



Trusted Partner in Healthcare

ANNUAL REPORT

YEAR ENDING JUNE 2019



1.0. INTRODUCTION.....	5
2.0. MISSION STATEMENT	5
3.0. MANDATE.....	5
4.0. OBJECTS OF THE TRUST.....	6
5.0. GOVERNANCE.....	7
5.1. Board of Trustees.....	7
5.2. Board Members' Profiles.....	9
5.3. Board Committees.....	17
5.3.2. Technical Committee.....	17
5.3.3. Finance and Administration Committee.....	17
5.3.4. Audit and Risk Management Committee.....	17
5.4. Meetings of the Trust.....	18
6.0. OPERATIONAL STRATEGIES.....	18
7.0. MANAGEMENT TEAM.....	19
7.2 Executive Management.....	19
7.3 Managers.....	20
8.0. CHAIRPERSON'S REPORT.....	23
8.1. Overview.....	23
8.2. Governance.....	24

8.2.4. Financial Reporting.....	25
8.3. Strategic Direction.....	25
8.4. Performance Summary.....	26
8.5. Future Outlook.....	26
8.6. Appreciation.....	27
9.0. CHIEF EXECUTIVE OFFICER'S REPORT.....	28
9.1. Overview.....	28
9.2. Operating Environment.....	28
9.3. Drug Budget.....	29
9.4. Scope of work.....	29
9.5. Selection.....	29
9.6. Quantification.....	30
9.7. Procurement.....	30
9.8. Quality Assurance.....	37
9.10. Sales and Distribution.....	42
9.11. Integration of Parallel Supply Chains.....	44
9.12. Funding.....	44
9.13. Financial Management and Audits.....	45
9.14. Information Technology.....	46
9.15. Human Resource and Administration.....	46

9.16. Corporate Social Responsibility.....	47
9.17. Summary of CMST Performance Based on Key Indicators.....	49
9.18. Future Outlook.....	50
9.19. Conclusion.....	50
9.20. Appreciation.....	50
Appendix	
FINANCIAL STATEMENTS.....	51

ACCRONYMS AND ABBREVIATIONS

BMS	Buy Malawi Strategy
CML	Cargo Management Logistics
CMST	Central Medical Stores Trust
ICB	International Competitive Bidding
MHL	Must Have List
MoHP	Ministry of Health and Population
MSTG	Malawi Standard Treatment Guidelines
PPDA	Public Procurement and Disposal of Assets Authority
RFQ	Request for Quotation
RMS	Regional Medical Stores

1.0. INTRODUCTION

1.1.1.1. The Central Medical Stores Trust (CMST) was established in November 2010 to replace the Central Medical Stores (CMS) which was under the Ministry of Health and Population (MoHP) for 42 years.

1.1.1.2. The Trust remains a not-for-profit, autonomous organization wholly owned by the Government of Malawi (GoM). As may be that the Trust is not expected to make profits, it has to generate enough resources for its operations through the warehousing and sales and distribution of medicines and medical supplies.

1.1.1.3. At the beginning of the year under review, which is the Year Ending June 2019, the Trust continued implementing a reforms agenda which is informed by its Corporate Strategy and Business Plan for the period 2015 — 2020.

2.0. MISSION STATEMENT

2.1.1.1. *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*

3.0. MANDATE

3.1.1.1. Throughout the year under review, the obligation of the Trust remained; To procure, warehouse and sale and distribute medicines and medical supplies to all public and affiliated health facilities in Malawi.

3.1.1.2. Going by this Mandate, the single most important indicator of the Trust's success is therefore the constant availability of good quality medicines and medical supplies at both the Trust and the recipient health facilities.

3.1.1.3. To accomplish its Mandate, the Trust unrelentingly pursued reforms

aimed at securing an adequate and sustainable supply of quality medicines and medical supplies to all public health facilities.

3.1.1.4. The CMST reforms target operational, managerial and governance issues in the following key functional areas: procurement, warehousing, sales and distribution, financial management, human resource management and governance.

3.1.1.5. The reforms are also implemented in the context of the Public Service Reforms agenda as approved by the Head of State, *His Excellency Professor Arthur Peter Mutharika*.

4.0. OBJECTS OF THE TRUST

4.1.1.1. To ensure an efficient, sustainable and economical national procurement system of quality medicines and medical supplies;

4.1.1.2. To ensure the accessibility to and availability of quality medicines and medical supplies for the general population;

4.1.1.3. To offer to the public, non-profit making private health facilities and, from such a time as the Trustees shall determine, profit making private health facilities, with quality medicines and medical supplies;

4.1.1.4. To ensure that the standard and quality of medicines and medical supplies comply with the requirements as defined by the Ministry of Health and other regulatory bodies;

4.1.1.5. To securely, safely and efficiently manage, distribute and supply medicines, medical supplies and medical equipment having regard to national needs and to the special nature of the goods in question in accordance with the National Drug Policy;

4.1.1.6. To co-ordinate all medicines, medical supplies and equipment

donations to the Trust and Government;

4.1.1.7. To timely and accurately inform the health authorities of all data related to the supply to public health institutions to facilitate planning and budgeting;

4.1.1.8. To develop and maintain an information policy which aims to contribute to transparency towards both the Ministry and clients; and

4.1.1.9. To properly perform such additional tasks or duties complementary or necessary to the performance of its objects.

5.0. GOVERNANCE

5.1. Board of Trustees

5.1.1.1. 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. For a regular and efficient platform for reviewing progress and decision making, the Board is expected to meet once every quarter. However, extraordinary meetings are convened as and when need arises.

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

5.1.1.3. During the period under consideration, the composition of the Board was as follows:

Chairperson: Mrs. Hilda Singo, representing the Institute of Chartered Accountants in Malawi (ICAM)

Members : Mr. Andrew Chikopa, representing Christian Health Association of Malawi (CHAM).

Ms. Chifundo Kalaile, representing Malawi Law Society (MLS)

Malawi Mr. John Mponda, representing Pharmaceutical Society of
(PHASOM)

Population, Secretary for Health and Population, Ministry of Health and
Ex-Officio

Planning and Secretary to the Treasury, Ministry of Finance, Economic
Development, Ex-Officio

The Executive Director, National Local Government
Finance Committee (NLGFC), ex-officio

Secretary : Mr. Feston Kaupa, Chief Executive Officer, Central Medical
Stores Trust (CMST)

5.1.1.4. During the year, three members of the Board accepted new assignments elsewhere and through their professional bodies the Board was arranging for replacements. The three are Mr. John Mponda, who chaired the Technical Committee of the Board, Miss Chifundo Kalaile, who headed the Audit and Risk Management Committee and Mr. Andrew Chikopa, who headed the Finance and Administration Committee.

5.1.1.5. The board is grateful for their tireless contributions throughout their tenure and wishes them success in their subsequent endeavours.

5.2. Board Members' Profiles



**MRS. HILDA SINGO,
Chairperson**

5.2.1.1. Mrs. Hilda Singo represents the Institute of Chartered Accountants in Malawi (ICAM). Currently a Member of the MTL Executive Management, Mrs. Singo is a seasoned Corporate Governance practitioner with experience accrued from challenging posts and assignments along her career path. She is a qualified and Chartered Global Management Accountant and holds an MBA from University of Strathclyde as well as an undergraduate degree from the University of Malawi.

5.2.1.2. Her work experience spans both the private and public sectors in areas of governance, finance, logistics, human resource, administration and projects and change management.

5.2.1.3. Mrs. Singo also has vast experience serving on Boards. Currently, she is serving on the following Boards, Trusts and Philanthropic Organisations: Director — Dairibord Malawi Limited (NED); Director — Southern Africa Telecommunications Association (SATA); Director — ICAM Council; Member of HR Committee of ICAM; Chairperson — ICAM Head Office Project; Trustee — PCL Pension Fund; Member — MTL Pension Fund and Kamuzu Academy Alumni Association.

5.2.1.4. She has previously served on the following Boards: Malawi Broadcasting Corporation; RASCOM (Abidjan, Ivory Coast); Malawi Gaming & Lotteries Board; CIDA Project on Economic Governance; National Roads Authority; TNM and MTL Mobile Limited.

5.2.1.5. Mrs. Singo has delivered in challenging positions including Company Secretary & Chief Administration Officer, Financial Controller, Deputy Director of Finance, Management Accountant and Finance Manager.

5.2.1.6. She was named Country Winner of Africa's Most Influential Woman

in Business and Government (MIW Award 2014).

5.2.1.7. She is a Member of Institute of Chartered Secretaries & Administrators (ICSA, since 2011), Institute of Directors in Southern Africa (IoDSA, since 2009), Institute of Chartered Accountants in Malawi (ICAM, since 1998) CIMA (UK, Southern Africa and Malawi, since 1997), British Council Regional Inter-country Leadership Training Programme Central Africa Leadership Programme (Malawi, Zambia, Zimbabwe, 2004.)

5.2.1.8. A past president of the Blantyre Lions Club, Mrs. Singo is also into charity and philanthropy. Her hobbies include golf and walking.



**MR. JOHN MPONDA,
Trustee**

5.2.1.9. Mr. John Mponda represents the Pharmaceutical Society of Malawi (PHASOM).

5.2.1.10. He is a Lecturer at University of Malawi's College of Medicine's Pharmaceutical Sciences Department. He is also a part-time Lecturer in Advanced Pharmacology for the Masters in Nursing Program at the Kamuzu College of Nursing.

5.2.1.11. He is also a private practicing pharmacist managing Michiru Pharmacies Limited.

5.2.1.12. He holds a Master of Science and a Bachelor in Pharmacy and is author and co-author of over seven (7) publications locally and internationally.



MR. ANDREW CHIKOPA,
Trustee

5.2.1.13. Mr. Andrew Chikopa represents the Christian Health Association of Malawi (CHAM) where he is the Executive Director. He is experienced in Strategy and Program Development, Team Management, Financial and Human Resources Management, Partnerships Management, Communication and Representation, and Governance.

5.2.1.14. He is a Board Member of Platinum Solutions Pvt. Ltd and a member of the Malawi Health Sector Joint Fund, Malawi HIV/AIDS Partnership Forum, Malawi Global Fund Coordination Committee, Youth Arm Organization, St Dominic the Benevolent Group, and St Anthony of Padua Fundraising Committee.

5.2.1.15. He holds a Master of Science in Strategic Management (Marketing) from the University of Derby in the United Kingdom, a Bachelor of Social Science [Economics] from the University of Malawi's Chancellor College and a Postgraduate University Certificate in Marketing from the University of Malawi.

5.2.1.16. He likes reading informative magazines, newspapers and attending social gatherings.



**Ms CHIFUNDO KALAILE,
Trustee**

5.2.1.17. Miss Chifundo Kalaile represents the Malawi Law Society (MLS). She is currently with Old Mutual as Corporate Governance Manager/Company Secretary. Miss Kalaile is a highly committed practicing legal practitioner with relevant professional and academic qualifications and extensive on-the-ground experience in risk management, corporate governance, compliance, company secretarial, forensic, internal audit and legal matters.

5.2.1.18. She is also well equipped with working experience in both the public and private sectors.

5.2.1.19. She holds a Master in Commercial Law (LLM) from Cardiff University, Wales with an International Sales Dissertation on 'Corporate Collapses — A Sign of Weak Corporate Governance'. Prior to that, she obtained a Bachelor of Law (LLB (Hons) at Chancellor College, University of Malawi.

5.2.1.20. She is the former national treasurer of the Women Lawyers Association of Malawi where she is the current National Fund Raising Coordinator.

5.2.1.21. A member of the Malawi Law Society, she was a member of the Draft Team for the Strategic Management of the Ministry of Justice (2004 and 2007) and the Draft Team for the Code of Conduct for Prosecutors in Malawi (2005).

5.2.1.22. She has served as an intern at the United Nations International Criminal Tribunal for Rwanda and she is a recipient of British Council Chevening Scholarship (2005). She was also attached to Justice John Griffith Williams QC at the Cardiff Crown Court (2006) and to Crown Prosecutions Service in Cardiff (2006).

5.2.1.23. She likes reading, researching, travelling and cooking.



DR DAN NAMARIKA
Secretary for Health (Ex-Officio)

5.2.1.24. Dr. Dan Namarika is the the Secretary for Health in Malawi since April, 2017. He is a Trustee to the CMST Board.

5.2.1.25.

5.2.1.26. Specialized as an Internist, he was trained at the University of Witwatersrand in South Africa.

5.2.1.27. He belongs to the very first group of doctors trained at College of Medicine in Malawi where was also a past Tutor/Lecturer.

5.2.1.28. He has also been an adjunct Lecturer for a couple of universities in the United States and Europe.

5.2.1.29. Dr. Namarika has a number of publications to his credit.



MR CLIFF CHIUNDA
Secretary to Treasury (Ex-Officio)

5.2.1.30. Mr. Cliff Kenneth Chiunda is the Secretary to the Treasury (ST) in Malawi since January, 2019. As ST, he is the principal financial adviser to the Government of Malawi and administrative head of the Ministry of Finance, Economic Planning and Development (MoFEPD).

5.2.1.31. He has accumulated experience working for 30 years in the Malawi Public Service. Prior to his appointment as the ST, he was the Principal Secretary (Administration) in the Office of the President and Cabinet (OPC) and he also served as a Principal Secretary in the Ministry of Industry, Trade and Tourism.

5.2.1.32. He has vast experience working with cooperating and development partners, Non-Governmental Organizations (NGOs) and the Civil Society. His areas of specialization include development planning; programme and project management; public, private partnerships (PPPs); budget planning and execution; expenditure monitoring and public financial management; organisational performance; poverty analysis; and promotion of industry, trade, and tourism.

