



CENTRAL MEDICAL STORES TRUST

Trusted Partner in Healthcare



ANNUAL REPORT

YEAR ENDED MARCH 2024

Cover Photograph:

Activity inside the Central Medical Stores Trust National Pharmaceutical Warehouse.

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ACCRONYMS AND ABBREVIATIONS

DHO	:	District Health Office
MMS	:	Medicines and Medical Supplies
CH	:	Central Hospital
CMST	:	Central Medical Stores Trust
MHL	:	Must Have List
COD	:	Cash on Delivery

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 establishment of the Trust was with the expectations of increased financial, managerial and marketing autonomy as a receiving organization from the then Central Medical Stores (CMS). To attain the 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.

OBJECTS OF THE TRUST

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

- 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, 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 Pharmacy and Medicines Regulatory Authority (PMRA),

- One representative of the Christian Health Association of Malawi (CHAM),
- One representative of the Institute of Accountants in Malawi (ICAM), and
- Pharmaceutical Society of Malawi (Phasom), or a representative.
- The Board of Trustees for the period under review was as follows: Board Chairperson — Mr. Josiah Chidya Mayani, representing Pharmaceutical Society of Malawi.

Board Members (2023 – 2024)

Trustee	:	Mr. Josiah Chidya Mayani, Pharmaceutical Society of Malawi (Phasom).
Trustee	:	Mr. Stephen Chimtengo, Institute of Chartered Accountants in Malawi.
Trustee	:	Reverend Gamaliel Kingstone Kalebe, Christian Hospitals Association of Malawi (CHAM).
Trustee	:	Mrs Grace Malera, Malawi Law Society.
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



CHAIPERSON'S REPORT

1.1. Introduction

With pleasure, and on behalf of my fellow Board Members, I humbly Honor my obligation to account for the annual strategic performance of the Central Medical Stores Trust (CMST) in the period 1st April 2023 – 31st March 2024. I am therefore pleased to share that as at 31st March 2024, CMST made enormous strides and achieved most of its targets set for the period under review.

Although stifling factors in the operating landscape eroded some strategic expectations, challenging CMST to work even extra harder in the upcoming operational periods, the Board drew some valuable lessons critical to keeping up with long-term objectives and goals.

In the spirit of accountability and transparency, which make the foundations of CMST's operations, I now present to you, distinguished stakeholders, updates for the period ended 31st March 2024.

1.2. CMST's Strategic Focus

Going into the year, CMST had prioritised certain areas, as guided by its six (6) strategic objectives, which are: Ensuring organisational financial sustainability; Engaging stakeholders to strengthen and continue implementing customer-centric organisational systems to address current and emerging national pharmaceutical supply chain issues; Strengthening supply chain systems; Maximising the use of robust management information systems to effectively manage business processes; Enhancing Total Quality Management (TQM) across governance, operational and management processes, and; Embracing human resource capital development.

These six (6) strategic areas were translated into benchmarks, among them, the following: lobbying for the remaining recapitalisation amount from

Government; increasing means for revenue growth; growing the improvements in stock availability; maximising reduction in expiries; improving customer satisfaction; reducing cost of Medicines and Medical Supplies (MMS); increasing warehouse storage capacity; finalising processes for an upgraded and functional ERP; review of Standard Operating Procedures (SOPs) and improvement of staff welfare and working environment.

Some means of getting to the sought goals — including recapitalisation — have been fully accomplished hence retired as priority issues. although that would not mean CMST has achieved financial sustainability, yet. Other areas have been recommended for continued pursuit, as they were conceived, and these include revenue growth; improvement in stock availability; reduction of expiries; improvement of customer satisfaction; reduction of cost of MMS; increasing warehouse storage capacity; finalising processes for an upgraded and functional ERP; review of SOPs and improvement of staff welfare and working environment.

Those that have been revised include improvement in customer satisfaction (by fill rate of MHL items) which, as was initially put, was to be improved from 60% - 90% by June 2023; however, with the revision of the CMST Corporate Strategy and the realities of the Trust's dynamic operating environment, it has been reconsidered to be realistically improved from the from 50% it currently hovers around (due to financing and other challenges) to 80% by March 2026.

1.3. Financial Performance

CMST posted an increase in revenue by 30 percent, as at 31st March 2024, with revenue at K38.8 billion, against the K29.9 billion as at 31st March 2023. With this, CMST performed above the budgeted revenue of K34.4 billion by 13 percent, posting a gross surplus of K4.8 billion before exchange losses, impairment losses and stock write offs, after which a net deficit of K8.7 billion was reported.

In the year prior, the gross deficit was K6.1 billion, with an overall deficit of K10.5 billion. The Trust's performance indicators, as at 31st March 2024, reported a gross profit margin of 23 percent while Trade Debtors days and Trade Creditors days were 290 and 254, respectively. Inventory holding days were at 154, with a stock expiry rate of 5%. The increase in the gross profit margin is due to price adjustments following the devaluation of Malawi Kwacha against foreign currencies in November 2023.

Of the K38.8 billion in sales in the year, those to public health facilities amounted to 78 percent while the Central Hospitals account recorded 21 percent. Christian Hospitals Association of Malawi (CHAM) facilities and other private hospitals contributed the remaining one percent.

1.4. Sustainability Drive

Without Government subvention, CMST continues to prioritise financial sustainability as a crucial aspect of its survival. At its formation and consequent initiation as a self-generating entity, the Trust was recommended to receive a start-up amount in recapitalisation which an independent assessment in 2020 pegged at K30 billion. Of this amount, going into the period under review, CMST had received K23 billion, and the remaining K7 billion was duly paid in this period.

However, having received the recapitalisation amounts in phases, and over a considerably long period, the sum received was affected by loss of value along the way, including the 22% devaluation in May 2022 and the subsequent one at 44% in November 2023. The recapitalisation therefore did not fully provide the desired outcome, hence CMST is left with a task to explore alternatives to attain adequate capital for sustenance and business growth.

1.4.1. Revenue Growth

CMST planned had to grow revenue by 20% going into 2024 – 2025. In the period under review, revenue grew by 4% (from K29.9 billion in 2022 – 2023 to K38.8 billion in 2023-24). With such registered growth, despite challenges in operating environment, the strategic effort remains to fully achieve target of 20% by 2025.

1.4.2. Improving Stock Availability

For enhanced sustainability, CMST also seeks to improve stock availability. In the last operating period, the Trust targeted a 5% boost in availability. The availability improved by 4% in 2023 – 2024 owing to donations by the Indian Government and The World Bank procurements.

1.4.3. Reduction in Expiries

A strategic decrease in expiries is expected to limit loss, increase sales, and subsequently boost financial sustainability. The year in review expected a decrease in expiries to within the region of the internationally allowable 2% and efforts paid as it fell from 5.1% in 2022 – 2023 to 3% in 2023 – 2024. Among the stock that expired was from previous years.

1.5. Stakeholder Engagement and Customer Satisfaction

CMST is strategically poised to grow stakeholder management as a way of building strong synergies. The Trust therefore set out stakeholder engagement targets for the year, including the holding of open days for customers. Each of CMST's three Regional Stores held a customer open day where health facilities appreciated warehouses and stock. The activity recorded sales, including of items previously regarded as slow or non-moving. This is encouraging and CMST

plans to continue with such. CMST also had visits to customers where it appreciated customer experiences that need fortifying or revisiting.

CMST also planned to see customer satisfaction (by fill rate) improve from 60% to 90% by June 2023. The fill rate of Must Have List items however dropped from 50% in 2022 – 2023 to 45% in 2023 – 2024. This was due to forex scarcity and continued effects of COVID 19 on global availability of MMS, which affected sourcing of some items essentially sought by customers.

Owing to financial constraints, CMST did not hold the 2022 – 2023 Annual Stakeholders Review Meeting. However, the annual report for the period was produced, complete with audited accounts.

1.6. Strengthening Supply Chain Systems

CMST's strategic plan seeks to reinforce its supply chain systems to make the Trust a formidable supplier, including the following:

1.6.1. Reduction in cost of MMS

CMST planned to reduce the cost of MMS by 20% through improving procurement methods.



Architectural impression of the new warehouse

1.7. Improvement of Warehouse Storage Capacity

CMST re-racked the existing National Pharmaceutical Warehouse and increased pallet spaces by 800. However, this would far from the sought strategic improvement towards expansion of warehousing space at CMST in readiness for the much-anticipated Supply Chain Integration. CMST is hence undertaking improvements in storage capacity to move from the current 12,000 to over 30,000 pallet positions by constructing a 22,600 pallet-positions warehouse. An architectural concept was drawn with support from The Global Fund and presented before the Ministry of Finance and Economic Planning's Public Sector Investment Program (PSIP) and the project was considered very viable.

This K20 billion project will benefit CMST an owned fit-for-purpose, pharmaceutical-grade storage space. CMST would then do away with the current rented warehouses in Lilongwe used to supplement the inadequate

owned space. The payback period of the project is estimated at less than four (4) years, according to studies conducted by various consultancies with development partner support. Bankable documents (Warehouse Design and Bill of Quantities) have since been prepared and approved by the Department of Buildings and the Lilongwe City Assembly. The project was at contractor solicitation stage, as at 31st March 2024.

1.7.1. Automated Temperature and Humidity Monitoring System

Another performance improvement project will commence this fiscal year, targeting warehouse improvements, with The World Bank support of US\$75,000. The project will see the installation of a digitally automated system for monitoring storage temperatures and humidity in all CMST warehouses, including cold rooms and cold chain vehicles. This will facilitate interventions to control the quality of the pharmaceutical storage environment to ensure that quality of all medicines and medical supplies is maintained while in storage or in transit to health facilities.

1.8. Maximisation of robust Management Information Systems

The Enterprise Resource Planning (ERP) upgrade is an imminent major project under information digitalisation to upgrade the management information system, Microsoft Dynamics Navision 2018 to the newest version (Microsoft Dynamics 365 Business Central), which shall then be linked to a barcode scanning technology. The project will extend to linking the upgraded ERP to the digital systems being used by public hospitals (the Open LMIS and E-HIN) to facilitate end-to-end visibility of commodities throughout the local supply chain.

In the year, Government through PIU continued pursuing the ERP upgrade and systems integration with other (external) supply chain systems. CMST developed Terms of Reference and a User Requirement Document to be used by the Government through PIU. To achieve stock visibility and traceability at all levels of the supply chain, the Government, again through PIU, is coordinating efforts such as the one above.

1.9. Operational Excellence Project and Workspace improvements

The Operational Excellence Project (OPE) with support from The Global Fund to the tune of US\$2 million ended in December 2023. With up to six (6) consultants based at CMST, it has assisted in building staff capacities in governance, general warehousing and distribution operations, information systems improvement, procurement management and finance management improvements.

For instance, out of 105 employees earmarked for training in 2023 – 2024, CMST trained 87, representing 79 percent, against an annual plan to train 80 percent of those earmarked, by 31st March 2025. Going forward, CMST is focused on clearing the remaining 1%.

CMST also continued to enhance working conditions by implementing critical staff benefits and conditions of service improvements outstanding from the total issues recommended through Job Evaluation and Functional Review. The implementation rate now stands at 74%, a total implementation limited by financial constraints and changes in the operating environment.

CMST also recruited staff in 16 of the planned 17 critical vacant positions in the working period under review, representing a 94% success rate.

Through the project, several follow up initiatives have been hatched, including the upgrade of the Enterprise Resource Planning (ERP) system and expansion of warehousing space, as reported above.

1.10.Enhancement of Total Quality Management (TQM)

Going into the year, the Trust also planned a 100 percent development and review of Standard Operating Procedures (SOPs) and guidelines, spanning all the way to the end of the 2024 – 2025 operational period. By 31st March 2024, CMST had reviewed SOPs for the Directorate of Operations. The improvements are to continue and the review of SOPs for other Directorates is expected to be completed at least by the end of operational period 2024 – 2025.

