



**CENTRAL MEDICAL STORES TRUST**

*Trusted Partner in Healthcare*



# ANNUAL REPORT

YEAR ENDED MARCH 2023

## Cover photo:

**Customers from District Hospitals appreciating items during an open day at CMST Regional Medical Stores - Centre.**



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## ACRONYMS AND ABBREVIATIONS

CMST	:	Central Medical Stores Trust
MNSCTP	:	Malawi National Supply Chain Transformation Plan
LPO	:	Local Purchase Orders
IQA	:	Indefinite Quantity Agreement (IQA)
PPDA	:	Public Procurement and Disposal of Public Assets Authority (PPDA)
MMS	:	Medicines and Medical Supplies
GGWS	:	General Goods, Works and Services
MoH	:	Ministry of Health
MoFEP	:	Ministry of Finance and Economic Planning
MoTI	:	Ministry of Trade and Industry
MoJ	:	Ministry of Justice
RFQ	:	Request for Quotation

## MANDATE

CMST is a Public Trust mandated to procure, warehouse, sale and distribute medicines to all public and selected private health facilities in the country. Currently, CMST serves over 700 facilities countywide.

The Trust's establishment was with the expectations of increased financial, managerial and marketing autonomy as a receiving organisation from the then Central Medical Stores (CMS). To the attain expected efficiency, the Trust is managed by Trustees assigned powers to, inter alia, oversee and guide the procurement, warehousing and distribution of quality medicines and related medical supplies in Malawi.

Should the Trust satisfactorily meet the demand for the public health facilities, the Trustees have control to allow the Trust to start serving private health facilities on a commercial scale.

## OBJECTIVES OF THE TRUST

To achieve its mandate, the Trust has the following objectives:

- To ensure an efficient, sustainable and economical national procurement system of quality medicines and medical supplies,
- To ensure the availability of and accessibility to quality medicines and medical supplies at each (public) healthcare facility,
- To offer to the public, non-profit making private health facilities, and — from such a time as the Trustees shall determine — profit making and private health facilities, quality medicines and medical supplies at an affordable cost,
- To ensure that the quality of medicines and medical supplies complies with the requirements defined by the Ministry of Health and other regulatory bodies,



- To securely, safely and efficiently manage, warehouse, distribute, (sale) and supply medicines and medical supplies, regarding national needs, and to the special nature of the goods in question, in accordance with the National Drug Policy,
- To coordinate all medicines, medical supplies and equipment donations to the Trust and Government.

## **STRATEGIC DRIVING FACTORS**

The Central Medical Stores Trust (CMST) encapsulates its corporate pursuit of its mandate and goals in statements that reflect commitment and strategic focus, as follows:

### **Vision**

To be a result-oriented supplier of affordable and approved medicines and medical supplies of guaranteed quality.

### **Mission Statement**

To improve health in Malawi by ensuring a reliable and continuous access to highest quality medicines and medical supplies through efficient procurement, warehousing and distribution services at affordable cost.

### **Core Values**

- Adaptable
- Affordable
- Customer-oriented
- Efficient and effective
- Innovative

- Professional
- Reliable
- Public Health Supply Chain Leader
- Transparent and Accountable

## **GOVERNANCE AND AUTHORITY OF THE BOARD**

The Trust is governed by a Board of Trustees which is the ultimate decision-making authority. To achieve the best fit for its role, the Board comprises member representatives from various key institutions, as guided by the Trust Deed.

As a regular and efficient platform for reviewing progress and decisions, the Board is expected to meet once every quarter. However, extraordinary meetings are convened as and when needed.

Realising the central role it plays in deciding towards a continuous supply of adequate and quality medicines and medical supplies, the Board of Trustees sincerely pledges to exhaust all efforts to achieve and preserve the uppermost values or ethics of corporate governance in executing the business of the Trust, as directed by the Trust Deed.

### **Board of Trustees**

The Trust is a body corporate, duly recognised under the Trustees Incorporation Act (Cap 5:03) of the Laws of Malawi. As a Public Trust, CMST's ultimate oversight and decision-making body is the Board of Trustees which constitutes the following membership:

- The Secretary for Health in the Ministry of Health, or a representative
- Secretary to the Treasury in the Ministry of Finance and Economic Planning,
- The Executive Secretary of the National Local Government Finance Committee,

- One representative of the Malawi Law Society (MLS),
- One representative of the Christian Health Association of Malawi (CHAM),
- One representative of the Institute of Accountants in Malawi (ICAM), and
- One representative of the Pharmaceutical Society of Malawi (Phasom).

The Board of Trustees for the period under review was as follows: Board Chairperson — Mr. Josiah Chidya Mayani, representing Pharmacy Society of Malawi.

**Board Members (2022 – 2023)**

Trustee	:	Mr. Josiah Chidya Mayani, Pharmaceutical Society of Malawi (Phasom).
Trustee	:	Mr. Stephen Chimtengo, Institute of Chartered Accountants in Malawi.
Trustee	:	Mr. Happy Edward Makala, Christian Hospitals Association of Malawi (CHAM).
Ex-Officio	:	Secretary for Health, Dr Samson Mndolo
Ex-Officio	:	Secretary to Treasury, Dr Betchani Tchereni.
Ex-Officio	:	Executive Director, National Local Government Finance Committee (NLGFC), Dr Kondwani Santhe.
Ex-Officio	:	Comptroller, Department of Statutory Corporations, Mr. Peter K. Simbani.

## Executive Management



**DR CHIKAIKO CHADZUNDA**  
Chief Executive Officer



**DR CHARLES KHOMBENI**  
Director of Procurement



**MR GEOFFREY NGWIRA**  
Director of  
Pharmaceutical  
Operations



**MR WASHINGTON KAIMVI**  
Director of Finance and  
Administration



## **BOARD CHAIRPERSON'S REPORT**

## 1.1. Introduction

It is a precious opportunity, once again, distinguished stakeholders, to come before you with a report on the performance of the Central Medical Stores Trust in the last operating period as measured against set goals.

The Central Medical Stores Trust's strategic pursuit in the period 1<sup>st</sup> April 2022 – 31<sup>st</sup> March 2023 was in strict keeping with the nation's expectations of an uninterrupted availability of quality, adequate and accessible medicines. The ultimate measure of CMST's performance in the year therefore remained the customer order fill rate, which is a measure of how much of the customer order is satisfied by the Trust's delivery. This customer order fill rate in the year averaged around 50%.

While this might not be an esteemed performance by the Trust's standards and customers' expectations, it was the best the Trust could manage in this period, given the emergent challenges in the operating environment which ended up complicating the already ever-challenging demands of the over 700 public health facilities that CMST serves.

In response to such, the Trust's efforts then had to see through difficult challenges in the period, including the effects of Covid 19 on global logistics as most of the country's pharmaceuticals are imported; a 25 percent devaluation of the local Kwacha against major currencies, and the general scarcity of forex.

By managing the 50 percent fill rate in this period, the Trust's resilience showed, mainly in the continued management of targets, on top of which were the additional responsibilities such as the critical support in the sourcing of medicines and medical supplies for the unforeseen Cholera pandemic.

Overall, the year was therefore a success, with lessons for the future.

## 1.2. Strategic Performance

For the period under review, CMST continued to strategically pursue its calculated goals along national blueprints such as the Malawi 2063, the Public Sector Reforms (PSR) sitting in the Office of the President and Cabinet, and more specifically, the CMST Corporate Strategy and Business Plan for 2020 – 2025 and CMST Turnaround Strategy for 2021 – 2025.

The strategic chase for goals along the year was hence within the six (6) deliberate strategic lines across the following areas, as per the corporate strategy 2020 – 2025: organisational financial sustainability; improvement of stakeholder engagement; strengthening of supply chain systems; maximisation of use of robust management information systems to effectively manage business processes; enhancing Total Quality Management; and development of human capital.

Along with these long-time goals, specific targets for the operational year included revenue growth; reduction of expiries; improving procurement methods to reduce cost of medicines and medical supplies to health facilities; review of guidelines and standard operating procedures; achieving 100 percent oversight of business processes; and enhancing working conditions for staff.

### 1.2.1. Recapitalisation

As part of the strategic bid to achieve financial sustainability, and consequently improve areas such as procurement of adequate medicines and medical supplies, the Trust planned on negotiating the receipt of scheduled recapitalisation amount of K5.0 billion from the Government of Malawi. Of a total expected K30 billion in recapitalisation, as per agreement with Government in years prior, the Trust had before the period in review received K5.0 billion (in May 2020) and K12.5 billion (in December 2021), both of which were promptly committed to pressing issues in the respective periods they were received. The K5 billion received in May 2020 boosted the procurement of Medicines and Medical Supplies (MMS) through settlement of



outstanding suppliers' accounts (to necessitate continued stock receipts from the suppliers), in addition to establishing of Letters of Credit (LCs) for some foreign suppliers.

By the close of the period under review, the Ministry of Finance was hence expected to clear a balance of K7.5 billion to CMST, as the last lot of the recapitalisation, presumably after the mid-year review of the 2023-2024 budget.

### **1.3. Procurement**

The procurement targets in the year included contributions to improve stock availability and reduce the cost of medicines and medical supplies (MMS) through improving procurement methods. The Annual Procurement Plan (APP) was valued at K32.4 billion, with a projected disposal income estimated at K265 million. Medicines and Medical Supplies were estimated at K27.99 billion; Operational Expenditure (OPEX) procurements at K1.93 billion; and capital assets procurement at K 2.47 billion.

However, medicine and medical supplies contracts concluded were valued at K41.74 billion, mainly through issuance of call-off orders and Local Purchase Orders (LPOs) for emergency supplies. The K41.74 billion also includes procurements for the 2023 — 2024 financial year, purposely initiated in this period as a cover, and to guarantee stock availability. The ultimate performance for MMS contracts (deliveries to CMST, in value) stood at K15.3 billion, mostly due to suppliers' failure to access foreign currency for importation of MMS.

Service and supply of goods contracts valued at K2.48 billion were issued during the period, including the award of a contract at K297 million for consultancy design works for a new national pharmaceutical warehouse. Completed deliveries to CMST for Service and Supply of Goods contracts were reported at 97%.

## **1.4. Sales**

The approved revised target for sales and distribution of medicines and medical supplies to all public health facilities, Christian Health Association in Malawi (CHAM) and other private hospitals was K27.3 billion. As of 31<sup>st</sup> March 2023, the Trust achieved K29.3 billion in sales of medicines and medical supplies following increased demand relative to stock availability and prevailing economic conditions.

## **1.5. Stock Availability**

Stock availability remained an important yardstick, with CMST making all possible efforts to stock all crucial items. Both stock availability and Customer Order Fill Rate averaged around 50% during the year, following marginal suppliers' contract performance from forex scarcity and other logistical challenges. However, the Trust managed to supply all major essential medicines to all public health facilities, even in the wake of the emergent need to support efforts against the Cholera pandemic with medical supplies, in conjunction with development partners and the Malawi Government through the Ministry of Health.

## **1.6. Infrastructure Development**

The Trust continued with strategic plans to realise a planned increase of adequate pharma-grade warehousing space in preparation of the expected amalgamation of all parallel pharmaceutical supply chains into the CMST stream, under the national pharmaceutical supply chain integration project. The Trust therefore continued with strategic plans to extend the existing pharma-grade warehouse at its head office in Lilongwe.



**Earmarked: Site map of the sought extension to the New Central Warehouse at CMST Head Office in Lilongwe**

A consulting firm which will develop designs, architectural drawings, bills of quantities, a bidding document, contract management and supervision of construction of the new warehouse was identified during the year. An inception report for the works was approved and further progress is expected in the next financial year.

## 1.7. Staff recruitments

The Trust, in line with its strategic objective of 'embracing human capital development,' continues to hold staff as the most prized resource. Again, the Trust also sought to align well with the Presidential Transformation Agenda which promotes means of attaining 'a globally competitive and highly

motivated human resource'. The Trust sought to close gaps in critical staffing areas during the year, with four (4) key substantive positions filled, including that of Director of Procurement.

## **1.8. Corporate Governance**

The Trust satisfied all protocols and practices through which it is controlled by authorities and further reports progress to other mandated governance entities, as depicted in the following sampled areas:

### **1.8.1. Progress Performance Reports**

The Trust's performance contracts with both the Office of the President and Cabinet (OPC) and the Public Sector Reforms (PSR) initiative are in good keeping with the Trust's strategic benchmarks, as drawn from the corporate strategy 2020 – 2026. Key performance lines for this period included strengthening of CMST legal and operational framework to increase the mandate of CMST to include production of certain products to reduce production costs and improve access to medicines and medical supplies by users; promoting digitalisation of procurement, warehousing, sales and distribution towards improvement of operational efficiency in procurement, warehousing, sales and distribution, and; enhancing of CMST pharmaceutical warehousing volumes to create capacity for the Malawi National Supply Chain Integration (MNSCI).

Through mandatory periodic reports, the Trust dutifully updated the OPC and PSR on both the successes and challenges in the year, complete with suggested solutions informed by lessons in the operating environment. The Trust also trained specific staff in the completion of these reports to ensure continuous and timely reporting.

### 1.8.2. Institutional Integrity Committee



***CMST IIC Member Catherine Mbughi presenting at an annual IIC Forum on Gifts and Hospitality***

The Trust has a functional Institutional Integrity Committee (IIC), with facilitation of two desk officers from the Anti-Corruption Bureau (ABC). In the period, the committee duly submitted an annual progress report to the Anti-Corruption Bureau (ACB), revised the Fraud and Corruption Policy (FCPP) and administered a staff integrity test across all units, with emphasis on awareness on integrity, gift management, and anonymous reporting. The revised policy is due for the Board's appreciation in the next sitting.

In recognition of its established Gifts and Hospitality Management system, the Trust was invited to present at the National Anti-Corruption Conference in Mangochi in December 2022. The Trust is among the ACB's ten (10) best performing institutions.



## **1.9. Challenges**

The environment in the year under review was a stretching one for the Central Medical Stores Trust, chiefly because of experiences that included the following:

### **1.9.1.Scarcity of Forex**

Forex scarcity challenged CMST's ability to timely settle foreign suppliers' accounts, in turn, leading to challenges in appropriately and competitively performing on their respective contracts with their foreign sources of medicines and medical supplies. Consequently, supplier delays in deliveries of medicines and medical supplies to CMST were evident.

### **1.9.2.Devaluation of the Kwacha**

A 25 percent devaluation of the Kwacha against the global major currencies in May 2022 disturbed CMST's ability to honour debtors, hence affected CMST suppliers' efforts to pay their international sources for medicines and medical supplies.

### **1.9.3. Cholera outbreak**

In the period under review, the country also suffered a Cholera outbreak that affected the annual drug budget for both Central and District Hospitals because the facilities committed significant amounts of funds to procure Cholera medicines and supplies at the expense of regular essentials that are largely supplied by CMST.

### **1.9.4.Continued effects of Covid 19**

The continued effects of the Covid 19 pandemic on global supply chains manifested in challenges in bringing pharmaceuticals into Malawi in the desired amounts and timelines. This caused stocking gaps and high prices of items on the supply market, hindering CMST's budgeted procurements.

### 1.9.5. Demise of Key Staff



**Late Alfred Edwin**

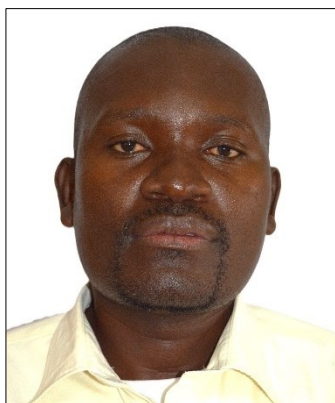


**Late Innocent Issa**



**Late David Chima**

In very unfortunate circumstances, the Trust tragically lost three critical members of staff in a road traffic accident in Zambia in August 2022 while on a study tour. These were Branch Manager for Regional Medical Stores (South) – Mr. Innocent Issa; Quality Assurance Manager – Mr. Alfred Edwin; and Information Technology Manager – Mr. David Gongona Chima.



**Late Berlington  
Mkumba**

In February 2023, an Inventory Control Officer for the main National Pharmaceutical Warehouse in Lilongwe, Mr. Berlington Mkumba, was murdered at his house.

These losses of highly skilled and performing staff were deeply felt as they challenged the Trust's efforts to maintain a well-skilled, productive workforce.

