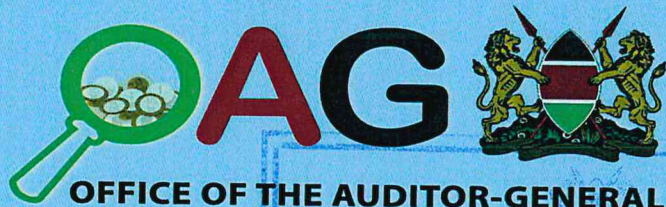


REPUBLIC OF KENYA



Enhancing Accountability

THE NATIONAL ASSEMBLY	
DATE: 01 MAR 2022	DAY: TUE
TABLED BY: LOM	
CLERK-AT THE TABLE	G. Chebet.

REPORT

OF

THE AUDITOR-GENERAL

ON

PHARMACY AND POISONS BOARD

**FOR THE YEAR ENDED
30 JUNE, 2020**

Pharmacy and Poisons Board



PHARMACY AND POISONS BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED **JUNE 30, 2020**

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

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I. KEY BOARD INFORMATION AND MANAGEMENT

(a) Background information

The Pharmacy and Poisons Board, was established under Cap. 244 of the Pharmacy and Poisons Act 1957, an act of parliament to make better provision for the control of the profession of pharmacy and the trade in drugs and poisons.

(b) Principal Activities

The principal mission of Pharmacy and Poisons Board is aimed at safeguarding the health of the public by ensuring that medicines and health products comply with acceptable standards of quality, safety and efficacy and to regulate the practice of pharmacy and drugs. This includes:

(i) Registration

- The registrar keeps a register of duly qualified pharmacist and a roll of duly qualified pharmaceutical Technologists.
- Drugs are regulated by a process of registration.

(ii) Drug Information

The department deals with availability of drug information to the general public and is detailed to receive applicants for advertisements and approve the same so as to control flow of information.

(iii) Pharmacovigilance

The department monitors consistency of quality and emerging side effects of drugs already registered.

(iv) Drug Surveillance

The department is involved primarily in batch qualities, efficacy and safety of drugs by collecting from the manufacturer and testing the same through NQCL (National Quality control Laboratory).

(v) Inspection

The department is involved in pre-licence of premises inspection, inspection of outlets for good pharmacy practice, drugs handling etc. It is also involved in manufacturing plant inspection to ensure the GMP is followed.

(vi) Licensing

The department is involved in the issuing of import and export licences and hence regulate the trade in pharmaceuticals. Also licences of premises.

**PHARMACY AND POISONS BOARD
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(vii) Training and Assessment

The department is involved in regulation of training of professionals and hence give approval for colleges desiring to train personnel in this area. The department also gives assessment examinations for the purpose of registration of pharmacist and enrolment for pharmaceutical Technologists.

(viii) Legal Department

The department is involved in the legal review of the Pharmacy and Poisons Board Act and any other accommodation of the regulatory/Board including new areas of herbal medicine and alternative medicine; it is also involved in disciplinary cases of professional malpractice.

(c) Key Management

The Pharmacy and Poisons Board day-to-day management is under the following key organs:

- Minister of Health
- Board of Directors
- Registrar
- Directorates

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Registrar	Dr. Fred M. Siyoi
2.	Product Evaluation	Dr. Ahmed Mohamed
3.	Inspectorate Surveillance &	Dr. Jacinta Wasike
4.	Quality Control	Dr. Obadiah Naikuni
5.	Pharmacy Practice & Regulation of Training	Dr. Wilfred Ochieng

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- (e) Fiduciary Oversight Arrangements
- *Human Resources and Finance committee*
 - *Practice Committee*
 - *Training Committee*
 - *EDC Committee*
- (f) Board Headquarters
Pharmacy and Poisons Board
P.O. Box 27663-00506
Pharmacy and Poisons Board Building
Lenana Road
Nairobi, KENYA
- (g) Board Contacts
Telephone : (254) 3562107
E-mail: info@pharmacyboardkenya.org
Website: www.pharmacyboardkenya.org
- (h) Board Bankers
1. National Bank of Kenya
Hill Branch
P.O Box 45219-00100
Nairobi, Kenya
 2. The Cooperative Bank of Kenya
Parliament Road
P.O Box 5772-00200
Nairobi, Kenya
 3. Barclays Bank of Kenya
Bunyala Road
P.O Box 72058-00200
Nairobi, Kenya
- (i) Independent Auditors
Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya
- (j) Principal Legal Adviser
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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II. THE BOARD OF DIRECTORS

GAZETTE NOTICE VOL. CXIX - NO. 29 Dated (10TH MARCH 2017)

Insert each Director's passport-size photo and name, and key profession/academic qualifications	Provide a concise description of each Director's date of birth, key qualifications and work experience
1. Dr. Jackson Kioko - Medical Doctor	Director of Medical Services, Ministry of Health
2. Dr. Fred M. Siyoi – Pharmacist	Chief Pharmacist, Ministry of Health
3. Dr. Kisa Juma Ngeiywa – Veterinary Doctor	Director, Veterinary Services
4. Dr. Alfred Rugendo Birichi – Pharmacist	Representative, Public Service
5. Dr. Mary Nthambi Kisingu – Pharmacist	Representative, Community Pharmacy
6. Dr. Rogers Atebe – Pharmacist	Representative, Pharmaceutical Industries
7. Dr. Edith Wakori – Pharmacist	Representative, Private Universities
8. Mr. Abdi Jama – Pharmaceutical Technologist	Representative, Kenya Pharmaceutical Association