A planned task to implement 100 percent oversight services to all business processes was also accomplished, with a specific Good Warehouse Practices Compliance Assessment done for RMS-South.

1.11.Alignment to National Reforms

The Trust also pursued other strategic improvements in line with the demands and expectation of national strategies, including the Malawi 2063 Agenda; Public Sector Reforms and the Health Sector Strategic Plan 3 (HSSP III), especially the component of Malawi National Supply Chain Transformation Plan 2023 – 2030 (MNSCTP) whose definitive goal, also mentioned above, is to achieve end-to-end visibility of the supply chain through digitalization of information systems and the integration of the various parallel health supply chains under the leadership of CMST.

1.11.1. Agenda 2063

Enabler 5 of the Malawi 2063 Agenda envisions “a healthy population with improved life expectancy, working towards the socioeconomic transformation

of Malawi," with a goal "to attain universal health coverage with quality, equitable and affordable health care for all Malawians." According to CMST's strategic focus, this would be attained through a vibrant health sector that allows for a comprehensive health care system, including improving the availability and quality of medical equipment, medicines and medical supplies. CMST's contribution to this vision is vital as it forms a basis for improving the health gain of the population.

1.11.2. Public Sector Reforms

CMST continues to report progress to the Directorate of Reforms in the Office of the Vice President on sought improvements towards improving the strategic and operational efficiencies of the Trust. In the period under review, the Trust presented three reform areas:

In the first one, CMST seeks to strengthen its legal and operational framework by changing the Trust Deed into an Act of Parliament, hence increasing the Trust's mandate to include production of certain products. By doing so, CMST would reduce stocking costs and guarantee improved access of MMS by users. Activities in this reform would include engaging of consultants on the proposed changes of the deed and proposed changes to the Act; submission of the Draft Act to the Office of the President and Cabinet (OPC) to request for change in CMST status and revising the strategic plan to incorporate changes. This reform would run into 2024 – 2025.

In the second, CMST initiated promotion of digitalisation of procurement, warehousing, sales and distribution to enhance public service delivery. This reform is ironing out product invisibility which results into stockouts or overstocking and its subsequent expiries. Reforms would manifest in an upgraded ERP system that accommodates barcoding technology and interoperability functionality with other internal or external stakeholder systems for the purpose of Malawi National Pharmaceutical Supply Chain Integration. In the year CMST engaged consultants and planned procurement of a new

ERP and subsequently conducting training on the ERP. The reform continues into the operational period 2024 – 2025.

The third is the enhancement of pharmaceutical storage capacity in readiness for the Malawi National Supply Chain Integration (MNSCI).

1.12.Third-Party Logistics Income Generation Activities

As at the end of the period under review, the confidence of stakeholders in CMST was assessed as growing. Several development partners, who would have opted to work directly with the private sector in the past, are turning to CMST for Third Party Logistics (3PL) services. This collaboration with partners will enable CMST get income separate from sales of commodities. Below is a list of some of the Partners from whom CMST will begin recovering costs that it previously could not recover:

- The Global Fund to pay for TB Commodities storage and distribution services to the tune of US\$400,000 over the next three years.
- The World Bank to pay for storage and distribution of donated commodities to MoH under phase 1 and phase 2 of their donations. This cost, of up to K1.2 billion, is in addition to the US\$13 million (K22 billion) grant to CMST for commodities procurement whose delivery from suppliers is anticipated from August 2024 onwards.
- JBJ Foundation to support the Ministry of Health with products worth US\$1.1 million from which CMST will likely recover US\$200,000 for procurement, storage and distribution services over 2 years.
- Traditionally UNICEF has been paying CMST for storage and distribution of nutrition commodities and has recently renewed the contract with CMST to the end of the year.

Such confidence of partners in CMST was a huge opportunity on which the Board of Trustees expects CMST Management to capitalise if real and sustainable improvements are to be realised.



CMST Board Chairperson, Mr Josiah Mayani (Right) officially hands over items to Nkhotakota District Commissioner, Ben Tonho.

1.13. Corporate Social Responsibility

As a responsible corporate, CMST considers social support mechanisms in line with its mandate. As such, CMST may donate items to health facilities and offer them an open account to items that would otherwise, in the long term, be lost to expiries because of many reasons, including the facilities' low ability to pull items from CMST's sales points.

In the period, CMST therefore responded to Nkhotakota District Hospital's call for support towards prevention and management of conditions and diseases expected from the social disruptions following floods that devastated the district. CMST donated medicines and medical supplies worth K17 million to the health facility.



CMST Director of Procurement, Dr Charles Khombeni (Centre) poses with winners of a CMST sponsored category in the Misa Malawi Awards

CMST is also committed to helping the media, as one of its very good partners, to improve the quality of coverage on the national health supply chain in identifying and soliciting solutions to challenges. The Trust sponsored the electronic and print media categories in the Media Institute of Southern Africa (Misa) Malawi Chapter Awards to a tune of K3,286,500. Over the years, the media is demonstrating growing stakeholder involvement and understanding of critical issues in the health supply chain, providing timely and thought-

provoking assessments of issues and their likely resolutions through comments from stakeholders engaged in the news gathering and writing processes.



Minister of Information and Digitalisation, Honourable Moses Kunkuyu (Right) presents a certificate to CMST Human Resource and Administration Manager, Mrs Gladys Makwakwa

1.14. Access to Information

In the period, the Trust emerged the best performing public institution in the implementation of the Access to Information (ATI) Law, receiving public recognition and certificate from the Malawi Human Rights Commission which is the ATI implementation authority. The Trust's recognition was due to it satisfying criteria significantly demanded of public institutions by the Malawi Human Rights Commission (MHRC), including a publicised appointment of an Information Officer and the creation of a working public information request handling mechanism. The Trust appointed Mr David Kulemela, the Acting Quality Assurance Manager, as the Information Officer and exhausted all information requested under ATI provisions.

Apart from the MHRC, the Public Relations Society of Malawi (PRSM) also presented CMST with a trophy for the feat. The awards signify the Trust's lasting pursuit for openness and accountability in its mandate.

1.15.Appreciation and Conclusion

On behalf of the Board of Trustees, I sincerely thank the Government of Malawi, through the Ministry of Health, for its unwavering direction and support which helped the Trust create and maintain a welcome environment for stakeholder engagement and support. I also thank collaborating partners for their support.

Sincere appreciation is due to all Board Members and Chairpersons of the Board Committees and their committees for shaping strategy and inspiring the implementation of reforms.

Lastly, through the Executive Management, and on behalf of Board and Committees Members, I honestly send my gratefulness to CMST staff for the hard work that culminated into the progress reported in this period.



JOSIAH CHIDYA MAYANI
CMST BOARD CHAIRPERSON



CHIEF EXECUTIVE OFFICER'S REPORT



Inside the National Pharmaceutical Warehouse at CMST Headquarters

2.1. Introduction

On behalf of the CMST Executive Management, I am pleased to present a brief account of the operational performance for the period 1st April 2023 – 31st March 2024.

As the holder of the office entrusted with implementation of strategy and Board resolutions, I am pleased to report a spirited staff performance which continues to reinforce CMST employees' total commitment to supporting overall strategy and goals.

As detailed in the Chairperson's report, the period in review was another challenging patch owing to difficulties in maintaining a healthy stocking position. Among the reasons – and perhaps chief of all – were the difficulties in

pooling foreign currency for the importation of essential medicines and medical supplies.

2.2. Annual Plan, Budget and Financing

CMST's annual plans reflect the sought performance in a focus period, inspired by the country's Health Sector Strategic Plan, CMST own strategic plan, with guidance on implementation from other tools, including the annual Performance Management Plans and Budget (PMPB) from the Ministry of Finance and Economic Planning (MoFEP).

As such, the budget is subjected to all governance checks and approvals before implementation, including that of the CMST Board of Trustees, among which the Ministry is represented. The 2023 – 2024 plan and budget was duly passed by the required authorities.

Most notably, the Trust's has no vote in the national budget hence, along the fulfilment of its mandate, it is supposed to generate its own resources for its operations, including procurement of medicines and medical supplies (MMS), warehousing, sales and distribution and capital expenditure infrastructure development. As such, in the year under review, the Trust continued to generate revenue from sales of MMS to all Central Hospitals (CHs), District Local Councils through their District Health Offices (DHO), facilities under the Christian Health Association of Malawi (CHAM) and other private health institutions. In addition, other income was realised through warehousing and Distribution of program commodities.

The National Local Government Finance Committee (NLFGC) continued to provide finances to District Health Offices (DHOs) for procurement of Medicines and Medical Supplies (MMS) from the Trust. As such, K15.104 billion was transferred by the NLGFC to CMST for the year ended 31st March 2024, against total deliveries valued at K30.319 billion, reflecting arrears of K15.215 billion, as shown in *Table 1* below.

Table 1: NLGFC funding and utilisation for DHOs

QUARTER	NLGFC/GHOS		
	TOTAL BILLS	FUNDING	BALANCE
	MK' BILLION	MK' BILLION	MK' BILLION
First Quarter	6.846	1.601	5.245
Second Quarter	5.265	6.842	(1.577)
Third Quarter	6.172	0	6.172
Fourth Quarter	12.036	6.661	5.375
TOTAL	30.319	15.104	15.215

With all facilities exceeding their respective allocations, it would evidently show that funding to DHOs may need revisiting. Central Hospitals too accumulated arrears amounting to K6.831 billion, while recognising annual sales of MK8.221 billion with accounts settlements of MK5.043. Generally, the Trust encountered delays in account settlement by Central Hospitals which affected CMST's general service provision. internally and externally.

Table 2: Central Hospitals' Outstanding Arrears

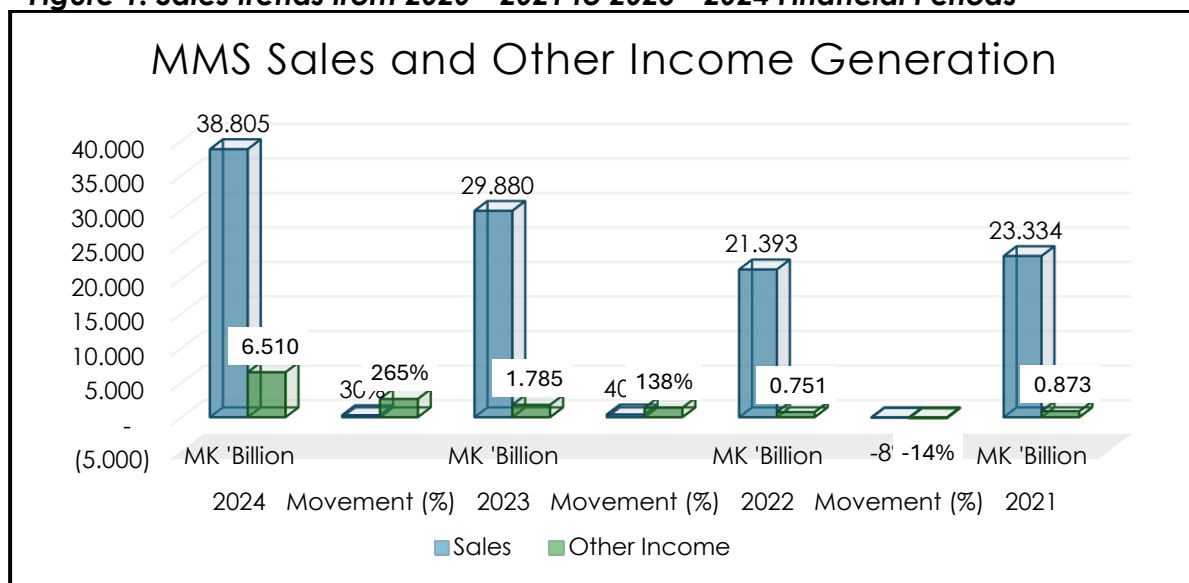
FACILITY	OPENING BALANCE	TOTAL ANNUAL SALES	TOTAL RECEIPTS	OUTSTANDING BALANCE
	MK' BILLION	MK' BILLION	MK' BILLION	MK' BILLION
Queen Elizabeth Central Hospital	1.421	2.247	1.051	2.618
Zomba Central Hospital	0.504	1.440	1.007	0.937
Zomba Mental Central Hospital	0.399	0.257	0.470	0.186
Kamuzu Central Hospital	0.901	1.996	0.754	2.143
Mzuzu Central Hospital	0.427	2.281	1.762	0.946
TOTAL	3.653	8.221	5.043	6.831

2.3. Financial Performance

As a self-sustaining institution, the Trust continues to strive to generate increasing sales from medicines and medical supplies (MMS) and other income streams, such as warehousing and distribution services provided to different stakeholders. With reference to Figure 1 below, there has been a substantial increase in MMS sales from years 2022 – 2023 (40%) and 2023 – 2024 (30%), signifying the effort that the Trust has put into its undertakings in pursuit of organisational financial sustainability as one of its key strategic objectives.