5.2.1.33. He holds a Master's degree in Economic Planning and Development Policy with a credit from the University of Wales, Swansea in the UK and a Bachelor's degree in Social Science majoring in Economics from the University of Malawi.

5.2.1.34. Currently, he is pursuing a PhD programme with the University of Malawi at Chancellor College, Economics Department.



ALIFEYO ZGANGANI BANDA
Executive Director of NLGFC (Ex-Officio)

5.2.1.35. An accomplished Development Planning and Management Specialist in Environment and Natural Resources, Rural Development and Local government management, Mr. Alifeyo Zgangani Banda is a Trustee to the CMST Board.

5.2.1.36. He is currently Executive Director of National Local Government Finance Committee.

5.2.1.37. He holds a Master of Science in Resources Assessment for Development Planning and a Bachelor of Science degree in Agriculture and his work includes Project management, Natural Resources Management and Decentralization and local governance management.

5.2.1.38. He brings to the table have 35 years of Malawi development experience with various development organizations including NEDA, DANIDA, DFID, the EU, GTZ, World Bank, UNDP, AfDB, the Government of Malawi, and NGOs.

5.2.1.39. Mr. Banda has amassed experience from senior positions with various organizations; serving as Director responsible for Capacity Development at National Local Government Finance Committee; Project Manager for an African Development Bank supported Poverty Reduction and Institutional Support Project under the Ministry of Local Government and Rural Development; Monitoring and Evaluation specialist, Systems Planning and Development Officer at the Decentralization Secretariat; District Environmental Action Planning and Micro projects Specialist for the Lakeshore Lake Malawi District Environmental Project a Project supported by DANIDA/Ramboll/Lynx; Program Manager at CURE and as Deputy Principal at the Land Husbandry Training Center.

5.2.1.40. Also a team leader in several consultancy assignments, he has successfully implemented projects, duties and facilitated the preparation of Local Development Fund operational frameworks for the management of development projects in the Local Authorities, performance Assessment and community social accountability tools to enhance service delivery in Local Authorities and overseeing systems development for strengthening of safety nets systems.

5.2.1.41. His education credentials include M.Sc., Natural Resources Assessment for Development Planning, 1988, University of East Anglia, Norwich, United Kingdom and B.Sc., Agriculture, 1983, Bunda College of Agriculture, University of Malawi, Lilongwe, Malawi



**MR. FESTON KAUPA,
Secretary to the Board**

5.2.1.42. Feston Kaupa is the Chief Executive Officer and Secretary to the Board of Trustees of the Central Medical Stores Trust (CMST) since April 2012. A highly self-motivated and results-oriented person, Feston is responsible for provision of strategic leadership in the transformation of CMST into an autonomous and self-sustaining national supply chain organisation.

5.2.1.43. He has over twenty five years of professional experience in finance and strategic business management in both the private and public sectors.

5.2.1.44. He holds a Bachelor's Degree in Accountancy from the University of Malawi – The Polytechnic, a Master's Degree in Strategic Management from the University of Derby, United Kingdom and a Master's Degree in Procurement, Logistics and Supply Chain Management from the University of Salford, United Kingdom.

5.2.1.45. Mr. Kaupa is a Chartered Global Management Accountant (CGMA), a Fellow of the Chartered Institute of Management Accountants (FCMA), and also a Fellow of the Association of Chartered Certified Accountants (FCCA). Feston has just completed his PhD in Supply Chain Management with the University of KwaZulu-Natal, South Africa. .

5.3. Board Committees

5.3.1.1. The work of the Board is supported by three committees whose deliberations precede the Board Meetings. During the period under review, the composition of the Committees was as follows:

Technical Committee

- Chairperson:** Mr. John Samson Mponda, Trustee
- Members :** Mr. Andrew Chikopa, Executive Director, CHAM
 Ms. Bernitta Fernandez, Health Services Manager, CHAM.
 Mrs. Mabel Chinkhata, Deputy Director, Kamuzu Central Hospital
 Mr. Edson Kamtukule, Procurement Specialist, Chilungamo Project, Ministry of Justice
 Mr. Mphatso Kawaye, Acting Registrar, Malawi Pharmacy, Medicines and Poisons Board
 Dr. Benson Chilima, Acting Director, Health Technical Support Services, Ministry of Health
 Mrs. Patricia Banda, Principal Planning and Economic Services Analyst, NLGFC
- Secretary :** Dr Moses Chisale, CMST, Director of Pharmaceutical Operations [replaced by Mr. Joe Khalani, CMST Acting Director of Pharmaceutical Operations]

Finance and Administration Committee

- Chairperson :** Mr. Andrew Chikopa, Trustee
- Members :** Mrs. Linda Phiri, Chief Executive Officer, National Construction Industry Council
 Mr. Alufeyo Banda, Executive Secretary, National Local Government Finance Committee
 Ms. Loyce Chilimsungwi, Deputy Director, Ministry of Finance, Economic Planning and Development
 Mr. Headwick Banda, Economist, Department of Statutory Corporations
 Mrs. Chimwemwe Chimalu-Banda, Director of Finance, Ministry of Health and Population
 Ms. Chifundo Kalaila, Trustee
 Mr. Peter Salamba, Director of Finance, National Food Reserve Agency.
 Mr. Justin Nyondo, Managing Director, Management International.
- Secretary :** Mr. Washington Kaimvi, CMST, Director Administration and Finance.

Audit and Risk Management Committee

- Chairperson :** Ms. Chifundo Kalaila, Trustee
- Members :** Mrs. Dalitso Gadama, Finance Manager, Monsanto Malawi
 Mr. Dickson Chasambira, Director, Central Internal Audit Unit,
 Mrs Jeane Munyenembe, Director – Banking and Asset

Management Division, Ministry of Finance — Accountant
 General's Department
 Mrs. Patricia Soko, Internal Audit Manager, National Authorizing
 Office
 Mr. John Mponda, Trustee
 Mr. Kingsley Mulewa, Consultant

Secretary : Mr. Joseph Chembezi, CMST Internal Audit Manager

5.4. Meetings of the Trust

5.4.1.1. Article 13 of the Trust Deed requires inter alia that the Trustees hold ordinary meetings at least once every quarter and an Annual General Meeting (AGM) on a date not less than 120 days and not more than 180 days from the Trust's year end, which falls on the 30th June.

5.4.1.2. The AGM is an important assembly which, among other issues, approves the Trust's accounts and annual report.

5.4.1.3. In line with the provision of the Trust Deed, the AGM is attended by Trustees only.

6.0. OPERATIONAL STRATEGIES

6.1.1.1. **Strategy #1** — Ensure organizational financial controls, planning, cost-effectiveness and sustainability: This should lead to improved operational efficiency and ensure value-for-money to CMST customers and the longer term operational sustainability of the organization.

6.1.1.2. **Strategy #2** — Build and implement customer-focused organizational systems to become the preferred national health commodity supplier: This should turn CMST into a supply chain provider of choice in Malawi by ensuring that customer needs and priorities drive operations, planning and organizational decision-making.

6.1.1.3. **Strategy #3** — Execute procurement planning and operations to efficiently and effectively anticipate and fulfil customer demands: This will strengthen procurement planning and operations in meeting customer demands.

6.1.1.4. **Strategy #4** — Establish and utilize information systems to build an organizational culture of planning, responsiveness, accountability and business unit integration: By establishing robust information systems, product flow management, operational planning and financial management will be optimized across the organization.

6.1.1.5. **Strategy #5** — Continuously improve operational and management systems: Effective and efficient quality management systems will ensure continuous performance improvement throughout CMST.

6.1.1.6. **Strategy #6** — Engage stakeholders to address current and emerging national public health challenges in Malawi: Sustained improvement of public health outcomes in Malawi will depend on continuous partnership with the MOHP and other partners particularly in applying CMST market knowledge, infrastructure, and supply chain expertise.

7.0. MANAGEMENT TEAM

7.1.1.1. The Trust is managed by a Chief Executive Officer who is assisted by the Director of Pharmaceutical Operations, Director of Finance and Administration and a Director of Procurement. The four make the Executive Management team.

7.1.1.2. The year under review had eleven (11) line Managers, up from ten (10) in the last operational year. The new post, Distribution Manager, comes from the delinking of Distribution from Warehousing.

7.1.1.3. The Trust had 185 filled positions and 14 vacancies, giving a total of 199 considered positions.

7.2. Executive Management



Mr. Feston Kaupa, Chief Executive Officer



Mr. Washington Kaimvi, Director of Finance and Administration



Mr. Joe Khalani, Acting Director of Pharmaceutical Operations



Mr. Rex Kuyeli, Acting Director of Procurement

7.2.1.1. Mr. Joe Khalani replaces Dr. Moses Chisale in acting position. Mr. Rex Kuyeli heads in acting position the newly established Directorate of Procurement.

7.3. Managers



Mr. Mtamandeni Kalilangwe, Human Resource and Administration Manager



Mr. David Chima, IT Manager



Mr. Alfred Edwin, Quality Assurance Manager



Mr. Joseph Chembezi, Internal Audit Manager



Mr. Charles Khombeni, Acting Procurement Manager



Mr. Vincent Chilinda, Finance Manager



Mr. David Kulemela, Branch Manager — Centre



Mr. Stewart Lichapa, Branch Manager — North



Mr. Innocent Issa, Branch Manager — South



Mrs. Beatrice Banda, Distribution Manager



8.0. CHAIRPERSON'S REPORT

8.1. Overview

8.1.1.1. The Trust devotes all its effort in the sustained recognition that the national health gain depends a lot on the successes of attaining an uninterrupted supply of quality and affordable medicines and medical supplies to public and affiliated health facilities.

8.1.1.2. With this, the Trust commits all its human resource, systems and properties to serving the health sector to the best of the entity's abilities. In the period under review, the Trust aimed at strengthening its previously achieved successes, and innovating to break new ground in the conventional mandate areas of procurement, warehousing and sales and distribution.

8.1.1.3. Apart from the traditional mandate areas, the Trust continued to work on set benchmarks towards taking back into its fold the tasks currently performed by Parallel Supply Chains (PSC).

8.1.1.4. In 2017, CMST demonstrated significant improvement in the implementation of supply chain integration benchmarks. Following an independent assessment, the GOM and Partners in the Health Sector developed a roadmap of activities required for full integration of the parallel supply chains (PSC). The activities included the establishment of a National Steering Committee to oversee the integration process and a Supply Chain Integration - Project Management Team (PMT) to be embedded within CMST to drive and implement activities in the road map up to the level of integration in the year 2020.

8.1.1.5. Building on the Trust's attainment of a score of 85 percent achievement of set benchmarks in the last reporting period, Partners and the Government of

Malawi moved towards implementation of integration activities. An Implementation Roadmap was developed by all stakeholders, with Global Fund Global Fund for the fight against HIV/AIDS, Tuberculosis and Malaria (GFATM) assisting with hiring of consultants for the integration project.

8.1.1.6. The forecast was for consultants to start work by 1 July, 2019. The Consultants were to cover the following areas — Finance and Business; Procurement, Warehousing and Distribution; Management Information Systems and Organizational Development. Organizational Development focuses on Communication and Capacity Building.

8.2. Governance

8.2.1.1. The Trust continued to appreciate the importance of good corporate governance in growing the long term value of a sensitive establishment.

8.2.1.2. The Trust therefore sought to employ good governance to reduce risk and strengthen the Trust's favourable reputation in taking up its sensitive role in the health sector.

8.2.1.3. The Trust therefore submitted to relevant legislations and rules of the pharmaceutical industry, conformed to the Trust Deed — which is the fundamental instrument for its formation and existence — and respected relevant ethical considerations from time to time.

8.2.1.4. The Trust also maintained a Board of Trustees which has three committees, namely; Audit and Risk Management Committee, Technical Committee and Finance and Administration Committee. The primary role of the Board remained to protect and enhance long-term stakeholder interests and set the overall strategy for the Trust, and to supervise the Executive Management.

8.2.1.5. The Board also ensured that good corporate governance policies and practices were implemented within the Trust. In the course of discharging its duties, the Board acted in good faith, with due diligence and care, and in the best interest of the Trust and its stakeholders.

8.2.1.6. During the year, the Board met four times at its ordinary quarterly meetings and three (3) times in extra ordinary meetings to receive reports of activities undertaken by the CMST during the year. Committee meetings preceded all the ordinary Board meetings.

8.2.1.7. To enhance the Board's oversight function, the Internal Audit arrangement of the Trust provides assurance through direct reporting on the adequacy and effectiveness of internal controls, risk management and governance to the Board through the Audit and Risk Management Committee.

8.2.1.8. Internal audits are planned and carried out independently but in coordination with other control functions and the external auditors. The annual Internal Audit Plan is reviewed and passed by the Audit and Risk Management Committee and approved by the Board.

8.2.1.9. Risk management is embedded in all CMST's systems. The board approved the Risk Management Framework for the CMST which provides the necessary foundations and organizational arrangements for handling risks across the Trust to ensure that dangers are managed effectively and efficiently.

8.2.1.10. To fortify the Boards' oversight role, the CMST's Quality Assurance Unit started reporting its activities [operations and processes] to the Audit and Risk Management Committee at the beginning of the operational year.

8.2.1.11. During the year under review, the Audit and Risk Management Committee met four (4) times at ordinary meetings to receive reports on Internal Audit, Risk Management and Quality Assurance.