**PHARMACY AND POISONS BOARD
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III. MANAGEMENT TEAM

Name	Title
1. Dr. Fred M. Siyoi- Pharmacist	The Registrar / Chief Executive Officer
2. Dr. Ahmed Mohamed – Pharmacist	Director, Product Evaluation
3. Dr. Jacinta Wasike – Pharmacist	Director, Inspectorate & Surveillance
4. Dr. Obadiah Naikuni – Pharmacist	Director, Quality Control –
5. Dr. Wilfred Ochieng – Pharmacist	Director, Pharmacy Practice & Regulation of Training
6. Dr. Stephen Kimathi	Director, Medicine Information and Pharmacovigilance

**PHARMACY AND POISONS BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30th June 2020**

IV. CHAIRMAN'S STATEMENT

The Board is pleased to present the Annual Report and Financial Statements for the Pharmacy and Poisons Board for the year ended June 30, 2020. During the period under review, PPB registered significant growth in its operation with the expanded mandate despite the effects of Covid 19 pandemic whose effects was felt worldwide..

PPB is mandated to regulate the practice of Pharmacy and the manufacture and trade in drugs and poisons in Kenya, we have taken this responsibility with utmost seriousness, giving our best to achieve set targets.


The Board continues to monitor the quality and safety of drugs in the country through quality audits. This program ensures that Licensed Pharmacists providers comply with the conditions of the licence hence protecting the public and consumers of pharmaceuticals.

PPB continues to conduct market surveillance to check for counterfeit, expired, unregistered drugs and medical devices.

At a policy level, the Board continues to engage public health stakeholders with a view of enhancing quality and safety of drugs and medical devices which is aligned to the country's "Big Four" and Vision 2030. The Board remains focused on its mandate, in particular on the role it plays in promoting quality of medicine and medical products in the country.

I take this opportunity to thank all our stakeholders for their continued support throughout the year. The Ministry of Health, The National Treasury and Planning, Board Members, Management and Staff who have played crucial roles in enabling PPB achieve what it did in the year under review.

As we embark on a new year we are eager to continue collaborating with each of you towards making ours a success story of professionalism and great achievements.



**Dr. Jackson Kioko - Director of medical Services, Ministry of Health
Chairman.
Pharmacy and Poisons Board**

**PHARMACY AND POISONS BOARD
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V. REPORT OF THE CHIEF EXECUTIVE OFFICER

The Pharmacy and Poisons Board was established as a Regulatory Authority under the Pharmacy and Poisons Act, Cap 244 and commenced operations on 1st May 1957.

It was established as a body corporate under section 3(6) amended of the Pharmacy and Poisons Act 1993 with the responsibility of regulating the practice of Pharmacy and the manufacture and trade in drugs and poisons.

The Pharmacy and Poisons Board has a Board of Directors comprising members drawn from both the public and private sector.

Although the Pharmacy and Poisons Board was established as a body corporate, it has over the years experienced some challenges which have hampered its operations. These include:

- Lack of adequate enabling legal framework;
- Conflicting responsibilities between the Board and other government agencies e.g. National Quality Control Laboratory and Drug Inspection Unit within the Ministry of Health, Kenya Bureau of Standards, Public Health Dept;
- Inadequate autonomy to undertake its functions e.g. although the Board was established as a body corporate in 1993, it still operates as a Department of the Ministry of Health with the Director of Medical Services as the Chairman of the Board of Directors and the Chief Pharmacist as the Registrar of the Board;
- Inadequate staff capacity i.e. all technical staff are seconded from the Ministry of Health and therefore the Board has no control over their deployment to and from the Board;
- Lack of an organizational structure specific to the Board's mandate.

These challenges had been identified by the World Health Organisation (WHO) during a review of the operations of the Pharmacy and Poisons Board and specific recommendations on how to address them were made.

It was in view of this and other concerns that the Permanent Secretary, Ministry of Health, appointed an Inter-ministerial Task Force to undertake a study of the Board and make appropriate recommendations on the way forward.

The Terms of Reference for the study were:

1. To identify human resource gaps and make recommendations of an optimum resource base;
2. To develop an organizational structure that is responsive to a dynamic and changing regulating environment, which must be in tandem with world class regulation systems;
3. To identify specialized training needs and to define a time-frame for implementation;
4. To develop and prescribe a performance based reward system and remuneration scheme that will attract and retain staff at the Pharmacy and Poisons Board;
5. To make proposals for a competitive staff benefit programme;

**PHARMACY AND POISONS BOARD
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6. To develop a Human Resource manual with an in-built code of ethics for staff;
7. To look into the existing law and identify gaps and make appropriate recommendations;
8. To identify appropriate financing mechanism or resource mobilization and develop a finance manual;
9. To look into any other matter that may enhance or increase efficiency of the organisation.

In undertaking the study, the Task Force undertook a literature review of relevant documents, interviewed staff in the premises of the Board and the National Quality Control Laboratory (NQCL) and also appraised the facilities in the two premises. The Task Force also benchmarked with similar organisations in Tanzania, Uganda, Ghana and Australia.

Following the study it has been proposed that the name of the Board remains Pharmacy and Poisons Board. However, a new organisational structure and staffing levels have been proposed which, if implemented, will enable the Board to effectively and efficiently undertake its mandate.