As such, MMS sales amounting to K21.393 billion, K29.880 billion and K38.805 billion were posted in financial years 2021 - 2022, 2022 - 2023 and 2023 – 2024, respectively.

Figure 1: Sales trends from 2020 - 2021 to 2023 - 2024 Financial Periods



There have also been steady increases in income generated from warehousing and distribution, thus from 2021 - 2022 to 2022 - 2023 (138%) and 2022 - 2023 to 2023 - 2024 (265%) with income amounting to K1,785 billion and K6,510 billion achieved respectively. This also undisputedly signifies CMST's capacity to manage third party commodities and generate income.

However, the overall performance was disadvantaged by significant corporate expenditures that resulted in net deficits. Primarily, both years realised and unrealised exchange losses, incurred on foreign liabilities due to delayed accounts settlement and devaluations, thus K3.805 billion in 2022 – 2023 and K10.498 billion in 2023 – 2024. These have hence reduced the Trust's position to post surpluses.

In addition, stock expiries, impairment losses on accumulative receivable balances and some administrative expenditures have also contributed to the consecutive deficits for years ended March 2023 (K10.492 billion) and March 2024 (K8.690 billion), as detailed in *Table 3* below.

Table 3: Statements of Profit or Loss for 2023 and 2024 year ended

ITEM	2024	2023
	MK'000	MK'000
Revenue	8,804,855	29,879,791
Costs of sales	29,870,888)	(25,309,954)
Gross profit	8,933,967	4,569,836
Other income	6,510,046	1,784,577
Administrative expenses	9,092,463)	(11,432,423)
Distribution costs	1,515,311)	(974,203)
Surplus/(Deficit) before impairment of receivables & exchange losses	4,836,239	(6,052,213)
Realised foreign exchange loss	(8,154,011)	(2,468,653)
Unrealised foreign exchange loss	(2,343,781)	(1,336,731)
Impairment losses	(3,029,285)	(634,219)
Surplus/(Deficit) for the year	(8,690,838)	(10,491,816)

The Trust registered a 20% increase in non-current assets due to revaluation of land and buildings as at 31st March 2024, as highlighted in *Table 4* below. While total current assets increased by 59% on average, inventory decreased by 4%,

with trade and other receivables increasing by 184% due to non-settlement of trade receivables arrears by District Health Offices and Central Hospitals.

2.3.1. Trade payables and reliabilities

However, accumulated losses increased from K32 billion to K40 billion due to consecutive losses realised, as stated above. Trade payables and other liabilities increased by 46% since there were delays in settling most suppliers' accounts.

Table 4: Statements of Financial Position for 2023 and 2024 year ended

ITEM	2024	2023
	MK'000	MK'000
Total Non-Current Assets	15,776,614	13,108,674
Inventories	12,625,732	13,201,247
Trade and Other receivables	25,715,325	9,053,173
Cash and Cash Equivalents	4,422,502	4,619,720
Total Current Assets	42,763,559	26,874,140
Total Assets	58,540,173	39,982,814
Treasury Fund	50,527,141	41,354,824
Capital Fund	265,729	339,81
Revaluation Reserve	13,928,022	11,250,005
Accumulated Loss	(40,678,057)	(31,987,218)
Total Reserves	24,042,835	20,957,427
Trade and other Payables	34,497,338	19,025,387
Total Reserves and Liabilities	58,540,173	39,982,814

2.3.2. Financial Challenges

Firstly, the Trust was challenged by the scarcity of foreign currency that affected procurement and delivery of MMS as most foreign trade payables' payments delayed and some Letters of Credits (LCs) could not be established. This also affected the funding for the 2023 - 2024 financial year budget.

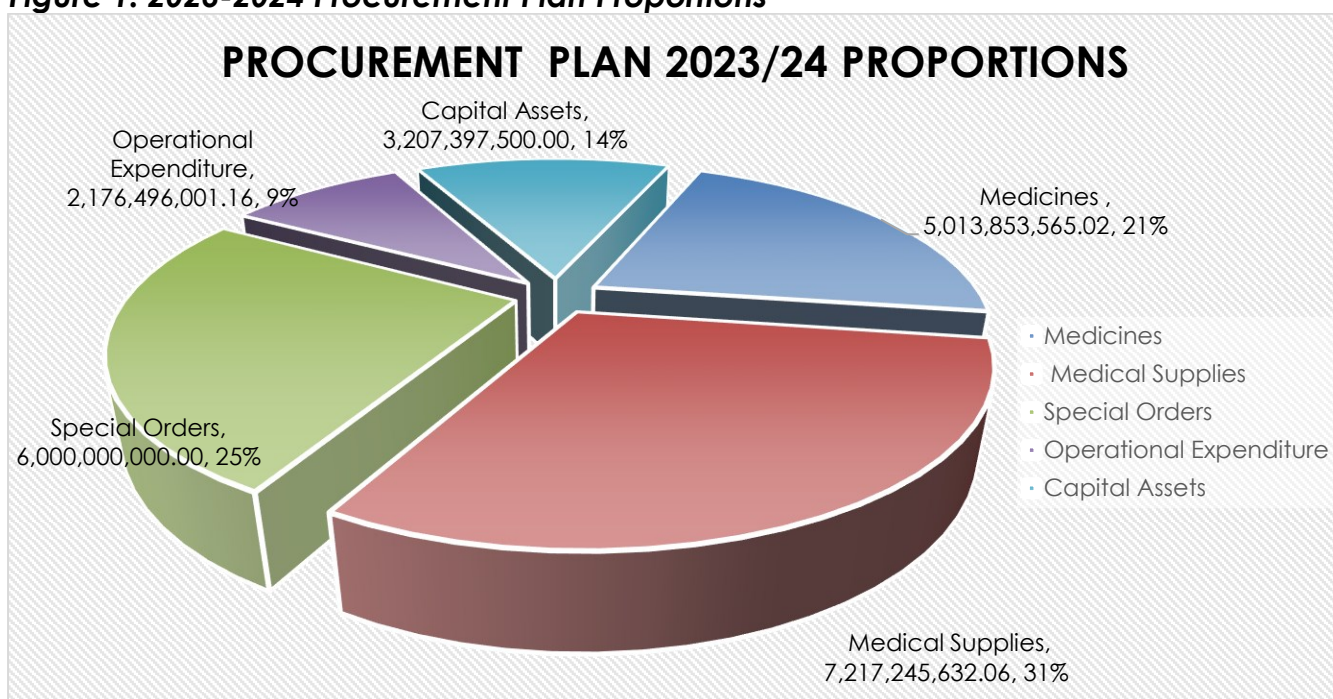
In addition, delayed trade debtors accounts settlements by DHOs and CHs resulted in delays in settling trade creditors in time by CMST that accumulated to MK34.54 billion as at 31st March 2024 resulting in incurring realised exchange losses on foreign suppliers' accounts.

2.4. Procurement and Disposal

The total CMST procurement Plan for the financial year April 2023 – March 2024 was valued at K23,614,992,698.24, with disposal income projected at a total of MK265,129,000.00, comprising a budget for Medicines and Medical Supplies at K18,231,099,197.08, Operational Expenditure procurements at K2,176,496,001.16 and Capital Assets procurement at K 3,207,397,500.00.

The proportions are displayed in *Figure 1* below:

Figure 1: 2023-2024 Procurement Plan Proportions



2.4.1. Overall Implementation Status of the Procurement and Disposal Plan (April 2023-March 2024)

As at 31st March 2024, overall, the Trust had worked on procurements worth K39,016,174,630, representing 214 percent of the planned procurements, estimated at K23,614,992,698.24.

2.4.2. Procurement of Medicines and Medical Supplies

As of 31st March 2024, contracts for MMS alone, inclusive of special order items, were awarded to a value of K39,016,174,630.61, mainly through issuance of call-off orders and LPOs for emergency supplies. The overshoot was due to emergency procurements (gap fillers) initiated after suppliers on normal orders failed to deliver on time, partly due to scarcity of forex and disturbed deliveries owing to late settlement of debts to suppliers by CMST.

2.4.3. Service and supply of non-medical goods

Procurements of services and supply of non-medical goods were implemented to a value of K3,554,432,318.19, against a total budget of K5,383,593,501.16. Such implementation below plan was due to cash flow constraints and the consequent prioritisation of medicaments over general goods, works, and services.

2.4.4. Total procurement expenditure

Total expenditure for medicines, medical supplies, and general goods works and services amounted to K42,570,606,948.80, translating to 180% of the total procurement plan, contributing factors include the rise in demand from facilities and price hikes by contracted supplies in response to devaluation of Malawi Kwacha.

2.4.5. Disposal of assets

In the year, CMST budgeted for an income of K265,129,000.00 from disposal sales of assets including motor vehicles. However, the planned disposal failed after the Ombudsman's advice to rework certain issues on the disposal plan and process, including revaluing of the motor vehicles and exploring alternative disposal methods, including giving the items out to institutions that can use them. The motor vehicles were since revalued by the department of Plant and Vehicle Hire and Engineering Services (PVHES) and submission of a

new disposal request was made by CMST Management for the CMST Board's approval.

A proposal for the disposal of expired or damaged medicines and medical supplies valued at K7,155,220,959.11 was submitted for the approval of the Board and before this was granted, the Public Procurement and Disposal of Assets Authority (PPDA) demanded a review of the relevant procurements of the items earmarked for the disposal.

2.4.6. Performance of MMS Suppliers from April 2023 to March 2024

CMST managed contracts for procurement of medicines and medical supplies for normal stock issued in the year and overall supplier performance was as presented in Table 6 below:

Table 5: Supplier Performance on contracts – 1st April 2023 to 31st March 2024

CATEGORY BY METHOD	NO. ITEMS	NO. ITEMS COMPLETED	% COMPLETED	NO. OF ITEMS PARTIALLY DELIVERED	% PARTIALLY DELIVERED	NO. OF ITEMS NOT DELIVERED	% NOT DELIVERED
ICB	479	161	34%	68	14%	260	54%
RFQs	348	207	59%	30	9%	111	32%
OVERALL	827	368	44%	98	12%	371	45%

By end of year, out of total contracts for the supply and delivery of stock of a total of 827-line items, only 368 line-items were delivered in full, 98 partially delivered and 371 recording no delivery at all. Procurement for about 157 line-items expected to be paid for through Letters of Credit (LCs) failed because CMST could not establish the LCs, as such, delivery could not happen under this mode of payment.

With a considerable number of suppliers failing to deliver for reasons including debts by CMST and scarcity of forex, CMST introduced a cash-on-delivery (COD) strategy to motivate suppliers to hold ready stock. Out of total 827 line-items sought in the year, a total of 155 line-items were then placed under this COD arrangement.