## 1.10. Response to challenges

The Trust explored responses to the challenges encountered. For instance, to respond to all medicines and medical supplies procurements with minimal delay, the Trust is lobbying for upward adjustments of thresholds at which to

require special clearance by the Public Procurement and Disposal of Assets Authority.

To mitigate the shortage of forex, the Trust engaged the Ministries of Finance and Health, Reserve Bank of Malawi and commercial banks for assistance which partially materialised. In addition, the Trust opened new bank accounts with additional commercial accounts to broaden forex sourcing opportunities to facilitate settlement of foreign suppliers' accounts. These include NBS Bank, Eco Bank and Standard Bank of Malawi.

### **1.11.Appreciation and Way Forward**

On behalf of the CMST Board of Trustees, I wish to thank all stakeholders for their support to the Trust, including strategic direction on reforms and financial support. The Board is also appreciative of the CMST Executive Management's implementation of strategic goals and provision of timely feedback on issues needing Board intervention. Through the Executive Management, the Board is pleased with staff performance and resilience in their day-to-day realisation of operational benchmarks.

Going forward, the Trust is committed to doing its best by promoting the provision of the required quality, amount and accessibility of medicines and medical supplies for the health sector's realisation of nation's health gain on which to build ambitions of a capable workforce.



**JOSIAH CHIDYA MAYANI**  
**CMST BOARD CHAIRPERSON**





# **CHIEF EXECUTIVE OFFICER'S REPORT**

## 2.1. Overview

Esteemed Stakeholders,

With approval from the CMST Board of Trustees, the Executive Management implemented the 2022 – 2023 plan, as per the focus and goals of the CMST strategic plan for that period. Suffice it to say, as explained in the Board Chairperson's report above, the operating environment in the said period was unpredictable.

For starters, the unforeseen Cholera outbreak — the worst in so many years — seriously altered the mechanics of both the procurement of medicines and medical supplies by the Trust and the usual consumption patterns of public health facilities which form the main market for the CMST stocks.

Because of this, CMST faced huge challenges in deciding a befitting stock mix because facilities' focus on Cholera left them with reduced room for other products. This was added to other challenges such as a growing amount held by creditors.

However, the performance in the year demonstrated the growing strength of the systems and the dedicated staff behind them.

## 2.2. Financial Performance

Registering K29.88 billion in income in the year ended 31<sup>st</sup> March 2023, the Trust achieved 28% more sales of medicines and medical supplies than the K21.39 billion realised in sales in the year prior. This also translated into 9% sales above the year's budgeted figure of K27.30 billion.

The total income represents a gross profit of K4.6 billion before provisions that totaled MK10.49 billion, including stock write-offs at K4.34 billion, realised exchange losses at K2.47 billion, unrealised exchange losses at K1.34 billion, debtors' impairment at K634 million and depreciation charges at K791 million.

This MK10.49 billion deficit in the year under review compares negatively to the K5.94 billion noted in the year prior.

Gross profit margin for the year ending 31<sup>st</sup> March 2023 was at 18%, with a net deficit of 37%. The current and quick ratios were at 1.28:1 and 0.79:1 respectively, signifying Trust's level of ability to service its debts and other commitments when they fall due.

The Trust enhanced its debt collection in the year, with 171 trade receivables days against 226 days in the year prior, while trade payables days marginally reduced to 262 days against the prior year's 279.

CMST continued to face operational challenges due to scarcity of major trading currencies, especially, the United States Dollar (USD), a situation which aggravated delays in the settlement of foreign suppliers' accounts. With the Trust's commercial banks only providing partial settlements, the situation consequently affected stock availability and liquidity.

Secondly, both the Central Hospitals (CHs) and District Health Offices (DHOs) continued to suffer inadequate funding, consequently depleting their available funding by mid-year, resulting in their creation of receivables for CMST amounting to K3.56 billion for District Hospitals and K7.68 billion for Central Hospitals, as of 31<sup>st</sup> March 2023.

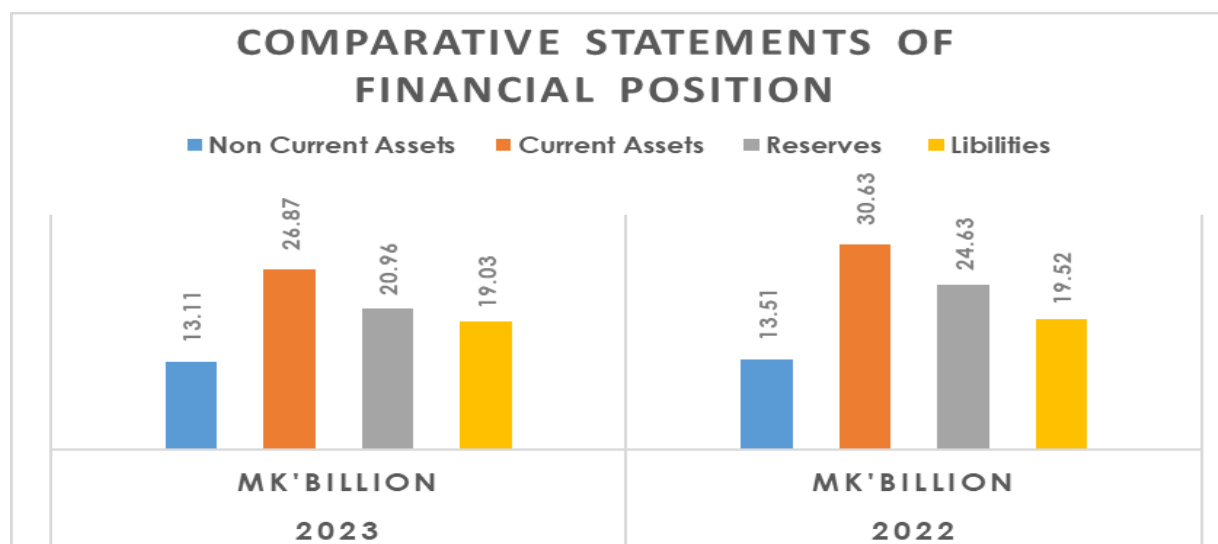
### **2.2.1. Statement of financial position**

The statement of financial position (*Figure 1* below) highlights overall decreases, comparatively between the year under review and the one prior, in non-current assets, due to marginal additions and increase in depreciation while current assets decreased due to utilisation of cash and cash equivalents to support procurement of medicines and medical supplies and financing operational expenses

However, trade and other receivables recorded an increase due to delays in settling of accounts by District Hospitals, Central Hospitals and the Ministry of

Health, with payments from facilities due last term only honoured in the year under review.

Furthermore, reserves projected a downturn due to increases in both treasury fund through recapitalisation and the current year's deficit, while liabilities remained almost constant due to marginal settlements of trade payables.



**Figure 1: Comparative Statements of Financial Position (1<sup>st</sup> April 2021 — 31<sup>st</sup> March 2022 and 1<sup>st</sup> April 2022 — 31<sup>st</sup> March 2023)**

### 2.2.2. Funding for District Health Offices

The National Local Government Finance Committee (NLGFC) provided advance funding of K20.63 billion to CMST for medicines and medical supplies delivered to all District Health Offices (DHOs). However, due to increased need for the items, the facilities drew supplies worth K21.99 billion, resulting in over-supplies to a total of K1.37 billion.

**Table 1: Drug budget utilisation by DHOs**

PERIOD	NLGFC/DHOS		BALANCE
	TOTALS BILLS	FUNDING	
	MK' BILLION	MK' BILLION	
First Quarter	3.788	3.384	0.404
Second Quarter	4.971	3.322	1.649
Third Quarter	5.738	3.734	2.004
Fourth Quarter	7.497	10.187	(2.690)
<b>TOTAL</b>	<b>21.994</b>	<b>20.627</b>	<b>1.367</b>

### 2.3. Annual Financial and Systems Audit

The Audit and Risk function included the review of the adequacy and effectiveness of risk management, and internal control systems for business processes; a review of systems and plans put in place for identification, assessment and mitigation of potential risks facing CMST; and a review of the adequacy and effectiveness of risk management, and internal control systems for business processes.

Graham Carr provided external audit services for the year and the Trust complied with industry obligations, including the International Financial Reporting Standards (IFRS), the financial reporting provision of the Trustees Incorporation Act and the Public Finance Management Act.

As such, an unqualified audit report was issued by Graham Carr and the year's audited accounts appear in **Appendix 1**.

As of 31<sup>st</sup> March 2024, through audit assurances on the audit universe, the control environment for CMST has been enhanced so that business processes continue contributing to the mandate of the Trust. The audits have helped

business processes in reducing inefficiencies and irregularities and thereby enhancing service delivery.

In addition, each business unit or process has a risk register used to track the status of monitoring and mitigation of both emerging and residual risks for the CMST.

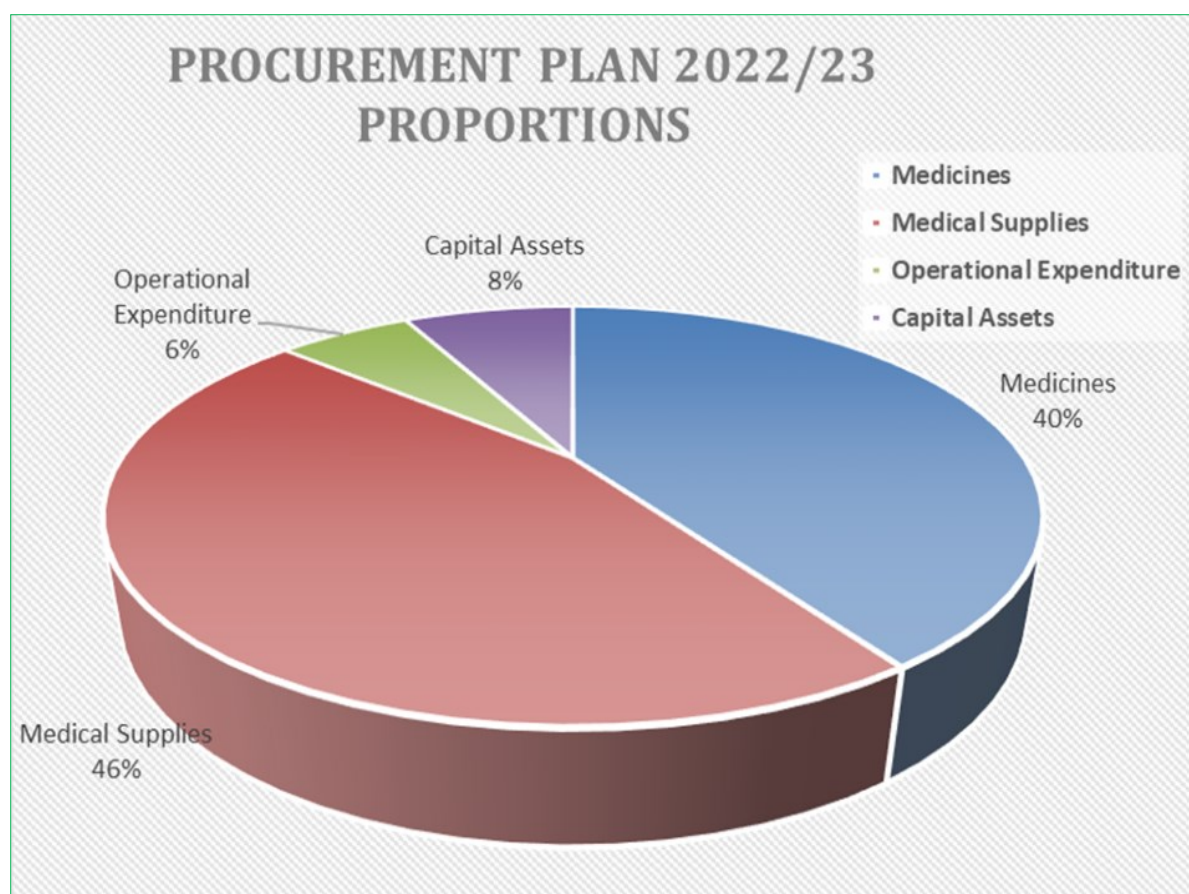
Again, the Audit and Risk function reviewed effectiveness of systems and processes for compliance with the legal framework (laws) and the health sector regulations, especially those relating to Medicines and Medical Supplies. Compliance registers for some business processes have been created to ensure total compliance with the laws and public regulations.

## **2.4. Procurement and Disposal**

Commencing the year with planned procurements pegged at K32,398,379,000.00 and an expected income from a disposal budget of MK265,129,000.00, the Procurement Directorate was challenged to translate CMST's procurement plan into a successful reality. The following is a brief account for the year:

### **2.4.1. Planned and Implemented Procurements**

Of the MK 32,398,379,000.00 planned procurements, Medicines and Medical Supplies (MMS) were estimated at K27,991,173,000.00, operational expenditure procurements at MK1,933,243,000 and procurement of capital assets at K 2,473,963,000.00. *Figure 2* below summarises the 2022 – 2023 procurement plan as follows:



**Figure 2 - Summary of CMST Procurement Plan for 2022 – 2023**

In total, the procurement expenditure for MMS and General Goods, Works and Services (GGWS) for the year came to K51,242,744,910.70, representing 158% of the budget. Reasons for the overshoot include, on the CMST supply side, a surge in demand from the facilities, and on the demand side, price adjustments of MMS due to the devaluation of the Malawi Kwacha.

#### **2.4.2. Medicines and Medical Supplies Framework Agreements**

At year end, two multi-supplier tenders — Framework Agreement and Indefinite Quantity Agreement (IQA) tenders (602 & 603) for Medicines and Medical Supplies valued at about MK30 billion — had been evaluated and approved by the Public Procurement and Disposal of Public Assets Authority (PPDA).

At a total of K48,446,950,282.42, which was 173% of the budgeted contracts, was awarded through issuance of call-off orders and LPOs for emergency

supplies. The rationale of the overshoot include a surge in demand from the facilities and price adjustments due to the devaluation of the Malawi Kwacha.

#### **2.4.3. Service and Supply of Goods Contracts**

Service and supply of goods contracts valued at K2,795,794,628.28, were issued in the year, translating to 63% of the amount budgeted for. This included the award of a contract at a cost of K296,619,375.00 for design works for a new pharmaceutical warehouse whose detailed drawings and bidding documents were concluded pending tendering of construction works.

Apart from cash flow constraints, some procurements for works were not concluded in the period because the Directorate of Buildings in the Ministry of Works and Services was still developing Bills of Quantities (BOQs) to be used in the solicitation documents and that for some requisitions, users had not submitted their BOQs.

#### **2.4.4. Disposal of Assets**

The Trust, in keeping with the Public Procurement and Disposal of Assets guidelines, annually plans for the clearance of unwanted possessions. Income from disposal sales in the year was estimated at K265,129,000.00, mainly from the boarding-off of vehicles and office equipment. However, the process was pending due to an investigation by the Ombudsman over allegations of unprocedural processes around the disposal. As of 31<sup>st</sup> March 2023, the investigation was still underway, hence the disposal had not taken place.





## **2.5. Quality assurance**

CMST maintained quality assurance among its pivotal processes to ascertain expected standards by both the health facilities, as direct customers, and end users. The Trust therefore exhausted quality protocols for all Medicines and Medical Supplies tendered for and subsequently received from suppliers for onward distribution to health facilities. Below are some critical quality checks undertaken in the year:

### **2.5.1. Facilitation of Product Procurement and Distribution**

In the year, the Quality Assurance (QA) function facilitated import permits for three companies, namely Angel Biogenics Limited, Dawa Pharmaceutical Limited and Bliss GVS Pharma, mostly as a response around the urgency sought in sourcing of items with which to contain the cholera outbreak in the period under review.

Due to the persistent low MMS inventory position in the year, resulting in pressure to fast-track distribution of stocks received, the function also

facilitated product distribution waivers for incoming products to lessen processing time and quicken deliveries to facilities.

### **2.5.2. Commencement of Production of Alcohol 96%**

Quality Assurance was interested in quality protocols as CMST commenced production of alcohol (96%) at its production unit at Regional Medical Stores (South) in Blantyre. This is part of the Public Sector Reform's agenda for the Trust. Substantial progress has also been made to commence production of Methylated Spirit.