In the proposed restructuring and in conformity with “the Principles of Good Corporate Governance”, the duties and responsibilities of the Board of Directors have been redefined and clearly stipulated to remove the current ambiguities. In addition, it has been proposed that the National Quality Control Laboratory (NQCL) forms part of the Pharmacy and Poisons Board and MOH Drug Inspection Unit functions be transferred to the Board and that the Board develops its own Logo to be used on all its official documents rather than use the one for the Ministry.

The role of the Chief Pharmacist as a policy maker has also been separated from being the Head of the Board which, being a regulator will be headed by a Director General. It is further proposed that the role of regulating Pharmacy practice be removed from the Pharmacy and Poisons Board and a Council be established to undertake it as is the practice elsewhere.

The structure has been reorganised into five (5) Directorates and six (6) independent units as follows:

Directorates

- Product Evaluation and Registration.
- Quality Control Laboratory.
- Pharmacy Practice and Regulation of Training.
- Inspection and Surveillance.
- Business Support Services.

VI. CORPORATE GOVERNANCE STATEMENT

To ensure effective and efficient service delivery to customers, PPB developed policy guidelines and standard operating procedures for all our business processes.

Among key business processes for which the documents were developed and ready for implementation are:

- Accreditation of training institutions
- Student indexing
- Support supervision for training institutions
- Pre-examination
- Administration of Exams
- Examination process
- Professional registration
- Professional retention
- Medical laboratory registration
- Medical laboratory inspection
- Medical laboratory retention

Together with these and through support from partners and stakeholders, the Board also developed and launched a Continuous Professional Development program as part of career development plan to be linked to annual renewal licenses for medical laboratory personnel in Kenya. As a Health Regulatory State Agency, PPB endeavours to efficiently establish and implement high-end regulatory standards for laboratory infrastructure with embedded focus on safety for both practitioners and patients. In the period under review, we rolled out the first graded National Infrastructural Design for medical laboratory facilities. In the 2019/2020 year, PPB continued to be a secure source of 'value-for-money' regulatory authority by enlisting more vendors/suppliers of diagnostic reagents and equipment. Through stakeholder workshops, elaborate validation procedures and protocols for were established and implemented thereby contributing positively to the Ministry's goal of providing the highest attainable quality healthcare to the citizens especially for diagnostics.

**PHARMACY AND POISONS BOARD
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VII. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

Workings and Financial performance

The Pharmacy and Poisons Board is mandated to make and implement regulations, in consultation with the Cabinet Secretary for Health, which are aimed at ensuring higher standards of safety in the manufacture, distribution and sale of drugs.

This mandate has continued to be delivered during financial year 2019/2020. The Board is in a sound cash position and is in ability to meet its obligations as they fall due. The performance at hand has a bearing on the future market activities. It is significance to note that any changes affecting investors in the economic, social and political environment, has a significant impact on the Pharmacy and Poisons Board.

SECTION B

Compliance with statutory requirements

The Board is in compliance with all statutory obligations including but not limited to: remittances of PAYE, NHIF, NSSF and HELB within the set deadlines.

The Board being the Drugs and Pharmacy practice regulator in Kenya is subject to legal actions in the normal course of business. While it is not possible to project or resolve the final results of all pending legal proceedings, the Board assesses the capability of its requirements regularly against case developments and related legal costs, based on advice from the legal advisers handling specific cases.

SECTION C

Major risks identified in the ERM

The Board updates its Enterprise Risk Management Framework in 2018, on the basis of which Risk Management has been main streamed within the Authority to allow for structured risk assessments on a continuous basis. The Board is responsible for the Board's risk management and at least once every quarter receives reports to enable the review, monitoring and evaluation of the implementation and electiveness of the ERM framework.

SECTION D

Material arrears in statutory/financial obligations.

The Board has no statutory overdue balances and has been on time to remit all pension deductions to an administrator appointed by the Trustees.

SECTION E

Financial integrity and governance issues

There are no issues of financial improbity reported by any board committee or by external auditors. There are no governance issues and no undisclosed conflicts of interest at the Board.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

During the financial year under review, the Board in collaboration with the parent ministry and its key stakeholder's purposes to initiate the following reforms intended to enhance the Board's strategic position in fulfilling its core mandate of regulating training of medical laboratory professionals to improve competencies for delivery of quality health care system in Kenya. The Board will increasingly but firmly;

- a) Sensitize stakeholders and enforce implementation of CPD policy guidelines;
- b) Review/revision of curriculum for Bachelor of Pharmaceutical Sciences;
- c) Verify professional qualifications for all lecturers involved in the training of MLS programs;
- d) Develop and cascade an internship model for BPS graduates;
- e) Initiate partnership with PPB under the Ministry of Finance to list laboratory commodities in the single window system (SWS) to improve efficiency in the online issuance of import permit for vendors of laboratory reagents and equipment;
- f) Roll out of National Standards for laboratory physical infrastructure guidelines to the Counties;
- g) Draft and publish in the Kenya Gazette, the Regulations for conduct Elections of members of PPB to the Board as prescribed under Section 40 of the Act;
- h) Design and procure new generation license and registration certificates for facilities and professional;
- i) Implement Human Resource Policy for grading with staff establishment for existing positions with harmonized terms of employment;
- j) Adopt the Code of Best Practice for Corporate Governance issued by the Centre of Corporate Governance (Kenya) as its benchmark in developing its corporate governance principles. ;
- k) Identify a consultant to facilitate ISO certification for PPB.

With this exciting opportunity and responsibility, I remain optimistic and wish to reaffirm the commitment of the members of the Board to provide effective leadership for the continued efficiency and visibility of Pharmacy and Poisons Board.