CMST terminated some contracts for 139 line-items whose suppliers failed to deliver within the required period.

Going forward, management continues to lobby suppliers and manufacturers for more engagement on open terms of payment than the use of LCs. So far five (5) suppliers are under this arrangement.

Management is also continuing to engage the National Local Government Finance Committee (NLGFC) for timely payment for the medicines and medical supplies provided to District Hospitals so that CMST can make timely payments to its suppliers.

2.4.7. Special Orders

CMST also managed contracts for procurement of special-order medicines and medical supplies for some selected Central Hospitals and District Hospitals in the same period. The overall supplier performance is as presented in *Table 6* below:

Table 6: Special Orders

CATEGORY BY METHOD	NO. ITEMS	NO. ITEMS COMPLETED	% COMPLETED	NO. OF ITEMS PARTIALLY DELIVERED	% PARTIALLY DELIVERED	NO. OF ITEMS NOT DELIVERED	% NOT DELIVERED
Special Orders	70	8	11%	0	0%	62	89%

2.4.8. Contract Management issues from April 2023 to March 2024

Most suppliers failed to deliver on time due to various reasons, including the following:

- Scarcity of foreign currency for establishing Letters of Credit for imports, especially for normal tenders.
- Delayed payment by CMST to its suppliers who eventually could not manage to finance subsequent deliveries as most of these were call off orders, for instance, main suppliers in the period such as Angel Biogenic Pvt Ltd.
- Termination of contracts (for various reasons), leading to prolonged lead times for items as identification of alternatives also took time.

2.4.9. Procurement Challenges and Remedies

In the year, several challenges impacting procurement were noted, and the Board made aware of, including the following:

- *Low Procurement Thresholds:* the only method that could allow speedy procurement of urgent supplies was use of RFQs. However, the current threshold for the method, although increased from K70 million to K100 million, was not adequate to procure meaningful quantities, even a single item, in many cases.
- *Scarcity of Forex and late payment of supplier debts:* These resulted in suspension of deliveries by suppliers, hence creating gaps in the supply chain and triggering costly emergency procurements through RFQs.

The planned activities for the next quarter and beyond include remedies to identified challenges, as follows:

- CMST embarked on a strategy to deal directly with manufactures, and some were contacted under a single source arrangement, and PPDA approved thirteen (13) rate-based framework agreements (FAs). This resulted in lowering of the prices of commodities, including the price of Amoxycillin capsules reduced from US\$28 to US\$18. Implementation of the Procurement Plan for 2024 – 2025 would therefore prioritise call-off orders based on existing Framework Agreements. Any items not on any of these Framework Agreements will be sourced through supplementary tenders.
- Management would continue to engage more Manufacturers directly and eliminate the middleman, hence reducing associated costs. Management would also like to engage more foreign suppliers on open accounts payment mode than through LCs.
- Procurement of special-order requirements would continue through single sourcing / restricted tendering, meant to reduce lead time and achieve customer satisfaction.
- Consolidation of procurements would also feature to accrue bulk purchasing benefits and embrace use of a Lot System, which minimises the risk of uncontested items.

2.4.10. Safe Stocking Procurement Strategies

To reduce stock expiries resulting from slow stock movement because of low orders from customers due to budget restrictions, or due to technological shifts and changes in treatment regimens, CMST proposes that procurements be awarded based on framework agreements (FAs) whose implementation

would be on a 'per need' basis, through call-off orders. This way, the Trust would only hold safe stock levels.



2.5. Warehousing

The Trust maintained a two-tier warehousing system; a receiving national pharmaceutical warehouse at its headquarters in Lilongwe and three regional medical stores - in Blantyre for the South, Lilongwe for the Centre and Mzuzu for the North. The branch warehouses are supplied by the national warehouse.

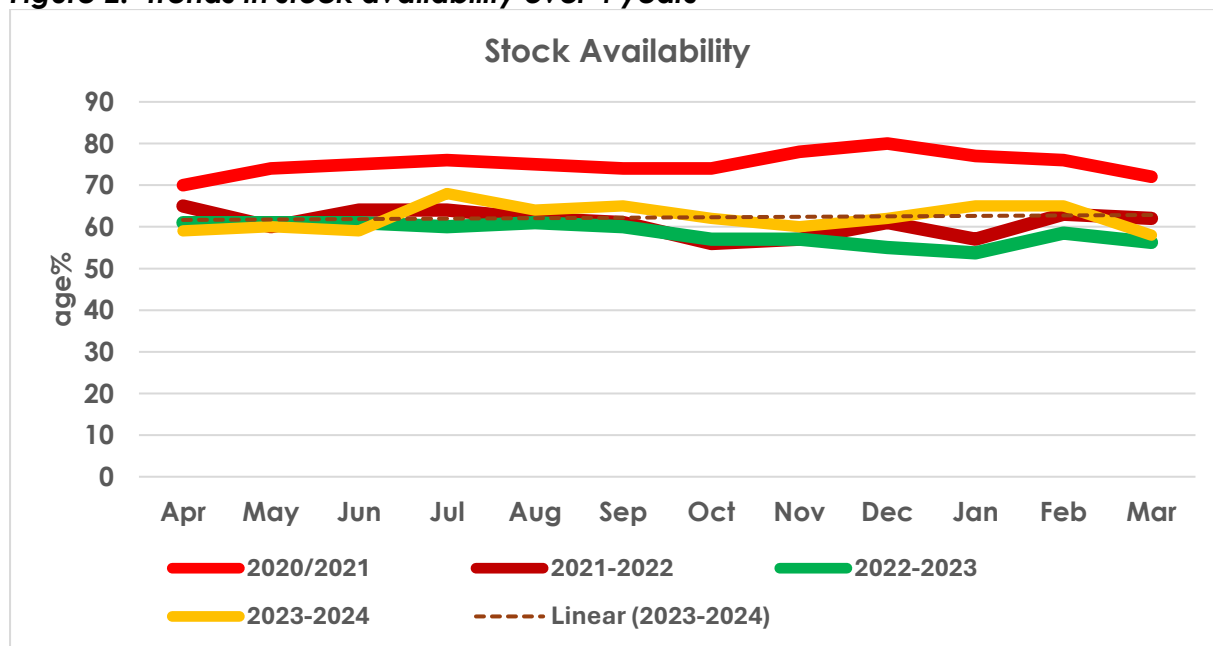
2.5.1. Stock Availability

The availability of Medicines and Medical Supplies in the year, based on the DHO Must-Have-List (MHL), averaged 62%, an improvement when compared to the 58% in the year prior. However, both years recorded a significantly lower availability than the target of 80%.

The year in review, just like the one prior, had procurement challenges hence stock replenishment was mainly sustained by a series of emergency purchases of small volumes, mainly on Cash on Delivery (COD) bases to attract suppliers opting to sell their small volumes to clients that would pay immediately.

The Figure 2 below shows the availability trends of MMS in the last four years.

Figure 2: Trends in stock availability over 4 years



2.5.2. Stock sales

From an opening stock value of about K12.4 billion, as at 1st April 2023, CMST managed sales of K38.8 billion at the close of the year, turning stock over by more than three times and representing an achievement of 13% above the K34.4 sales target for the period. A disproportionately larger sales value to District Hospitals (78%) was noted against the 22% for Central Hospitals, suggesting a much lower service level to the Central Hospitals, which generally get about 40% of the national drug budget.

Of the total sales, 80% were from just 59 line-items of which 65% were medicines and 35% medical supplies and equipment. Gloves were the topmost selling product and accounted for over 12% of total sales.

2.5.3. Customer Order Fill Rate

Despite the apparently good sales performance from a commercial perspective, the Trust's service level to hospitals, as measured by the Customer Order Fill Rate, was only 45%, a drop from the 50% in the previous year. This meant that CMST was, on average, able to supply only about 45% of what hospitals demanded. As such, District Hospitals resorted to utilising their allocated 10% direct funding from their drug budgets to source from the private sector, with Central Hospitals having unlimited liberty.

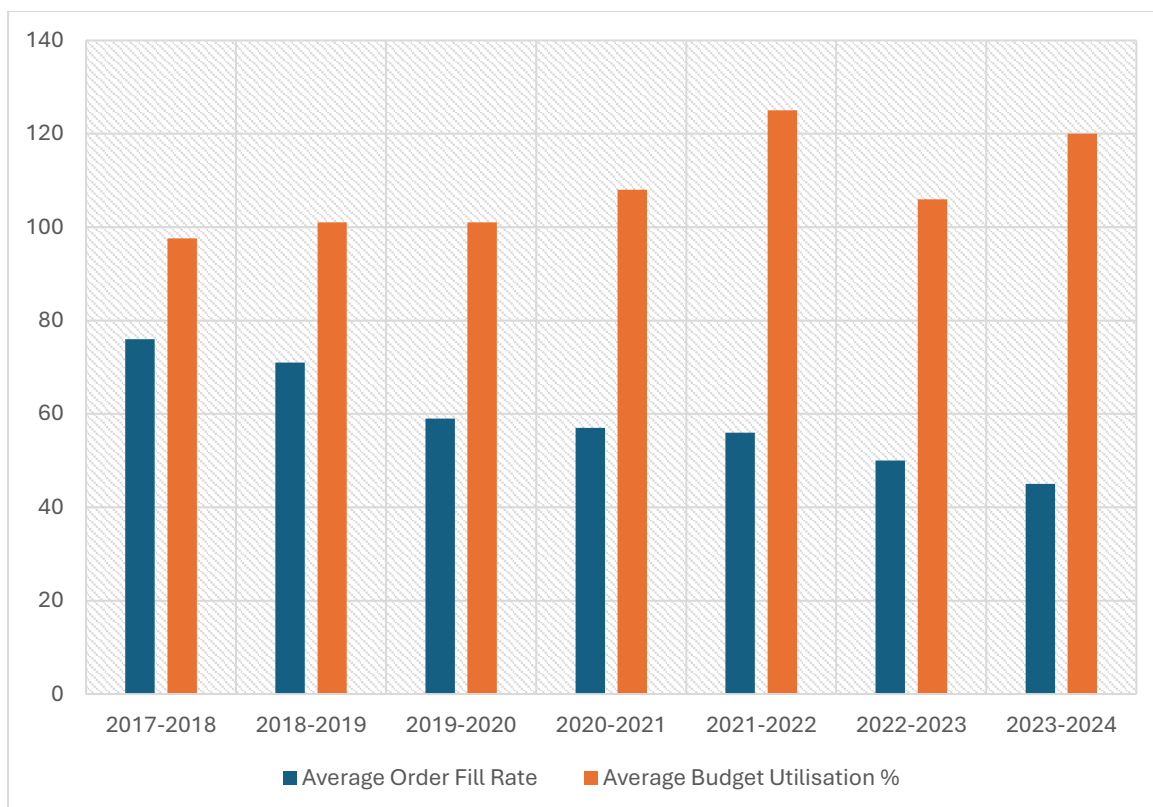
2.5.4. Budget Draw Downs (BDD) for District Hospitals

Despite Parliament allocating more funds to public hospitals during the mid-year budget review in the past period, District Hospitals still posted budget overruns by 20%, collectively recording a consumption of K30.3 billion against their revised annual budget of MK25.3 billion.

With Central Hospital budgets not communicated to CMST, the utilisation rate of such facilities' budgets through CMST was not known, apart from the absolute sales figures that amounted to K8.5 billion.

The comparison of Order Fill Rate and the drug budget utilisation rate (BDD) for District Hospitals, as depicted in *Figure 3* below shows that excess drug budget utilisation, coupled with dropping customer order fill rates, suggest inadequacy of drug budgets for District Hospitals.

Figure 3: Trends of Order Fill Rate versus DHO Drug Budget Draw Down



In keeping with the Trust's mandate and ultimate pursuit of an uninterrupted supply of Medicines and Medical Supplies, CMST did not deny any public health facility of supplies, despite the facilities exhausting their drug budgets in the financial year.