8.3. Financial Reporting

8.3.1.1. CMST's financial reporting consists of management accounts which are produced on both a monthly and quarterly basis and via Annual Financial Statements. The management accounts are regularly reviewed by both the Board and its Finance and Administration Committee on a quarterly basis and by Management on a monthly basis.

8.3.1.2. To enhance fairness of financial reporting results, external auditors are engaged to examine the annual financial statements of the CMST and provide their opinion regarding the accounts' truthfulness and fairness. During the year under review, the external auditors were Graham Carr.

8.4. Strategic Direction

8.4.1.1. The strategic approach, as guided by the Corporate Strategy and Business Plan for operational period 2015 — 2020 remained to perfect the procurement, warehousing and sales and supply functions to achieve efficient and economical operations that manifest in the health gain of the Malawi population.

8.4.1.2. CMST's attention in the period under review settled on two items; firstly, migration from the old Enterprise Resource Planning (ERP) package called Sage ACCPAC to a new one known as Microsoft Dynamics — Navision.

8.4.1.3. Secondly, but not necessarily in that order, interest was on integration of parallel supply chains into the national one operating through CMST.

8.4.1.4. On the ERP migration, from the old Enterprise Resource (ERP) Sage ACCPAC to the new Microsoft Dynamics Navision, the Trust has, using internal resources, been able to complete the following; staff sensitization on the switch [it's opportunities, benefits and expected challenges]; gathering of requirements for the ERP [which informed the design stage of the ERP]; the actual designing of the ERP; and training of staff on Navision modules.

8.4.1.5. On integration, the following two areas are main reporting points;

completion of planning and development by all stakeholders of a Roadmap of activities and Terms of Reference (TORs) for the Project Management Team; and recruitment of Project Management Team (PMT) of specialists and together with all stakeholders, developing a work plan for implementation in the next financial year.

8.5. Performance Summary

8.5.1.1. In summary, the Trust continued to register improvements in various areas of its operations and most Key Performance Areas (KPIs) recorded improvements.

8.5.1.2. Inventory accuracy was at 86 percent and product availability at 70 percent. Delivery Conformance improved from 89 percent in the previous year to 91 percent this term.

8.5.1.3. To improve product quality processes, the Trust also established an Internal Quality Assurance (IQA) unit.

8.5.1.4. An initiative [Indefinite Quantity Agreement] to procure directly from manufactures [psychotropic and sutures, for example] were entered into.

8.5.1.5. With these and more, the Trust expects continued improvement.

8.6. Future Outlook

8.6.1.1. In the year under review, the investment in laying a platform for the rollout of the Parallel Supply Chain Integration and the migration to a new enterprise resource planning platform have been a success.

8.6.1.2. Integration is an on-going process which now goes into implementation stages. We therefore expect a busy 12 months ahead, characterised by the reengineering of our processes to fit the new bill of managing integrated supply chains.

8.6.1.3. With all this particular interest, our commitment still continues on the three mandate areas of procurement, warehousing and sales and distribution. With the Board's determination to excel, plus the support CMST receives from its local and international stakeholders, and the passion for success exhibited by the Trust's management and staff, I look forward to a future where challenges in the three mandate areas continue to be met with innovative and unwavering responses.

8.6.1.4. From the Trust's ambitious look into a future where we are fully positioned as a supplier of choice, I am aware of a challenge to lead the Board in approaching opportunities in line with our enabling guiding principles of governance to, for example, attain speed in replenishment of stocks and their subsequent delivery to user facilities, continue to improve warehousing facilities and processes, sharpen our means of enhancing data accuracy for decision making and to increase transparency of operations.

8.6.1.5. With regard to the support we receive from both the local and international partners, the Trust will also not relent in applying its financial prudence

to all processes across its three mandate areas of procurement, warehousing and sales and distribution.

8.6.1.6. The Trust will also pay particular attention to the need to invest in its people so as to continue to create and grow a motivated and enlightened workforce ready to help the institution maximize its potential.

8.7. Appreciation

8.7.1.1. On behalf of my fellow Board Members and Executive Management, I would like to thank the Government of Malawi for believing in the Board of Trustees and entrusting them with the responsibility of overseeing the governance of the Trust.

8.7.1.2. I also am very grateful for the various support we have received from the Government of Malawi, Development Partners, customers and other stakeholders who in numerous ways support the Trust make good of its Mandate.

8.7.1.3. Such belief in CMST will be met with a demonstration of an unmatched will to revolutionize the current CMST into a model healthcare supply chain — locally and internationally — just in line with the Trust's corporate promise of being a Trusted Partner in Healthcare.

8.7.1.4. Through the Ministry of Health and Population, the Government of Malawi has tirelessly and limitlessly provided insight and support on crucial issues such as the on-going integration project.

8.7.1.5. Such support has not only strengthened our resolved to solve complex challenges in quest of realization of a Trust that ensures uninterrupted access to medicines and medical supplies; it has also challenged the Board to spearhead improvements that focus on the accelerated health gain of the population through provision of adequate and quality medicines and medical supplies.

8.7.1.6. To development partners, the selfless involvement with which they have joined the Government of Malawi (GoM) in general and the Trust in particular is a noble gift to mankind.

8.7.1.7. I look forward to a continued and growing relationship with our customers and other stakeholders. We go into the operational year 2019—2020 geared to meet your support with inexhaustible effort to excel.

HILDA SINGO



BOARD CHAIRPERSON



9.0. CHIEF EXECUTIVE OFFICER'S REPORT

9.1. Overview

9.1.1.1. The Trust is delighted by this opportunity to update its stakeholders on performance in the pivotal tasks of procurement, warehousing and sales and distribution as well as support functions.

9.1.1.2. Our job is well-defined and outlined across operational, professional and ethical benchmarks and strategies. The Business Plan and Corporate Strategy 2015 to 2020 have remained instrumental in guiding and synchronizing efforts towards the Trust's long term success which should be spelt in an uninterrupted supply of quality health commodities.

9.1.1.3. I am glad to report that throughout the year under review, commitment characterized the work of the Board, Management and staff of the Trust and, with that, we were able to record a list of achievements.

9.1.1.4. This year recorded a general improvement in most Key Performance Indicators (KPIs).

9.1.1.5. The general availability improved from 61 percent last year to 70 percent this turn. However, the supply fill rate for DHOs and their subsequent facilities dropped from 78 percent the previous year to 74 percent this year. This drop is attributed to stock outs of critical items during the year.

9.1.1.6. The supply fill rate for Central Hospitals remained a challenge though it was maintained at 54 percent.

9.2. Operating Environment

9.2.1.1. With a general catalogue of 3400 items, of which 578 make the Must Have List (MHL), CMST continued to serve over 600 public and affiliated health facilities across the country. The portfolio of the facilities served included Health Centres, District and Central Hospitals. A delivery round and route is drawn among these facilities depending on monthly orders received.

9.2.1.2. Deliveries to Central Hospitals continue to be made directly by CMST while those to District Hospitals and their subsequent health facilities are done by a contracted third part logistics company. For the period under review, the contractor was Cargo Management Logistics (CML).

9.2.1.3. The reporting period under consideration was a year of floods and other climate associated calamities. While health facilities may have benefitted from donations to that were made by different stakeholders to ease their burden, CMST had also considerably factored in disaster preparedness by stocking the vital basic medicines and medical supplies needed for emergencies.

9.3. Drug Budget

9.3.1.1. The Annual Drug Budget was at about K17 Billion, split into two provisions; K13.7 Billion for the District Health Offices (DHOs) [underfunded by K58 Million], which was still managed centrally by the National Local Finance Government Committee (NLGFC), and K6 Billion for Central Hospitals, which was decentralised to respective facilities to be managed by Central Hospital Board of Trustees.

9.3.1.2. Since 1st July 2018 when the Central Hospitals had their budgets decentralized, the Trust made credit sales worth K6.3 Billion of which the facilities had only honoured K4.6 Billion as at 30th June 2019, reflecting an outstanding balance of K1.7 Billion.

9.3.1.3. The advance funding arrangement continued for the DHOs' budget. The Central Hospitals were expected to pay based on medicines and medical supplies delivered and invoiced.

9.4. Scope of Work

9.4.1.1. CMST's scope of work continued to remain procurement, warehousing and sales and distribution. Of these functions, Pharmaceutical Operations constitute the core business.

9.4.1.2. However, critical support is provided by operations in Directorates of Procurement and Finance and Administration. Outside CMST, some vital functions such selection and quantification also help the Trust have a picture of needs of its operating landscape.

9.5. Selection

9.5.1.1. This is the initial step of the procurement cycle during which a decision is taken on what to buy. This is based on the treatment of choice for various conditions as determined by the MoHP and included in the Malawi Standard Treatment Guidelines (MSTG).

9.5.1.2. The Trust reviewed the first edition of its product catalogue in two reporting periods ago. The printing and distribution of the revised catalogue was however completed in the year under review. The revised product catalogue has

3400 line items.

9.5.1.3. Alongside the product catalogue, the Trust — in consultation with various stakeholders — developed the Must Have List [MHL]. Going into the year under review, the latest version of the MHL contained 732 line items out of which 239 were laboratory items, representing 34 percent.

9.5.1.4. In September 2018, the MoHP in collaboration with the Trust further reviewed and reduced the laboratory MHL to 63 items only in view of various reasons including the phasing out of some laboratory equipment, the evolution of testing methods, and the provision of some reagents by parallel supply chain partners. This brought the total of MHL to 578 [344 for DHOs and 234 for Central Hospitals]. The Trust will prioritize procurement of these MHL items.

9.5.1.5. Even with such priorities known, the Trust is also mandated to procure the rest of the items covered under the catalogue and these can be bought on request.

9.6. Quantification

9.6.1.1. Quantification refers to the process of determining the amounts to be procured for a given period. In March 2019, the Trust undertook this exercise to determine 2019 — 2020 requirements and their subsequent procurement processes were initiated.

9.6.1.2. The total quantified requirements for both MHL items and additional items (non MHL) items regularly requested by the hospitals were estimated at MK38.5 Billion. The MHL items were estimated at MK26.3 Billion, representing 68 percent of the total, which was further adjusted for stock on hand, stocks in the pipeline and potential expiries.

9.6.1.3. The requirements were further reconciled with available finances and consequently medicines and medical supplies estimated at MK18 Billion are to be procured for the 2019 — 2020 financial year.

9.6.1.4. The quantification used past sales data as a basis. However efforts are being made to ensure that quantification estimates and procurement plans from the hospitals are considered for better procurement planning.

9.7. Procurement

9.7.1.1. As a public procurement entity, all procurements by the Trust are done in line with the Public Procurement and Disposal of Assets Act 2017 which replaced the old Act of 2003. The full implementation of the Public Procurement and Disposal of Assets Act (2017) is underway. However the Procurement Regulations which, when assented to, will fully guide the Trust's procurement activities henceforth, is yet to be promulgated.

9.7.1.2. The Procurement Plan for 2018 — 2019 was approved alongside the budget by the CMST Board and it covered medicines, medical supplies as well as general goods, works and services at a budget of K17.13 Billion.

9.7.1.3. Out of this, K15 Billion (87.5 percent) was for medicines and medical supplies [MMS] and K2.13 Billion (12.4 percent), was for general goods, works and services [GGWS].

9.7.1.4. The Procurement Plan for 2018 — 2019 was implemented in full [100 percent]. In addition to this, the Trust processed procurements worth K6 Billion to maintain safe stocking levels for the 2019 — 2020 operational year.

9.7.1.5. Where the implementation of the Procurement Plan required more resources than budgeted for [as in table below], the financial requirement was carried over to the next budgeting period.

Table 1: Implementation of 2018 — 2019 Procurement Plan

CATEGORY	PROCUREMENT PLAN	IMPLEMENTED July 2018-June 2019	BALANCE
MMS	MWK15.0 billion	MWK21.17 Billion [141.1%]	(MWK6.17 billion)
GGWS	MWK2.13 billion	MWK2.19 Billion [102.8%]	(MWK0.06 billion)
TOTAL	MWK17.13 billion	MWK23.36 Billion [136.4%]	(MWK6.23 billion)

9.7.1.6. **Procurement Methods:** Compared to last year, use of Request for Quotations (RFQs) as a method of procurement continued to decrease and was recorded at 11.6 percent of the total procurements, in terms of cumulative value by end of the year. This was a significant improvement in comparison to 14.3 percent recorded in 2017 — 2018. The target is to be within 10 percent in the short term and less than 5 percent in the medium to long term.

9.7.1.7. With the approval of the Public Procurement and Disposal of Assets Authority, the value of procurements done using single sourcing increased from 1.27 percent in the last operational year to 3 percent this year due to, among others, Amoxicillin 250mg capsules procured on an emergency order due to the failure to deliver by manufacturers under the Buy Malawian Strategy (BMS). This necessitated CMST to buy 30,000 units of the product using the 'single source' method to satisfy customer orders.

9.7.1.8. Open Tendering, which is the preferred method, has substantially increased to 50.63 percent, up from 25.3 percent the year before.

9.7.1.9. BMS procurements decreased from 59.4 percent to 38 percent as a result of significant reduction in issuing of contracts due to the expiry of the initial Memorandum of Understanding (MOU) and Framework Agreements (FAs) in October 2018. The new MOU and FAs were finalized in the reporting period

Table 2: Procurement Methods

METHOD	AMOUNT	PERCENTAGE	
		2018 – 2019	2017 – 2018
Open Tendering	11,825,739,277.03	50.63%	25.3%
RFQs	2,720,594,308.79	11.6%	14.3%
BMS	8,118,814,888.80	34.8%	59.4%
Single Sourcing	691,642,224.46	3.0%	1.27%
TOTAL	23,356,790,699.08	100%	100%

9.7.1.10. **Direct Procurement from Manufacturers:** In the year under review, 55 products (anaesthetics, psychotropic and narcotics) were selected and earmarked for direct procurement from manufacturers (Naprod Life Sciences, Verve Human Care Laboratories and Troika Ahmedabad, all from India) using the Restricted Tender method of procurement.