**PHARMACY AND POISONS BOARD
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IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 shown in pages 17 to 43.

Principal activities

The principal activities of the Board are outlined in page 3 (I) (b).

Results

The results of the Board for the year ended June 30, 2020 are set out on page 17.

Directors

The members of the Board of Directors who served during the year are shown on page V (II) In accordance with Pharmacy and Poisons Board Act Cap. 244.

Auditors

The Auditor General is responsible for the statutory audit of the Pharmacy and Poisons Board in accordance with the Section 2 of No. 18 of the Public Finance Management (PFM) Act, 2012.

Yours faithfully,

PHARMACY AND POISONS BOARD



Dr. Fred M. Siyoi
Registrar / C.E.O

**PHARMACY AND POISONS BOARD
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30th June 2020**

X. STATEMENT OF BOARD MEMBERS RESPONSIBILITIES.

The Board Members are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year ended on 30th June 2020.

This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances

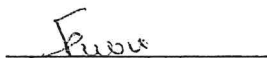
The Board Members accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the Public Finance Management Act and the State Corporations Act. The Board Members are of the opinion that the Board's financial statements give a true and fair view of the state of Authority transactions during the financial year ended 30th June, 2020, and of the Board's financial position as at that date. The Board Members further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Board's financial statements as well as the adequacy of the systems of internal financial control. Nothing has come to the attention of the Board Members to indicate that the Board will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Nothing has come to the attention of the Directors to indicate that the Board will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Board's financial statements were approved by the Board on 8th June 2020 and signed on its behalf by:

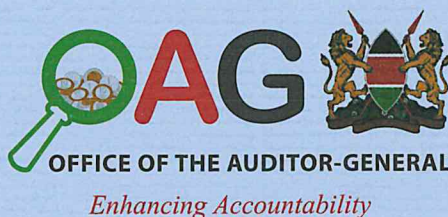

The Registrar / C.E.O


Board Member


Board Member

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON PHARMACY AND POISONS BOARD FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Pharmacy and Poisons Board set out on pages 17 to 43, which comprise of the statement of financial position as at 30 June, 2020, 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 the Pharmacy and Poisons Board as at 30 June, 2020, 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 Public Finance Management Act, 2012 and the Pharmacy and Poisons Act, Cap 244 of the Laws of Kenya.

Basis for Qualified Opinion

1. Inaccuracies in Cash and Cash Equivalents

As disclosed in Note 14 to the financial statements, the statement of financial position reflects cash and cash equivalents balance totalling to Kshs.287,611,055. The balance includes an overdrawn cashbook balance amounting to Kshs.21,938,505 that has been offset against the total cash and bank balance. This is contrary to the requirement of Paragraph 48 of International Public Sector Accounting Standard (IPSAS) No.1 that prohibits offsetting of assets and liabilities and revenue and expenses unless permitted by an IPSAS.

In the circumstances, the accuracy, completeness and validity of cash and cash equivalent balance totalling to Kshs.287,611,055 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

2. Unsupported Property, Plant and Equipment

As disclosed in Note 16 to the financial statements, the statement of financial position reflects the property, plant and equipment balance totalling to Kshs.1,406,573,095. The balance includes the value of land totalling to Kshs.75,000,000 on which the headquarters of the Board stands. However, and as previously reported, the land has no title deed. Further, the balance includes land and buildings in regional offices valued at Kshs.196,279,850 whose entire cost was subjected to a depreciation of 2.5% accumulating to Kshs.10,259,045. However, land is not depreciable.

In addition, the Board did not provide a fixed asset register contrary to Regulation, 143(1) of the Public Finance Management (National Government) Regulations 2015, which require the Accounting Officer to be responsible for maintaining a register of assets under his or her control.

In the circumstances, the accuracy, completeness and validity of the property, plant and equipment balance totalling to Kshs.1,406,573,095 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

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 matter 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

Lack of Board Members

Pharmacy and Poisons Board has operated without a Board of Directors since March, 2020. This contravenes Section 3 of the Pharmacy and Poisons Act that provide for appointment of nine (9) board members to serve for a period of three (3) years. Section 4(4) further provides for a board quorum of five (5) members during board's meetings. Clearly, failure to appoint board members has adversely affected key decisions of the Board curtailing discharge of its mandate as enshrined in the Act. Although the management has indicated that the matter has been communicated to the parent ministry, it's not clear why the parent ministry has taken so long without appointing new board members.

In the circumstances, the Board is in breach of the law.

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 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 overall governance were not effective.

Basis for Conclusion

1. Internal Audit Unit

Review of the Internal Audit Unit revealed that the Board did not have a substantive Head of Internal Audit. This contravenes with Mwongozo chapter 3 Section 3.4 which states that the board should ensure the Head of Internal Audit holds a senior position in the management team, is professionally qualified and is a member in good standing of the professional body responsible for regulating auditors. In addition, the board had only two (2) internal audit staff against an approved staff establishment of five (5) internal audit staff.

In the circumstances, I am unable to confirm the effectiveness the oversight role of the Internal Audit Unit.

2. Weak Control in Stores Management

During the year under review, the Board did not maintain stores control records including bin cards for stock control purposes. In addition, no evidence was availed to confirm that a stock take exercise was conducted at the end of the year. No explanation has been provided for this anomaly.

Consequently, I am unable to confirm the effectiveness of the internal controls of the stores management at the Board.