2.5.5. Stock Valuation and Ageing Analysis

At the end of the financial year, a stocktaking exercise established a closing stock balance of K12,494,326,859.45. Stock worth K9.8 billion, representing 78%, was categorised as fast or moderately moving, meaning it was saleable. However, stock valued at K2.7 billion, representing 22%, was in the slow to non-moving category, meaning that it was at risk of obsolescence and expiry.

Of the slow and non-moving stock at the close of the year, items worth a maximum of K1.14 billion were projected to expire within 12 months.

To cut on expiries, CMST Management continues with efforts to donate stock at risk of expiry to health facilities while the stock still has justifiable shelf life. During the year under review, stock at risk of expiry worth K26.4 million was absorbed by various public health facilities as a donation.

2.5.6. Stock Variances

CMST costed loss to stock variances at MK67 million, representing 0.17% of the total stock held during the year. This was a significant improvement from past performance where losses to variances were running to hundreds of millions.

2.5.7. Stock Losses to Expiries and Damages

CMST stock suffered losses to expiry and damages worth K1.8 billion, against K3.4 billion in the previous year. The current figure represents a 3% loss from the total stock handled, against an internationally tolerable level of 2%. This was, however, noted as an improvement over the previous year's performance which registered a 5.1% loss of the total stockholding.

CMST Management initiated processes for approval of disposal of obsolete items for the year ended 31st March 2024.

2.5.8. Stock Replenishment Activities

In the period under review, CMST warehouses processed forty (40) requisitions for 551line items of Medicines and Medical Supplies for the attention of the Procurement Directorate to replenish stock worth more than K70.2 billion. Out of this, only stock valued at about K27.1 billion was received for distribution to health facilities, in addition to the opening stock for the period and the donations to the Ministry of Health.



All-weather outing: A CML truck amid Last Mile Delivery in Chiradzulu, a district in Malawi's Southern Region

2.6. Distribution

CMST continued with a hybrid distribution setup which sees transfers from the main receipt warehouse (National Pharmaceutical Warehouse - NPW) to CMST Branches and Central Hospitals done by CMST's own vehicles. Last Mile Distribution (LMD) or the transfer of stock from CMST Branches to District Hospitals and their subsequent facilities, is completed by a third-party logistics (3PL) company – Cargo Management Logistics (CML).

2.6.1. Internal Distribution Costs

Transfers from the National Pharmaceutical Warehouse to branches are ideally monthly, both for commercial (CMST procured) and third-party stock (donations or those procured through other arrangements). The total value of commercial stocks delivered during the year from NPW to the three Regional Warehouses was K48.7 billion. The total internal distribution costs totaled K234.7 million, representing 0.5% of stock value delivered. The breakdown of internal distribution costs is summarized in the ensuing *Table 8*:

Table 7: Internal CMST Distribution Costs

PARAMETER	STOCK VALUE DELIVERED	DISTRIBUTION COST
Value Of CMST Stock Delivered	48, 737, 625, 959.49	-
Fuel Cost	-	148,559,856.86
Staff Allowances	-	18,969,000.00
Toll Gate Fees	-	2,672,700.00
Vehicle Maintenance	-	64,476,542.26
Total Distribution Expenditure	-	234,675,099.12

The major expenses incurred were on fuel (63%) and vehicle maintenance (29%), with staff allowances pegged at 8%.

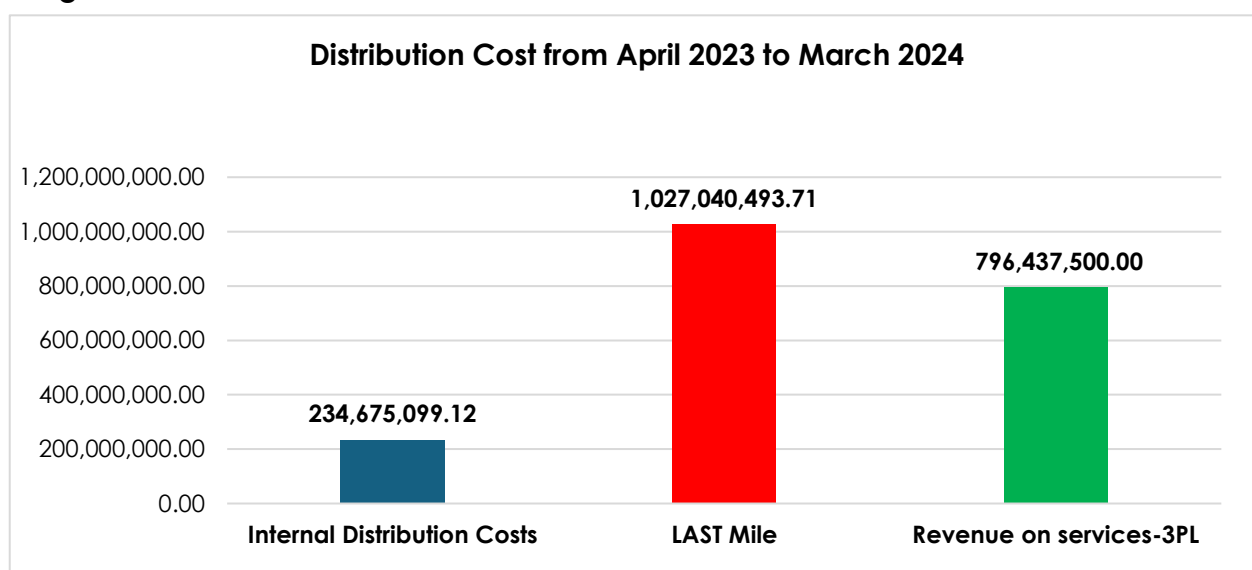
2.6.2. Revenue from 3PL Services Provision

CMST developed Memorandums of Understanding (MOUs) with partners including UNICEF and JBJ Foundation for warehousing and distribution services.

The MOU with the World Bank was not yet developed but that the Bank had agreed to pay for storage and distribution services once deliveries from a procurement it supported start arriving.

The total realised revenue from services rendered to the World Bank, UNICEF and JBJ Foundation would be K796 Million. This would significantly contribute towards mitigation of the Distribution costs, as in the Figure 4 below:

Figure 4: Distribution Costs and Recoveries for 2023-2024



The total estimated revenue through 3PL services over the course of the next year from provision of storage and distribution services is K2.9 billion, of which total invoices, as of 31st March 2024, were K796,437,500.00.

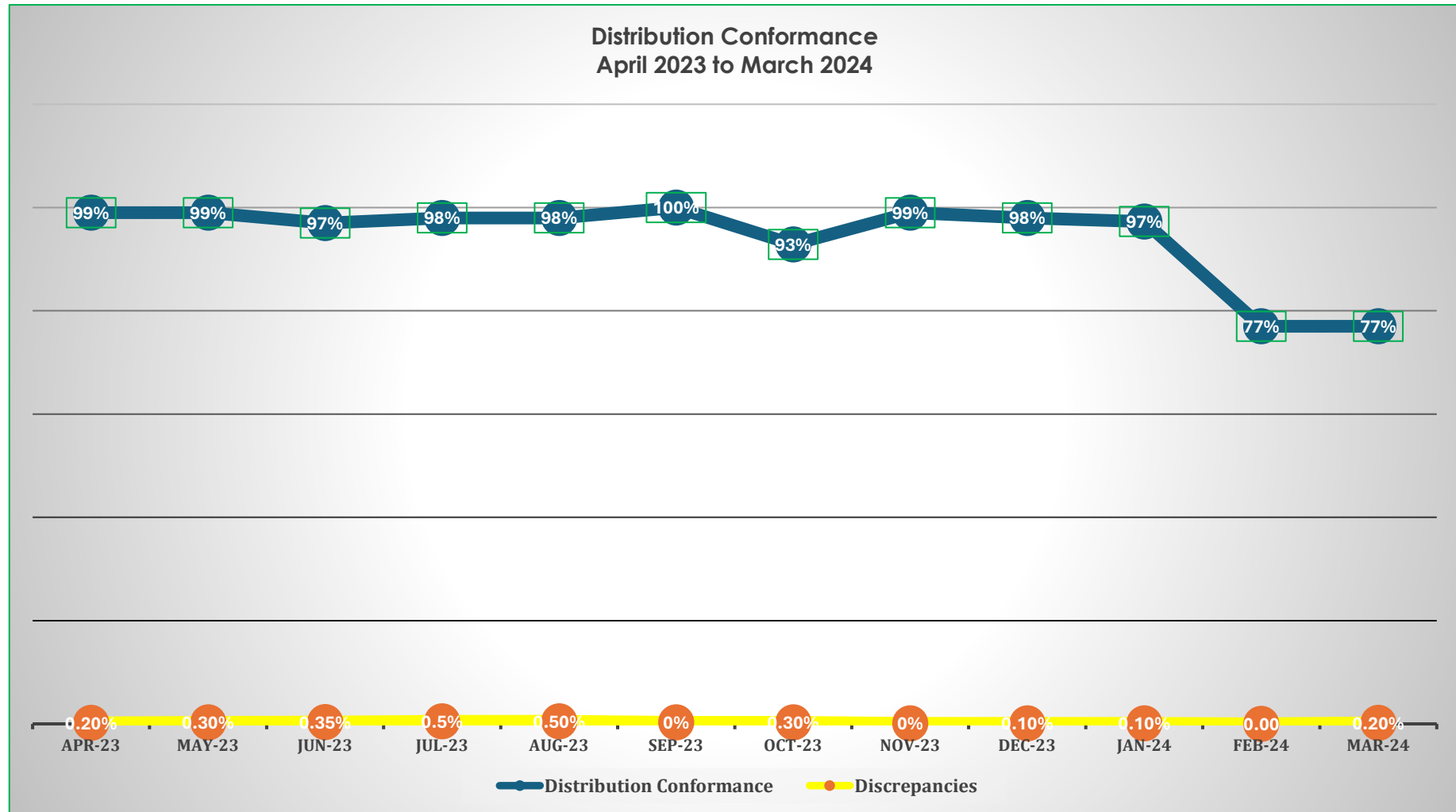


Resilient service: A van caught in the thick of things during a Last Mile Distribution round in Lilongwe

2.6.3. Last Mile Distribution and Conformance and Budget

CMST schedules a joint Last Mile Distribution of essential Medicines and Medical Supplies (CMST stock) and Third-Party stocks (donations and others) between the 10th and the last day. Presently, CMST is using services of a 3PL company called Cargo Management Logistics, with a set of key performance indicators that include delivery times conformance, temperature control, damages and

discrepancies. In the year, CML performed satisfactorily, as displayed in *Figure 5* below:

Figure 5: Distribution Conformance for 2023 - 2024

From the trends, the distribution conformance target from April 2023 to March 2024 was generally met, as it registered an overall compliance rate of 94%, albeit against the 95% target. The decline in conformance observed between February and March 2024 was mainly caused by tough terrains because of heavy rains. The low discrepancies and damages rate throughout the period, at an average of 0.25% against a tolerable maximum of 1% of the stock value handled marked a good performance.

The total distribution budget for the last mile was initially K951,842,482.00. As of 31st December 2023, a total of K699,093,169.63 had been spent. Through price adjustments, the expenditure in the remaining quarter of the 2023 - 2024 fiscal year rose to K1,027,040,493.71. The total cost for both internal and external distribution then came to K1,261,715,592.83, against a stock value of K48,700,000,000.00, representing a 2.5% ratio, against the tolerable percentage of up to 10%, translating into a good performance.

2.6.4. Distribution Audit recommendations

The Distribution function implemented performance improvement recommendations from an audit and risk inspection, as follows:

- Recalibration of GPS System to improve data accuracy in 2024 to 2025.
- Data collection on product weights and unit volumes for automation of distribution weights and volumes and to facilitate proper choice of trucks and route optimisation.