9.7.1.11. The listed products were under Prequalification or Indefinite Quantity Contracts that will expire in June 2020. The Procurement Directorate has commenced sourcing formalities, including obtaining PPDA's approvals.

9.7.1.12. Surgical sutures and other items used in wound closure, infusion therapy drainage systems as well as hospital furniture and equipment were also on the program to be procured directly from manufacturers.

9.7.1.13. Three manufacturers were earmarked and inspection visits were already made to three companies; Johnson and Johnson (Ethicon) in Dubai, Lotus of India and Demetech of USA in the year.

9.7.1.14. These initiatives are in direct compliance with a Cabinet Directive on Paper Ref. No. C/P/6/2008, dated 17th October 2008, in which CMST as a Public Trust is mandated to procure directly from Manufacturers to ensure continuous availability of essential drugs for the Malawi public.

9.7.1.15. **SADC Pooled Procurement for Pharmaceuticals:** In the year under review, the Government of the United Republic of Tanzania, through its Medical Stores Department (MSD) in collaboration with the SADC Secretariat, conducted a Regional Technical Meeting on the operationalization of the SADC Pooled Procurement Services for pharmaceuticals and other health commodities.



The CMST CEO Mr Feston Kaupa (Right) appreciates operations at Tanzania's Medical Stores Department (MSD)

9.7.1.16. The meeting was a follow-up to SADC Ministers of Health and HIV decision to create the SADC Pooled Procurement Service (SPPS) to galvanize common efforts to improve accessibility of quality and affordable medicines to their respective citizens.

9.7.1.17. Following this meeting, MSD has advertised for a regional tender whose items will be sold to member countries. CMST will decide whether to buy some commodities under this arrangement depending price competitiveness. This will provide an opportunity for CMST for price comparison and benchmarking within the region.

9.7.1.18. Consultative Meeting on Procurement Policy and SOPs: In the period under review, the Trust reviewed the draft Procurement Policy, Processes and Standard Operating Procedures. The process was done through consultative sessions with key staff members. The sessions were also aimed at removing any barriers between the Procurement Directorate and its internal stakeholders. The approach was also meant to encourage staff to gain full ownership of the developed policies and the procedures.

9.7.1.19. Procurement Planning for 2019 — 2020: During the year under review, CMST developed a Procurement Plan for the financial year 2019 — 2020 worth MK21 Billion, out of which MK18 Billion is for medicines and medical supplies. Capital Expenditure (Capex) was at K2.0 Billion and Operating Expenditure (Opex) at around K1.0 Billion.

9.7.1.20. Procurement Planning at CMST is undertaken as part of the activity planning process. The primary concept of procurement is that advanced planning, scheduling and bulk purchasing result in cost savings, efficient business operation, and increased value for money.

9.7.1.21. The table below shows how procurement of medicines and medical supplies has been planned:

Table 3: The 2019 – 2020 Procurement of MMS

Item No	Category	Amount (MKW)
1	BMC	1,751,559,759.30
2	VPL	2,591,964,932.86
3	Prequalified Medicines	6,221,215,116.75
4	Unprequalified Medicines	869,552,837.88
5	Medical Supplies	4,188,804,185.25
6	Psychotropics/Narcotics/Anaesthetics and Other Supplies	887,154,098.95
7	Sutures	656,134,335.45
8	Lab Items	833,614,733.56
TOTAL		18,000,000,000.00

9.7.1.22. **Contract management:** In the period under review, various contracts with both local and international suppliers presented a challenge to manage. These were for supply and delivery of medicines and medical supplies as well as for general goods works and services.

9.7.1.23. For medicines and medical supplies, the contracts were realized through International Competitive Bidding, National Competitive Bidding, Request for Quotations, and Buy Malawi Strategy (BMS).

9.7.1.24. The summary of the contracts that were managed from July 2018 to June 2019 is presented in the table below:

Table 4: Summary of Contracts issued from July 2018 to June 2019

No	Method of Procurement	Total Amount (MK)	Total Amount (US\$)	Total Amount Delivered (MK)	Total Amount Delivered (US\$)	% Delivered within the year (Value)
1	ICB	6,628,577,043.96	8,393,259.95	3,728,892,214.65	4,721,610.91	56
2	NCB	276,579,631.70	350,211.63	146,844,267.98	185,937.66	53
3	RFQs	2,997,824,020.28	3,795,915.19	2,004,130,957.93	2,537,677.69	67
4	BMS	8,770,481,989.43	11,105,390.30	4,732,148,411.93	5,991,957.47	54
	TOTAL	18,673,462,685.36	23,644,777.06	10,612,015,852.49	13,437,183.73	57

Exchange Rate US\$1 = MK789.75, from The Nation of Friday 19th July 2019

9.7.1.25. International Competitive Bidding: During the period under review, Fifty-Five (55) contracts were managed for various suppliers, through ICB with a total value of US\$8,393,259.95 (MK6,628,577,043.96). Supplies worth US\$4,721,610.91 (MK3,728,892,214.65) were delivered within the period representing 56 percent delivery performance based on value.

Table 5: Performance on ICB Contracts

Number of contracts issued	Total amount (US\$)	Total amount delivered (US\$)	Overall Performance (%)	Contracts 100%	Contracts with deliveries underway and valid	Contracts with deliveries underway but past delivery period	No of contracts terminated
55	8,393,259.95	4,721,610.91	56	19	6	33	6

9.7.1.26. **National Competitive Bidding:** There were nine (9) contracts managed through NCB at a total value of MK276,579,631.70 (US\$350,211.63). A total value of MK146,844,267.98 (US\$185,937.66) was delivered, representing 53 percent overall performance. Below is a summary of the NCB performance:

Table 6: Performance on NCB Contracts

Number of contracts issued	Total amount (US\$)	Total amount delivered (MK)	Overall	Contracts 100%	Contracts with deliveries underway and valid	Contracts with deliveries underway but past delivery period	No of contracts terminated
9	276,579,631.70	146,844,267.98	53	0	0	9	0

9.7.1.27. **Request for Quotations:** There were one hundred and twenty (120) contracts managed through RFQs at a total value of MK2,997,824,020.28 (US\$3,795,915.19). A total value of MK2,004,130,957.93 (US\$2,537,677.69) was delivered, representing 67 percent overall performance on value. Below is a summary:

Table 7: Performance on RFQ Contracts

Number of contracts issued	Total amount (US\$)	Total amount delivered (MK)	Overall	Contracts 100%	Contracts with deliveries underway and valid	Contracts with deliveries underway but past delivery period	No of contracts terminated
120	2,997,824,020.28	2,004,130,957.93	67	58	17	38	6

9.7.1.28. **Buy Malawi Strategy:** A total of 9 contracts were managed through BMS with a total value of US\$11,105,390.30 (MK8,770,481,989.43) and items amounting to US\$5,991,957.47 (MK4,732,148,411.93) were delivered, representing 54 percent overall performance by value. Below is a summary:

Table 8: Performance on BMS Contracts

Number of contracts issued	Total amount (US\$)	Total amount delivered (MK)	Overall	Contracts 100%	Contracts with deliveries underway and valid	Contracts with deliveries underway but past delivery period	No of contracts terminated
10	11,105,390.30	5,991,957.47	54	4	2	4	0

N.B Summaries of contracts under all the categories mentioned above i.e. ICB, NCB, RFQ and BMS are attached in Appendix 1.

9.7.1.29. Apart from the medicines and medical supplies CMST also carried out procurements for general goods, works and services. These were realized through National Competitive Bidding, Request for Quotations and one contract that was for provision of distribution services was realized through International Competitive Bidding (ICB).

9.7.1.30. Procurement Challenges: Most of the suppliers do not complete their contracts within the stipulated delivery period. CMST regularly engages the suppliers by sending reminders on outstanding contracts. The main reason the Suppliers give for the delayed deliveries is that CMST delays in settling their outstanding invoices for items that were already delivered.

9.7.1.31. The challenges above affect availability of stocks and therefore affect the Trust's mission of ensuring that there is continuous access to highest quality medicines and medical supplies. This major challenge can be averted by improving cash flow for the organization so as to achieve efficient procurement, warehousing and distribution services at full affordable cost. CMST continued to engage the Government of Malawi for recapitalization in order to address the persistent cash flow challenges.

9.7.1.32. For some very specialized medical supplies not on the CMST Catalogue, [neurosurgery, ophthalmology], precise specifications are difficult to come by even by the users themselves. This leads to continued bidder queries, poor bid presentation and high failure rate at preliminary evaluation.



9.8. Quality Assurance

9.8.1.1. The Quality Assurance Unit continued to work consistently and closely with the Pharmacy Medicines and Poisons Board (PMPB) to ensure that only medicines and medical supplies procured by and donated to CMST are safe, efficacious and of good quality.

9.8.1.2. CMST observed strict adherence to Quality Control (QC) processes. All medicines and medical supplies were inspected for conformity to release Quality Control specifications before distribution to health facilities.

9.8.1.3. The Unit also assisted with the development of specifications for certain products to be procured as one way of providing clarity to bidders on the expectations of the Trust.

9.8.1.4. Product Testing: During the year, the Trust continued to place importance on product quality before onward distribution to facilities. A total of 522 medicine product batches compared to 415 medicine batches were received and sampled for quality testing.

9.8.1.5. In total, 63.7% product batches were cleared and released for distribution while 36.3% were under testing by the end of the reporting period.

9.8.1.6. Rejected Products: Five (5) batches failed QC release parameters. These were rejected and returned to their suppliers for replacement. The batches failed mass uniformity and friability tests.

9.8.1.7. Mass uniformity parameter is a very important test that ensures that dosage units in a given batch contain equal amounts of active ingredients for patients to take precise doses.

9.8.1.8. Friability parameter measures the ability of the tablets to withstand the breakage and any form of damage [peeling, chipping, surface abrasion, tablet edging] to the tablets due to mechanical shock and is very important

in ensuring that batches can be transported and handled to the last mile in their original intended physical solid state.

9.8.1.9. A total of 18 products were rejected upon delivery by their respective suppliers for reasons ranging from segmentation and sedimentation, wrong products and short shelf life.

9.8.1.10. A 'Hepatitis C' kit sample failed comparative verification tests against known positive blood samples and was rejected. The Trust is now focusing on procuring from WHO approved suppliers of 'Hepatitis C' kits which are quality assured to avoid potential misdiagnosis of patients.

9.8.1.11. All rejected products were returned to their respective suppliers.

9.8.1.12. Product Recalls: In the reporting period, a total of 13 (2.49%) batches of products were recalled from the facilities. In performing these recalls, the Trust ensures total protection of the public from defective and potentially harmful products. Recalls are an internationally accepted standard partnership procedure governing procurement entities such as CMST, medicines regulatory bodies [such as PMPB], manufacturers and suppliers on the steps and actions to withdraw defective products from the market or supply chain.

9.8.1.13. The reasons for the recalls included detected product defects and poor performance. All products recalled were forwarded to the drug regulatory body, the PMPB for further investigation and close-out as per their mandate.

9.8.1.14. CMST Response to WHO alert on falsified medicines: Falsified medicines are those medicines that have been fraudulently or deliberately fabricated in such a way that they do not meet the intended quality parameters and are usually distributed to facilities or countries. The fabricators mislead recipients by imitating innovator's product presentation.

9.8.1.15. In this reporting period, WHO alerted countries about two batches of falsified Verorab Vaccines containing powder and solvent for suspension [original manufacturer of these vaccines is Sanofi Pasteur France] and circulating in Africa and Asia.

9.8.1.16. In response to the alert, the Trust established that none of the batches of the incriminated product were found in the CMST supply chain system.

9.8.1.17. Quality Assurance Achievements: Warehouse Zones and Bin codes: To better manage essential and donor procured medicines and medical supplies and to produce timeous supply chain reports for improved accountability and transparency, all seven CMST warehouses have been mapped with specific zones and bin codes for easy identification of stocks and better implementation of best warehouse practices using the new integrated ERP Microsoft Dynamics Navision.

9.8.1.18. The new ERP system, once operational in July 2019 going forward, shall bring improved stock visibility across the CMST supply chain in addition to enhancing financial management and reporting activities including making appropriate business decisions that will result in improved operational processes and sustainability.

9.8.1.19. **Training on the use of anti – counterfeit devices:** The Quality Assurance Unit and warehouse staff were trained on spot detection of counterfeit TB and Malaria medicines by PMPB using a low cost Near Infrared Spectrophotometer linked to a specific product database uploaded in an android smartphone program.

9.8.1.20. The use of this device will help reduce morbidity and mortality associated treatment failure from falsified medicines. This device is used by CMST to screen falsified TB and malaria medicines at the CMST Receipt warehouse upon product delivery.

9.8.1.21. **Quality Assurance Outlook for 2019 — 2020:** In its outlook for the next financial year, Quality Assurance activities shall focus largely on two key areas to fuel significant improvements seeded over the past quarters. These are expected to carry over into the new financial year.

Expectation 1: Monitoring the implementation of the new ERP system across the various units of CMST to ensure complete adherence to supply chain processes for operations.

