



*Trusted Partner in Healthcare*

# **ANNUAL REPORT**

**Year Ended March 2022**



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## ACRONYMS

BMS	:	Buy Malawi Strategy
CHAM	:	Christian Health Association of Malawi
CMS	:	Central Medical Stores
CMST	:	Central Medical Stores Trust
ERP	:	Enterprise Resource Planning
GF	:	Global Fund
IQA	:	indefinite Quantity Agreements
IQF	:	Indefinite Quantity Frameworks
KPI	:	Key Performance Indicators
MHL	:	Must Have List
MMS	:	Medicines and Medical Supplies
MOH	:	Ministry of Health
NLGFC	:	National Local Government Finance Committee
ACB	:	Anti – Corruption Bureau
GCU	:	Government Contracting Unit
PPDA	:	Public Procurement and Disposal of Assets Authority
MSCTP	:	Malawi Supply Chain Transformation Plan.

## **MANDATE**

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

The Trust is mandated to sell its products to public health facilities and not-for-profit health facilities that are in a working agreement with the Ministry of Health. These mostly consist of CHAM health facilities. Later after the Trust is able to meet demand for the public health facilities, the Trustees have the powers to allow the Trust to start serving private health facilities.

## **OBJECTS OF THE TRUST**

In order to achieve its mandate, the Trust has the following objects:

- To ensure an efficient, sustainable and economical national procurement system of quality medicines and medical supplies;
- To ensure the availability of and accessibility to quality medicines and medical supplies at each healthcare facility;

- To offer to quality medicines and medical supplies at an affordable cost to the public, non-profit and private health facilities and, from such a time as the Trustees shall determine, profit making private health facilities;
- To ensure that the quality of medicines and medical supplies complies with the requirements defined by the Ministry of Health and other regulatory bodies;
- To securely, safely and efficiently manage, warehouse, distribute and supply medicines and medical supplies, with regard to national needs and to the special nature of the goods in question, in accordance with the National Drug Policy;
- To coordinate all medicines, medical supplies and equipment donations to the Trust and Government.

## **STRATEGIC DRIVING FACTORS**

The Trust has its calculated motivating elements which provide guidance on effective service and growth, as listed below:

### **1.1. Vision**

A result-oriented supplier of affordable and approved medicines and medical supplies of guaranteed quality.

### **1.2. Mission Statement**

To ensure an efficient and uninterrupted supply of quality medicines and medical supplies to all public health facilities at the most affordable cost.

### **1.3. Core Values**

CMST core values remain;

- Efficiency to improve accessibility
- Integrity
- Innovation
- Professionalism
- Equal opportunity

## **AUTHORITY OF THE BOARD**

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

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

Grasping the central role that 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.

## INTRODUCTION

In any shape or form, the year under review was one of the toughest operational periods for the Trust. The effects of the Covid 19 pandemic were carried-over to the year under review, causing distress on businesses globally by altering product demand, manufacture quantities, assembly, pricing, and trans-global logistics. These translated into world economies and national health systems altering ways of doing business.

For health supply chains and their players such as CMST, the pandemic even reversed some progress which took years to build.

Finer details will follow in the subsequent sections to offer a lucid explanation to outcomes of such an operating environment, including the posting of a deficit of a deficit of K5.944 billion reported at year ended 31<sup>st</sup> March 2022 due to stock write-offs amounting to K2.869 billion and impairment loss on receivables of K929 billion resulting from delayed settlement.

However, the not-so-adequate availability of medicines and medical items, at around 50 percent for district hospitals within a period as unprecedentedly challenging as the year gone by, has been a major success.



## BOARD CHAIRPERSON'S BRIEF



Esteemed Stakeholders,

In the operational year spanning 1<sup>st</sup> July 2021 to 31<sup>st</sup> March 2022, the Trust persisted on its pursuit for improved stock status. This was strictly in line with the Trust's ideal to always maintain an uninterrupted supply of quality and affordable medicines.

But to do so, the Trust had to diligently work around opportunities and challenges, building on the gains made in the year prior while trying to iron out challenges encountered.