2.7. Quality Control Testing

In the year, 736 (46%) samples were collected for Quality Control testing at the National Medicines Quality Control Laboratory (NMQCL). Out of the 680 sample results released, 99% (672) passed and 1% (8) failed the tests and were rejected. As the close of the review period, 48 sample results from the 680 had not been released. More details are in the ensuing *Table 8* below.

Table 8: Details of Receipts and QC Testing

CATEGORIES	NUMBER	PERCENTAGE
Total Batches	2,180	100%
Medicines	1,605	74%
Medical Supplies	575	26%
Local supplied	1,407	65%
Foreign supplied	773	35%
Local manufactured	607	28%
Foreign manufactured	1,573	72%
Foreign Manufactured		
Medicines	1,080	67%
Local supplied	501	46%
Foreign supplied	579	54%
Medical Supplies	492	86%
Local supplied	386	78%
Foreign supplied	106	22%
Locally Manufactured and Supplied		
Medicines	525	33%
Medical Supplies	83	14%
Total Sampled	736	46%
Released	688	93%
Pass	680	99%
Fail	8	1%
Not Released	48	7%

One supplier, Angel Biogenics Limited challenged the results for Tramadol 50mg Capsules, batch number B1C0035 which failed Quality Control (QC) test (assay) and sought an arbitration test. Following the second test done at the Mission for Essential Drugs and Supplies (MEDS) in Kenya, the sample passed and was consequently put back into circulation.

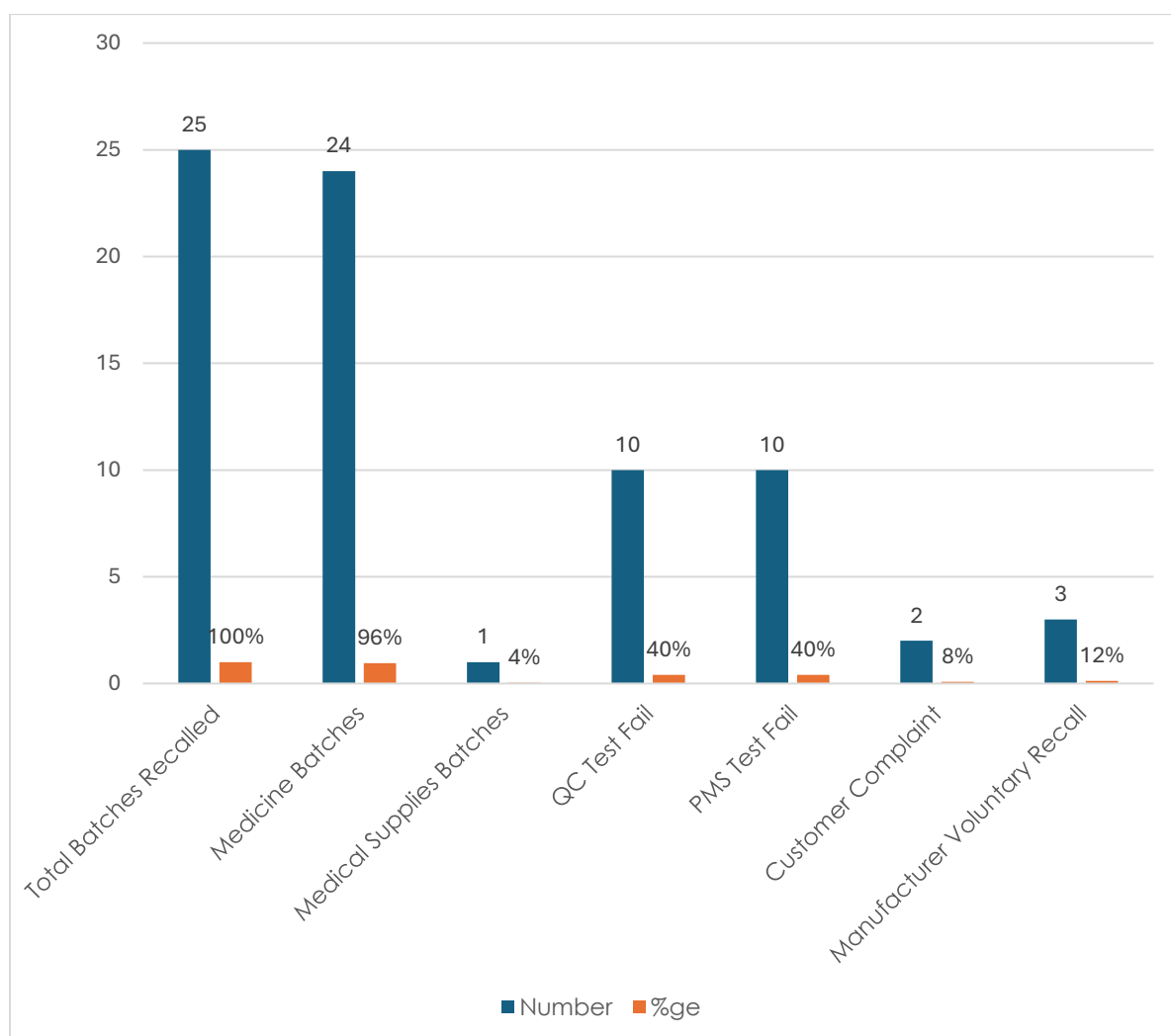
By the close of the year, the Trust was invoiced K101,979,782.00 by PMRA for QC tests. Against a budget of K150,000,000.00, the invoice represents a 68% budget utilization, yet with tests for September and October 2023 and February and March 2024 not yet invoiced. This translated into an average cost of K148,226.43 per batch tested, compared to K231,396.026 during the previous

year. The reduction in average cost was due to the laboratory not carrying out full monograph tests for some of the batches.

2.7.1. Product recalls

A total of 25 product batches were recalled during the year under review due to failure of QC and post-market surveillance tests, customer complaints and manufacturers' voluntary recall, as portrayed in *Figure 6* below. It has been observed that some locally manufactured medicines would pass QC tests only to end up developing quality issues later while in health facilities. For example, the medicines would develop dark spots or molds.

Figure 6: Product Recalls



2.7.2. Renewal of Licenses

CMST renewed both wholesale and practicing licences for warehousing premises and pharmacy personnel for the fiscal year 2024 - 2025 at the Pharmacy and Medicines Regulatory Authority (PMRA). In total, six (6) wholesale premises and twenty-five (25) personnel practicing licenses had been done at a cost of MK2,540,000.00.

2.8. Internal Audit

As supported by CMST Corporate Strategy objectives, the reviews of all internal controls and risk management processes across business units every year remain critical tasks. In the year, the Internal Audit unit focused, to a greater extent, on providing assurance on adequacy and effectiveness of inventory controls, both at National Receipt Warehouse and all Branches.

The audit unit also monitored emerging risks and provided appropriate mitigation measures. Going forward, the unit has been developing a Risk Appetite Statement, for CMST, which intends to set the limits above the risks which the Trust may tolerate and still continue to deliver on its mandate. The risk tolerable limits not only help reduce the occurrence of some risks by employing existing internal controls, but also helps inculcate risk culture across business units and processes within the Trust.



2.9. Human Resource Management

CMST maintains that staff is its most important asset and therefore commits to improve staff welfare and working conditions. Following the approval of the 2020 Job Evaluation and Functional Review Report, the Trust has been implementing subsequent recommendations which include new recruitments and staff placements and grading.

Some of these areas needed the intervention of Management for proper management of the whole process.

The processes started in 2022-2023 and thence CMST Management has worked to address issues surrounding implementation of the recommendations for a proper functioning system leading to increased staff performance, motivation and morale.

2.10.Information and Communications Technology

The ICT Section continued to ensure that the Trust has a robust Information Management System to efficiently support key strategic and operational areas within Procurement, Warehousing, Sale and Distribution of Medicines and Medical Supplies.

Within the year, major focus areas included ERP Management and Network, Security and Infrastructure management. Across these, the section realized notable achievements, including improved stable high system and network availability, good quality of critical ICT Services, improved network security and good infrastructure management best practices.

The Section also continued to support efforts of Central Medical Stores Trust on continuous ERP system improvement, such as that on ERP upgrade process, supported by The Global Fund Project, and align its implementation plan with Malawi National Supply Chain Transformation Plan.

The Section's plans include enhancement of ICT governance through review of its ICT Policies and procedures, formalisation of ICT Change Management Policy, undertaking capacity building initiatives and continuously collaborating with other stakeholders on ERP upgrade and integration.

2.11.Appreciation and Conclusion

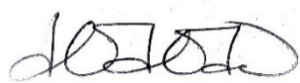
Reflecting on the year in review, I am compelled to commend the tenacity of the CMST work force for the progress we have made, despite the challenges that would have otherwise dwarfed our efforts. The tenacity of the team has demonstrated why my office maintains that CMST's strength lies in its people. Even with the challenges, CMST has marked significant milestones and positioned the Trust on a strong foundation for strategic improvement.

CMST's commitment to improvement of systems and strategies for sustainability, including customer satisfaction and operational excellence, has positioned us well for the coming year.

Now, looking ahead, the Trust is geared to continue to demonstrate why it should be recognised as a **Trusted Partner in Healthcare**. Going into next year, Management will therefore continue to focus on strategic priorities, invest in the people, and drive sustainable growth.

I am confident that with the loyal team and its spirited contributions, we will achieve even greater success in the year ahead.

Thank you for your continued support and trust in our company.



CHIKAIKO CHADZUNDA

CHIEF EXECUTIVE OFFICER

Appendix 1

**AUDITED FINANCIAL ACCOUNTS
FOR YEAR ENDED 31ST MARCH 2024**

CENTRAL MEDICAL STORES TRUST

FINANCIAL STATEMENTS

31 MARCH 2024

CENTRAL MEDICAL STORES TRUST

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2024

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CENTRAL MEDICAL STORES TRUST

TRUSTEES' REPORT FOR THE YEAR ENDED 31 MARCH 2024

The Trustees' have pleasure in submitting their report together with the audited financial statements of Central Medical Stores Trust for the year ended 31 March 2024.

Nature of business and incorporation

The main business of the Trust, which is incorporated in Malawi is procurement, storage, sale and distribution of medicines and medical supplies and related products to government health facilities, CHAM, and approved NGO health facilities and Private facilities.

Financial performance

The results and state of affairs of the Trust are set out in the accompanying statements of financial position, profit or loss and other comprehensive income, changes in reserves, cash flows, significant accounting policies and other explanatory information.

CMST posted an increase in revenue by 30% as at 31 March 2024 revenue was MK38.8 billion while 2023 revenue was MK29.9 billion. However CMST performed above the budgeted revenue by 13% as budgeted revenue was MK34.4 billion.

CMST posted a gross profit of MK8.9 billion before provisions and stock write off, overall a loss of MK8.7 billion has been posted and net loss was MK8.6 billion. Prior year the gross profit was MK4.6 billion and a loss of MK10.5 billion was posted and a net loss of MK10.3 billion was posted.

The Trust performance indicators as at 31 March 2024 reported a gross profit Margin of 23% while Trade debtors days and Trade Creditors days were 290 and 254 respectively. Inventory holding days were at 154 with a stock expiry rate of 5%. The increase in the gross profit margin is due to price adjustments following the devaluation of Malawi Kwacha against foreign currencies in November 2023.

CMST continued to sell its medicines and medical supplies to all District Hospitals and Health Centres in Malawi. 78% of annual sales were to public health facilities. Sales to Central Hospitals were accounted for 21% of the annual sales, while CHAM and other private hospitals contributed 1% of sales in the year ended 31st March 2024.

During the year ending 31st March 2024, the Government of Malawi through Ministry of Finance recapitalized the Trust with funds amounting to MK7.5 billion. This is the balance of the capital commitment of MK30 billion by Malawi Government to CMST. Additionally MK1.9 billion was also capitalised as there were direct payment that Malawi Government paid to CMST suppliers during 2023-2024 financial year.