### **2.5.3. Quality Control Testing**

During the period, 794 medicine batches were sampled for quality control testing, and 76% (604) results were released. Out of these results, 98% (592) passed the tests and 2% (15) failed. More details are in *Table 2* below:

**Table 2: Results of Control Tests on Batches**

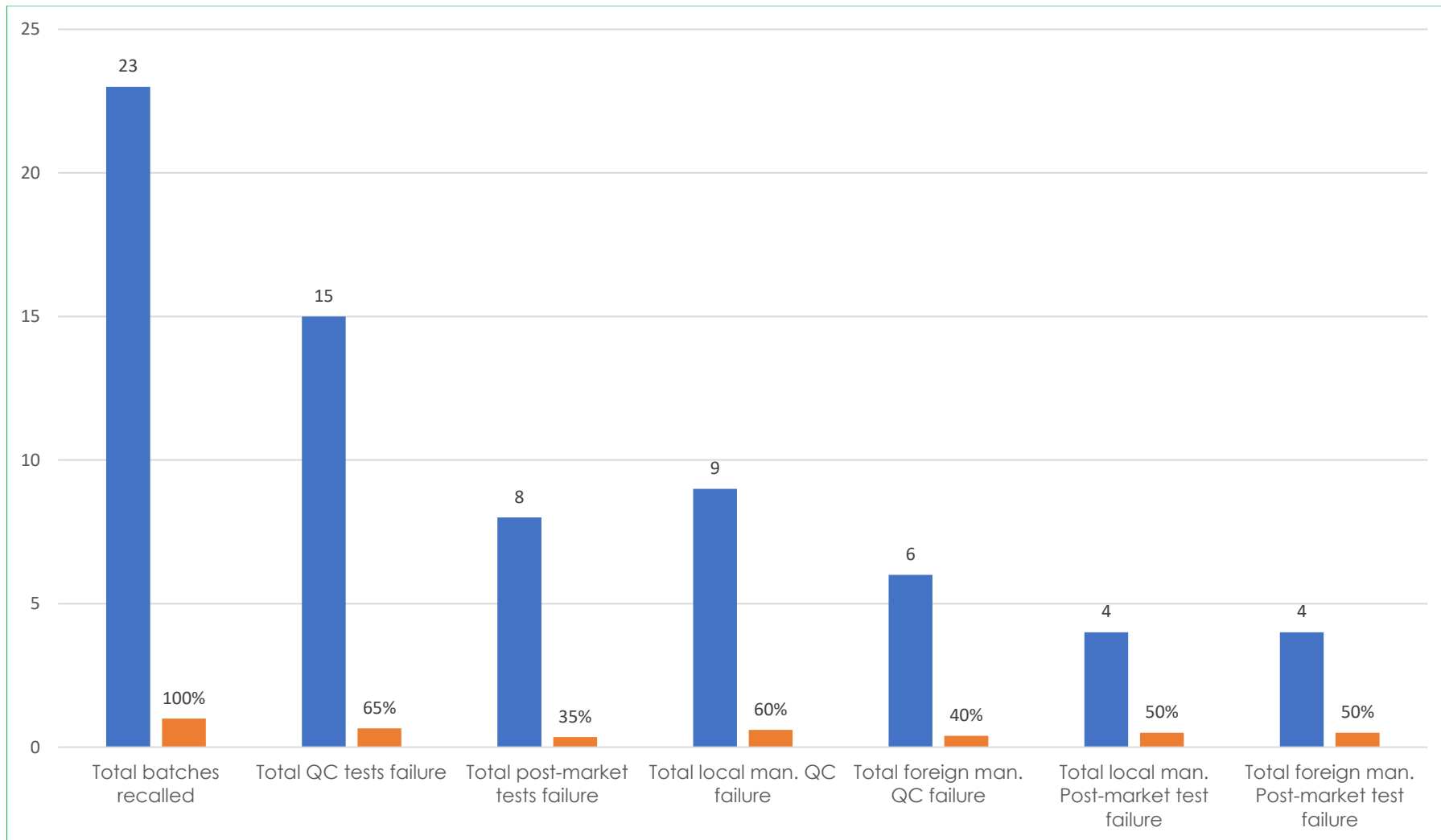
CATEGORIES		NUMBER	PERCENTAGE
Total Batches		2,078	100%
	Medicines	1,383	67%
	Medical Supplies	695	33%
	Locally supplied	1,391	67%
	Foreign supplied	687	33%
	Locally manufactured	1,500	72%
	Foreign manufactured	578	28%
Foreign Manufactured			
	Medicines	950	63%
	Foreign supplied	420	44%
		Locally supplied	530
	Medical Supplies	550	37%
	Foreign supplied	267	49%
		Locally supplied	283
Locally Manufactured and Supplied			
	Medicines	433	75%
	Medical Supplies	145	25%
Total Sampled		794	100%
	Results Released	604	76%
	Pass	592	98%
		Fail	15
	Not Released		190

Using the current sampling protocol, that is, 10% of foreign and 100% for a locally manufactured medicine batches, a total of 528 medicine batches were expected to be sampled in the year, thus 95 for foreign manufactured and 433 for locally manufactured ones. However, 794 batches, representing 50% more, were sampled and presented for quality control testing.

A total invoice of K139,763,200.00 was received from the PMRA for quality control testing, translating into an average cost of K231,396.026 per batch.

#### **2.5.4. Product Recall**

According to CMST's standard quality assurance procedures, products first undergo quality control testing with PMRA, and only upon their approval are they accepted by CMST for onward delivery to facilities. However, sometimes products may, despite successfully passing this test, still show deviations from quality benchmarks after they have been delivered to customers. Such cases necessitate a recall. In the year under review, a total of 23 product batches across 15 product lines were recalled, with 21 of those (91%) being medicines and 2 (9%) medical supplies. This represents a recall rate of 1.1% of the total batches received, which is a success, regarding that the international standards recognise 4% as a permissible rate. *Figure 3* below shows more detail.



**Figure 3: Product Testing Results**

#### **2.5.5. Quality Assurance Audits**

In the period in focus, Regional Medical Stores (South) was audited for compliance with Good Warehouse Practices (GWP) requirements. Overall, the Branch met the minimum requirements for operations.

A survey for installation of an automated temperature monitoring system was done for all CMST warehouses and cold chain vehicles, which identified a requirement of 196 probes for installation, thus 28 at the National Pharmaceutical Warehouse; 40 at Bakali; 20 at Manobec; 24 at RMS Centre; 47 at RMS South; 33 at RMS North, and in 4 cold chain vehicles.

#### **2.5.6. Standard Operating Procedures and Quality Policy Manual**

To heighten consistency, efficiency and safety of operations, CMST reviewed Standard Operating Procedures (SOPs) and drafted a Quality Policy Manual for the Directorate of Pharmaceutical Operations. A total of 21 SOPs were reviewed. Drafts of the Policy and reviewed SOPs were presented to Management for approval.

#### **2.5.7. Licensing and Certification**

In accordance with legal and professional obligations, licenses for warehouses and pharmaceutically trained staff were renewed for the period 2023-2024.



## 2.6. Warehousing

CMST continues to operate with both owned and rented warehouses. From a total desired volume of 33,000m<sup>3</sup> of owned space, the Trust currently only has 7615m<sup>3</sup>, of which 3847m<sup>3</sup> is at the National Pharmaceutical Warehouse (NPW) and the rest among the three regional warehouses: Blantyre in the South, with 1681m<sup>3</sup>, Lilongwe in the Centre, with 1120m<sup>3</sup> and Mzuzu in the North, with 967m<sup>3</sup>. This is supplemented by rented space (Area28 / Bakali warehouse with 2800m<sup>3</sup> and Manobec warehouse with 1200m<sup>3</sup>). The total available space in the year therefore remained at 11,615m<sup>3</sup>.

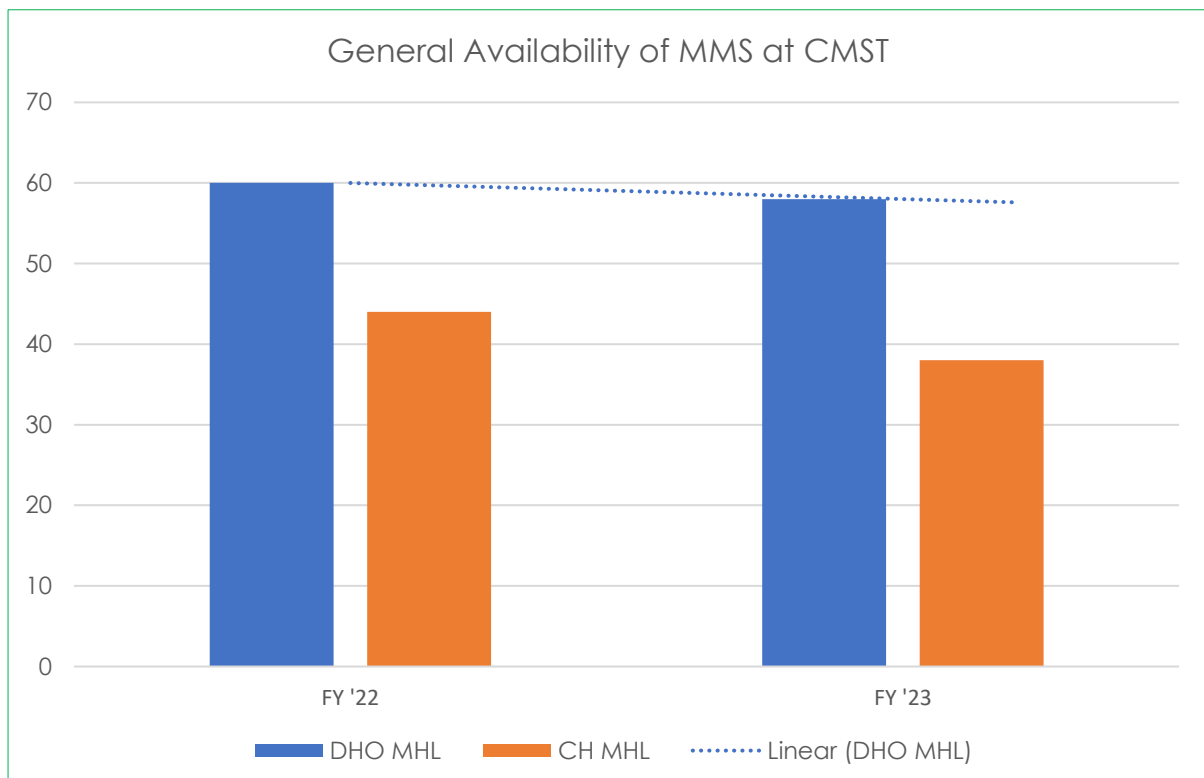
Thus, holding of both CMST owned and third-party stocks sometimes strains the Trust's capacity, much more with expectations of taking over other parallel supply chain streams through the planned national supply chain integration, hence the use of rented warehouses, which are themselves not a financially resolute alternative, consequently igniting plans to increase owned space.

### 2.6.1. New warehouse Project

The design of the new pharmaceutical warehouse was at an advanced stage in the year under review and was completed as at the time of reporting. A draft bill of quantities was already submitted for vetting, and so was the tender document with construction specifications to facilitate the contracting of a suitable contractor for the construction.

### 2.6.2. Availability of Medicine and Medical Supplies

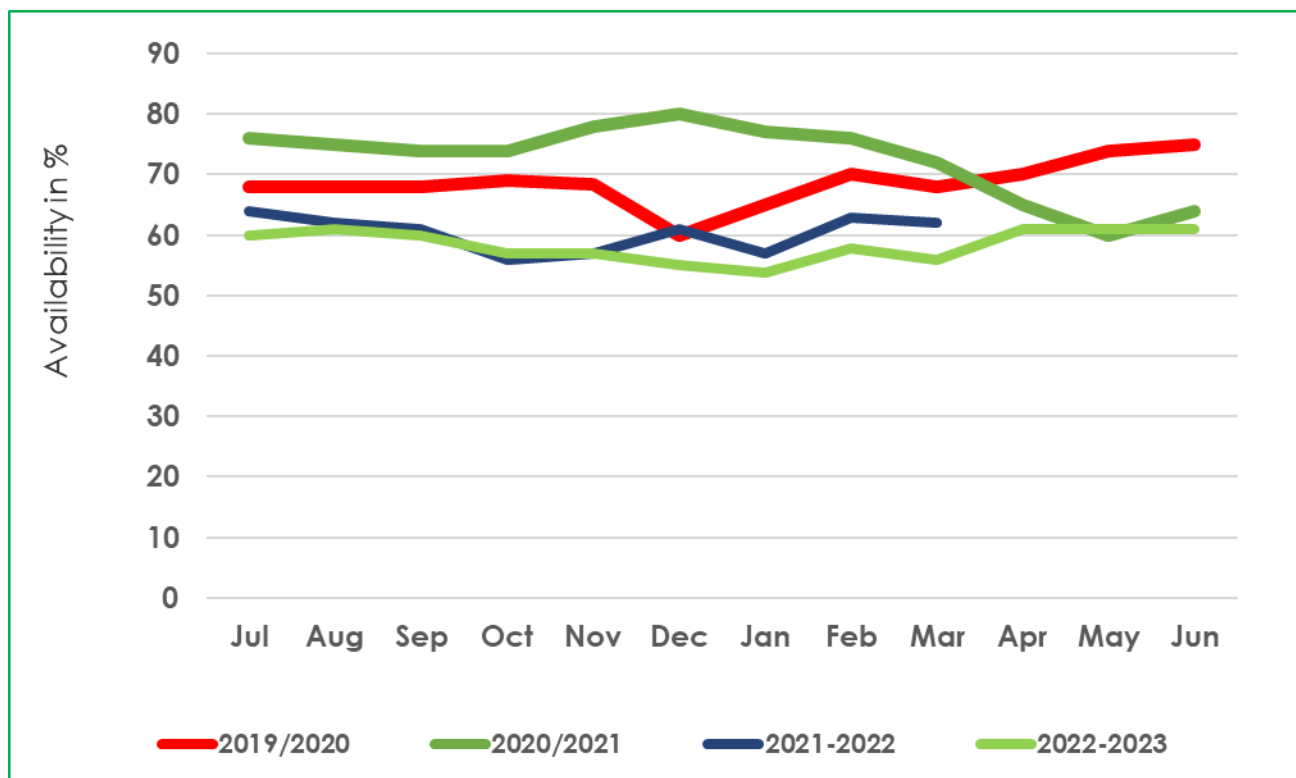
The Trust's stocking priorities are informed by Must-Have-Lists (MHL); one for Central Hospitals and another for District Hospitals and their subsequent health facilities. The availability for MHL items in the year under review averaged 58% for District Hospitals and 38% for Central Hospitals, representing a decline for both as compared to the previous year's averages of 60% and 44%, respectively, as per *Figure 4* below.



