchase of Goods and Services

	Payments made by the Entity in Cash Kshs	Payments made by third parties Kshs	2017/18 Kshs	2016/17 Kshs	Cumulative to-date
Utilities, supplies and services	-	-	-	41,494,169	10,159,665,920
Other operating expenses		-	-	-	257,106,292
Exchange rate losses/gains (net)		-			-
TOTAL	-	-	-	**41,494,169**	**10,416,772,212**

8.7 Transfers to other government entities

During the 12 months to 30 June 2018, we transferred funds to reporting government entities as shown below:

	Payments made by the Entity in Cash Kshs	Payments made by third parties Kshs	Financial Year 2017/18 Kshs	Financial Year 2016/17 Kshs	Cumulative To date Kshs
Transfers to National Government entities					
Ministry of Health - HSSF	590,627,134		590,627,134	-	**1,098,872,338**
Ministry of Health - KEMSA	-		-	556,881,254	**556,881,254**
UNITED NATIONS CHILDRED FUND	-	665,514,870	-	-	**665,514,870**
TOTAL	**590,627,134**	**665,514,870**	**590,627,134**	**556,881,254**	**2,321,268,462**

8.8 Cash and Cash Equivalents C/Fwd.

	2017/18 Kshs	2016/17 Kshs
Bank accounts (Note 8.8)	365,626,247	789,726,531
Total	**365,626,247**	**789,726,531**

	2017/18 Kshs	2016/17 Kshs
8.8 Bank Accounts		
Local Currency Accounts		
Central Bank of Kenya [A/c No. 1000187468]	365,626,247	789,726,531
Total local currency balances	**365,626,247**	**789,726,531**
Total bank account balances	**365,626,247**	**789,726,531**

Special Deposit Accounts

The balances in the Project's Special Deposit Account(s) as at 30th June 2018 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

Below is the Special Deposit Account (SDA) movement schedule, which shows the flow of funds that were voted in the year. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

Special Deposit Accounts Movement Schedule

	2017/18	2016/17
	KShs	KShs
(i) A/C Name [A/c No 02120134337900...]		
Opening balance	502,746.31	502,746.31
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts & Payments)	502,746.31	502,746.31
Closing balance (*as per SDA bank account reconciliation attached*)	-	502,746.31
(ii) A/c Name [A/c No.....]		
Opening balance (as per the SDA reconciliation)	502,746.31	502,746.31
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts & Payments)	502,746.31	502,746.31
Closing balance (as per SDA bank account reconciliation attached)	-	502,746.31

The Special Deposit Account(s) reconciliation statement(s) has (have) been attached as *Appendix iv* support the closing balances.

9. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*

Mr. Peter K. Tum
Principal Secretary

22/11/18

Date

Dr. David Kariuki
Project Coordinator

22/11/18.

Date

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities			-	-	
LOAN- Revenue - IDA		165,163,425	-	-	
Miscellaneous receipts		1,363,425	-	-	
Total Receipts		166,526,850	-	-	
Payments					
Purchase of goods and services		-	-	-	
Transfers to other government entities		590,627,134	-	-	During the financial year 2017/18 the KHSSP EMMS/KEMSA didn't have an allocated budget
Total payments		590,627,134	-	-	

ANNEX 2A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2018	Outstanding Balance 2016	Comments
	a	b	c	d=a-c		
Construction of buildings						
1.						
2.						
3.						
Sub-Total						
Construction of civil works						
4.						
5.						
6.						
Sub-Total						
Supply of goods						
7.						
8.						
9.						
Sub-Total						
Supply of services						
10.						
11.						
12.						
Sub-Total						
Grand Total						

ANNEX 2B - ANALYSIS OF PENDING STAFF BILLS

Name of Staff	Job Group	Original Amount	Date Payable Contracted	Amount Paid To-Date	Outstanding Balance 2018	Outstanding Balance 2016	Comments
		a	b	c	d=a-c		
Permanent Employees - Management							
1.							
2.							
3.							
Sub-Total							
Permanent Employees - Others							
4.							
5.							
6.							
Sub-Total							
Temporary employees							
7.							
8.							
9.							
Sub-Total							
Others (*specify*)							
10.							
11.							
12.							
Sub-Total							
Grand Total							

ANNEX 2C - ANALYSIS OF OTHER PENDING PAYABLES

Name	Brief Transaction Description	Original Amount	Date Payable Contracted	Amount Paid To-Date	Outstanding Balance 2018	Outstanding Balance 2018	Comments
		a	b	c	d=a-c		
Amounts due to National Govt Entities							
1.							
2.							
3.							
Sub-Total							
Amounts due to County Govt Entities							
4.							
5.							
6.							
Sub-Total							
Amounts due to Third Parties							
7.							
8.							
9.							
Sub-Total							
Others (*specify*)							
10.							
11.							
12.							
Sub-Total							
Grand Total							

ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost (KShs) 2017/18	*Purchases/Additions in the Year (KShs) 2017/18	**Disposals in the Year (KShs) 2017/18	Closing Cost (KShs) 2018
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Land				
Buildings and structures				
Transport equipment				
Office equipment, furniture and fittings				
ICT Equipment, Software and Other ICT Assets				
Other Machinery and Equipment				
Heritage and cultural assets				
Intangible assets				
Total				