3. Long Outstanding Trade and other Receivables

As previously reported, the trade and other receivable balance of Kshs.66,249,791 included in the statement of financial position, includes trade debtors totalling to Kshs.30,478,168 which have been outstanding for more than one year. Although a specific provision for bad and doubtful debt of Kshs.1,506,065 has been made in the financial statements, the provision appears inadequate. Further, no reason has been provided for the failure to recover the outstanding debt.

In the circumstances, I am unable to confirm existence of effective debt management and debt collection measures.

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 overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the 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 Board's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Board 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

Board's 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.

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

Auditor-General's Responsibilities for the Audit

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

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

Because of its inherent limitations, internal 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board'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 Board 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 Board 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

03 February, 2022

**PHARMACY AND POISONS BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30th June 2020**

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2020**

		2019-2020	2018-2019
		Kshs	Kshs
	Note		
Revenue from exchange transactions			
Rendering of services	3	1,124,990,214	994,047,393
Finance Income	4	6,838,817	8,920,560
Other income	5	<u>40,221,753</u>	<u>28,727,899</u>
Total revenue		<u>1,172,050,784</u>	<u>1,031,695,852</u>
Expenses			
Use of goods and services	6	30,395,077	43,203,983
Employee costs	7	81,915,758	71,404,686
Board expenses	8	5,679,809	7,675,994
Depreciation	9	181,630,452	183,953,287
Repairs and maintenance	10	28,235,388	44,859,020
General expenses	11	590,706,075	691,713,408
Finance costs	12	938,775	16,968,097
Collection cost	13	<u>193,554,574</u>	<u>246,759,679</u>
Total expenses		<u>1,113,055,907</u>	<u>1,306,538,154</u>
Surplus / (Deficit) for the year		<u>58,994,877</u>	<u>(274,842,302)</u>

**PHARMACY AND POISONS BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
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**STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2020**

		2019-2020	2018-2019
		Kshs	Kshs
Assets	Note		
Current assets			
Cash and cash equivalents	14	287,611,055	761,117,920
Trade and Other Receivables	15	66,249,791	40,265,414
		<u>353,860,846</u>	<u>801,383,334</u>
Non-current assets			
Property, plant and equipment	16	1,406,573,095	1,374,214,229
		<u>1,406,573,095</u>	<u>1,374,214,229</u>
Total assets		<u><u>1,760,433,941</u></u>	<u><u>2,175,597,563</u></u>
Liabilities			
Current liabilities			
Trade and other payables	17	16,368,912	19,527,411
		<u>16,368,912</u>	<u>19,527,411</u>
Total liabilities		<u>16,368,912</u>	<u>19,527,411</u>
Net assets		<u><u>1,744,065,029</u></u>	<u><u>2,156,070,152</u></u>
Reserves			
Reserves	18	6,479,649	6,479,649
Accumulated surplus	19	1,737,585,380	2,149,590,503
		<u>1,744,065,029</u>	<u>2,156,070,152</u>
Total Reserves		<u><u>1,744,065,029</u></u>	<u><u>2,156,070,152</u></u>

The Financial Statements set out on pages 1 to 43 were signed on behalf of the Board of Directors by:

The Registrar / C.E.O

Name: Dr. Fred Main Sinoi

Date: 8/6/2021

Chairman of the Board

Name: Dr. Kioko Jackson

Date: 08/06/2021

**PHARMACY AND POISONS BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
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STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2020

	Reserves Capital Replacement Reserves Kshs	Accumulated Surplus Kshs	Total Kshs
Balance as at 1 July 2018	6,479,649	2,424,432,805	2,430,912,454
Deficit for the year		(274,842,302)	(274,842,302)
Balance as at 30 June 2019	<u>6,479,649</u>	<u>2,149,590,503</u>	<u>2,156,070,152</u>
Balance as at 1 July 2019	6,479,649	2,149,590,503	2,156,070,152
Transfer to the National Treasury		(471,000,000)	(471,000,000)
Surplus for the year		58,994,877	58,994,877
Balance as at 30th June 2020	<u>6,479,649</u>	<u>1,737,585,380</u>	<u>1,744,065,029</u>

**PHARMACY AND POISONS BOARD
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**STATEMENT OF CASH FLOWS FOR THE
YEAR ENDED 30TH JUNE 2020**

Cash flows from operating activities

	2019-2020	2018-2019
	Kshs.	Kshs.
Receipts		
Rendering of Services	1,124,990,214	994,047,393
Finance Income	6,838,817	8,920,560
Other incomes	40,221,753	28,727,899
Total Receipts	1,172,050,784	1,031,695,852
Payments		
Compensation to employees	81,915,758	71,404,686
Board Members Expenses	5,679,809	7,675,994
Use of Goods and Services	30,395,077	43,203,983
Transfer to the National Treasury	471,000,000	-
Repairs and maintenance	28,235,388	44,859,020
General expenses	590,706,075	691,713,408
Finance cost	938,775	16,968,097
Collection cost	193,554,574	246,759,679
Total Payments	1,402,425,455	1,122,584,866
Net Cash flow from Operating activities	(230,374,671)	(90,889,015)
Cash flow from Investing Activities		
Purchase of Property, Plant, Equipment	(213,989,318)	(347,135,768)
(Increase)/decrease in receivables	(25,984,377)	(6,711,502)
Increase/(decrease) in payables	(3,158,499)	(6,695,800)
Net cash flow used in Investing activities	(243,132,194)	(360,543,070)
Cash flow from financing activities	-	-
NET CASHFLOW FROM FINANCING ACTIVITIES	-	-
Net increase/(decrease) in cash and cash equivalent	(473,506,865)	(451,432,085)
Cash and Cash Equivalent as at 1st July 2019	761,117,920	1,212,550,005
Cash and Cash equivalent as at 30th June 2020	287,611,055	761,117,920