**Figure 4: General stock availability at CMST for years 2021 – 2022 and 2022 – 2023**



The stocking trends over the past (four) 4 years also show a steady decline in general stock availability at CMST, as depicted in the *Figure 5* below:



**Figure 5: Stock availability trends in percentages**

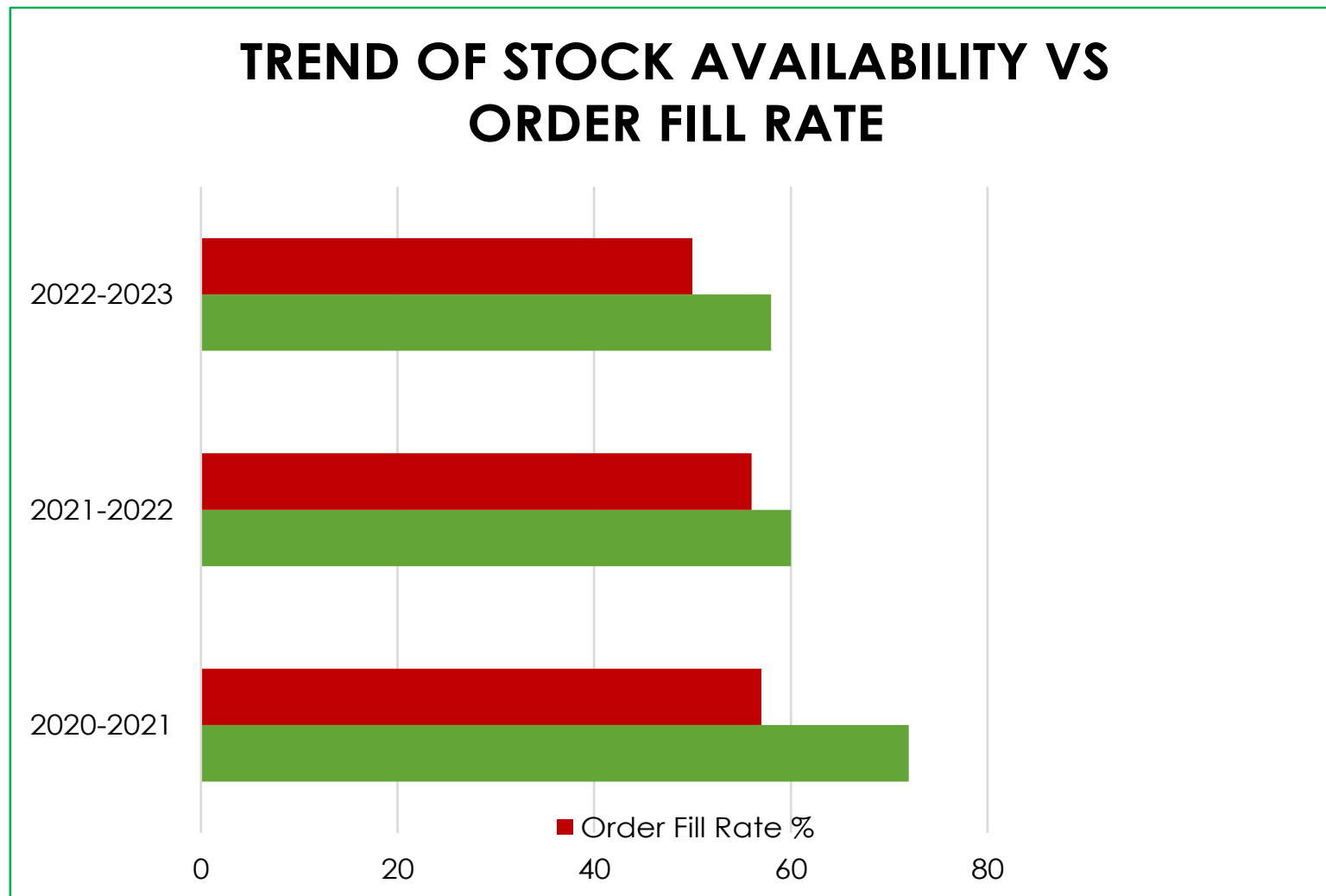
The availability in the period under review was largely affected by procurement challenges resulting from the effects of the Covid 19 on the global health supply chains and operations and the shortage of forex, with the latter also projected to continue to affect availability in the next financial year.

Efforts by Development Partners (DP) to improve stocks were also met with challenges. For instance, deliveries by suppliers of items to CMST under the World Bank I procurement managed by UNICEF, which were scheduled for receipt by CMST between January and March 2023, were not yet completed as at the close of the year under review. However, there remains optimism on improved availability in the next operational period, April 2023 to March 2024, owing to the anticipated deliveries from that procurement, and that earnings from agricultural exports would ease the forex shortages.

### **2.6.3. Customer Order Fill Rate**

The customer order fill rate measures the percentage of ordered items (by customers) that CMST can supply at a given time. In the fourth quarter, the order fill rate was at 47% for the DHO MHL and 41% for the Central Hospital MHL, compared to 49% and 44% for the same facilities in the third quarter, respectively. The customer order fill rate for the year averaged 50% for DHO MHL and 38% for Central Hospital MHL, as compared to 56% and 43%, respectively, the previous year.

The gap between DHO MHL stock availability and fill rate in the year averaged 8%, which was a minimal change from the 6% in the last financial year, and such would signal a largely sustained improvement in the CMST stocking mix. See *Figure 6* below:



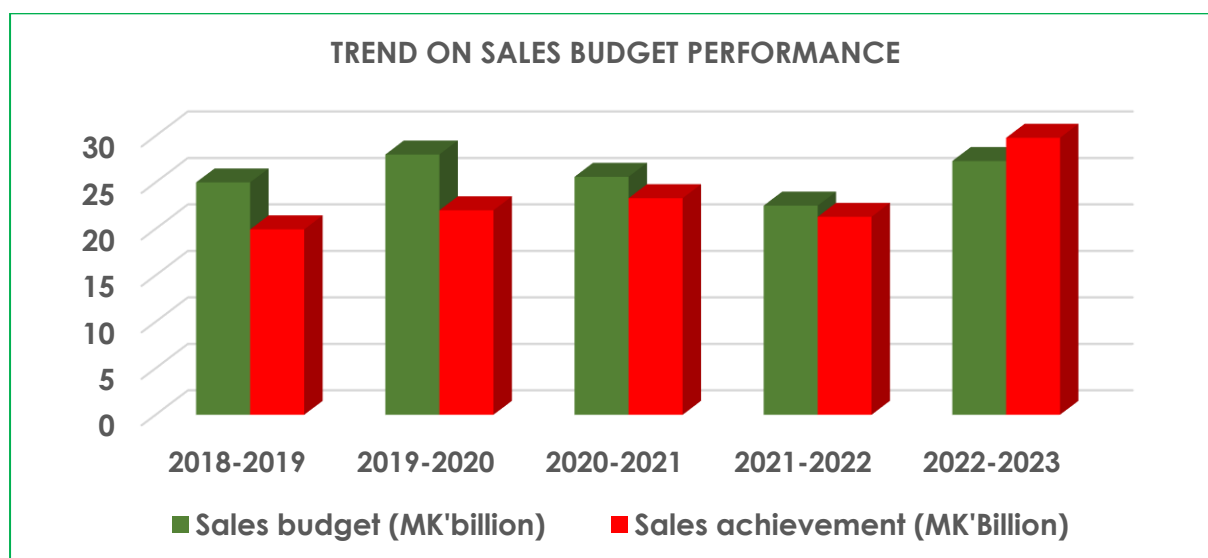
*Figure 6: Trends on DHO MHL Availability vs Customer Order Fill Rate*

Going forward, prudent sales forecasting and focusing on the procurement of the MHL items for the DHO and CH may improve customer service and reduce stocking of slow-moving items and expiries.

#### 2.6.4. Sales Trends

Annual sales were realised at K29.87 billion against the K27.3 billion budgeted for, representing a 9% surplus. This was possible, despite the low customer order fill rate of 50%, among other reasons, because of additional resources to health facility drug budgets and increased sales of medicines and supplies for Cholera.

The annual DHO utilisation of the MMS budget averaged 106% in the period under review, and it was exclusive of the 10% that was devolved to the districts as a contingency fund for their direct purchases from the private market as and when CMST does not have stock they ordered.

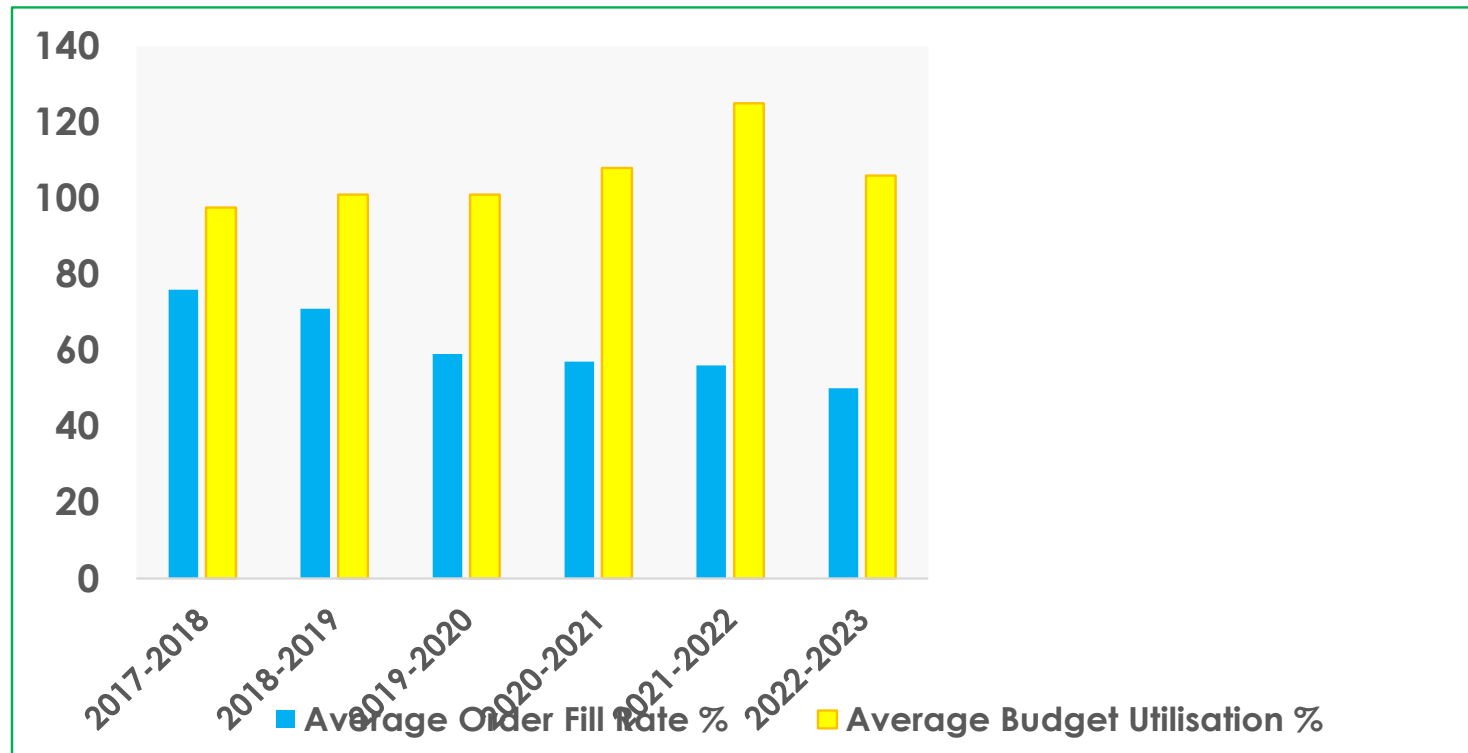


**Figure 7: Trend on sales performance over period**

#### 2.6.5. DHO MMS Budget Burn Rate

This budget overdraw by facilities, even when CMST's stock availability averaged 56%, and against a customer order fill rate of 50%, would suggest

the insufficiency of the hospitals' budgets for Medicines and Medical Supplies. See *Figure 8* on customer fill rates versus budget utilisation.



**Figure 8: Trend on sales performance over period**

### **2.6.6. Inventory Management (Demand and Supply)**

Success of demand and supply management depends on prudent quantification and supply planning. In the year, CMST noted a couple of issues across inventory management. For starters, balancing up demand and supply was a challenge over the past few years, evident by two extreme scenarios of overstocking, leading to stock loss to expiries, and stocking gaps, leading to stockouts.

In the year ended 31<sup>st</sup> March 2023, mitigation measures were spread across four fronts:

- Quantifying requirements in conformance to the estimated size of the CMST market, that is, considering the health facilities' budget limits.
- Undertaking revision of the MHL both for DHO and CH.
- Taking into consideration the generally prolonged lead times from CMST suppliers by placement of requisitions and call orders early enough, that is, up to six (6) months before the beginning of a new financial year.
- Undertaking weekly stock monitoring to inform timely stock replenishment.

The realisation of the full benefits of the interventions on balancing demand and supply was still threatened, though, by a couple of factors:

- Supply challenges from procurement because of the macro-economic realities that include shortage of foreign currency for imports.
- Emergency procurements to cover stockouts emanating from delayed or failed supplier deliveries.

- The likelihood of influx of donations of pharmaceuticals for the Cholera pandemic and natural disasters, with chances of overstocking and consequent expiries.
- The existence of non-performing contracts of very high value as part of the procurement pipeline which CMST had banked on affected timely decision-making for stock replenishment.

#### **2.6.7. Commodity Selection and Quantification for 2023-2024**

In the year, the DHO MHL was revised from 374 items to 226 through a consultative process with hospital staff (including specialists). Among the reasons for the reduction was the removal of non-moving items.

The total annual quantified expectations for MMS were valued at K40.8 billion based on a 12-month requirement on the DHO MHL and frequently ordered CH items.

The sales forecast-based approach arrived at a quantification of K28.7 billion for MMS.

The quantified stocking for 12 months considered the World Bank II procurement also covered the items on DHO MHL for the year 2023-2024. It was, however, viewed prudent not to cut back quantities because the delivery dates for the expected supplies from World Bank II were not very certain, as in the case of the World Bank I, and considering that the downstream pipeline was largely empty.

The Central Hospital MHL was revised from 235 items to 179 items, making a total of 405 items for the combined MHL list for Central and District Hospitals.

#### **2.6.8. Stock Visibility and Monitoring**

CMST worked on increasing stock visibility and one way was through weekly updates for both commercial and third-party stocks on the CMST website ([www.cmst.mw](http://www.cmst.mw)). Stock valuation as of 31<sup>st</sup> March 2023 was at K28.8 billion,



comprising K12.4 billion CMST commercial stock and K16.4 billion third party stock.

By 31<sup>st</sup> March 2023, a total value of K8.8 billion, or 71% of the stock was categorised as fast-moving items and K3.6 billion or 29% slow and non-moving stocks, as detailed below:

**Table 3: Stock movement report as of March 31, 2023**

<b>MOVEMENT CATEGORY</b>	<b>NPW (MK'000')</b>	<b>RMS-S (MK'000')</b>	<b>RMS-C (MK'000')</b>	<b>RMS-N (MK'000')</b>	<b>Total Cost (MK'000')</b>	<b>Summary 2022-2023</b>	<b>Comparare 2021-2022</b>
Fast Moving	3,269,008	1,527,184	1,531,806	1,225,266	7,553,263	61%	46%
Moderate moving	611,007	390,561	177,716	71,031	1,250,315	10%	24%
Non Moving	463,610	136,956	101,841	92,156	794,563	6%	10%
Slow Moving	1,391,037	394,941	651,822	395,543	2,833,342	23%	20%
<b>TOTAL</b>	<b>5,734,661.61</b>	<b>2,449,641</b>	<b>2,463,185.18</b>	<b>1,783,996</b>	<b>12,431,484</b>	<b>100%</b>	<b>100%</b>

To accelerate sales of slow and non-moving items, CMST held customer open days across its warehouses. The events achieved sales of K154 million out of a targeted K2.9 billion.



About K2 billion of slow moving and non-moving stocks have an unlimited shelf life or a shelf life of greater than 12 months.

A couple of options are available to manage the slow and non-moving stock:

- Continue as is to market the stocks, retain unsold ones till their shelf life is lost over time; this option has an effect of portraying CMST to be on a healthy footing financially when that might not be the case.
- Continue marketing stocks that have an unlimited shelf-life, targeting to donate unsaleable stock that may end up expiring, to maintain a more realistic financial position.

- Provide for all the obsolete stock at the end of the year to avoid banking on assets that may not be liquidated in anyway and start on a clean footing.

Management therefore sought approval of the Board of Trustees to write off all obsolete stock to identify and declare the truer financial position of the institution. Stock ageing of the financial year under review was valued at K11 Billion (89% of stock with remaining shelf-life of over 12 months) while K1.4 billion (11%) is stock with remaining shelf-life of less than 12 months).

Stock movement and ageing analysis in the year under review portrays a better position for reduced potential expiries compared to the previous financial year.

#### **2.6.9. Stock Take and Expiries**

The annual stock count exercise was successful, with the inventory accuracy averaging 99.4%, up from 96.6% in the previous year. The exercise confirmed available stock at a value of K28.8 billion of which CMST commercial stock was valued at K12.4 billion and K16.4 billion being third party stock.

Stock expiries amounted to K270 million for the 4<sup>th</sup> quarter. Cumulatively, for the just ended year, expired stock was valued at K3.4 billion for CMST commercial stock, compared to K1.6 billion in the previous year, representing an expiry rate of 5.1%. Most of the expired stock was from among the stock that slowed down or completely stopped moving, that had been procured in larger quantities in the past few years based on estimates at the time.

Expiries are projected at over K1 billion at the end of the next financial year based on the stock ageing analysis. Although the ageing spread within the year appears manageable, a significant number of lines remain slow or non-moving and these present a realistic threat of expiry, even in the wake of extra efforts to liquidate them.

#### **2.6.10. Management of Third-Party Commodities**

CMST continues to stock third-party commodities for the Ministry of Health Disease Programs and other *ad hoc* donations for Cholera and Covid 19. Revenue collection from these third-party services could not be initiated in the year as the costing modality document was still under refinement. Billing is set to commence by the 2<sup>nd</sup> quarter of operational year 2023 - 2024. operational period, with fresh negotiations with the Ministry of Health and its Development Partners.

A new billing model for the third-party services is however now finalised and it provides a basis for collaborating with stakeholders to commence payment for the services.