Board of Trustees

The following Trustees served office during the year:

Mr. Josiah Mayani	Board Chairperson	1 April 23- 22 Sep 23
Dr. Kondwani Santhe	Executive Secretary NLGFC	1 April 23- 22 Sep 23
Dr. MacDonald Mafuta Mwale	Secretary to Treasury	1 April 23- 22 Sep 23
Dr. Charles Mwansambo	PS Ministry of Health	1 April 23- 22 Sep 23
Mr. Steven Chimtengo	ICAM Representative	1 April 23- 22 Sep 23
Mr. Happy Makala	CHAM Representative	1 April 23- 22 Sep 23
Dr. Chikaiko Chadzuka	CEO/Secretery	1 April 23- 22 Sep 23
Mr. Josiah Mayani	Board Chairperson	18 Jan 24- 31 March 24

CENTRAL MEDICAL STORES TRUST

TRUSTEES' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2024

Board of Trustees (Continued)

Rev. Gamaliel K Kalebe	CHAM Representative	18 Jan 24- 31 March 24
Dr. Kondwani Santhe	Executive Secretary NLGFC	18 Jan 24- 31 March 24
Prof. Betchani Tcheleni	Ministry of Finance	18 Jan 24- 31 March 24
Dr. Samson Mndolo	PS Ministry of Health	18 Jan 24- 31 March 24
Mrs. Stailes Kaitane	ICAM Representative	18 Jan 24- 31 March 24
Mr. Robert Nthewa	Malawi Law Society Representative	18 Jan 24- 31 March 24
Mr. Peter Simbani	Department of Statutory Corporations	18 Jan 24- 31 March 24
Dr. Chikaiko Chadzuka	CEO/Secretary	18 Jan 24- 31 March 24

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 2025 financial statements.


BOARD CHAIRPERSON


TRUSTEE

04/09/2024
DATE

04/09/2024
DATE

CENTRAL MEDICAL STORES TRUST

STATEMENT OF TRUSTEES' RESPONSIBILITIES FOR THE YEAR ENDED 31 MARCH 2024

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 end 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 2024. The Trustees also make 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.

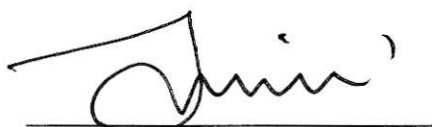

The Trustees acknowledge the role of the responsibility of an auditor which is to express an independent opinion on these financial statements based on their audit. They conducted their audit in accordance with International Standards on Auditing. Those standards require them to comply with ethical requirements and plan to perform the audit and to obtain 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 04/09/2024 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 2024**

ADL House, 3rd Floor, City Centre
P.O. Box 898, Lilongwe, Malawi
Tel: +265 (0) 992 873 845
+265 (0) 992 873 846
E-mail: lilongwe@grahamcarrmw.com

Opinion

We have audited the financial statements of Central Medical Stores Trust, which comprise the statement of financial position as at 31 March 2024, 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 2024 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 MK8.7 billion (2023:loss for the period of MK10.5 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. 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 MK12.6 billion represent 22% 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, Martha Nyirongo Mrs, Julius Gondwe

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

**ON THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024**

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 2024**

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 2024**

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: 14 Sep-2024

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Audit . Tax . Advisory

Partners: Cornwell Banda, Martha Nyirongo Mrs, Julius Gondwe

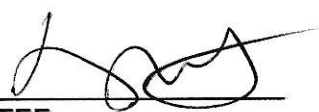
CENTRAL MEDICAL STORES TRUST

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2024

	Note	2024 MK'000	2023 MK'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	15,582,893	12,855,505
Long term staff receivables	9	193,721	253,169
Total non-current assets		15,776,614	13,108,674
Current assets			
Inventories	8	12,625,732	13,201,247
Trade and other receivables	9	25,715,325	9,053,173
Cash and cash equivalents	10	4,422,502	4,619,720
Total current assets		42,763,559	26,874,140
Total assets		58,540,173	39,982,814
RESERVES AND LIABILITIES			
Reserves			
Treasury fund	11	50,527,141	41,354,824
Capital fund	12	265,729	339,816
Revaluation reserve	13	13,928,022	11,250,005
Accumulated loss	14	(40,678,057)	(31,987,218)
Total reserves		24,042,835	20,957,427
Current liabilities			
Trade and other payables	15	34,497,338	19,025,387
Total reserves and liabilities		58,540,173	39,982,814

These financial statements were authorised for issue by the Board of Trustees on 04/09/2024 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 2024

	Note	2024 MK'000	2023 MK'000
Revenue	16	38,804,855	29,879,791
Costs of sales	17	(29,870,888)	(25,309,954)
Gross profit		8,933,967	4,569,837
Other income	18	6,510,046	1,784,577
Administrative expenses	19	(9,092,463)	(11,432,423)
Distribution costs	19	(1,515,311)	(974,203)
Profit/(loss) before impairment of receivables & exchange losses		4,836,239	(6,052,212)
Unrealised foreign exchange loss		(8,154,011)	(2,468,653)
Realised foreign exchange loss		(2,343,781)	(1,336,731)
Impairment loss	19	(3,029,285)	(634,219)
Loss for the year		(8,690,838)	(10,491,815)
Other comprehensive income			
Amortization of capital fund assets		109,700	207,108
Total other comprehensive income		109,700	207,108
Total comprehensive loss for the period		(8,581,138)	(10,284,707)

CENTRAL MEDICAL STORES TRUST

STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 MARCH 2024

	Capital fund MK'000	Treasury fund MK'000	Revaluation reserve MK'000	Accumulated loss MK'000	Total MK'000
Balance as at 1 July 2022	546,924	34,323,775	11,500,098	(21,745,496)	24,625,301
Loss for the year	-	-	-	(10,491,815)	(10,491,815)
Recapitalisation funds	-	7,031,049	-	-	7,031,049
Depreciation relating to revalued assets	(207,108)	-	(250,093)	250,093	(207,108)
Balance as at 1 April 2023	339,816	41,354,824	11,250,005	(31,987,218)	20,957,427
Loss for the year	-	-	-	(8,690,838)	(8,690,838)
Recapitalisation funds	-	9,172,317	-	-	9,172,317
Donated assets	35,612	-	-	-	35,612
Depreciation on revalued assets	(109,700)	-	-	-	(109,700)
Revaluation surplus during the year	-	-	2,678,017	-	2,678,017
Balance as at 31 March 2024	265,729	50,527,141	13,928,022	(40,678,056)	24,042,835

CENTRAL MEDICAL STORES TRUST

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2024

	2024 MK'000	2023 MK'000
Operating activities		
(Loss) for the period	(8,690,838)	(10,491,815)
Depreciation	394,401	791,999
Amortisation of capital fund assets	(109,700)	(207,108)
	<u>(8,406,138)</u>	<u>(9,906,924)</u>
Change in inventories	575,515	612,854
Change in long term staff receivables	59,448	(84,114)
Change in trade and other receivables	(16,662,154)	(1,673,486)
Change in trade and other payables	15,471,951	(491,886)
	<u>(8,961,378)</u>	<u>(11,543,556)</u>
Investing/financing activities		
Acquisition of property, plant and equipment	(443,772)	(303,441)
Movement in donated assets	35,614	-
Recapitalisation receipts from Treasury	9,172,317	7,031,049
	<u>8,764,159</u>	<u>6,727,608</u>
Net cash inflow from investing/financing activities		
	<u>8,764,159</u>	<u>6,727,608</u>
Net decrease in cash and cash equivalents	(197,219)	(4,815,948)
Cash and cash equivalents at the beginning of the year	4,619,720	9,435,668
	<u>4,422,501</u>	<u>4,619,720</u>
Cash and cash equivalents at the end of the year		
	<u>4,422,501</u>	<u>4,619,720</u>
ADDITIONAL INFORMATION		
Decrease in net working capital	<u>(811,907)</u>	<u>(6,368,466)</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 April 2023.

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

IFRS 17 Insurance Contracts

Issued in May 2017. Amendment to address concerns and implementation challenges that were identified after IFRS 17 was published (includes a deferral of the effective date to annual periods beginning on or after 1 January 2023).

IAS 1

Amendment regarding the disclosure of accounting policies. Effective date to annual period beginning on or after 1 January 2023.

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 is 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 2024

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

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

3.8 Provisions

Provision 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. Provision 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.

Provision 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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

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 on 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

(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 current 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:

	2024 MK'000	2023 MK'000
United States Dollars (\$) denominated monetary liabilities		
Amount payable	17,276,373	12,876,198

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

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 2024			
Trade receivables and other receivables (excluding prepayments)	29,873,761	-	29,873,761
Cash and cash equivalents	4,422,502	4,422,502	-
	<u>34,296,262</u>	<u>4,422,502</u>	<u>29,873,761</u>
As at 31 March 2023			
Trade receivables and other receivables(excluding prepayments)	13,179,287	-	13,179,287
Cash and cash equivalents	4,619,720	4,619,720	-
	<u>17,799,007</u>	<u>4,619,720</u>	<u>13,179,287</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 2024 MK'000	Carrying amount 2024 MK'000	Gross 2023 MK'000
Trade and other receivables	9	30,803,396	25,909,046	15,533,548
Cash and cash equivalents	10	4,422,502	4,422,502	4,619,720
		<u>35,225,898</u>	<u>30,331,548</u>	<u>20,153,268</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

5.1.2 Credit risk (continued)

iv) Impairment losses

The aging of trade receivables at the reporting date was:

	Gross 2024 MK'000	Impairment 2024 MK'000	Gross 2023 MK'000
Not past due	4,514,340	-	1,415,167
Past due 31 - 90 days	9,025,519	-	1,490,248
Past due above 90 days	16,333,903	4,894,350	10,273,871
Total	29,873,761	4,894,350	13,179,287

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

	2024 MK'000	2023 MK'000
Opening balance	6,227,206	5,592,987
Receipts during the year	(4,362,377)	-
Impairment loss recognised	3,029,285	634,219
Closing balance	4,894,114	6,227,206

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 2024

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:

		Carrying amount	
		2024	2023
	Note	MK'000	MK'000
Fixed rate instructions			
Financial assets	10	4,422,502	4,619,720

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

5.1.3 Liquidity risk (continued)

	0 - 3 months	3 - 12 months	Greater than 12 months
As at 31st March 2024			
Assets			
Trade and other receivables	4,514,340	21,200,987	25,715,326
Cash and cash equivalents	-	-	-
	<u>4,514,340</u>	<u>21,200,987</u>	<u>25,715,326</u>
Liabilities			
Trade and other payables	6,418,192	28,079,146	34,497,338
Current liquidity gap	<u>(1,903,853)</u>	<u>(6,878,159)</u>	<u>(8,782,012)</u>
As at 31st March 2023			
Assets			
Trade and other receivables	1,415,167	7,638,007	9,053,174
Cash and cash equivalents	9,435,668	-	9,435,668
	<u>10,850,835</u>	<u>7,638,007</u>	<u>18,488,842</u>
Liabilities			
Trade and other payables	2,798,149	16,227,239	19,025,388
Current liquidity gap	<u>8,052,686</u>	<u>(8,589,233)</u>	<u>(536,546)</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 2024