Expectation 2: Working together with the Project Management Team to implement the parallel supply chain integration agenda and activities across CMST business units.

Expectation 3: Conducting technical warehouse quality audits to ensure warehouse personnel are in full control of processes and best practices.

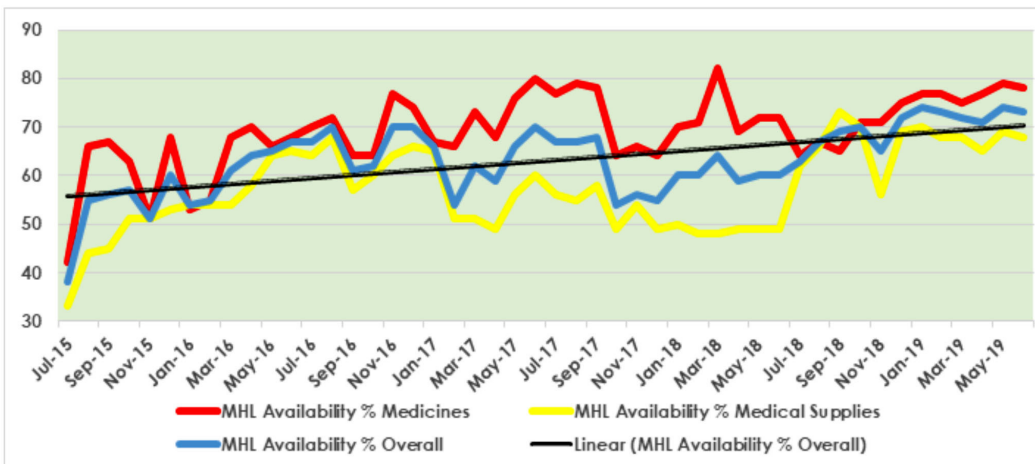
9.9. Warehousing

9.9.1.1. The Trust is mandated to warehouse both the medicines and medical supplies it procures as well as those donated to the Government of Malawi. Much attention was given to activities aimed at strengthening inventory management. These efforts have started bearing fruits with inventory accuracy averaging 86% in the period under review.

9.9.1.2. **Availability of Medicines and Medical Supplies:** Overall availability for MHL items for the period under review averaged 70 percent compared to 61 percent the same period last financial year [cf. Figure 1]. Medicines were at 72 percent and medical supplies were at 67 percent.

9.9.1.3. Availability of some critical items remained a challenge during the year as some suppliers did not honour scheduled delivers in reaction to CMST's delayed payment of their outstanding invoices. In an effort to improve on settlement of outstanding invoices, the Trust continued engaging the Ministry of Finance, Economic Planning and Development for recapitalization. The recapitalization would enhance the Trust's cash flow towards paying its suppliers on time and sustaining its operations.

Figure 1: Availability of Medicines and Medical Supplies



9.9.1.4. The supply fill rate for District hospitals and health centres was at 74 percent compared to 78 percent previously [Table 9]. Fill rate for Central hospitals remained constant at 54 percent. This was due to poor or delayed delivery of special orders for Central hospitals by the suppliers. The drop in supply fill rate for District and health centres is due to stock out of some critical items during the period under review. The delivery of supplies still in pipeline is expected to reverse this trend in the first quarter of the next financial year.

Figure 2: Supply Fill Rates

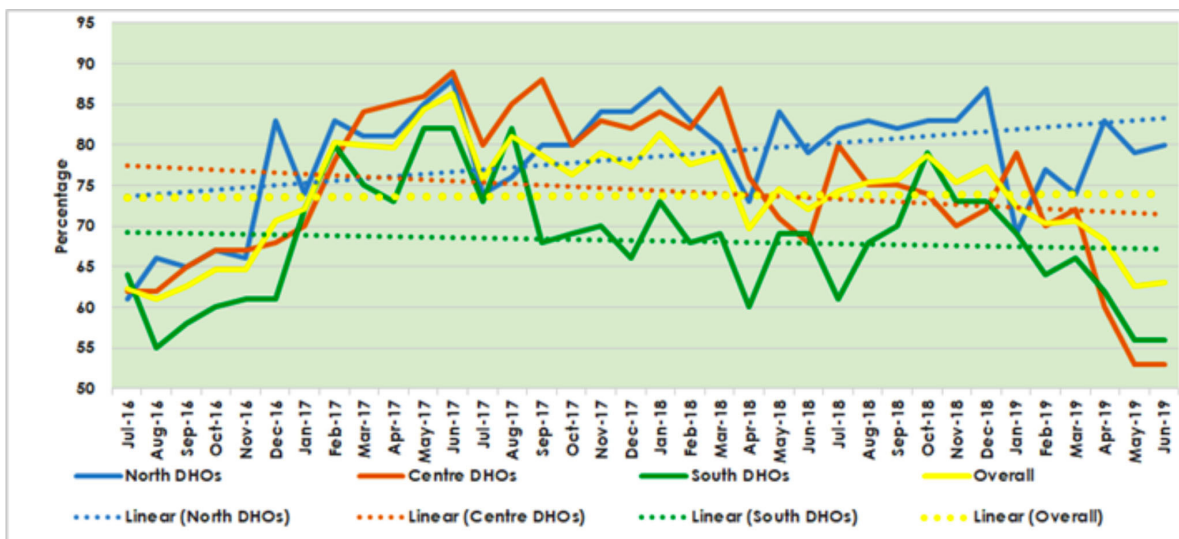


Table 9: Average supply fill rates for the five Central hospitals

NAME OF CENTRAL HOSPITAL	Average supply fill rates		
	2016/2017	2017/2018	2018/2019
Kamuzu Central Hospital	61 %	61 %	43%
Queen Elizabeth Central Hospital	49 %	53 %	59%
Mzuzu Central Hospital	46 %	56 %	48 %
Zomba Central Hospital	54 %	56 %	54%
Zomba Mental Hospital	56 %	71 %	67 %
Overall Average	53%	54%	54%

9.9.1.5. Management of Nutrition Supplies: The Trust continued to warehouse program items including nutrition commodities in the year under review.

9.9.1.6. The 18-months MOU that was signed between the Trust and MOHP to guide the warehousing and distribution of nutrition supplies expired in December 2018. The Trust consequently submitted a financial proposal to UNICEF that led to the signing of a new MOU. The Trust considers this as the right and significant step towards integration of parallel supply chains.

9.9.1.7. The coming of nutrition commodities into our warehouses, created challenges in terms of warehousing space due to their bulkiness. The Trust is determined to find a lasting solution to the warehouse space challenges currently being experienced. In the 2018/2019 budget the Trust allocated funds towards the construction of a new warehouse.

9.9.1.8. Architectural and structural drawings as well as the Bills of Quantities for 10, 000 square meter warehouse have so far been developed. The construction will be in two phases with 5,000 square meters in the first phase and the balance in the second phase. This project is scheduled to commence in the next financial year and some development partners have shown interest to support this project.

9.10. Sales and Distribution

9.10.1.1. The Trust continued distributing medicines and medical supplies using

the hybrid distribution model where it uses its own fleet to move commodities to the three branches and a third party logistics provider, Cargo Management Logistics Ltd, for the last mile distribution to the health centres.

9.10.1.2. These vehicles are equipped with a Global Positioning System [GPS] that assists with vehicle tracking and fuel usage monitoring.

9.10.1.3. The Logistics unit was further strengthened during the period under review with the recruitment of a Distribution Manager and a Logistics Officer. This was following the delinking of Distribution from Warehousing operations in line with the recommendation from the second independent review of the Joint Supply Chain Integration Strategy conducted in September 2017.

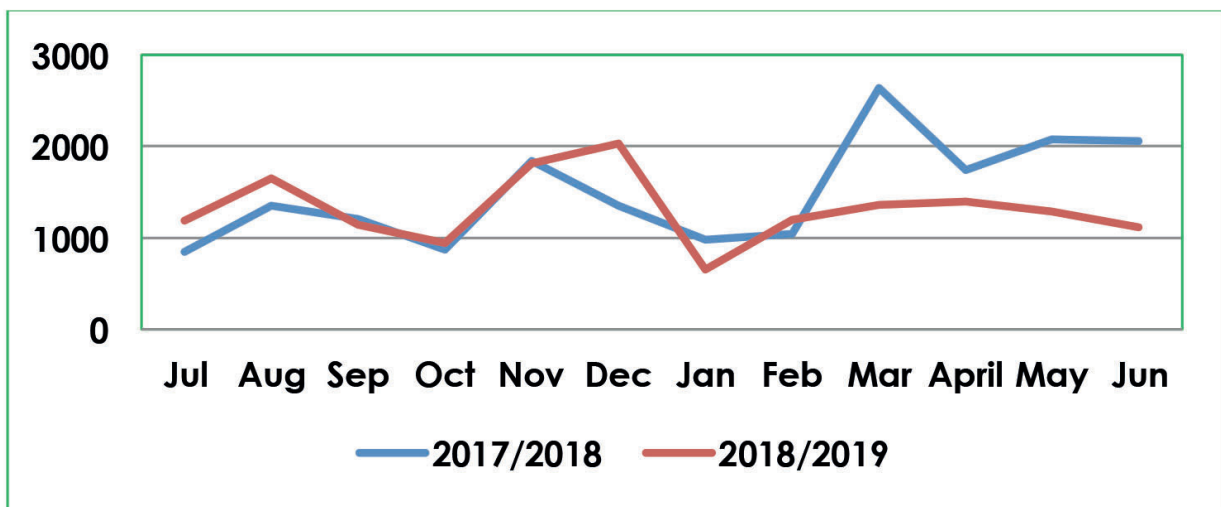
9.10.1.4. The delinking was important for efficiency, separation of custody and accountability and has reduced the managerial demand from the Warehouse and Distribution Manager who can now focus on the equally demanding warehousing function.

9.10.1.5. The DFID and other development partners continued their commitment to support CMST through direct financing of the distribution contract with CML under the Health Sector Joint Fund (HSJF). In an effort to ensure efficient distribution of essential medicines and medical supplies, CMST received a donation of two open van trucks (10 tonnes) and a 4 tonner cold chain vehicle from GFATM under Tuberculosis Program (TB).

9.10.1.6. Last Mile Distribution: During the year under review, a total volume of 15,774 m³ of essential medicines and medical supplies were distributed to the facilities with a monthly average of 1,315m³. There was a drop of 11.9% in volumes distributed compared to the previous financial year in which 17,896 was distributed.

9.10.1.7. The drop is attributed to the reduced volume for nutrition commodities and reduced number of orders that were processed during the year [cf. fig 3]

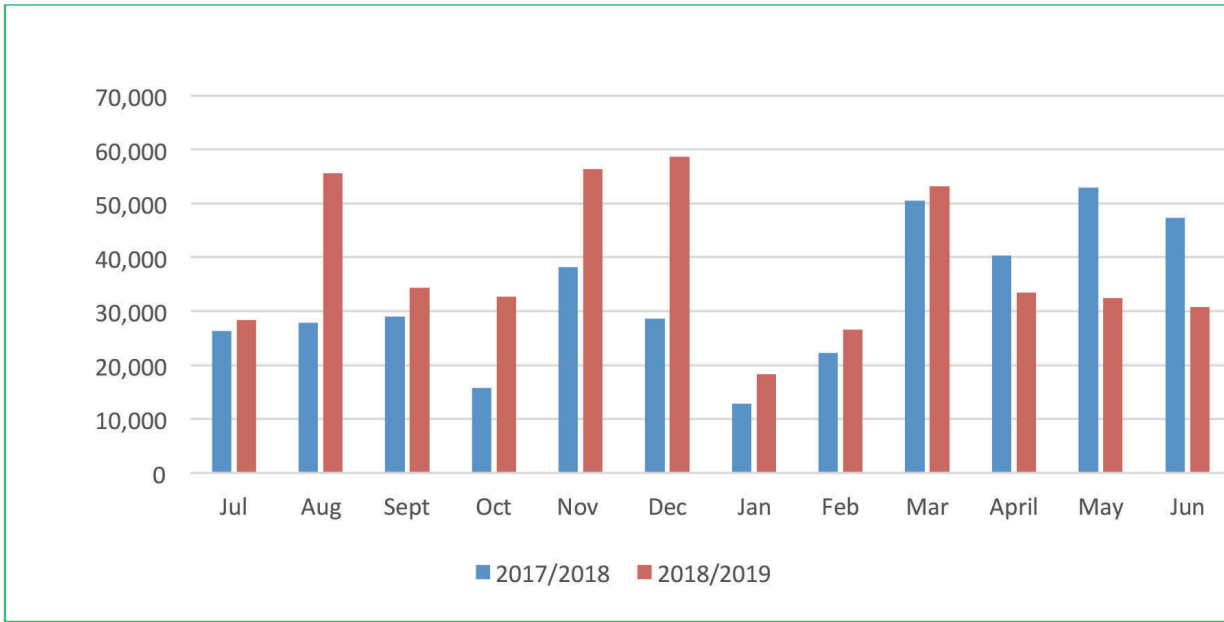
Figure 3: Total Volumes of Supplies Distributed



9.10.1.8. Distance Covered: The year recorded an increase in distance covered despite the drop in the total volumes distributed. Firstly, this was due to donations that resulted in more trips made. Secondly, there were diversions due to impassability of conventional routes as a result effects of a Cyclone Idai which hit the Southern Africa and southern parts of Malawi.

9.10.1.9. Against last year's 391,755 kilometres, the distribution trips covered 55,806 kilometres more, bringing the total to 447,561 kilometres in this reporting period [cf. fig 2]. This year's mileage was above the annual planned estimate of 411,120 by 36,441 kilometres.