#### **2.6.11. National Supply Chain Transformation Plan and General reforms**

CMST continued with interventions under the Operational Excellence Project (OPE) to harness improvements in operational and management areas. These improvements are meant to strengthen CMST's pursuit of the National Supply Chain Transformation Plan (NSCTP) whose central objective is to integrate or bring back all parallel MMS supply chains into the CMST stream.

The Kaizen (continuous improvement) interventions of 5S, 3Cs, Daily Kaizen and A3 projects continue to improve orderliness of the warehouse practice, inculcation of a culture of teamwork and facilitation of timely resolution of challenges at different levels of operations.

Implementation of some key interventions may have been delayed either due to requirements of extra technical support or funding from development partners, or both.

Planned key interventions include:

- Linking up of the warehousing and procurement modules within the ERP to improve stock movement monitoring from requisitioning by the warehouses to delivery by suppliers. Reconciling requisitions and deliveries remains a challenge as the warehouse generates numerous stop-gap requisitions in these times of product scarcity.
- Implementation of the bar code scanning system for real time transacting and taking out of manual documentation processes in stock management.
- Cleaning up of product master data and alignment of CMST product catalogue to the National Product catalogue.





*A distribution van finding its way to Misuku in Chitipa.*

## **2.7. Distribution**

CMST continues to maintain a duo-level distribution system — the first one for internal deliveries or transfer of products from the national warehouse level to Regional Medical Stores and the other for the subsequent one – the last mile distribution – a transfer of items from the Regional Medical Stores to health facility doorsteps.

### **2.7.1. Internal deliveries**

Cumulatively, 11,387m<sup>3</sup> of essential medicines and medical supplies were distributed to the Regional Medical Stores with an average of 949m<sup>3</sup> during the period under review.

This represents a decrease of 5% in volumes distributed to Regional Medical Stores compared to the previous reporting period with a monthly average of

1,013m<sup>3</sup>. However, total volumes distributed in the reporting period were below the target of 1200 m<sup>3</sup>. Cumulatively, distance covered decreased by 17 percent, from 250,945km to 207,591km, as attributed to insufficient stocks at the National Pharmaceutical Warehouse.

**Table 4: Summary of Internal Distribution volumes moved**

TOTAK ANNUAL VOLUMES (CBM)	ACTUAL	PLANNED	ACTUAL VS PLANNED	REMARKS
2022-2023	11,387	14,400	79%	Comparably, the 5% drop between 2022 – 2023 and 2023 – 2024 was generally due to low stock volumes
2021-2022	12,161	14,400	84%	

Fuel expenditure increased by 63% from K67 in the last reporting period to million to K109 million in 2022 – 2023, among the reasons, because of the devaluation of the kwacha and the price of diesel going up by 30.61% in June 2022.

On average, monthly consumption of fuel used in the current period (5,258 litres) was 10% lower than that of the previous period (5,842 litres). This is in comparison to a decreased volume distributed as above. But comparing the total distance covered, the fuel was used less efficiently in the reporting period than in the previous period by 8% and this could be attributed to an ageing fleet with inefficient consumption.



**Table 5: Summary of Internal Distribution Fuel expense**

PARAMETERS	2022-2023	2021-2022	ACTUAL VS PREVIOUS	REMARKS
Distance Covered in the Year (km)	207,591	250,945	-17%	Decrease, generally due to low stock volumes
Fuel expenses for the Year (K'000)	109,000	67,000	63%	Increase in cost of fuel due to the impact of devaluation and ageing fleet
Fuel (litres) used for the distance	5,258	5,842	-10%	Decrease, generally due to low stock volumes

The maintenance and service costs of distribution vehicles for the reporting period were K96 million.

### **2.7.2. Last Mile Distribution**

Last Mile Distribution (LMD) encompasses all issues in the movement of Medicines and Medical Supplies from CMST warehouses to health facilities following the completion of customer order procedures. Cumulative volumes of essential medicines distributed to the facilities dropped from 11,616m<sup>3</sup> from the last reporting period to 10,333m<sup>3</sup>. This represents a decrease of 9%, mostly due to low replenishing power because of shortage of forex and non-compliance of suppliers with delivery schedules. Cumulative average volumes distributed to the facilities in the current reporting period were hence below the monthly target of 1,200 m<sup>3</sup>. The table below summarises comparative LMD volumes moved in the last two operating periods.

**Table 6: Summary of Last Mile Distribution volumes moved**

TOTAL ANNUAL VOLUMES(CBM)	ACTUAL	PLANNED	OPTIMISATION RATE	REMARKS
2022-2023	10,333	14,400	72%	Comparably, the 11% drop between 2022 – 2023 and 2023 – 2024 was generally due to low stock volumes
2021-2022	11,616	14,400	81%	

Cumulative volumes of nutritional products delivered to the facilities was 1,808 m3 against 2,057m3 in the previous reporting period with a monthly average of 181m3; a 12% drop. Failure of UNICEF to mobilise more resources in the procurement of Nutritional products contributed to the decline in the distribution trend of the products.

**Table 7: Distribution Cost Per CBM**

Month	Target Volume	Actual Volume	Actual Cost vs Volume	Contract Cost/CBM (MK)	Actual CBM Cost	Target CBM Cost	variance (+/-) Actual vs Target %
Apr	1,200	1,103	47,123.52	47,563.67	51,977,238.30	52,462,728.0	-0.9%
May	1,200	1,134	46,849.98	47,563.67	53,127,882.73	53,937,201.8	-1.5%
Jun	1,200	752	46,607.37	47,563.67	35,048,744.63	35,767,879.8	-2.1%
Jul	1,200	369	37,668.05	38,050.94	13,899,512.28	14,040,796.9	-1.0%
Aug	1,200	1,204	37,965.78	38,050.94	45,710,799.48	45,813,331.76	-0.2%
Sep	1,200	903	39,027.33	38,050.94	35,241,681.69	34,359,998.82	2.5%
Oct	1,200	975	37,913.31	38,050.94	36,979,932.06	37,114,173.42	-0.4%
Nov	1,200	919	37,919.44	38,050.94	34,847,961.63	34,968,813.86	-0.3%
Dec	1,200	1,134	37,871.11	38,050.94	42,964,476.77	43,168,487.02	-0.5%
Jan	1,200	486	37,933.00	38,050.94	18,435,437.55	18,492,756.84	-0.3%
Feb	1,200	1,241	37,957.10	38,050.94	47,104,755.00	47,104,755.00	-24.7%
Mar	1,200	1,395	37,974.18	38,050.94	52,973,974.64	52,973,974.64	-20.2%
<b>Grand Total</b>		<b>11,616</b>			<b>468,312,396.76</b>	<b>470,204,897.85</b>	<b>-0.4%</b>
<b>Average</b>		<b>968</b>	<b>40,234.18</b>	<b>40,429.12</b>	<b>39,026,033.06</b>	<b>39,183,741.49</b>	<b>-0.4%</b>

The distribution cost per volume (m<sup>3</sup>) was lower in value terms but cumulatively increased by 1.4% in the current year from 0.4% in the last reporting period, against the target costs and the contract estimate of 1200 m<sup>3</sup>. This was because of longer distances covered while carrying smaller volumes.

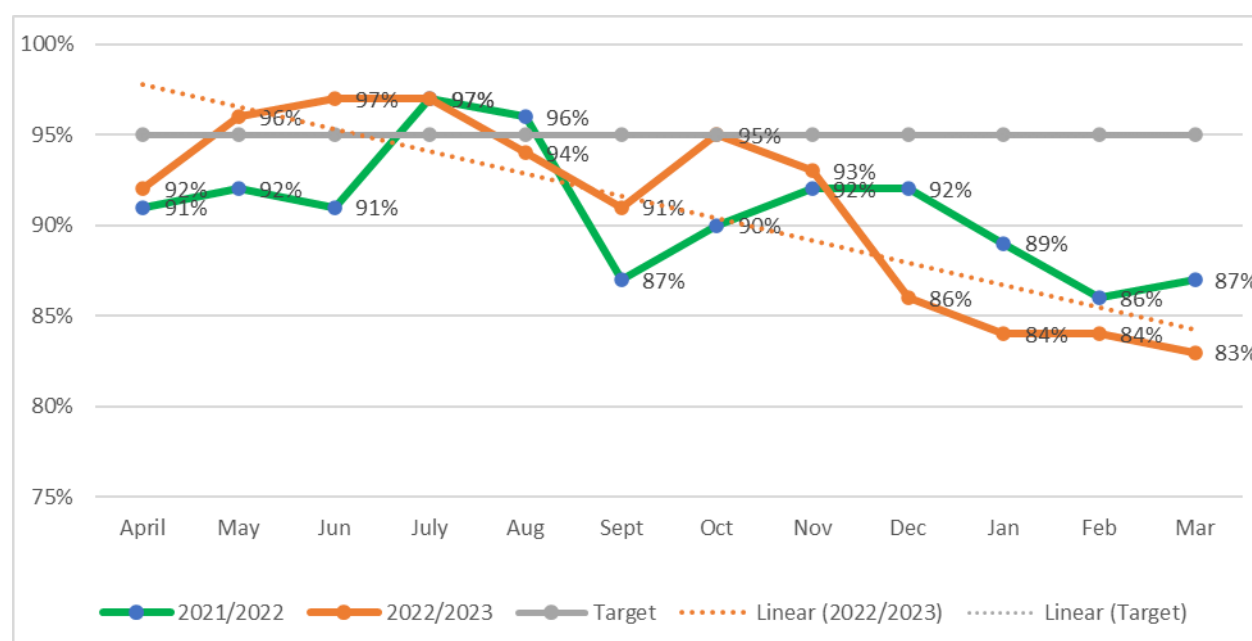
### **2.7.3. Distribution Distance and Costs**

Cumulatively, total distance covered increased from 220,438km in the previous reporting period to 240,140km in the period under review. The 8 percent increase was due to the impact of two cyclones which created more route diversions.

The distribution cost increased from K618 in the last reporting period to K834 in the present, among the many reasons, one being that price schedules of the contract with the third-party distributor was revised in May 2022 in response to the rising cost of fuel and vehicle maintenance.

### **2.7.4. Delivery Conformance to Distribution Schedule**

The overall LMD average conformance was 91%, against 92% in the preceding period. The average deviation of 1% was observed against a contract estimate of 95%. The missed target was due to the impact of the two cyclones that rendered some roads impassable, with some bridges washed away, at times demanding the hiring of boats, bicycles and motorcycles to salvage the situation in certain areas and ensure that medicines and medical supplies were timely delivered to health facilities.

**Figure 8: Conformance to Last Mile Delivery Plan**

### 2.7.5. Health Facility Visits

The Trust made 7,142 health facility visits (or drops) in the reporting period, compared to 6,974 in the previous period. The 2% increase in drops was due to multiple visits to the facilities. The delayed funding in the procurement of nutritional commodities caused misalignment of the distribution lists hence multiple visits to the facilities. On average, 595 facilities were serviced monthly in the reporting period against 581 in the previous period, representing a 2 % rise, but still falling off-target by 14% from the benchmark of 679 facilities.

### 2.7.6. MOH Special Order for Covid19 Essentials

In September 2021, the Ministry of Health requested the Trust to purchase and distribute on its behalf essential Medicines and Medical Supplies using Covid-19 funds amounting to K1.5 billion. A sum of K1.4billion was utilised in that procurement and the distribution of essential medicines and medical supplies used the balance.

**2.7.7. Cyclone Freddy Donations**

The Trust provided storage and distribution services of 102m<sup>3</sup> of different types of donated items in response to Cyclone Freddy which mostly affected the Southern Region. The following were the donations delivered through CMST Warehouses in the table below [Table 9.4.1]

**Table 9: Cyclone Freddy Donations**

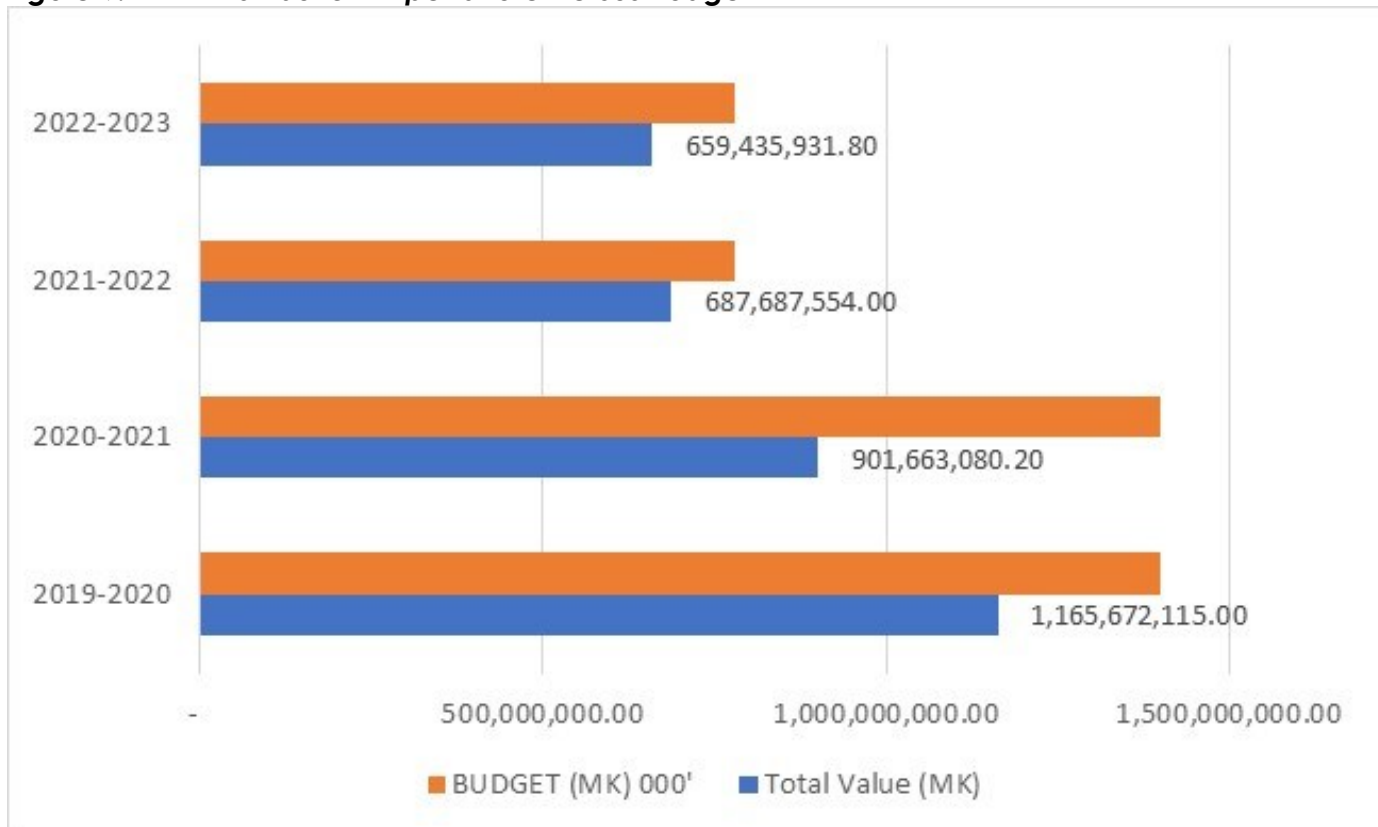
Donor	Total Distance Covered (KM)	Distribution costs (Subsistence Allowances) (MK)	Total Volume Occupied by Warehouse (CBM)	Remark
DODMA	2,089	2,277,000.00	27.1	Distributed by CMST
Cholera Donation		No Distribution Expenses from CMST	10	The stocks were collected from RMS-South by Blantyre DHO and world Food Program.
Covid-19 Items		No Distribution Expenses from CMST	9	The stocks were collected by the beneficiaries
World Bank Donation Phase 1		No Distribution Expenses from CMST	29	The stocks were collected by the beneficiaries
Tanzanian Donation		No Distribution Expenses from CMST	7.35	The stocks were distributed by the ministry of health and allowances and fuel was covered by the ministry of health.
Egyptian Donation		No Distribution Expenses from CMST	11.35	The stocks were distributed by the ministry of health and allowances and fuel was covered by the ministry of health
Indian Donation		No Distribution Expenses from CMST	5.4	The stocks were distributed by the ministry of health and allowances and fuel was covered by the ministry of health
Artemis Donation		No Distribution Expenses from CMST	3	The stocks were distributed by the ministry of health and allowances and fuel was covered by the ministry of health
<b>TOTAL</b>	<b>2,089</b>	<b>2,277,000.00</b>	<b>102.2</b>	

### 2.7.8. Distribution Expenditure

Distribution expenditure for LMD was K659 million in the reporting period compared to MK687 million in the previous period. There was a decrease of 3.5% for the two reporting periods. However, distribution expenditure represents 81% of the distribution contract. [cf. fig 9.5.1].