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
Cost or valuation								
As at 1 July 2023	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	-	17,521,889
Additions	27,837	22,484	-	13,636	234,765	8,796	136,254	443,772
Revaluation surplus	2,678,017	-	-	-	-	-	-	2,678,017
Elimination of depreciation on revaluation	(1,024,846)	-	-	-	-	-	-	(1,024,846)
As at 31st March 2024	14,537,556	242,924	2,082,656	708,379	1,105,878	743,674	136,254	19,618,832
Depreciation								
As at 1 July 2023	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 31 March 2023	1,024,846	148,225	2,037,200	451,425	580,540	424,147	-	4,666,384
Charge for the year	-	12,876	42,823	88,734	102,605	147,363	-	394,401
Elimination of depreciation on revaluation	(1,024,846)	-	-	-	-	-	-	(1,024,846)
As at 31st March 2024	-	161,101	2,080,024	540,159	683,144	571,510	-	4,035,938
Carrying amount								
As 31st March 2024	14,537,556	81,822	2,632	168,219	422,734	172,164	136,254	15,582,893
As at 31st March 2023	11,831,702	72,215	45,456	243,317	290,574	310,731	-	12,855,505

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2024

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Land and buildings were revalued on 31st March 2024 by Mickson Chiundira MA (Real Estate Management BSoCSC (Econs), 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
2024				
Land and buildings	-	-	14,537,556	14,537,556
2023				
Land and buildings	-	-	12,856,548	12,856,548

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

	2024 MK'000	2023 MK'000
Cost	-	7,811,597
Accumulated depreciation	-	3,162,759
Net carrying amount	-	4,648,838

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

	2024 MK'000	2023 MK'000
8 INVENTORIES		
Surgical equipment	2,695,196	3,369,671
Tablets and capsules	3,724,229	2,442,064
Injectables	484,224	1,884,773
Galenicals	660,422	586,077
Sutures	1,995,681	2,279,519
Surgical dressings	715,264	1,111,801
X-ray films and equipment	898,359	445,666
Laboratory items & reagents	419,268	536,725
Dispensary items	3	84,952
Dental items	161,835	140,562
Hospital equipment	560,243	77,938
Raw materials	8,618	101,151
Vaccines	57,569	39,582
Hospital beddings	106,616	56,212
Mantino DFID	7,298	21,616
Ophthalmic	998	1,048
Expired inventory	1,798,129	3,447,703
	<u>14,293,953</u>	<u>16,627,062</u>
Less: provision for expired inventory	<u>(1,798,129)</u>	<u>(3,447,703)</u>
	<u>12,495,824</u>	<u>13,179,359</u>
Stationery	129,908	21,888
Total inventory	<u><u>12,625,732</u></u>	<u><u>13,201,247</u></u>
9 TRADE AND OTHER RECEIVABLES		
Trade receivables	29,873,761	13,179,287
Other receivables and prepayments	929,636	2,354,262
	<u>30,803,396</u>	<u>15,533,548</u>
Less provision for doubtful receivables	<u>(4,894,350)</u>	<u>(6,227,206)</u>
	<u>25,909,046</u>	<u>9,306,343</u>
Less long term staff receivables	<u>(193,721)</u>	<u>(253,169)</u>
Short term trade and other receivables	<u><u>25,715,325</u></u>	<u><u>9,053,173</u></u>

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

TRADE AND OTHER RECEIVABLES (CONTINUED)

	2024 MK'000	2023 MK'000
The ageing of trade receivables at the reporting date was as follows:-		
Current	4,514,340	1,415,167
31-90 days	9,025,519	1,490,248
Above 90 days	16,333,903	10,273,871
	<u>29,873,761</u>	<u>13,179,287</u>

The carrying amount of trade receivables of MK29.9 billion is a reasonable approximation of their fair values.

10 CASH AND CASH EQUIVALENTS

LC establishments	-	265,351
NBM operating accounts	221,430	44,310
NBM kit account	865,252	305,296
NBM global fund account	5,386	5,155
NBM investment account	-	964,900
NBS operating account	38,756	9,735
Eco Bank operating account	6,813	12,127
Old Mutual investment account	3,284,584	3,012,570
Petty cash	280	276
	<u>4,422,502</u>	<u>4,619,720</u>

11 TREASURY FUND

Opening balance	41,354,824	34,323,775
Recapitalisation fund	9,172,317	7,031,049
	<u>50,527,141</u>	<u>41,354,824</u>

12 CAPITAL FUND

Opening balance	339,816	546,924
Donated assets	35,612	-
Amortisation of capital fund assets	(109,700)	(207,108)
	<u>265,729</u>	<u>339,816</u>

13 REVALUATION RESERVE

Opening balance	11,250,005	11,500,098
Depreciation relating to revaluated assets	-	(250,093)
Revaluation surplus during the year	2,678,017	-
	<u>13,928,022</u>	<u>11,250,005</u>

14 ACCUMULATED LOSS

Opening balance	(31,987,218)	(21,745,496)
Loss for the period	(8,690,838)	(10,491,815)
Depreciation relating to revaluated assets	-	250,093
	<u>(40,678,057)</u>	<u>(31,987,218)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

	2024 MK'000	2023 MK'000
15 TRADE AND OTHER PAYABLES		
Trade payables	32,346,338	17,298,672
Other payables and accruals	2,151,000	1,726,715
	<u>34,497,338</u>	<u>19,025,387</u>
The ageing of trade payables at the reporting date was as follows:-		
Current	6,418,192	2,798,149
0-30 days	3,082,262	1,256,900
31-90 days	2,166,316	703,328
Above 90 days	20,679,567	12,540,296
	<u>32,346,338</u>	<u>17,298,672</u>
The carrying amount of payables of MK32.3 billion is a reasonable approximation of their fair values.		
16 REVENUE		
Regional Medical Stores (South)	16,570,978	13,474,774
Regional Medical Stores (Centre)	15,441,082	11,890,432
Regional Medical Stores (North)	6,792,795	4,514,585
	<u>38,804,855</u>	<u>29,879,791</u>
17 COST OF SALES		
Opening inventory	13,179,359	13,801,467
Add Purchases	29,187,353	24,687,846
Less: Closing inventory	(12,495,824)	(13,179,359)
Cost of sales	<u>29,870,888</u>	<u>25,309,954</u>
18 OTHER INCOME		
Service charge-UNICEF commodities	398,731	351,718
Service charge-Covid 2019 Procurements	-	341,721
Service charge-distribution of donated items	1,201,199	88,116
Interest received	420,679	776,184
Rent received	15,691	15,050
Capital funds amortisation	109,700	207,108
Bad debt recoveries	4,362,377	-
Sale of bid documents	1,670	4,679
	<u>6,510,046</u>	<u>1,784,577</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

	2024 MK'000	2023 MK'000
19 ADMINISTRATIVE EXPENSES		
Salaries and benefits	3,513,443	2,882,077
Boarded off items/expired inventory	1,813,431	4,339,036
Impairment loss of receivables	3,029,285	634,219
Depreciation	394,401	791,999
Hiring of security guards	414,927	383,755
Fuel and lubricants	1,546,191	1,239,940
Rent/lease (warehouse/office)	341,005	353,130
Subsistence allowance	485,182	505,809
Other expenses (AGM, quality control costs , PPDA and others)	546,415	764,164
Motor vehicle maintenance	269,907	231,296
Office sundries	117,428	93,474
Training	146,545	95,843
Telephone charges	100,207	78,439
Insurance costs	317,816	47,450
Electricity charges	80,595	62,956
Legal and consultancy Fee	96,701	25,485
Bank charges	67,634	86,016
Repairs of plant and equipment	72,350	56,991
Publications and advertising	35,185	46,751
Maintenance of buildings	54,043	76,970
Stationery	72,675	67,195
Water and sanitation	41,930	36,838
Audit fees	36,300	32,184
Uniform and protective clothing	7,775	21,867
Computer costs	3,873	1,528
Corporate social responsibility(medicines donations)	31,815	85,433
	<u>13,637,059</u>	<u>13,040,845</u>
Presented on page 9 as follows:		
Administration costs	9,092,463	11,432,423
Distribution costs	1,515,311	974,203
Impairment loss	3,029,285	634,219
	<u>13,637,059</u>	<u>13,040,845</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

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	35,612	-
	Key management remuneration	419,044	334,217
	Trustees remuneration	2,750	3,875
b)	Period end balances		
	Amounts due to key management	97,557	54,089
c)	Government receivable balance:		
	All government receivables	29,342,278	12,683,582

21 CAPITAL COMMITMENTS

As at 31 March 2024, the Trust had several commitments amounting to MK962 million (2023: MK820 million). The commitments will be financed by the Trust's internal resources.

22 CONTINGENT LIABILITIES

As at 31 March 2024, CMST has the following lawsuits

NAME	NATURE OF CASE
Prisca Kumwenda (MIRA INVESTMENT)	<p>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.</p> <p>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 applying to have a third party debt order against the claimant's lawyers as sums collected were collection costs which were received by the lawyers.</p> <p>There is a likelihood that the money will be recovered and it is estimated that MK5 million will be paid as fees to Likongwe and Company as fees for this case.</p>
Glyn Sosola vs Panjwani, UNICHEM, Trustees PMPB and AG	<p>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.</p>

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

NAME	NATURE OF CASE
SADM Pharmaceuticals Limited	<p>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 enforcing the judgement.</p>
PHARMA Solutions vs Central Medical Stores	<p>The plaintiff wrote CMST threatening legal action due the CMST refusal to accept receipt of goods after awarding them a contract of MK196,336,000.500. CMST responded that it is looking through the issue, and CMST is yet to respond. CMST delay in responding might push the Claimant to proceed court proceedings.</p>
Premier Medical Corporation(Z) V JF Investments (PTY) Limited and CMST	<p>The Plaintiff commenced the matter, against JF Investment requiring that they pay and take delivery of the face masks and all related costs from 10th June 2021 at a rate of ZK803.73 per day. JF Investment took the out a notice against CMST for indemnification against the claimants claim. The matter went for mediation 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 pay party and party costs of the JF Investment only. The party costs are yet to be agreed on 19th July ,2023.</p> <p>In Compliance CMST offered the defendant three contracts totalling MK450,000,000.00. The defendant wrote back to say there was violation of mediation Settlement Agreement. CMST complied with the ammendment , however the defendant obtain a third party debt order against CMST for the payment of MK450,000,000.00, since CMST did not get the oder it objected, and the debt order was set aside. They filled against the order through their Counsel, and the Court ordered that they bear the costs of their actions. There is high likelihood that CMST will succeed with the case.</p>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

NAME	NATURE OF CASE
Keryn Oleander Theu Vs CMST	The Plaintiff claim is for damages for constructive dismissal and she claims by being transferred to Blantyre she was constructively dismissed. The matter despite being earlier withdrawn it was filed again. The matter proceeded to trial, and hearing was on 13th May 2024. CMST appealed that the matter be transferred from IRC to High Court pending determination. Since the Deputy Chairperson who was handling the case retired on 16th May 2024, another Chairperson is expected to handle the case, and CMST is yet to make an appeal, which can successfully be defended.
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 Applicant's application and in 2023 mediation process commenced, and CMST is awaiting for a fresh date of continuation the mediation process which is yet to be set. There is high likelihood that CMST will successfully defend the claim.

23 MATTER OF UNCERTAINTY RELATED TO GOING CONCERN

The Trust had made a loss for the year of MK8.7 billion (2023: loss of MK10.5 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 MK9.2 billion was received as at year ending 31st March 2024 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2024

24 SUBSEQUENT EVENTS

Forex scarcity impacted negatively on CMST service delivery through Procurement of Medicines and Medical Supplies (MMS). Most supplier failed to deliver according to their respective contracts timely. The Trust too has been struggling to timely settle its foreign liabilities. In addition the devaluation of the Malawi Kwacha to the United States Dollar has effectively facilitated price increases of most Medicines and Medical Supplies which resulted into significant increases in selling prices of most MMS.

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.

	2024	2023
Kwacha/US Dollar	1,751.00	1,036.25
Kwacha/Euro	2,262.71	1,163.08
Kwacha/Rand	95.30	59.16
Inflation rate (%)	35.0%	28.8%

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

Kwacha/US Dollar	1,733.83	1115.72
Kwacha/Euro	1,988.90	1234.24
Kwacha/Rand	100.34	60.73