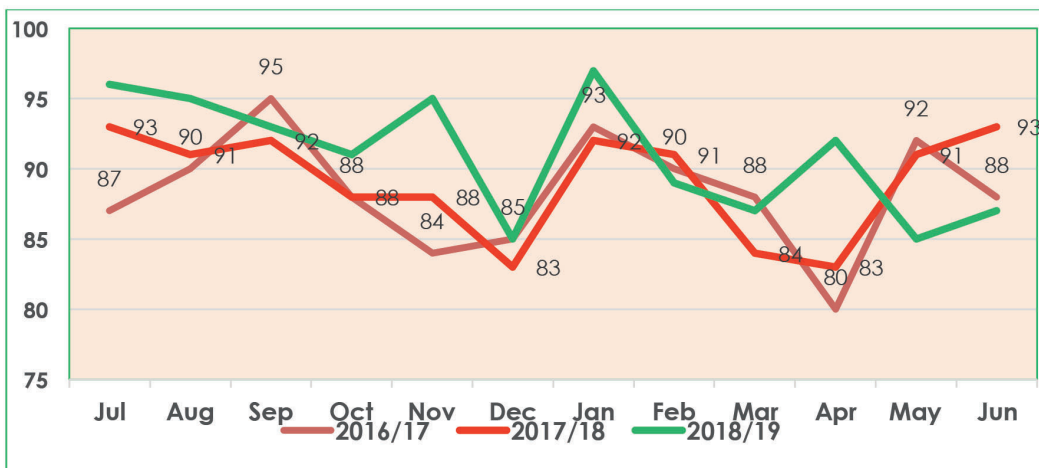
Figure 4: Total Distance Covered



9.10.1.10. Last mile Delivery conformance is about delivery in the agreed time. A delivery to entire facilities in a district is estimated at an average maximum of 10 days.

9.10.1.11. The overall conformance to last mile distribution averaged 91 percent in the period under review compared to 89% recorded same period last financial year [c.f. Figure 3]. The conformance dropped in the months of February and March this year as the roads became impassable as a result of the floods. However efforts were made to ensure that all facilities received their medicines and medical supplies.

Figure 5: Delivery Conformance to Distribution Schedule



9.11. Integration of Parallel Supply Chains

9.11.1.1. In the year under review, the Government of Malawi through the MOHP continued with its efforts to integrate the supply chain functions currently managed by donor-supported Parallel Supply Chain (PSC) systems in Malawi into a nationally-operated system, in support of the Government of Malawi's vision of health supply chain integration.

9.11.1.2. This is based on the results and recommendations of the second independent assessment on the implementation of the 36 benchmarks. During the assessment the Trust scored 85% and the report recommended that the process of integration should commence with support from all stakeholders.

9.11.1.3. Based on this recommendation, the MOH formed a National Supply Chain Integration Steering committee comprised of all relevant stakeholders. The committee was tasked with the responsibility of coordination integration activities. A roadmap for integration activities was developed with a target of achieving full integration by December 2020.

9.11.1.4. The committee noted that there were some areas that the Trust still needed to work on as per report. The committee therefore resolved to set up a Project Management Team that will support CMST to solely focus and spearhead integration activities. The Global Fund committed some resources to support the PMT and Chemonics was identified as a successful bidder in the procurement process that was managed by Global Fund with the Steering committee members involved throughout the process.

9.11.1.5. The PMT was expected to start work on 29th July 2019 and detailed work plan was developed, reviewed and adopted by the Steering committee.

9.12. Funding

9.12.1.1. Effective 1st July 2018, Central Hospitals were being funded directly by Ministry of Finance and Economic Development while District Health Offices continued being funded through National Local Government Finance Committee (NLGFC).

9.12.1.2. As such CMST received quarterly advance funding for all DHOs amounting to MK13.6 Billion against budget of MK13.7 Billion for the procurement of medicines and medical supplies during the year while CHs procured on credit and provided account settlements accordingly

9.12.1.3. **Drug Budget Utilization:** DHO's budget utilisation for the year ended 30th June 2019, as highlighted in table below, reflected a 99.2 percent. Most DHOs were within their respective budget ceilings.

9.12.1.4. Central Hospitals accumulated debts amounting to MK1.6 Billion as at 30th June 2019 after procuring medicines and medical supplies valued at MK6.2 Billion and providing account settlement of MK4.6 Billion.

Table 10: Budget Utilization for District Health Offices

Budget Draw Downs for June 2019				
Facility	Budget Allocation	YTD draw downs	% Draw Down	% Expected Draw Down
	MK'000	MK'000		
Balaka DHO	359,897	360,322	100.12	100.00
Blantyre DHO	934,757	953,222	101.98	100.00
Chikhwawa DHO	463,143	477,706	103.14	100.00
Chiradzulu DHO	400,861	402,103	100.31	100.00
Machinga DHO	428,172	427,843	99.92	100.00
Mangochi DHO	713,044	716,529	100.49	100.00
Mulanje DHO	575,088	563,762	98.03	100.00
Mwanza DHO	226,148	225,750	99.82	100.00
Neno DHO	278,495	272,401	97.81	100.00
Nsanje DHO	330,558	333,112	100.77	100.00
Phalombe DHO	376,675	365,499	97.03	100.00
Thyolo DHO	618,032	607,865	98.35	100.00
Zomba DHO	653,749	651,957	99.73	100.00
Sub-Total	6,358,619	6,358,071	99.99	100.00
Dedza DHO	641,210	602,355	93.94	100.00
Dowa DHO	561,482	529,932	94.38	100.00
Kasungu DHO	591,561	591,121	99.93	100.00
Lilongwe DHO	1,339,816	1,347,829	100.60	100.00
Mchinji DHO	467,855	458,646	98.03	100.00
Nkhotakota DHO	488,733	485,043	99.25	100.00
Ntcheu DHO	532,174	503,625	94.64	100.00
Ntchisi DHO	291,018	290,379	99.78	100.00
Salima DHO	423,340	416,310	98.34	100.00
Sub-Total	5,337,188	5,225,240	97.90	100.00
Chitipa DHO	304,929	305,134	100.07	100.00
Karonga DHO	297,947	298,072	100.04	100.00
Likoma DHO	87,563	87,495	99.92	100.00
Mzimba North DHO	229,948	229,554	99.83	100.00
Mzimba South DHO	486,582	486,975	100.08	100.00
Nkhatabay DHO	270,480	270,479	100.00	100.00
Rumphi DHO	290,597	290,582	99.99	100.00
Sub-Total	1,968,044	1,968,291	100.01	100.00
TOTAL DHOs	13,663,851	13,551,601	99.18	100.00

9.13. Financial Management and Audits

9.13.1.1. Graham Carr provided audit services for the year ended 30th June 2019 and submitted both financial and management reports accordingly.

9.13.1.2. The Trust posted a deficit of MK3.1 Billion as a result of the stock-write offs amounting to MK4.9 Billion and low sales of MK20.0 Billion against budget of MK25.1 Billion as at 30th June 2019.

9.13.1.3. Prior year to 30th June 2018, the Trust recorded a surplus amounting to MK1.1 Billion while achieving sales valued at MK17.2 billion

on a budget of MK20.9 Billion with reversal of bad debts provision worth MK6.5 Billion.

9.13.1.4. The economic environment was relatively stable in terms of the principal exchange currency of the United States Dollar in addition to continued business environment that enabled CMST to have adequate stocking levels for all customers including CHs and DHOs.

9.14. Information Technology

9.14.1.1. In the reporting period, the Trust procured a new ERP System which will replace the current Sage 300 ERP system (ACCPAC). This new ERP system is Microsoft Dynamics Navision (NAV) 2018. The Board approved its procurement using the Trust's own resources. The new ERP system was expected to be implemented from July 2019.

9.14.1.2. Navision has a full warehousing management system which was missing in the Sage ACCPAC 300 ERP system. This new system will therefore help with quick visibility of items along the supply chain within CMST. The system has capacity of a bar-coding solution to help improve data capturing accuracy and is GS1 Standard compliant.

9.14.1.3. The Trust is also engaged in the Parallel Supply Integration activities. Among the activities is to integrate the various management information systems that are being managed by CMST and the Parallel Supply Chains. Once these systems are integrated, it is expected that the visibility of pharmaceutical products in the supply chains of the all participating partners and CMST will be visible. This will help in proper health management as a nation, quantification processes, and proper focusing of the commodities. The team for integration activities will be in by end July 2019.

9.14.1.4. The Trust is also supporting various initiatives by Ministry of Health and Population (MOHP). One of them is the End-to-End (ETE) product tracking system. The system even though not yet implemented, will help MOH to get quick visibility of stocks which are in the pipeline and also help curb drug pilferage within the supply chain. The system will ensure that the drugs are received by the end user (patient)

9.15. Human Resource and Administration

9.15.1.1. Human Resource (HR) and Administration remain vital to the success of the Trust as a business. Effective HR and Administration ensures that companies stay compliant with regulations and keep their employees motivated, safe and engaged.

9.15.1.2. **Staff Numbers:** The Trust had 185 filled posts, with 14 vacancies. The gender distribution was at 74 percent male and 26 percent female. The Trust is an equal opportunity employer and has made it a priority to encourage female applicants for all its job openings. In the year under review, the Trust recruited a lady manager to fill the post of Distribution Manager.

9.15.1.3. **Recruitments:** The Trust faced challenges with the recruitment of senior staff such as Director of Pharmaceutical Operations, Director of Procurement and Procurement Manager. The positions were filled by officers in acting positions.

9.15.1.4. **Resignations:** A number of staff, including a Pharmacist, Pharmacy Technician and Assistant Accountant, resigned and in exit interviews they indicated that they had been offered better opportunities elsewhere. The Trust is reviewing its Job Structure as well as Terms and Conditions of Service so that it remains a competitive employer.

9.15.1.5. **Death:** During the year, the Trust lost of a young and dynamic Assistant Security Services Officer, Mr. Chikondi Mangani due to illness.

9.15.1.6. **Dismissals:** During the period, the Trust did not effect any dismissals.

9.15.1.7. **Administration:** Section 30 of the Trust Deed states that all assets and liabilities of the Central Medical Stores (CMS) be taken over by Central Medical Stores Trust. The Trust has invested greatly in the assets transfer process. So far the Trust has been given an assets transfer approval with MoHP and obtained GoM approval through Office of the President and Cabinet (OPC). The Trust has also done groundwork with the Ministry of Lands, Housing, Valuation Surveys and Physical Planning to enable Title Deed preparations at the Ministry of Lands and Housing to take place. Secondly, the Trust shall simultaneously engage the Ministry of Transport and Public Works for the Department of Road Traffic & Safety Services for Change of Ownership of motor vehicles that were inherited from CMS.

9.15.1.8. **Insurance cover:** The Trust is steadfast in maintaining insurance cover for its investments and property. During the reporting period, the Trust changed insurance services provider from AON (Broker) and NICO (insurance provider) to Rhino (Broker) and Re-Union (insurance providers). The change was through a competitive procurement process via open tender.

9.15.1.9. **Warehouse Rentals:** The Trust still experiences huge costs in terms of warehouse rentals and is currently renting four warehouses. In the coming fiscal year, 2019 — 2020, the Trust has planned to start construction of a big warehouse within CMST premises with the end result of moving out of the rented warehouses.

9.15.1.10. **Property Listings:** The Trust's listing of property includes offices and buildings, office equipment, plant and motor vehicles and land. These items undergo valuation every two years, however, depreciation for motor vehicles is done annually over four years.

9.16. Corporate Social Responsibility

9.16.1.1. The Trust maintains a high regard for Corporate Social Responsibility. This is with cognizance that corporations such as the Trust are part of the society and should establish and maintain a good relationship with its surroundings.

9.16.1.2. **Board Off and Waste Management:** The Trust realizes need to protect the environment and its people by making sure that the effects of the organization's activity do not affect the society negatively. The waste from the Trust's activities is well managed so as not to destroy the environment.

9.16.1.3. The Trust always manages medicines and medical supplies with a potential of having to be boarded off. Where that eventuality arises, the Trust makes sure the destruction is done in line with ethics and the law. From the year under review, the Trust turned to St. Gabriel Mission Hospital's incineration facilities for its modernity and conformance to City Assembly regulations to board off all expired medicines and medical supplies.

9.16.1.4. **Donations:** In the year under review, the trust sustained its cordial relationship with the Association of Persons with Albinism by donating sunscreen worth K183 million.



9.16.1.5. The Trust also supported the Electronic and Print categories of the Reporting National Supply Chain of Medicines and Medical Supplies in the Media Institute of Southern Africa (Misa) — Malawi Awards. The categories recognize the best media work that identifies issues and their solutions with the aim of making a positive contribution towards the realization of an effective national supply chain for medicines and medical supplies.