On average, monthly expenditure of MK 54 million was utilised in the reporting period. This represents a 20% and 12% decrease respectively below the monthly contract estimate of the MK 64 million.

**Figure 9: LMD Distribution Expenditure Versus Budget**





## **2.8. Information Communication and Technology (ICT)**

The primary role of the ICT Section is to ensure that CMST achieves its strategic objective of maintaining a robust Information Management System in line with good ICT governance best practices. The ICT Section is therefore responsible for the provision of cross-cutting ICT services to ensure effective Enterprise Resource Planning (ERP) Management and support, enhanced Network Security, ICT Contract Service support and ICT Infrastructure Management. Therefore during 2023 – 2024 Financial Year, ICT Section carried out different initiatives within the scope of the following Strategic areas:

### **2.8.1. ICT governance**

The ICT Section reviewed the implementation plan for the overall ICT strategic objective, as provided for within the CMST Corporate Strategy, and aligned it to the Malawi National Supply Chain Transformation Plan (MNSCTP) to support Government's initiative on digital transformation in streamlining Supply Chain Ecosystems.

### **2.8.2. ERP Management and Support**

The ICT Section also supported CMST's ERP continuous system improvements through the Operation Excellence Project (OPE) funded by Global Fund. The Project ensured the ERP System's enhancement and promoted data governance and use of management reports to support quick decision making by CMST Executive Management on availability of Medicine and Medical Supplies.

### **2.8.3. Infrastructure Management and Optimisation**

The ICT Section carried out enhancement of CMST ICT Infrastructure which included procurement of ICT equipment, software, and the revamping of CMST Network for RMS South.

#### **2.8.4. Support of ICT Service Contract**

The Section initiated renewal processes of different ICT related Service contracts to ensure uninterrupted ICT critical services.

#### **2.8.5. ICT Plans for 2023 – 2024**

To ensure sustenance of ongoing improvements, CMST has the following plans for the period 2024-2025:

- **Upgrade of CMST Enterprise Resource Planning:** Through project management, ICT Section will align the ERP Project objective with CMST business objectives and support implementation of a CMST ERP Upgrade best fit which will be integrated with a barcode scan solution.
- **ERP Integration:** ICT Section will support integration efforts of the CMST ERP System with other Electronic Management Information Systems to arrest existing Supply Chain challenges which include lack of visibility, data integrity and consistency.
- **Review of ICT Policies and Procedures:** Outdated ICT Policies and Procedures will be reviewed to ensure all such documents remain relevant to current ICT trends.

**Table 10: Summary of ICT progress in 2022 - 2023 ICT Activity progress schedule**

NO	FOCUS AREA	KEY RESULT AREAS	MEANS OF VERIFICATION/KEY PERFORMANCE INDICATORS	RESULTS/ OUTCOMES/ IMPACT	TARGET DATE	TARGET (%)	RATING (%)
1	ICT Governance	Align ERP Project Strategic objectives and implementation plan with Malawi National Supply Chain Transformation Plan	ERP Project Objectives and Implementation Plan review for CMST corporate strategy	Reviewed and aligned ERP project objectives and implementation plan	May, 2024	100	100
2	ERP Management	Conduct ERP System continuous improvement through Global Fund project	System Data quality, Reduced system errors and availability of management reports	Improved CMST ERP reliable quality data, improved response time	Dec, 2023	100	100
		ERP Upgrade and Integration	System functionality, performance and integration	Fully functional, integrated ERP System	Dec, 2025	100	30
3	Infrastructure Management	Facilitate procurement of ICT Infrastructure	Availability of new hardware and software	Enhanced CMST ICT Infrastructure	March, 2023	100	90
4	Network and Security	Revamp network for RMS South	Network performance	Improved CMST network performance	August, 2023	100	100

### **2.8.6. Plans for Next Operating Period**

For the next operating period, 2023-2024, CMST plans to build on successes and lesson from the current year, and the following is a brief of plans:

- To ensure organisational financial sustainability, the Trust will look forward to the disbursement by the Government of the final K7 billion in recapitalisation. The Trust will also continue with efforts leading to the expected growth of revenue by 20% by 2025. While working on reducing expiries from 7% to 2%, the Trust will also work on improving stock availability.
- The Trust is also putting in all efforts to improve stakeholder engagement to strengthen and continue implementing customer-centric organisational systems to address current and emerging national pharmaceutical supply chain issues. This shall be done through holding open days with customers, expecting this to contribute to the improvement of customer satisfaction.
- Among the ways of strengthening the supply chain systems, the Trust plans to increase owned warehouse capacity to 33,000 pallet spaces. Again, a 20% reduction in the cost of MMS is expected from improving procurement methods.
- The Trust must also maximise the use of robust management information systems to effectively manage business processes. This will be pursued, in among other ways, by seeking to implement a fully functional ERP and achieving stock visibility and traceability at all levels of supply chain.
- To enhance Total Quality Management (TQM) across governance, operational and management processes, will work towards developing and reviewing SOPs and guidelines, of course with an overall aim of providing oversight services to 100% of all business processes to achieve 100% TQM by 2025.

- For human resource capital development, the Trust will work to report on enhanced working conditions by 100 percent, at least as guided by leads provided by the 2020-2021 Job Evaluation and Functional Review report.

## 2.9. Appreciation

The Trust realises that all success reported herein would never have materialised if it were not for the support of partners numerous to mention.

However, let me single out the untiring support of the Ministry of Health in making sure the Trust runs in line with the nation's strategy on health.

Again, the collaborating partners have put in a lot of support to help CMST take bold decisions towards sought strategic outcomes.

I also extend appreciation to the Board of Trustees for strategic oversight and encouraging a smooth working environment.

But most of all, immense appreciation goes to staff for smooth implementation of plans in the year under review.



**CHIKAIKO CHADZUNDA, PhD**  
**CHIEF EXECUTIVE OFFICER**

**Appendix 1**

**AUDITED FINANCIAL ACCOUNTS  
FOR YEAR ENDED 31<sup>ST</sup> MARCH 2023**



CENTRAL MEDICAL STORES TRUST

FINANCIAL STATEMENTS

31 MARCH 2023





CENTRAL MEDICAL STORES TRUST

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2023

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Statement of cash flows	11
Notes to the financial statements	12 - 35

# CENTRAL MEDICAL STORES TRUST

## TRUSTEES' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2023

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### Registered office:

Central Medical Stores Trust  
Mzimba Street  
Private Bag 55  
Lilongwe

### Bankers:

National Bank of Malawi Plc

### Attorneys:

Likongwe and Company  
Legal Practitioners  
Plot Number 12/30  
Off Dunduzu Road, Area 12  
P.O. Box 30171  
Lilongwe 3.

### Independent auditors:

Graham Carr  
ADL House  
P.O. Box 898  
Lilongwe

Graham Carr, Chartered Accountants and Business Advisors (Malawi) have indicated their willingness to continue as auditors in respect of the 31 March 2024 financial statements.



BOARD CHAIRPERSON



TRUSTEE

22/09/2023

DATE

22/09/23

DATE

## CENTRAL MEDICAL STORES TRUST

### STATEMENT OF TRUSTEES' RESPONSIBILITIES FOR THE YEAR ENDED 31 MARCH 2023

The Trustees are required to prepare financial statements for each financial period that gives a true and fair view of the state of affairs of the Trust as at the financial year and of the profit or loss of the Trust for that period.

The Trustees confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2023. The Trustees also makes sure that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and which enable them to ensure that the financial statements comply with the Trustees Incorporation Act of 1962 and International Financial Reporting Standards. They are responsible for safeguarding the assets of the Trust and, hence, for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

No matters have come to the attention of the Trustees to indicate that the Trust will not remain a going concern for at least the ensuing financial period.

The Trustees acknowledge the role of the responsibility of an auditor which is to express an independent opinion on these financial statements based on their audit. They conducted their audit in accordance with International Standards on Auditing. Those standards require them to comply with ethical requirements and plan to perform the audit and to obtained reasonable assurance about whether the financial statements are free from material misstatement.

The Trustees are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Trust and of its operating results.

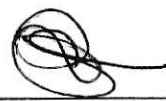
The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with International Financial Reporting Standards (IFRS).

#### Approval of financial statements

The financial statements of the Trust were approved for issue by the Board of Trustees on 22/09/2023 and were signed on its behalf by :-



BOARD CHAIRPERSON



TRUSTEE



**AUDITOR'S REPORT TO THE MEMBERS OF  
CENTRAL MEDICAL STORES TRUST**

**ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2023**

**Opinion**

We have audited the financial statements of Central Medical Stores Trust, which comprise the statement of financial position as at 31 March 2023, and the statement of profit or loss and other comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Central Medical Stores Trust as at 31 March 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the financial reporting provision of the Trustees Incorporation Act, 1962 and the Public Finance Management Act, 2022.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Trust in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material uncertainty related to going concern**

We draw attention to note 23 in the financial statements which indicates that the Trust incurred a loss for the year of MK10.5 billion (2022:loss for the period of MK5.9billion). The going concern of the Trust is dependent on the continued business operations for the next foreseeable future, the resumption of profitable operations and continued support from the Government of Malawi. Our opinion is not modified in respect of this matter.

**Key audit matter**

Existence and valuation of inventories.

*See note 8 to the financial statements*

Total inventories of MK13.8 billion represent 33% of total assets of the Trust as at the reporting date. These inventories mainly consists of drugs and medical supplies kept at various warehouses managed by the Trust across the country. Valuation of inventories is at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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Audit . Tax . Advisory

Partners: Cornwell Banda, Dorothy Ngwira Mrs, Martha Nyirongo Mrs

**AUDITOR'S REPORT TO THE MEMBERS OF  
CENTRAL MEDICAL STORES TRUST  
ON THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023**

**Key audit matter (continued)**

We have determined existence and valuation of the inventories as a key audit matter due to the significance of the balance on the financial statements and the process of valuation of inventories which includes assessment of net realizable value thus involving management use of estimates and judgement.

In addition, due to the nature of the inventories, geographical spread of the warehouses and the significant effort required by the audit team in assessing the existence and valuation of inventories, this matter was determined to be a key audit matter in our audit of the financial statements.

**How we have addressed**

Our audit procedures to test the existence of the inventories consisted of the following:

- Testing the inventory cycle counts that are periodically performed by management inspecting quarterly inventory count reports.
- We attended the period-end inventory count at all the Trust's warehouses to observe that counts are performed by the Trust and to agree the existence of the inventory based on our sampling methodology.
- We compared our count results with the results of the counts by the Trust's representatives; and
- We traced the quantities of our sampled items from the stock count sheets and agreed them to the final valuation report.

Procedures carried out to test valuation of inventories included the following:

- We selected a sample of inventory items on which we re-performed the weighted average cost calculation and compared the weighted average cost to the last purchase invoices.
- The results of the review above were compared to the results of the system calculated valuation of inventory figures.
- We tested the ageing report used by management that it correctly aged inventory items by agreeing a sample of aged inventory items to the last recorded invoice in order to assess whether all obsolete and spoiled items identified during the physical inventory count have all been included in the schedule of expired drugs.
- We assessed the net realizable values of inventory lines to recent selling prices on invoices raised to customers.



**AUDITOR'S REPORT TO THE MEMBERS OF  
CENTRAL MEDICAL STORES TRUST  
ON THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023**

**Other matters - limitation of distribution and use**

The Trust's financial statements have been prepared in order for the responsible party to meet the user's requirements. As a result, the financial statements may not be suitable for other purposes.

Our report has been prepared solely for the use of the responsible party and the user and should not be distributed to or used by any other parties.

We have not modified our opinion in respect of this matter.

**Responsibilities of Trustees for the financial statements**

The Trustees are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We 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 our 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.

# AUDITOR'S REPORT TO THE MEMBERS OF CENTRAL MEDICAL STORES TRUST

## ON THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2023

### Auditor's responsibilities for the audit of the financial statements - continued

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trust.
- Conclude on the appropriateness of the organisation'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 organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organisation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and are prepared in all material respects in accordance with the financing agreement.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the organisation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Trust with a statement that we 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 our independence, and where applicable, related safeguards.



Graham Carr  
Chartered Accountants (Malawi)  
Cornwell Banda

Date: 28<sup>th</sup> September 2023

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Audit . Tax . Advisory

Partners: Cornwell Banda, Dorothy Ngwira Mrs, Martha Nyirongo Mrs



# CENTRAL MEDICAL STORES TRUST

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023

	Note	2023 MK'000	2022 MK'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	12,855,505	13,344,063
Long term staff receivables	9	253,169	169,055
<b>Total non-current assets</b>		<b>13,108,674</b>	<b>13,513,118</b>
<b>Current assets</b>			
Inventories	8	13,201,247	13,814,100
Trade and other receivables	9	9,053,173	7,379,688
Cash and cash equivalents	10	4,619,720	9,435,668
<b>Total current assets</b>		<b>26,874,140</b>	<b>30,629,456</b>
<b>Total assets</b>		<b>39,982,814</b>	<b>44,142,574</b>
<b>RESERVES AND LIABILITIES</b>			
<b>Reserves</b>			
Treasury fund	11	41,354,824	34,323,775
Capital fund	12	339,816	546,924
Revaluation reserve	13	11,250,005	11,500,098
Accumulated loss	14	(31,987,218)	(21,745,496)
<b>Total reserves</b>		<b>20,957,427</b>	<b>24,625,301</b>
<b>Current liabilities</b>			
Trade and other payables	15	19,025,387	19,517,273
<b>Total reserves and liabilities</b>		<b>39,982,814</b>	<b>44,142,574</b>

These financial statements were authorised for issue by the Board of Trustees on 22/09/2023 following acceptance by the Auditor General and are signed on its behalf by:

  
BOARD CHAIRPERSON

  
TRUSTEE

# CENTRAL MEDICAL STORES TRUST

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2023

	Note	12 Months 31/03/2023 MK'000	9 Months 20/06/2022 MK'000
Revenue	16	29,879,791	21,392,635
Costs of sales	17	(25,309,954)	(17,541,960)
<b>Gross profit</b>		<b>4,569,837</b>	<b>3,850,674</b>
Other income	18	1,784,577	750,721
Administrative expenses	19	(11,432,423)	(7,949,254)
Distribution costs	19	(974,203)	(848,667)
Unrealised foreign exchange loss		(2,468,653)	(363,964)
Realised foreign exchange loss		(1,336,731)	(454,584)
(Loss) before impairment of receivables		(9,857,596)	(5,015,074)
Impairment loss	19	(634,219)	(928,647)
Loss for the year		(10,491,815)	(5,943,721)
<b>Other comprehensive income</b>			
Amortization of capital fund assets		207,108	161,464
Total other comprehensive income		207,108	161,464
<b>Total comprehensive loss for the period</b>		<b>(10,284,707)</b>	<b>(5,782,257)</b>

CENTRAL MEDICAL STORES TRUST

STATEMENT OF CHANGES IN RESERVES  
FOR THE YEAR ENDED 31 MARCH 2023

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	Capital fund MK'000	Treasury fund MK'000	Revaluation reserve MK'000	Accumulated loss MK'000	Total MK'000
Balance as at 1 July 2021	708,388	21,823,775	11,687,607	(15,989,284)	18,230,486
Loss for the year	-	-	-	(5,943,721)	(5,943,721)
Recapitalisation funds	-	12,500,000	-	-	12,500,000
Depreciation relating to revalued assets	(161,464)	-	(187,509)	187,509	(161,464)
Balance as at 1 April 2022	546,924	34,323,775	11,500,098	(21,745,496)	24,625,301
Loss for the period	-	-	-	(10,491,815)	(10,491,815)
Recapitalisation funds	-	7,031,049	-	-	7,031,049
Depreciation on revalued assets	(207,108)	-	(250,093)	250,093	(207,108)
Balance as at 31 March 2023	339,816	41,354,824	11,250,005	(31,987,218)	20,957,427

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# CENTRAL MEDICAL STORES TRUST

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2023

	2023 MK'000	2022 MK'000
<b>Operating activities</b>		
(Loss) for the period	(10,491,815)	(5,943,721)
Depreciation	791,999	711,626
Amortisation of capital fund assets	(207,108)	(161,464)
	<u>(9,906,924)</u>	<u>(5,393,559)</u>
Change in inventories	612,854	7,746,494
Change in long term staff receivables	(84,114)	(57,519)
Change in trade and other receivables	(1,673,486)	(4,038,443)
Change in trade and other payables	(491,886)	(2,070,967)
	<u>(11,543,556)</u>	<u>(3,813,993)</u>
<b>Investing/financing activities</b>		
Acquisition of property, plant and equipment	(303,441)	(47,069)
Recapitalisation receipts from Treasury	7,031,049	12,500,000
	<u>6,727,608</u>	<u>12,452,931</u>
<b>Net cash inflow from investing/financing activities</b>		
	<u>6,727,608</u>	<u>12,452,931</u>
Net (decrease)/increase in cash and cash equivalents	(4,815,948)	8,638,938
Cash and cash equivalents at the beginning of the year	9,435,668	796,731
	<u>4,619,720</u>	<u>9,435,668</u>
<b>Cash and cash equivalents at the end of the year</b>		
	<u>4,619,720</u>	<u>9,435,668</u>
<b>ADDITIONAL INFORMATION</b>		
(Decrease)/Increase in net working capital	<u>(6,368,466)</u>	<u>10,276,022</u>

**1 REPORTING ENTITY**

Central Medical Stores Trust is a registered Trust under the Trustees Incorporation Act of 1962. The address of the Trust's registered office is Mzimba Street, Private Bag 55, Lilongwe.