PHARMACY AND POISONS BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30th June 2020

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2020

	Approved	Adjustments	Final	Actual on	Performance	
	Budget	Reallocations	Budget	comparable basis	difference	
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020	
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Rendering of services	1,286,120,000	-	1,286,120,000	1,172,050,784	(114,069,216)	
Total income	1,286,120,000	-	1,286,120,000	1,172,050,784	(114,069,216)	(a)
		-				
Expenditure		-				
Compensation of employees	85,000,000	-	85,000,000	81,915,758	3,084,242	(b)
Finance cost	1,000,000	-	1,000,000	938,775	61,225	(c)
Board Expenses	8,000,000	-	8,000,000	5,679,809	2,320,191	(d)
Other payments	1,100,000,000	-	1,100,000,000	1,024,521,566	75,478,434	(e)
Total expenditure	1,194,000,000	-	1,194,000,000	1,113,055,907	80,944,093)	
		-				
Surplus/ (Deficit) for the period	92,120,000	-	92,120,000	58,994,877	(33,125,123)	

- a) Reduction in revenue was due to effects of Covid 19 pandemic worldwide
- b) The Board's Personnel cost was within the approved budgeted amount.
- c) Finance cost – underutilization of finance cost was due to increase in efficiency in financial management
- d) Reduced board member expenses were due to reduced board activities during the period.
- e) Other payments- underutilized due to inability to carry out all activities caused by the Covid 19 scourge.

**PHARMACY AND POISONS BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS

1.GENERAL INFORMATION

The Pharmacy and Poisons Board was established as a Regulatory Authority under the Pharmacy and Poisons Act, Cap 244 and commenced operations on 1st May 1957.

It was established as a body corporate under section 3(6) amended of the Pharmacy and Poisons Act 1993 with the responsibility of regulating the practice of Pharmacy and the manufacture and trade in drugs and poisons.

2.STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Pharmacy and Poisons Board's accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Pharmacy and Poisons Board.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

i. Early adoption of standards

The Pharmacy and Poisons Board adopts new or amended standards in year 2019.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

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

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Pharmacy and Poisons Board and can be measured reliably. No grants were received nor receivable from other government agencies during the financial period and therefore no disclosures of the same in the financial statements.

**PHARMACY AND POISONS BOARD
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Revenue recognition (Continued)

ii) Revenue from exchange transactions

Rendering of services

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

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

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Pharmacy and Poisons Board.

Interest income

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

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the Pharmacy and Poisons Board's right to receive payments is established.

Rental income

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

b) Budget information

The original budget for FY 2019-2020 was approved by the National Treasury. No subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

Pharmacy and Poisons Board's budget is prepared on accrual basis, that is all planned costs and income are presented in a single statement to determine the need of the Board to the actual income and expenditure

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

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actual as per the statement of financial performance has been presented under section xxx of these financial statements.

a) Taxes

Current income tax

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

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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

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

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The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Pharmacy and Poisons Board and the same taxation authority.

Sales tax

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

When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable

- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

a) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

b) Property, plant and equipment

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

c) Leases

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Pharmacy and Poisons Board. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Pharmacy and Poisons Board also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Pharmacy and Poisons Board will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Intangible assets

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

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

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e) Research and development costs

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

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

h) Research and development costs (Continued)

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

f) Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are

classified as held to maturity when the Pharmacy and Poisons Board has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Pharmacy and Poisons Board assesses at each reporting date whether there is objective evidence that a financial asset or an Pharmacy and Poisons Board of financial assets is impaired. A financial asset or a Pharmacy and Poisons Board of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Pharmacy and Poisons Board of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

h) Research and development costs)

i) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

- The debtors or a Pharmacy and Poisons Board of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Pharmacy and Poisons Board determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at

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amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

i) Inventories (Continued)

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Pharmacy and Poisons Board.

j) Provisions

Provisions are recognized when the Pharmacy and Poisons Board has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Pharmacy and Poisons Board expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Pharmacy and Poisons Board does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

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

k) Nature and purpose of reserves

The Pharmacy and Poisons Board creates and maintains reserves in terms of specific requirements.

l) Changes in accounting policies and estimates

The Pharmacy and Poisons Board recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

m) Employee benefits

Retirement benefit plans

The Pharmacy and Poisons Board provides retirement benefits for its employees and directors. Defined contribution plans are post employment benefit plans under which an Pharmacy and Poisons Board pays fixed contributions into a separate Pharmacy and Poisons Board (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

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n) Foreign currency transactions

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

o) Borrowing costs

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

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

p) Related parties

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

q) Service concession arrangements

The Pharmacy and Poisons Board analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Pharmacy and Poisons Board recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Pharmacy and Poisons Board also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily

convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

s) Comparative figures

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

t) 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, 2020.