9.17. Summary of CMST Performance Based on Key Indicators

	INDICATOR	DESCRIPTION OF INDICATOR	SCORE	STANDARD	REFERENCE
1	Selection	Percentage of Medicine items received that are in MHL	100%	100%	Corporate strategy 2015-2020
2	Availability	Percentage of items available / total number of items	70%	90%	Corporate strategy 2015-2020
3	Procurement Efficiency	Ration between median price of products procured and the international median reference value	139%	100%	USAID
4	Emergency Procurement	Proportion of the value of emergency orders issued in the year	65%	50%	USAID
5	Supplier Performance	Percentage of orders delivered in full and on time (as stated in the procurement contract) from total number of orders in a defined period	47%	100%	USAID
6	Expiry Rate	[Total value of expired items / Total value of products handled annually] x 100%	7.16%	5%	WHO
7	Registration of items	[Registered items that are procured / Number of items procured in a defined period] x 100%	100%	100%	PMPB/WHO
8	Quality of items before release	[Medicines and medical supplies that met national quality standards / Number of items procured in a defines period] x 100%	63.7%	100%	PMPB
9	Recall System	Percentage of batches recalled from the market	2.49%	0%	CMST
10	Rejected products upon receipt	Percentage products rejected upon CMST receipt for defects or shortfalls including a shelf life less than 80% at the time of arrival, wrong products, incomplete sets, cold chain breaches	100%	100%	CMST
11	Inventory Physical Count (Accuracy Count)	[Absolute value of difference between recorded quantities and counted quantities / Physical quantity] x 100%	86%	95%	Corporate strategy 2015-2020
12	The quality of CMST services	Total number of units supplied/Total units ordered (Supply fill rate) for Central Hospitals)	54%	90%	Corporate strategy 2015-2020
13		Total number of units supplied/Total units ordered (Supply fill rate) for District Hospitals and Health Centres)	74%	90%	Corporate strategy 2015-2020
		Delivery conformance plan	91%	100%	Corporate strategy 2015-2020

9.18. Future Outlook

9.18.1.1. Apart from the daily operations effected to ensure continuous availability of medicines and medical supplies, the Trust's immediate focus for the next operational year remains the integration of parallel supply chains.

9.18.1.2. This is a project whose successful completion will positively change CMST's operational landscape by promoting coordination and its resultant efficient use of resources.

9.19. Conclusion

9.19.1.1. The period July 2018 to June 2019 has been a success. With the success in the integration and acquisition of a new ERP, the operations in the year under review give the Trust a good platform for tasks in the coming year.

9.20. Appreciation

9.20.1.1. On behalf of the Executive Management, managers and staff of the CMST, I wish to thank the Board of Trustees for the strategic direction provided.

9.20.1.2. Special appreciation goes to staff across the establishment for investing their efforts in the Trust's operations. At the Trust, the work is sensitive and stressful. But the staff's response to those challenges has been immensely inspiring.

9.20.1.3. It is therefore my belief and encouragement that staff continues to pull in the same direction as Executive Management and the Board.

FESTON KAUPA



CHIEF EXECUTIVE OFFICER

FINANCIAL STATEMENTS

CENTRAL MEDICAL STORES TRUST
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

Contents	Page
Trustees' report	1 - 2
Statement of Trustees' responsibilities	3
Independent auditor's report	4 - 7
Statement of financial position	8
Statement of profit or loss and other comprehensive income	9
Statement of changes in reserves	10
Statement of cash flows	11
Notes to the financial statements	12 - 36

CENTRAL MEDICAL STORES TRUST**TRUSTEES' REPORT
FOR THE YEAR ENDED 30 JUNE 2019**

The Trustees' have pleasure in submitting their report together with the audited financial statements of Central Medical Stores Trust for the year ended 30 June 2019.

Nature of business and incorporation

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

Board of trustees

The following Trustees served office during the year:

Mrs. Hilda Singo	Board Chair	Full year
Ms. Chifundo Kalaile	Member	Up to 28th February 2019
Mr. John Mponda	Member	Up to 28th February 2019
Mr. Andrew Chikopa	Member	Up to 31st December 2018
Dr. Titha Dzewela	Member	From 1st January 2019
Mr. Alifeyo Banda	Ex-officio member	Full year
Dr. Dan Namarika	Ex-officio member	Full year
Mr. Cliff Chiunda	Ex-officio member	Full year

Registered office:

Central Medical Stores Trust
Mzimba Street
Private Bag 55
Lilongwe

Bankers:

National Bank of Malawi Plc
FDH Investment Bank

Attorneys:

Tembenu, Masumbu and Company
P.O. Box 2777
Lilongwe

CENTRAL MEDICAL STORES TRUST

TRUSTEES' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019


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 30 June 2020 financial statements.



BOARD OF TRUSTEES CHAIRPERSON



TRUSTEE

8 November 2019

DATE

8 November 2019

DATE

CENTRAL MEDICAL STORES TRUST

STATEMENT OF TRUSTEES' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2019

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 period and of the surplus or deficit 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 30 June 2018. The Trustees also 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 year.


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

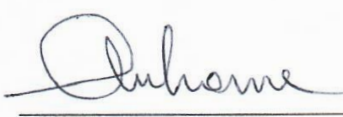
The Trustees are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Trust and of its operating results.

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

Approval of financial statements

The financial statements of the Trust were approved for issue by the Board of Trustees on 8 November 2019 and were signed on its behalf by :-







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

ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Opinion

We have audited the financial statements of Central Medical Stores Trust, which comprise the statement of financial position as at 30 June 2019, 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 financial statements give a true and fair view of the financial position of Central Medical Stores Trust as at 30 June 2019 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, 2003.

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.

Key audit matter

Existence and valuation of inventories.

See note 8 to the financial statements

Total inventories of MK20 billion represent 61% 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 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.

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.

Audit . Tax . Accounting . Advisory

Partners: C.M.C Banda , D.Ngwira (Mrs)



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

ON THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2019

Key audit matter (continued)

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 year-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.

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.



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**AUDITOR'S REPORT TO THE MEMBERS OF
 CENTRAL MEDICAL STORES TRUST
 ON THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2019**

Responsibilities of Trustees for the financial statements (continued)

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.
- 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.

**AUDITOR'S REPORT TO THE MEMBERS OF
CENTRAL MEDICAL STORES TRUST
ON THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2019**

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

- 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.

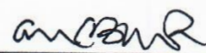
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

The engagement partner on the audit resulting in this independent auditor's report is Cornwell Banda.



Graham Carr



Cornwell Banda

Chartered Accountants (Malawi)
2nd Floor ADL House
City Centre
P O Box 898
Lilongwe

Date: 12 November 2019

Audit . Tax . Accounting . Advisory
Partners: D.Ngwira (Mrs), C.M.C Banda

CENTRAL MEDICAL STORES TRUST

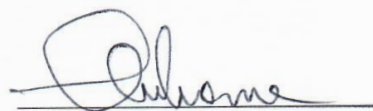
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	2019 MK'000	2018 MK'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	9,239,380	9,260,280
Long term staff receivables	9	81,800	81,800
		<u>9,321,180</u>	<u>9,342,080</u>
Current assets			
Inventories	8	20,313,268	24,246,822
Trade and other receivables	9	2,155,213	480,435
Cash and cash equivalents	10	1,415,296	2,152,693
		<u>23,883,777</u>	<u>26,879,950</u>
Total current assets		<u>23,883,777</u>	<u>26,879,950</u>
Total assets		<u><u>33,204,957</u></u>	<u><u>36,222,030</u></u>
RESERVES AND LIABILITIES			
Reserves			
Treasury fund		16,823,775	16,823,775
Capital fund		494,052	457,926
Revaluation reserve		6,820,331	7,049,782
Accumulated loss		(3,254,100)	(313,253)
		<u>20,884,058</u>	<u>24,018,230</u>
Total reserves		<u>20,884,058</u>	<u>24,018,230</u>
Current liabilities			
Trade and other payables	11	12,320,899	12,203,800
		<u>12,320,899</u>	<u>12,203,800</u>
Total reserves and liabilities		<u><u>33,204,957</u></u>	<u><u>36,222,030</u></u>

These financial statements were authorised for issue by the Board of Trustees on
 8 November 2019 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 30 JUNE 2019

		2019	2018
	Note	MK'000	MK'000
Revenue	12	19,950,591	17,228,018
Costs of sales	13	(16,883,369)	(14,600,887)
Gross profit		<u>3,067,222</u>	<u>2,627,131</u>
Other income	14	1,411,140	609,078
Administrative expenses	15	(10,303,394)	(8,707,079)
Distribution costs	15	(100,951)	(48,498)
(Loss) before impairment of receivables		<u>(5,925,983)</u>	<u>(5,519,368)</u>
Impairment loss reversal		2,755,589	6,590,986
(Loss)/profit for the year		<u>(3,170,394)</u>	<u>1,071,618</u>
Other comprehensive income			
Assets received from UNICEF		149,169	490,635
Amortization of capital fund assets		(113,044)	(32,709)
Revaluation surplus		-	1,356,540
Total other comprehensive income		<u>36,125</u>	<u>1,814,466</u>
Total comprehensive (loss)/ income for the year		<u>(3,134,269)</u>	<u>2,886,084</u>

**CENTRAL MEDICAL STORES TRUST STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 30 JUNE 2019**

	Capital Fund MK'000	Treasury fund MK'000	Revaluation reserve MK'000	Accumulated loss MK'000	Total MK'000
Balance as at 1 July 2017	-	16,823,775	5,693,242	(1,384,871)	21,132,146
Loss for the year	-	-	-	1,071,618	1,071,618
Assets received from UNICEF	490,635	-	-	-	490,635
Amortisation of capital fund assets	(32,709)	-	-	-	(32,709)
Revaluation surplus	-	-	1,356,540	-	1,356,540
Balance as at 1 July 2018	457,926	16,823,775	7,049,782	(313,253)	24,018,230
Loss for the year	-	-	-	(3,170,394)	(3,170,394)
Assets received from UNICEF	149,169	-	-	-	149,169
Depreciation relating to revalued assets -	-	-	(229,451)	229,451	-
Amortisation of capital fund assets (113,043)	-	-	-	-	(113,043)
Prior year adjustment	-	-	-	96	96
Balance as at 30 June 2019	494,052	16,823,775	6,820,331	(3,254,100)	20,884,058

CENTRAL MEDICAL STORES TRUST STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	2019 MK'000	2018 MK'000
Operating activities		
(Loss)/profit for the year	(3,170,394)	1,071,618
Depreciation	712,980	391,106
Adjustment for amortisation of capital fund assets	(113,044)	(32,709)
	<u>(2,570,458)</u>	<u>1,430,015</u>
Change in inventories	3,933,554	1,927,735
Change in trade and other receivables	(1,674,778)	4,938,442
Change in trade and other payables	<u>117,099</u>	<u>(6,188,489)</u>
Net cash(used on)/ generated from operating activities	(194,583)	2,107,703
Investing activities		
Acquisition of property, plant and equipment	(692,080)	(890,801)
Assets received from UNICEF	149,170	490,635
Net cash used in investing activities	<u>(542,910)</u>	<u>(400,166)</u>
Net (decrease)/increase in cash and cash equivalents	(737,493)	1,707,537
Cash and cash equivalents at the beginning of the year	2,152,693	445,156
Cash and cash equivalents at the end of the year	<u>1,415,200</u>	<u>2,152,693</u>
ADDITIONAL INFORMATION		
Increase in net working capital	<u>1,638,382</u>	<u>2,385,225</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, storage and distribution of drugs, medical supplies and related products to the government health facilities and approved NGO 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.

(e) New standards and interpretations adopted

In the current year, the entity has adopted those new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for

annual reporting periods beginning on 1 July 2018.

The adoption of these new and revised standards and interpretations had a significant impact on the financial statements of the Trust in the way it calculates impairment losses.

· **IFRS 9 Instruments**

IFRS 9, published in July 2004, replaces the existing guidance in IAS 30 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification.

The Trust has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2019.

(i) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The Trust's financial assets are currently classified as loans and receivables and measured at amortised cost. The classification and measurement of financial instruments will not change, accordingly, the Trust does not expect the new guidance to affect the classification and measurement of these financial assets.

(ii) Impairment - financial assets and cash equivalents

Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This has necessitated considerable judgement about how changes in economic factors affect ECLs, which have been determined on a probability-weighted basis.

· **IFRS 9 Instruments**

(ii) Impairment - financial assets and cash equivalents (continued)

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12 month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk as the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Trust has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Trust has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Trust's assessment did not indicate any material impact regarding the classification of financial liabilities.

(iv) Disclosures

The new standard also introduces expanded disclosure requirements and changes in presentation. The nature and extent of the Trust's disclosures about its financial instruments when the Trust has changed.

• IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e lessors continue to classify leases as finance or operating leases.

There is no impact on its financial statements resulting from the application of IFRS 16.

• IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Manufacturing and sales of medicines and medical supplies

Revenue is currently recognised when medicines and medical supplies are delivered. Under IFRS 15 Revenue from contracts with customers, revenue is recognised when a customer obtains control of the Medicines and medical supplies. The application of IFRS 15 has not resulted in differences in the timing of revenue recognition for these products.

· IFRIC 22 Foreign currency Transactions and Advance Considerations

When foreign currency consideration is paid or received in advance of the item it relates to - which may be an asset, an expense or income - IAS 21. The Effects of Changes in Foreign Exchange rates is not clear on how to determine the transaction date for translating the related item.

This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the on which the Trust initially recognised the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The application of IFRIC 22 has not resulted in significant differences in the translation date.

New and amended standards and interpretations

The following standards, amendments to standards, and interpretations, effective in future accounting periods, and which are relevant to the Trust have not been early adopted in these financial statements:

· IFRIC 23 Uncertainty over income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgements made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected

IFRIC 23 Uncertainty over income Tax Treatments

The Trust does not expect the application of IFRIC 23 to have an impact on income tax treatment.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

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 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.

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. 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%

Property, plant and equipment

(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.

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.

(i) Financial assets (continued)

The Trust considers 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 collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are then collectively assessed for 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 realisation 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 exists, 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 year at the same time.

The recoverable amount of an asset 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 flows 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 o 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.