The Trust is primarily engaged in procurement, warehousing, sale and distribution of medicines, medical supplies and related products to the government health facilities, approved NGO health facilities and private health facilities.

**2 BASIS OF PREPARATION**

**(a) Statement of compliance**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings.

**(b) Basis of measurement**

These financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings.

**(c) Functional and presentation currency**

The financial statements are presented in Malawi Kwacha which is the Trust's functional currency. All financial information presented in Malawi Kwacha have been rounded to the nearest thousand.

**(d) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgement in the application of policies and reported amounts in assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of the IFRS that have significant effect on the financial statements and estimates on the amounts recognised are discussed in Note 3.2 and 4.

**(d) Going Concern**

The financial statements have been prepared on a going concern basis as the directors have made an assessment of the Trust's ability to continue as a going concern and have a reasonable expectation that the Trust has adequate resources to continue operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

## 2.1 Adoption of New and Revised International Financial Reporting Standards/ (IFRSs)

These financial statements have been prepared in accordance with International Financial Reporting Standards. These financial statements have also been prepared on the historical cost convention basis as modified by the revaluation of land and buildings, and financial assets and financial liabilities at fair value through profit or loss. The principal accounting policies adopted are set out below: -

## 2.2 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements

The Trust has adopted those new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 July 2021.

The new and revised standards adopted in the current period are as follows:

### *IFRS 16 Leases*

Issued in January 2016. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Effective for annual reporting periods beginning on or after 1 January 2020.

The directors anticipate that the new standards, amendments and interpretations will be adopted in the financial statements when they become effective. The Trust has assessed where practicable, the potential impact of these new standards, amendments and interpretations that will be effective in future periods.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the Trust, which are set out below, have been applied consistently to all periods presented in these statements:

### 3.1 Revenue

Revenue is measured at the fair value of the consideration received or receivables and represents amount receivable for goods supplied, net of discounts, return, value added taxes, import duties and excise tax, in the ordinary course of the Trust's activities. Revenue is recognised on delivery of goods and services to customers.

### 3.2 Property, plant and equipment

#### (i) Recognition and measurement

All property plant and equipment is initially recorded at cost. Leasehold and freehold land and buildings are subsequently carried at revalued amount, being its fair value, based on valuations by external independent valuers, less subsequent accumulated depreciation, and subsequent accumulated impairment losses. All other property plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour plus any other directly attributable to bringing the asset to a working condition for its intended use.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023

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**(ii) Subsequent costs**

Subsequent costs are included in the asset's carrying amount or recognised as a separate assets as appropriate only when it is probable that future economic benefits associated with the item will flow to the Trust and the value of item can be measured realisably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

**(iii) Depreciation**

Freehold land is not depreciated as it is deemed to have an indefinite useful life. Depreciation on other assets is calculated using the straight - line method to allocate their cost to their residual values over their estimated useful lives and is generally recognised in profit and loss, as follows:

	Years	Percentage
Buildings	33 years	3%
Plant and machinery	5 years	20%
Motor vehicles	5 years	20%
Office equipment	5 years	20%
Furniture and fittings	5 years	20%
Computer Software	4 years	25%

**(iii) Depreciation**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property plant and equipment and are recognised in other operating income/other operating expense in profit or loss. On disposal of revalued assets, amounts in the revaluation reserve relating to the asset are transferred to retained earnings.

**3.3 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**3.4 Impairment of assets****(i) Financial assets**

At each reporting date, the Trust assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably such that the carrying value is higher than the net realisable value.

**Financial assets (continued)**

Objective evidence that financial assets include default or restructuring of the advance by the Trust on terms that the Trust would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to Trust assets such as adverse changes in the payment status of borrowers or issuers in the Trust economic conditions that correlate with defaults in the Trust.

Impairment losses on assets measured at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

The Trust consider of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are the collectively assessed for any impairment that has been incurred but not yet identified .Financial assets that are not individually significant are then collectively assessed of impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

When a loan is deemed uncollectible, it is written off and recognised in profit or loss. Subsequent recoveries are recognised in profit or loss. If the amount of the impairment subsequently decreases due to an event occurring after the write- down, the realise of the allowance is recognised in profit or loss.

**(ii) Non - Financial assets**

The carrying of the Trust's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exist, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

The recoverable amount of an assets or cash - generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flow are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). The goodwill acquired in business combination, for the purpose of impairment testing, is allocated to cash- generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash - generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit ( group of units) on a prorata basis.



### 3.5 Financial instruments

#### (i) Recognition

The term financial instruments include assets and liabilities. Financial instruments are initially recognised at cost, which is fair value of the consideration paid or received to acquire the asset or liability respectively.

Subsequent to initial recognition, all financial statements are measured at fair value except for the Trust's originated loans and receivables (to held for sale), held to maturity investments and other financial assets whose fair value cannot be reliably measured. Where the assets have a fixed maturity date they are measured at amortised cost using the effective interest rate method. Those that do not have a fixed maturity date are measured at cost, less where applicable, permanent diminution in value.

#### (ii) Derecognition

The Trust derecognises a financial asset when contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfer nor substantially all of the risk and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Trust is recognised as a separate asset or liability.

#### (iii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Trust currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

#### (iv) Fair value measurement

Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market of which the Trust has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Trust measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regraded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Trust uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into pricing a transaction.

**(iv) Fair value measurement (continued)**

The best evidence of the fair value of a financial instrument at initial transaction is normally the transaction price, i.e. the fair value of the consideration given or received. If the Trust determines that the fair value at initial recognition differs from the transaction price and the fair evidence neither by a quoted price in an active market, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Trust measures assets long positions at a bid price and liabilities and short positions at an ask price. Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Trust on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio - level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Trust recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

**3.6 Employee services benefits**

**a) Short term employee benefits**

Short - term benefits consists of salaries, accumulated leave payments, bonuses and any non-monetary benefits such as medical aid contributions.

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services is provided. A liability is recognised for the amount expected to be paid if the Trust has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**b) Pension obligations**

The Trust contributes to a defined contribution plan managed by Old Mutual Limited. The scheme is generally funded through payments to a privately administered pension insurance plan on a mandatory and contractual basis. A defined contribution plan is a pension plan under which the Trust pays fixed contributions into a separate entity. The Trust has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

### 3.7 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 3.8 Provisions

Provisions are recognised when the Trust has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money.

### 3.9 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included in current liabilities in the statement of financial position. Cash and cash equivalents are measured at amortized cost.

### 3.10 Treasury fund

The treasury fund represents start up and additional capital funds provided by the Trustees for the operation of the entity.

### 3.11 Financing costs

Interest income is recognised in profit or loss as it accrues, taking into account the effective yield on the asset. All interest and other costs incurred in connection with borrowing are expensed as incurred. The interest expense component of finance lease payments is recognised in profit or loss.

### 3.12 Income tax

Central Medical Stores Trust is exempt from income tax under paragraph (6) (xi) of Central Medical Stores Trust Schedule of the Taxation Act Cap 41:01 and therefore no deferred or income tax is accounted for in the financial statements.

## SIGNIFICANT ACCOUNTING POLICIES ( CONTINUED )

### 3.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection is expected in one year or less they are classified as current assets, if not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 3.14 Foreign currency transactions

Foreign currency transaction are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period- end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

### 3.15 Revaluation reserve

Surplus on the revaluation of assets is transferred to non-distributable revaluation reserve. Depreciation on revalued property, plant and equipment is charged to other comprehensive income. On the subsequent sale or retirement of a revalued property, the attributed evaluable surplus remaining in the property in the property revaluation reserve is transferred directly to the surplus/ deficit reserve.

### 3.16 Contingent liabilities

Contingent liabilities are potential liabilities that arise from past event whose existence will be confirmed. Provision for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management judgement.

## 4 DETERMINATION OF FAIR VALUES

A number of the Trust's accounting policies and disclosures require the determination of fair value, for both financial and non- financial assets and liabilities. Fair values have been determined for measurement and /or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### 4.1 Property, plant and equipment

The property, plant and equipment held for use in the production and for administrative purposes, are stated at their depreciated replacement amounts, being the fair value at the revaluation date, less any subsequent accumulated depreciation and subsequent impairment losses.

### Property, plant and equipment (continued)

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that would be determined using fair values at the reporting date. Any revaluation increase arising on the revaluation is credited to the revaluation reserve and a decrease in carrying amount arising on the revaluation is charged to other comprehensive income to the extent that it exceeds the property's revaluation reserve relating to previous revaluations.

Depreciation on the revalued properties is charged to other comprehensive income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property's revaluation reserve is transferred directly to retained earnings. Motor vehicles, fixtures and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property and plant in course of construction for production or administrative purpose are carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended purpose. Depreciation is charged so as to write off the cost or revaluation of assets, other than land and properties under construction, over estimated useful lives, using the straight - line methods. The gain or loss on arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 5 RISK MANAGEMENT

### 5.1 Financial risk management

The Trust's activities expose it to a variety of financial risks including:

- a) Market risk;
- b) Credit risk; and
- c) Liquidity risk

The Trust's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Trust's financial performance.

Risk management is carried out by senior management under policies approved by the board of trustees. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

#### 5.1.1 Market risk

##### Market

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices. The Trust's market risk arise from open position in (a) foreign currencies and (b) interest bearing assets and liabilities to the extent that these are exposed to general and specific market movements.

## CENTRAL MEDICAL STORES TRUST

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2023

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(i) **Foreign currency risk**

In the normal course of business, the Trust enters into transactions denominated in foreign currencies. Foreign exchange risk arises when future commercial transactions are recognised as assets or liabilities denominated in a currency that is not the entity's functional currency and remain unsettled.

The Trust monitors currency fluctuations on a regular basis to minimise this risk, but does not hedge currency movement risks.

The Trust procures medicines and medical supplies which are denominated in foreign currency. Hence exposure to exchange rate fluctuation arise.

The carrying value of the Trust's foreign currency denominated monetary assets and monetary are as follows:

	2023 MK'000	2022 MK'000
United States Dollars (\$) denominated monetary liabilities		
Amount payable	12,876,198	14,087,358

#### 5.1.2 Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to hospitals and health facilities including outstanding receivables and committed transactions. Deposits are only placed with Commercial Banks in Malawi. Receivables are guaranteed by the Malawi Government on behalf of government hospitals and health facilities and are made to customers with good credit history.

The Trust places deposits with reputable banks and financial institutions on management discretion. Banks and financial institutions are assessed based on available current financial information and past experience. No independent credit rating is available in Malawi.

With respect to outstanding receivables that are not impaired and are past due there are no indications as of the reporting date the debtors will not meet their payment obligations. No collateral is held to reduce credit risk.

# CENTRAL MEDICAL STORES TRUST

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2023

### 5.1.2 Credit risk (continued)

The table below analyses Trust credit risk exposure:

	Gross carrying amount MK'000	0 - 6 Months MK'000	Over 12 Months MK'000
As at 31 March 2023			
Trade receivables and other receivables (excluding prepayments)	13,179,287	-	13,179,287
Cash and cash equivalents	265,351	265,351	-
	<u>13,444,637</u>	<u>265,351</u>	<u>13,179,287</u>
As at 31 March 2022			
Trade receivables and other receivables(excluding Cash and cash equivalents	12,477,821 1	- 1	12,477,821 -
	<u>12,477,822</u>	<u>1</u>	<u>12,477,821</u>

#### (i) Staff receivables

Staff received are reconciled through payroll deductions and, on termination, terminal benefits.

#### (ii) Short-term deposits

The Trust limits its exposure to credit risk by depositing its excess cash only with reputable established commercial banks and discount houses accredited by the Reserve Bank of Malawi. Considering their high credit ratings and Reserve Bank of Malawi close monitoring of these financial institution, Management does not expect any institution to fall to meet its obligations.

#### (iii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was;

	Note	Gross 2023 MK'000	Carrying amount 2023 MK'000	Gross 2022 MK'000
Trade and other receivables	9	15,533,548	9,306,343	13,141,729
Cash and cash equivalents	10	265,351	265,351	9,435,668
		<u>15,798,899</u>	<u>9,571,693</u>	<u>22,577,397</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023

## 5.1.2 Credit risk (continued)

## iv) Impairment losses

The aging of trade receivables at the reporting date was:

	Gross 2023 MK'000	Impairment 2023 MK'000	Gross 2022 MK'000
Not past due	1,415,167	-	3,049,309
Past due 31 - 90 days	1,490,248	-	2,485,273
Past due above 90 days	10,273,871	6,227,206	6,943,239
<b>Total</b>	<b>13,179,287</b>	<b>6,227,206</b>	<b>12,477,821</b>

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

	2023 MK'000	2022 MK'000
Opening balance	5,593,223	4,664,576
Impairment loss recognised	634,219	928,647
<b>Closing balance</b>	<b>6,227,442</b>	<b>5,593,223</b>

Based on historic default rates, the Trust believes that no impairment allowance is necessary in respect of trade receivables not past due or due by up to 30 days.

**Impaired trade and other receivables**

Impaired trade and other receivable are receivables for which the Trust has identified objective evidence of default, such as amounts for which payments are due and unpaid for 90 days or more.

**Allowances for impairment**

The Trust establishes an allowance for impairment losses that represents its estimate of incurred losses in its trade and other receivables. The trade and other receivables allowance are a mostly specific loss component that relates to individual exposures by receivables balances.

## iv) Impairment losses

**Impairment policy**

The Trust writes off receivable balance and any related allowances for impairment losses when the Trust determines that the receivable balances are uncollectible.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023

## 5.1.2 Credit risk (continued)

## v) Profile

At the reporting date the interest rate profile of the Trust's interest - bearing financial instruments were:

	Note	Carrying amount 2022 MK'000	2022 MK'000
<b>Fixed rate instructions</b>			
Financial assets	10	265,351	9,435,668

## vi) Fair values versus carrying amounts

The fair values of financial assets and liabilities are the same as carrying amounts shown in the statement of financial position and the basis for determining fair values is disclosed in accounting number (4).

## 5.1.3 Liquidity risk

Liquidity risk is defined as the risk that the maturity dates of significant assets and liabilities do not match. An unmatched position enhances profitability but can also increase the risk of losses. The Trust's management monitors liquidity risk at monthly intervals to minimise this risk.

Prudent liquidity risk management implies maintaining sufficient short-term cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities whenever it is appropriate and cash flow forecasts indicate a short fall.

Management closely monitors its cash position and the timing of when liabilities become due, to ensure adequate funds are available to meet Trust's financial obligations as and when they fall due. The Government provides annual budget for medicines and medical supplies and management monitors its spending to remain within Government approved limits.

The Trust's policy is to settle payables within approved credit limits from invoice date. Surplus cash held by Trust over and above balances required for working capital management is invested.