4 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and assumptions

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

Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Pharmacy and Poisons Board
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed

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- Availability of funding to replace the asset
- Changes in the market in relation to the asset

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

Provisions

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

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 RENDERING OF SERVICES

	2019-2020	2018-2019
	Kshs	Kshs
Professional Licences	32,067,000	47,340,085
Registration of Premises	43,615,000	73,200,510
Wholesale Dealer Licence	13,754,067	16,410,000
Registration of Drug Fees	514,708,940	407,962,520
Pharmaceutical Representative Permit Licence	5,900,705	9,540,000
Registration of Pharmacist Fees	94,903	810,000
Manufacturing Licence	2,449,071	2,300,000
GMP Inspection	118,981,182	105,600,448
Trade Affairs Income	<u>393,419,347</u>	<u>330,883,830</u>
Total revenue from the rendering of services	<u>1,124,990,214</u>	<u>994,047,393</u>

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	2019-2020	2018-2019
	Kshs	Kshs
4. Finance Income		
Finance Income	6,838,817	8,920,560
Total finance Income	<u><u>6,838,817</u></u>	<u><u>8,920,560</u></u>

5. Other income

	2019-2020	2018-2019
	Kshs	Kshs
Advertising Fees	4,561,601	6,696,369
Exam Assessment and Training	17,798,040	13,723,500
Tenders	-	1,000
Miscellaneous Income	892,045	2,313,357
Donations	14,963,530	5,993,673
Other Incomes	2,006,537	-
	<u><u>40,221,753</u></u>	<u><u>28,727,899</u></u>

6. Use of goods and services

	2019-2020	2018-2019
Electricity	4,852,908	5,195,026
Water	748,310	584,637
Security	11,221,900	20,086,871
Consultancy	13,571,959	17,337,449
	<u><u>30,395,077</u></u>	<u><u>43,203,983</u></u>

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7. Employee costs

	2019-2020	2018-2019
	Kshs	Kshs
Basic Salary	56,928,333	53,477,284
House allowance	11,267,193	9,973,477
Extraneous Allowance	1,986,962	245,000
Commuter Allowance	3,062,000	70,000
Non-Practicing Allowance	921,000	285,000
Leave Allowance	1,910,428	56,514
Staff Pension	4,690,842	3,412,011
Salary Arrears	-	2,050,450
NSSF	-	74,000
Interns	1,149,000	1,760,949
Total Employee costs	81,915,758	71,404,686

8. Board expenses

	2019-2020	2018-2019
	Kshs	Kshs
Sitting	4,133,200	4,260,000
Lunches	167,000	20,000
CEO salary	-	-
Transport	721,875	2,715,994
Honoraria	657,734	680,000
Total	5,679,809	7,675,994

9. Depreciation and amortization expense

	2019-2020	2018-2019
	Kshs	Kshs
Property, plant and equipment	181,630,452	183,953,287
Total depreciation and amortization	181,630,452	183,953,287

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10. Repairs and Maintenance

	2019-2020 Kshs	2018-2019 Kshs
Buildings	14,631,638	30,836,210
Office Furniture & Equipment	13,333,750	14,022,810
Maintenance of Laboratory Equipment	270,000	
Total Repairs and Maintenance	28,235,388	44,859,020

11. GENERAL EXPENSES

The following are included in general expenses:

	2019-2020 Kshs	2018-2019 Kshs
Travelling and accommodation	88,550,508	138,171,361
Printing and stationery	95,602,468	31,418,804
Motor vehicle expenses	34,981,836	28,046,750
Telephone and postage	10,477,294	13,875,557
Training, seminars & conferences	8,714,023	57,533,786
Medical Insurance	42,583,909	51,595,509
Insurance	5,427,541	5,228,029
Advertising and publicity	14,909,500	56,247,350
Audit fee	1,160,000	1,160,000
Legal fee	23,954,600	9,613,661
Official entertainment	10,928,909	11,304,701
Donations	3,801,842	11,982,757
IT Expenses	133,125,916	196,265,643
Rent & rates	5,650,164	6,849,729
Office cleaning	21,919,898	11,046,008
Uniform	50,334,555	1,651,384

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Reference Materials	2,315,630	6,506,680
Laboratory Reagents	36,267,482	53,215,699
Total general expenses	590,706,075	691,713,408

12.FINANCE COSTS

	2019-2020 Kshs	2018-2019 Kshs
Bank charges	938,775	607,547
Exchange difference	-	16,360,550
Total finance costs	938775	16,968,097

13.OPERATING EXPENSES/COLLECTION COSTS

	2019-2020 Kshs	2018-2019 Kshs
Drug analysis	9,195,042	10,578,382
Drug crime investigation	9,023,537	14,497,399
Exam assessment & training	34,088,069	39,104,467
GMP (Good Manufacturer Practice) Inspection	36,066,476	92,010,758
Market Surveillance	105,181,450	90,568,672
Total	193,554,574	246,759,679

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14. CASH AND CASH EQUIVALENT	2019-2020 Kshs	2018-2019 Kshs
Current Account	287,611,055	616,579,210
On-call deposits	-	144,538,710
Total Cash and cash equivalent	<u>287,611,055</u>	<u>761,117,920</u>

14(a) DETAILED ANALYSIS OF THE CASH & CASH EQUIVALENT

	Account Number	2019-2020 Kshs	2018-2019 Kshs
Cooperative bank - Kshs	0112003758900	134,936,316	172,972,069
Barclays Bank - Kshs	0708017701	(21,938,505)	39,779,704
National bank - Kshs	01001031846400	119,782,460	363,868,498
Barclays bank - USD	2023469262	<u>54,830,784</u>	<u>39,958,939</u>
Sub-Total		<u>287,611,055</u>	<u>616,579,210</u>
Cooperative bank call deposit	01132003758936	-	144,538,710
Sub-Total		<u>-</u>	<u>144,538,710</u>
Grand Total		<u>287,611,055</u>	<u>761,117,920</u>

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15. TRADE AND OTHER RECEIVABLES