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

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

3.6 EMPLOYEE SERVICES BENEFITS

a) Short term employee benefits

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

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

b) Pension obligations

The Trust contributes to a defined contribution plan managed by Old Mutual Limited. The scheme is generally funded through payments to a privately administered pension insurance plan on a mandatory and contractual basis. A

defined contribution plan is a pension plan under which the Trust pays fixed contributions into a separate entity. The Trust has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

3.7 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. 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 money.

3.9 Cash and cash equivalents

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

3.10 Treasury fund

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

3.11 Financing costs

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

3.12 Income tax

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

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 transactions 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 year-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 events whose existence will be confirmed. Provisions 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.

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.

(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 drugs 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:

	2019	2018
	MK'000	MK'000
United States Dollars (\$) denominated monetary liabilities		
Amount payable	11,406,345	7,432,684

Sensitivity

Foreign currency sensitivity analysis

At 30 June 2019, If the Kwacha had weakened or strengthened by 10 against the United States Dollar ('US\$') with all other variables held constant, the effect on post - tax surplus for the year would be MK11 million (2017:MK6.8 million)

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.

The table below analyses Trust credit risk exposure:

Gross carrying amount	0 - 6 Months MK'000	6 - 12 Months MK'000	Over 12 months MK'000	
As at 30 June 2019				
Trade receivables and other receivables (excluding prepayments)	4,543,281		-	4 543 281
Cash and cash equivalents	1,415,281	1,415,281	-	-
	<u>5,958,562</u>	<u>1,415,281</u>	<u>-</u>	<u>4,543,281</u>

As at 30 June 2018

Trade receivables and other receivables (excluding prepayments)	6,142,256	60,547	-	6,081,709
Cash and cash equivalents	2,384,174	2,384,174	-	-
	<u>8,526,430</u>	<u>2,444,721</u>	<u>-</u>	<u>6,081,709</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;

		Gross 2019	Carrying Amount 2019	Gross 2018	Carrying amount 2018
Trade and other receivables	Note 9	MK'000 5,027,072	MK'000 2,237,013	MK'000 6,142,256	MK'000 562,235
Cash and cash equivalents	10	1,610,974	1,610,974	2,384,174	2,357,339
		<u>6,638,046</u>	<u>3,847,987</u>	<u>8,526,430</u>	<u>2,919,574</u>
		Gross 2019	Impairment 2019	Gross 2018	Impairment 2018
		MK'000	MK'000	MK'000	MK'000
Not past due		1,004,180	-	77,715	-
Past due 0 - 30 days		28,782	-	156,938	-
Past due 31 - 90 days		371,867	-	40,819	-
Past due above 90 days		3,138,452	2,790,059	5,676,070	5,580,021
Total		<u>4,543,281</u>	<u>2,790,059</u>	<u>5,951,542</u>	<u>5,580,021</u>

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

	Gross 2018	Impairment 2018
Balance at 1 July 2018	5,580,021	12,171,007
Impairment loss recognised	(34,373)	-
Impairment reversal	(2,755,589)	(6,590,986)
Balance as at 30 June 2019	<u>2,790,059</u>	<u>5,580,021</u>

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.

v) Profile

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

	Note	Carrying amount 2019 MK'000	2018 MK'000
Fixed rate instructions			
Financial assets	10	1,610,974	2,357,339
Financial liabilities		-	-

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.

As at 30 June 2019

Assets

Trade and other receivables	1,888,620	3,138,452	-	5,027,072
Cash and cash equivalents	1,610,974	-	-	1,610,974
	<u>3,499,594</u>	<u>3,138,452</u>	<u>-</u>	<u>6,638,046</u>

Liabilities

Trade and other payables	3,932,809	8,388,090	-	12,320,899
	<u>(433,215)</u>	<u>(5,249,638)</u>	<u>-</u>	<u>(5,682,853)</u>

As at 30 June 2018

Assets

Trade and other receivables	60,547	501,688	-	562,235
Cash and cash equivalents	345,765	806,928	-	2,152,693
	<u>1,406,312</u>	<u>1,308,616</u>	<u>-</u>	<u>2,714,928</u>

Liabilities

Trade and other payables	3,583,340	8,620,460	-	12,203,800
	<u>(2,177,028)</u>	<u>(7,311,844)</u>	<u>-</u>	<u>(9,488,872)</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 30 JUNE 2019

		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	Capital work in progress MK'000	Total MK'000
Cost or valuation								
As at 1 July 2017	6,523,313	122,055	945,877	254,666	356,747	356,747	-	8,202,658
Additions		24,294	22,434	758,453	8,264	77,356	-	890,801
Revaluations surplus		1,356,541	-	-	-	-	-	1,356,541
Elimination of depreciation on revaluation		(255,784)	-	-	-	-	-	(255,784)
As at 30 June 2018		7,648,364	144,489	1,704,330	262,930	434,103	-	10,194,216
Additions		-	8,560	325,686	448	38,036	319,350	692,080
As at 30 June 2019		7,648,364	153,049	2,030,016	263,378	472,139	319,350	10,886,296
Depreciation								
As at 1 July 2017		119,127	59,589	340,293	112,262	167,343	-	798,614
Charge for the year		136,657	26,311	107,523	44,348	76,267	-	391,106
Elimination of depreciation on revaluation		(255,784)	-	-	-	-	-	(255,784)
As at 30 June 2018		-	85,900	447,816	156,610	243,610	-	933,936
Charge for the year		229,451	21,800	351,271	43,139	67,319	-	712,980
As at 30 June 2019		229,451	107,700	799,087	199,749	310,929	-	1,646,916
Carrying amount								
As at 30 June 2019		7,418,913	45,349	1,230,929	63,629	161,210	319,350	9,239,380
As at 30 June 2018		7,648,364	58,589	1,256,514	106,320	190,493	-	9,260,280

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
2019				
Land and buildings		-	7,648,364	7,648,364
2018				
Land and buildings	-	-	7,648,364	7,648,364

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

Cost	2019 MK'000	2018 MK'000
Accumulated depreciation and impairment losses	2,747,085	2,747,085
Net carrying amount	2,747,085	2,747,085

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

	2019 MK'000	2018 MK'000
8 INVENTORIES		
Tablets and capsules	3,527,369	8,560,907
Injectables	1,699,649	3,127,058
Vaccines	137,166	230,160
Raw materials	143,641	137,090
Galenicals	3,008,580	3,548,004
Surgical dressings	2,022,189	2,036,297
Mantino DFID	65,934	364,303
Sutures	971,347	850,963
Surgical equipment	4,687,695	5,288,171
Ophthalmic	19,225	23,092
Dispensary items	599,869	563,569
Hospital equipment	95,534	16,602
Laboratory items & Reagents	1,498,259	2,980,431
X-ray films and equipment	1,374,310	348,826
Dental items	244,056	202,629
Miscellaneous products	87	214
Hospital beddings	175,095	66,391
Obsolete (expired) inventory	<u>4,938,329</u>	<u>-</u>
	25,208,334	28,344,707
Less: provision for obsolete (expired) inventory	<u>(4,938,329)</u>	<u>(4,129,328)</u>
	20,270,005	24,215,379
Stationery	43,263	31,443
	<u>20,313,268</u>	<u>24,246,822</u>
9 TRADE AND OTHER RECEIVABLES		
Trade receivables	4,543,281	5,951,542
Other receivables and prepayments	<u>483,791</u>	<u>190,714</u>
	5,027,072	6,142,256
Less provision for doubtful receivables	<u>(2,790,059)</u>	<u>(5,580,021)</u>

Less long term staff receivable	2,237,013 (81,800)	562,235 (81,800)
Short term trade and other receivable	<u>2,155,213</u>	<u>480,435</u>

The ageing of trade receivables at the reporting date was as follows:-

	2019 MK'000	2018 MK'000
Current	1,004,180	77,715
0-30 days	28,782	156,938
31-90 days	371,867	40,819
Above 90 days	3,138,452	5,676,070
	<u>4,543,281</u>	<u>5,951,542</u>

The carrying amount of receivables of MK2,237,014 is a reasonable approximation of their fair values.

10 CASH AND CASH EQUIVALENTS

Cash at bank and in hand	1,610,974	248,158
Promissory notes	-	2,340,662
	1,610,974	2,588,820
Less: impairment provisions on promissory notes	-	(231,481)
	1,610,974	2,357,339
Ministry of Health-Cash clearing account***	(195,678)	(204,646)
	<u>1,415,296</u>	<u>2,152,693</u>

*** Central Medical Stores Trust receive cash in advance from the Ministry of Health to Finance District Health Offices. The cash in advance is debited to bank and credited to this Receipt Clearing account. The amount is reduced by invoices raised when they supply the drugs.

11 TRADE AND OTHER PAYABLES

Trade payables	11,737,374	11,727,059
Other payables and accruals	583,525	476,741
	<u>12,320,899</u>	<u>12,203,800</u>

The ageing of trade payables at the reporting date was as follows:-

Current	1,613,058	1,090,521
0-30 days	1,736,226	2,016,078
31-90 days	2,354,224	2,254,836
Above 90 days	6,033,866	6,365,624
	<u>11,737,374</u>	<u>11,727,059</u>

The carrying amount of payables of MK12.3 billion is a reasonable approximation of their fair values.

	2019 MK'000	2018 MK'000
12 REVENUE		
Regional Medical Stores (South)	9,737,539	8,334,982
Regional Medical Stores (Centre)	7,072,990	6,227,948
Regional Medical Stores (North)	3,140,062	2,665,088
	<u>19,950,591</u>	<u>17,228,018</u>
13 COST OF SALES		
Opening stock	24,246,822	26,174,556
Add Purchases	12,906,552	12,673,153
Less: Closing stock (24,246,822)	(20,270,005)	
Cost of sales	<u>16,883,369</u>	<u>14,600,887</u>

14 OTHER INCOME

Service charge-distribution of donated items	99,593	-
Service charge-UNICEF commodities	201,625	-
Service charge-procurement of family planning commodities-MG	120,557	162,000
Service charge-procurement of malaria commodities-MG	509,446	220,292
Storage charges -Manobec warehouse	142,398	58,800
Gain on promissory notes	231,480	-
Equipment rental	4,200	4,200
Sale of bid documents	2,662	-
Forklift hire	2,267	-
Interest received	23,048	24,389
Rent received	68,389	123,775
Disposal of fixed assets	5,475	15,625
	<u>1,411,140</u>	<u>609,081</u>

15 ADMINISTRATIVE EXPENSES

	2019 MK'000	2018 MK'000
Audit fees	19,996	22,600
Legal and consultancy fees	105,106	21,780
Bank charges	25,188	26,686
Boarded off items/expired stock	4,938,329	4,129,328
Computer costs	7,154	1,859
Corporate social responsibility(medicines)	309,978	-
Depreciation	599,939	391,106
Electricity charges	62,233	42,801
Fuel and lubricants	244,457	246,664
Hiring of security guards	295,845	289,085
Hotel accomodation charges	643	-
Insurance costs	74,967	79,124
Maintenance of buildings	30,322	84,197
Motor vehicle maintenance	89,128	105,976
Office sundries	29,646	56,505
Other expenses(AGM, quality control costs and others)	257,538	184,382
Promissory notes impairment	-	231,481
Provision for doubtful debts/impairment loss	34,373	-
Impairment loss of receivables	(2,755,589)	(6,590,986)
Publications and advertising	100,186	114,166
Realised foreign exchange loss	173,522	55,363
Rent/lease (warehouse/office)	442,335	306,080

Repairs of plant and equipment	62,966	44,214
Salaries	1,986,569	1,826,190
Stationery	27,777	23,335
Subsistence allowance	281,078	286,582
Telephone charges	110,572	81,790
Training	90,013	72,396
Uniform and protective clothing	14,314	584
Water and sanitation	24,544	31,303
	<u>7,683,129</u>	<u>2,164,591</u>

Presented on page 8 as follows:

Administration costs	10,303,394	8,707,079
Distribution costs	100,951	48,498
Provision for doubtful debts	34,373	-
impairment loss	(2,755,589)	(6,590,986)
	<u>7,683,129</u>	<u>2,164,591</u>

16 RELATED PARTIES

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

The following were related party transactions and balances:

a)	Funding and donations in kind		
	UNICEF - Assets donated	<u>149,169</u>	<u>490,635</u>
	Key management remuneration	<u>228,079</u>	<u>178,323</u>
	Trustees remuneration	<u>3,125</u>	<u>625</u>
b)	Year end balances		
	Amounts due to key management	<u>22,498</u>	<u>19,179</u>
c)	Government receivable balance:		
	All government receivables	<u>4,242,825</u>	<u>2,511,853</u>

17 CAPITAL COMMITMENTS

There were no capital commitments as at year end requiring disclosures in the financial statements (2018:nil).

18 CONTINGENT LIABILITIES

There were no contingent liabilities as at year end requiring disclosures in the financial statements (2018:nil).

19 SUBSEQUENT EVENTS

There are no significant events that have occurred after year end which necessitates adjustments to or disclosure in the financial statements.

20 INFLATION AND EXCHANGE RATES

The exchange rate of the year-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.

	2019	2018
Kwacha/US Dollar	780.50	733.95
Kwacha/Euro	887.94	856.57
Kwacha/Rand	56.17	53.97
Inflation rate (%)	8.9%	9.0%

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

Kwacha/US Dollar	736.7059	725.86
Kwacha/Euro	814.06	852.91
Kwacha/Rand	49.9628	50.52
Inflation rate (%)	9.2%	9.2%



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