The table below analyses the Trust's financial liabilities into relevant groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest obligations. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

# CENTRAL MEDICAL STORES TRUST

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2023

### 5.1.3 Liquidity risk (continued)

	0 - 3 months	3 - 12 months	Greater than 12 months
<b>As at 31st March 2023</b>			
<b>Assets</b>			
Trade and other receivables	1,415,167	7,638,007	9,053,173
Cash and cash equivalents	265,351	-	265,351
	<u>1,680,517</u>	<u>7,638,007</u>	<u>9,318,524</u>
<b>Liabilities</b>			
Trade and other payables	2,798,149	16,227,239	19,025,388
Current liquidity gap	<u>(1,117,631)</u>	<u>(8,589,233)</u>	<u>(9,706,864)</u>
<b>As at 31st March 2022</b>			
<b>Assets</b>			
Trade and other receivables	3,049,309	4,330,378	7,379,688
Cash and cash equivalents	9,435,668	-	9,435,668
	<u>12,484,977</u>	<u>4,330,378</u>	<u>16,815,356</u>
<b>Liabilities</b>			
Trade and other payables	1,033,318	18,483,955	19,517,273
Current liquidity gap	<u>11,451,659</u>	<u>(14,153,577)</u>	<u>(2,701,917)</u>

### 5.2 Capital risk management

Trust' objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide return and benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

### 5.3 Fair value estimation

The estimated net fair values of receivables, cash and cash equivalents payables approximate the related concern in order to provide return and benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

**6 ACCOUNTING CLASSIFICATIONS AND FAIR VALUES OF FINANCIAL INSTRUMENTS**

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Trust determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

**Valuation models**

The Trust measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1:** inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable either directly (i.e as prices) or indirectly (i.e derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Trust used widely recognised valuation models for determining the fair value of common and more simple financial instruments such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observation prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

If the Trust measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Trust measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, then it takes into account any existing arrangements that mitigate the credit risk exposure (e.g master netting agreements with the counter party).

## CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023

## 7 PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings MK'000	Furniture and fittings MK'000	Motor vehicles MK'000	Plant and machinery MK'000	Office equipment MK'000	Computer Software MK'000	Capital work in progress MK'000	Total MK'000
<b>Cost or valuation</b>								
As at 1 July 2021	12,853,223	180,843	2,082,656	679,862	650,819	723,975	-	17,171,378
Revaluation	-	-	-	-	-	-	-	-
Additions	-	8,828	-	-	38,241	-	-	47,069
As at 31st March 2022	12,853,223	189,671	2,082,656	679,862	689,060	723,975	-	17,218,447
Additions	3,325	30,769	-	14,880	182,054	10,902	61,512	303,441
As at 31st March 2023	12,856,548	220,440	2,082,656	694,742	871,114	734,878	61,512	17,521,889
<b>Depreciation</b>								
As at 1 July 2021	587,245	127,607	1,540,610	287,438	452,955	166,904	-	3,162,759
Charge for the year	187,508	8,525	274,503	79,417	51,426	110,247	-	711,626
As at 31 March 2022	774,753	136,132	1,815,113	366,855	504,381	277,151		3,874,385
Charge for the year	250,093	12,093	222,088	84,571	76,158	146,996		791,999
As at 31st March 2023	1,024,846	148,225	2,037,200	451,425	580,540	424,147		4,666,384
<b>Carrying amount</b>								
As 31st March 2023	11,831,702	72,215	45,456	243,317	290,574	310,731	61,512	12,855,505
As at 31st March 2022	12,078,470	53,539	267,543	313,008	184,679	446,824	-	13,344,063

# CENTRAL MEDICAL STORES TRUST

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2023

### PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Land and buildings were re-valued on 30 June 2021 by Euphemia C. Bota (MSIM) MA Real Management (UWE( Bristol UK BSc (MW), Independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and categories of the property value. The property were valued on an Open Market Value (OMV). Under the method used, the re-valued cost is treated as the new gross amount and accumulated depreciation is eliminated.

#### Fair Value hierarchy

The following table analyses property and equipment measured as fair value at the reporting, date by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total
<b>2023</b>				
Land and buildings	-	-	12,856,548	12,856,548
<b>2022</b>				
Land and buildings	-	-	12,853,223	12,853,223

If the land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:

	2023 MK'000	2022 MK'000
Cost	7,811,597	7,811,597
Accumulated depreciation	3,162,759	3,162,759
Net carrying amount	4,648,838	4,648,838

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023

	2023 MK'000	2022 MK'000
<b>8 INVENTORIES</b>		
Surgical equipment	3,369,671	3,330,217
Tablets and capsules	2,442,064	2,371,837
Injectables	1,884,773	2,177,340
Galenicals	586,077	1,192,580
Sutures	2,279,519	1,234,452
Surgical dressings	1,111,801	1,451,602
X-ray films and equipment	445,666	727,585
Laboratory items & reagents	536,725	610,543
Dispensary items	84,952	202,675
Dental items	140,562	182,821
Hospital equipment	77,938	134,443
Raw materials	101,151	55,082
Vaccines	39,582	44,606
Hospital beddings	56,212	62,142
Mantino DFID	21,616	22,530
Ophthalmic	1,048	1,013
Expired inventory	3,447,703	1,661,179
	<hr/>	<hr/>
	16,627,062	15,462,646
Less: provision for expired inventory	(3,447,703)	(1,661,179)
	<hr/>	<hr/>
	13,179,359	13,801,467
Stationery	21,888	12,633
	<hr/>	<hr/>
<b>Total inventory</b>	<hr/> <b>13,201,247</b> <hr/>	<hr/> <b>13,814,100</b> <hr/>
<b>9 TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	13,179,287	12,477,821
Other receivables and prepayments	2,354,262	663,908
	<hr/>	<hr/>
	15,533,548	13,141,729
Less provision for doubtful receivables	(6,227,206)	(5,592,986)
	<hr/>	<hr/>
	9,306,343	7,548,743
Less long term staff receivables	(253,169)	(169,055)
	<hr/>	<hr/>
Short term trade and other receivables	<hr/> <b>9,053,173</b> <hr/>	<hr/> <b>7,379,688</b> <hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023

## TRADE AND OTHER RECEIVABLES (CONTINUED)

	2023 MK'000	2022 MK'000
The ageing of trade receivables at the reporting date was as follows:-		
Current	1,415,167	3,049,309
31-90 days	1,490,248	2,485,273
Above 90 days	10,273,871	6,943,239
	<u>13,179,287</u>	<u>12,477,821</u>

The carrying amount of trade receivables of MK13.2 billion is a reasonable approximation of their fair values.

## 10 CASH AND CASH EQUIVALENTS

LC establishments	265,351	1
NBM operating accounts	44,310	110,953
NBM kit account	305,296	1,592,297
NBM global fund account	5,155	4,559
NBM investment account	964,900	7,727,625
NBS operating account	9,735	-
Eco Bank operating account	12,127	-
Old Mutual investment account	3,012,570	-
Petty cash	276	234
	<u>4,619,720</u>	<u>9,435,668</u>

## 11 TREASURY FUND

Opening balance	34,323,775	21,823,775
Recapitalisation fund	7,031,049	12,500,000
	<u>41,354,824</u>	<u>34,323,775</u>

## 12 CAPITAL FUND

Opening balance	546,924	708,388
Amortisation of capital fund assets	(207,108)	(161,464)
	<u>339,816</u>	<u>546,924</u>

## 13 REVALUATION RESERVE

Opening balance	11,500,098	11,687,607
Depreciation relating to revaluated assets	(250,093)	(187,509)
	<u>11,250,005</u>	<u>11,500,098</u>

## 14 ACCUMULATED LOSS

Opening balance	(21,745,496)	(15,989,284)
Loss for the period	(10,491,815)	(5,943,721)
Depreciation relating to revaluated assets	250,093	187,509
	<u>(31,987,218)</u>	<u>(21,745,496)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023

	2023 MK'000	2022 MK'000
<b>15 TRADE AND OTHER PAYABLES</b>		
Trade payables	17,298,672	16,933,782
Other payables and accruals	1,726,715	2,583,491
	<u>19,025,387</u>	<u>19,517,273</u>
The ageing of trade payables at the reporting date was as follows:-		
Current	2,798,149	1,033,318
0-30 days	1,256,900	614,357
31-90 days	703,328	1,147,172
Above 90 days	12,540,296	14,138,935
	<u>17,298,672</u>	<u>16,933,782</u>
The carrying amount of payables of MK17.3 billion is a reasonable approximation of their fair values.		
<b>16 REVENUE</b>		
Regional Medical Stores (South)	13,474,774	8,728,178
Regional Medical Stores (Centre)	11,890,432	9,655,369
Regional Medical Stores (North)	4,514,585	3,009,088
	<u>29,879,791</u>	<u>21,392,635</u>
<b>17 COST OF SALES</b>		
Opening inventory	13,801,467	21,529,914
Add Purchases	24,687,846	9,813,513
Less: Closing inventory	(13,179,359)	(13,801,467)
<b>Cost of sales</b>	<u>25,309,954</u>	<u>17,541,960</u>
<b>18 OTHER INCOME</b>		
Service charge-UNICEF commodities	351,718	288,798
Service charge-Covid 2019 Procurements	341,721	-
Service charge-distribution of donated items	88,116	106,588
Interest received	776,184	334,012
Rent received	15,050	14,765
Capital funds amortisation	207,108	-
Sale of bid documents	4,679	6,559
	<u>1,784,577</u>	<u>750,721</u>



CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023

	2023 MK'000	2022 MK'000
<b>19 ADMINISTRATIVE EXPENSES</b>		
Salaries and benefits	2,882,077	2,026,942
Boarded off items/expired inventory	4,339,036	2,869,641
Impairment loss of receivables	634,219	928,647
Depreciation	791,999	550,161
Hiring of security guards	383,755	327,517
Fuel and lubricants	1,239,940	973,699
Rent/lease (warehouse/office)	353,130	338,159
Subsistence allowance	505,809	336,660
Other expenses (AGM, quality control costs , PPDA and others)	764,164	230,818
Motor vehicle maintenance	231,296	100,078
Office sundries	93,474	57,676
Training	95,843	56,520
Telephone charges	78,439	72,871
Insurance costs	47,450	83,566
Electricity charges	62,956	58,730
Legal and consultancy Fee	25,485	273,121
Bank charges	86,016	21,143
Repairs of plant and equipment	56,991	28,720
Publications and advertising	46,751	9,496
Maintenance of buildings	76,970	38,465
Stationery	67,195	7,205
Water and sanitation	36,838	34,652
Audit fees	32,184	25,418
Uniform and protective clothing	21,867	79
Computer costs	1,528	4,145
Corporate social responsibility(medicines donations)	85,433	272,441
	<u>13,040,845</u>	<u>9,726,568</u>
<b>Presented on page 9 as follows:</b>		
Administration costs	11,432,423	7,949,254
Distribution costs	974,203	848,667
Impairment loss	634,219	928,647
	<u>13,040,845</u>	<u>9,726,568</u>

**20 RELATED PARTIES**

Related parties of Central Medical Stores Trust are Malawi Government, Chief Executive Officer, Directors and Board of Trustees and Government affiliated entities.

The following were related party transactions and balances:

a)	Funding and donations in kind		
	Global Fund - Assets donated	-	-
	Key management remuneration	334,217	212,656
	Trustees remuneration	3,875	2,575
b)	Period end balances		
	Amounts due to key management	54,089	19,238
c)	Government receivable balance:		
	All government receivables	12,683,582	12,212,031

**21 CAPITAL COMMITMENTS**

As at 31 March 2023, the Trust had several commitments amounting to MK820 million (2022: MK216million). The commitments will be financed by the Trust's internal resources.

**22 CONTINGENT LIABILITIES**

As at 31 March 2023, CMST has the following lawsuits

NAME	NATURE OF CASE
Prisca Kumwenda(MIRA INVESTMENT)	The plaintiff is claiming the sum of MK220,800,000.00 from the defendant. The defendant is counter claiming the sum of MK6,624,000.00 being WHT on the initial amount. However, the claimant was paid in full the principal sum. The plaintiff collected a debit order and collected MK39,744,000.00 from the defendants account at National Bank of Malawi. The defendant is in the process of issuing a debit order to have the money returned through the same National Bank.
Glyn Sosola vs Panjwani, UNICHEM, Trustees PMPB and AG	Majid The plaintiff's is claiming for aggravated damages for CMST, defamation, false imprisonment and malicious prosecution. CMST will likely not incur any liability in the case as the person was not an employee of CMST. The only liability to be incurred will be cost for defending the case. CMST has currently applied to have the matter struck out on the grounds that the matter is statute barred

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2022

NAME	NATURE OF CASE
SADM Pharmaceuticals Limited	The plaintiff's claim is for compound interest on the sum of USD 4,366,848.76 on invoice amounts whose payments were delayed. CMST paid the amount in full as granted by the Judge. CMST appealed against the court judgement to Supreme Court of Appeal and the court ordered the plaintiff to pay back the USD4,366,848.76 within 14 days. However the 14 days period has lapsed without any payment and CMST, through Likongwe and Company is in the process of
Godfrey Linje and 5 Others	The plaintiff claim is for the sum of MK1,200,000.00 damages for unfair dismissal, employer and employees pension contribution severance pay, annual leave pay cash in lieu of notice pay interest on cumulative terminal benefits and legal cost. This amount was proposed by the Claimants legal council after CMST refused to pay an initial claim on MK10,266,180.00. CMST will likely pay the amount and have the case
Premier Medical Corporation(Z) V JF Investments (PTY) Limited and CMST	The Plaintiff commenced the matter, against JF Investment requiring that they pay and take delivery of the face masks and all related cost from 10th June 2021 at a rate go zk803.73 per day. JF Investment took the out a notice against CMST for indemnification against the claimants claim. The matter went for meditation and it was agreed that JF Investment be awarded three contracts for a total sum of MK450,000,000.00, it was further agreed that CMST will party party and party cost of the JF Investment only. the party cost are yet to be agreed on 19th July ,2023
Levison Changole t/a Hosmate Vs CMST	The Plaintiff claim is for the sum of MK134,086,500 or in alternative an order for specific performance of contract for the supply of 3,154 masks, the claimant claims damage s for breach of contract of CMST'S failure to order the remaining masks.CMST made a counter offer to have the face masks contract cancelled and offered a new contract of Gloves worth MK250,000,000.00 and to pay and party cost of MK4,000,000.00 which was agreed on by both parties,
Joe Khalani vs CMST	The plaintiff is claiming for reinstatement or damages for unfair dismissal , or damages for unfair labour practice and cost of action. The case went for prehearing conference, where the Applicant filed a Notice of Motion that he be urgently reinstated on his position pending hearing of the claim. The court dismissed the applicants application and the matter is now awaiting a date of a pre-hearing conference.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2023

## 23 MATTER OF UNCERTAINTY RELATED TO GOING CONCERN

The Trust had made a loss for the year of MK10.5 billion (2022: loss of MK5.9 billion). The going concern of the Trust is dependent on the continued business operations for the next foreseeable future, the resumption of profitable operations and continued support from the Government of Malawi.

The Trust is expected to continue being in business as a total recapitalization of MK7.0 billion was received as at year ending 31st March 2023 to support business turn-around strategies which focus on financial sustainability (through recapitalization and increase in revenue generation) and operational efficiency to reduce expiries and streamline operational expenditure primarily aiming at boosting revenues for the organisation and improve cash flow.

Continued implementation of approved Functional Review and Job Evaluation by Malawi Government and the Board is expected to see CMST turn-around as, strategic functions have been introduced which will see the Trustee grow in revenue and improve its business processes.

## 24 SUBSEQUENT EVENTS

Apart from the Covid-19 pandemic that continued in the period 2023 that affecting operations of the Trust, as slow down in service delivery was being experienced as some Staff were working on rotation. The Cholera outbreak, Cyclone Freddy and forex scarcity equally impacted negatively on Procurement and delivery of Medicines and Medical Supplies as most suppliers were not delivering according to their respective contracts timely due forex scarcity while geographical challenges affected some transport systems, hence delays in last mile distribution.

## 26 INFLATION AND EXCHANGE RATES

The exchange rate of the period-end buying and selling rates of the major foreign currencies affecting the performance of the Trust are as stated below, together with the National Consumers Price Index which represents an official measure of inflation.

	2023	2022
Kwacha/US Dollar	1,036.25	825.00
Kwacha/Euro	1,163.08	1,216.08
Kwacha/Rand	59.16	66.22
Inflation rate (%)	28.8%	19.1%

At the time of signing the financial statements, the exchange rates were as follows:-

Kwacha/US Dollar	1115.72	1028.48
Kwacha/Euro	1234.24	1080.02
Kwacha/Rand	60.73	63.11