	2019-2020	2018-2019
	Kshs	Kshs
Rent deposit	393,319	393,319
Prepayments	4,187,490	4,187,490
Trade debtors	63,174,047	37,189,670
Provision for bad and doubtful debts	<u>(1,505,065)</u>	<u>(1,505,065)</u>
Total	<u>66,249,791</u>	<u>40,265,414</u>

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16. PROPERTY, PLANT AND EQUIPMENT

COST	Land (Kshs)	Building (Kshs)	Office Partioning (Kshs)	Motor Vehicles (Kshs)	Computer Equipment (Kshs)	Office Equipment (Kshs)	Container (Kshs)	Furniture and Fittings (Kshs)	Lab for Post Market Surveillance (Kshs)	Regional Offices (Kshs)	Car Park (Kshs)	TOTAL (Kshs)
Rate (%)	Nil	2.50%	12.50%	25%	30%	12.50%	12.50%	12.50%	12.50%	2.50%	12.50%	
As at 01.07.2018	75,000,000	332,806,430	126,678,751	134,933,223	376,822,187	159,942,575	490,000	79,530,306	295,310,328	23,888,590	15,781,361	1,621,183,751
Additions	-	-	20,703,893	12,228,300	17,865,344	68,210,354	-	20,906,304	34,830,311	172,391,260	-	347,135,768
Revaluation	-	-	-	-	-	-	-	-	-	-	-	-
Cost as at 30.06.2019	75,000,000	332,806,430	147,382,644	147,161,523	394,687,531	228,152,929	490,000	100,436,610	330,140,639	196,279,850	15,781,361	1,968,319,519
DEPRECIATION												
As at 01.07.2018	-	30,872,863	22,981,512	93,987,946	156,560,267	30,227,795	342,678	28,092,002	44,517,054	597,215	1,972,670	410,152,002
Charge for the year	-	7,548,339	15,550,142	13,293,394	71,438,179	24,740,642	18,415	9,043,076	35,702,948	4,892,066	1,726,086	183,953,287
Acc dep as at 30.06.2019	-	38,421,202	38,531,654	107,281,340	221,998,446	54,968,437	361,093	37,135,078	80,220,002	5,489,281	3,698,756	594,105,289
NBV As at 30.06.2019	75,000,000	294,385,228	108,850,991	39,880,183	166,689,085	173,184,492	128,907	63,301,532	249,920,636	190,790,570	12,082,605	1,374,214,229
NBV As at 30.06.2018	75,000,000	301,933,567	103,697,239	40,945,277	220,261,920	129,714,780	147,322	51,438,304	250,793,274	23,291,375	13,808,691	1,211,031,749
COST												
As at 01.07.2019	75,000,000	332,806,430	147,382,644	147,161,523	394,687,531	228,152,929	490,000	100,436,610	330,140,639	196,279,850	15,781,361	1,968,319,519
Additions	-	-	30,137,779	12,390,621	30,246,561	67,313,724	-	10,458,624	63,442,008	-	-	213,989,318
Transfer	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-	-	-
As at 30.06.2020	75,000,000	332,806,430	177,520,423	159,552,145	424,934,092	295,466,654	490,000	110,895,235	393,582,647	196,279,850	15,781,361	2,182,308,837
DEPRECIATION												
As at 01.07.2019	-	38,421,202	38,531,654	107,281,340	227,998,446	54,968,437	361,093	37,135,078	80,220,002	5,489,281	3,698,756	594,105,290
Charge for the year	-	7,359,632	17,373,596	13,067,701	59,080,694	30,062,277	16,113	9,220,020	39,170,331	4,769,764	1,510,326	181,630,452
Acc dep as at 30.06.2020	-	45,780,833	55,905,250	120,349,041	287,079,140	85,030,714	377,206	46,355,098	119,390,333	10,259,045	5,209,082	775,735,742
NBV as at 30.06.2020	75,000,000	287,025,597	121,615,173	39,203,103	137,854,952	210,435,940	112,794	64,540,137	274,192,314	186,020,805	10,572,279	1,406,573,095
As at 30.06.2019	75,000,000	294,385,228	108,850,991	39,880,183	166,689,085	173,184,492	128,907	63,301,532	249,920,636	190,790,570	12,082,605	1,374,214,229

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17. Trade and other payables

	2019-2020	2018-2019
	Kshs	Kshs
Trade Payables	14,840,322	19,057,436
Other Payables	1,528,590	469,975
	<u>16,368,912</u>	<u>19,527,411</u>

18. Revaluation Reserve

	2019-2020	2018-2019
	Kshs	Kshs
Revaluation of Assets	6,479,649	6,479,649
Total	<u>6,479,649</u>	<u>6,479,649</u>

19. Accumulated Reserve

	2019-2020	2018-2019
	Kshs	Kshs
As at 1st July 2019	2,149,590,503	2,424,432,805
Transfer to the National Treasury	(471,000,000)	-
Surplus /(Deficit) for the year	58,994,877	(274,842,302)
As at 30th June 2020	<u>1,737,585,380</u>	<u>2,149,590,503</u>

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APPENDIX 1: 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	Status
1.0	Property, plant and equipment. Lack of title deeds for LR No. 209/365/5	Follow up is being made with the Ministry of Land so as to secure the title	Outstanding
2.0	Trade and other receivables-Long outstanding debts	Partial recoveries were made during the year	On going
3.0	Cash and cash equivalent	Bank reconciliations were made and presented to the auditors for confirmation	Resolved



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