Chief of the issues in the year were cashflow deficiencies and the effects of the Covid 19 pandemic, especially around imported health commodities.

This report therefore reviews plans laid out for the period against the work accomplished, noting challenges experienced and identified opportunities.

#### **1.4. Strategic Approach**

The Trust's strategic goals across the main functions of procurement, warehousing and delivery — as drawn from the Trust's strategic blueprints such as the Corporate Strategy, Business Plan and Turnaround Strategy — include improvements in sustainability and funding, efficiencies in tendering for medicines and medical supplies, enhancements in warehousing and quality, and the development of efficient delivery mechanisms.

For instance, the Trust, in its Turnaround Strategy for 2021 – 2025, states the following priority areas: Quantification, Procurement, Marketing / Stakeholder engagement, Finance, Information Systems, Warehousing and Distribution, and Human resource.

Going into the year under review, the main noted strategic challenges across the areas above included product forecasting, quantification that needed finetuning, uncompetitive procurement policies, inadequate storage space, inadequate funds (poor

cashflow) and warehouse management systems that needed attention.

### **1.5. Strategic Targets**

The operational period 1<sup>st</sup> July 2021 to 31<sup>st</sup> March 2022 was a short year — only nine (9) months long — as adjusted by Government to facilitate change so that the financial year runs from July to March.

The planned sales for this period were pegged at K22.85 billion overall while the actuals sales achieved were K21.39 representing 6% percent under-achievement of the target.

### **1.6. Funding**

The Trust remains not subvented by Government and therefore relies on sales made to health facilities, plus a bit of revenue from auxiliary sales and service fees from consultancies.

For some time now, Central Hospitals get their funding directly from Treasury and have autonomy on where to source commodities. District Hospitals still remain with CMST as their primary supplier, with their allocation sitting with the National Local Government Finance Committee (NLGFC) which settles dues to CMST for verified stocks consumed by the District Hospitals. However, from this operating

period, the District Hospitals had a direct funding of 10 percent of their budget, to cater for when CMST had no supplies.

The Trust must therefore maintain a convincing stock profile to draw as much as possible from the allocations to District and Central Hospitals. The stock mix must satisfy customer requirements. Now, coming from recorded financial hiccups affecting stockholding in the previous operating years, the period under review was a promising one in that the Government of Malawi provided the Trust with K12.5 billion in recapitalisation.

The Trust meant to use the amount largely to boost stocks and to clear debts which caused some suppliers to withhold supplies.

### **1.7. Corporate Governance and Image**

CMST remains aware of the heavy charge placed on its shoulders to maintain a thoroughly upright workplace in tandem with the dictates of modern corporate governance, including accountability and transparency. In the year gone, the Trust therefore held stakeholder engagement sessions with the media, customers and government ministries, to keep them abreast of progress, challenges and efforts.

CMST is also determined to manage its reputation. Challenges to its reputation are largely inherited from its predecessor, Central Medical

Stores. In the year, the Trust therefore stepped up its efforts to work on its trade image. Among the efforts, CMST scaled up activities by the Institutional Integrity Committee (IIC), among them the review of the Corruption and Fraud Prevention Policy and engagement with staff on anti-corruption measures — all these in collaboration with the Anti-Corruption Bureau (ACB).

To improve transparency and accountability, the Trust also completed frameworks for a functional Access to Information (ATI) platform. The Trust engaged the Malawi Human Rights Commission for training for key staff on the demands of the ATI law. The Trust has also identified an information officer, as per the demands of the ATI law.

CMST also stepped-up stakeholder engagement, including meetings with the media, customers and development partners.

### **1.8. Challenges and Responses**

While putting in lots of care, the Trust faced unsettling realities in the operating environment which impacted the Trust's goals or expectations in the year.

For instance, the shortage of forex impacted already awarded contracts since suppliers could not secure foreign currency to pay their sources. This led to sparse supply, as per availability of forex,

leading to unstable quantities to health facilities. The Trust has since engaged concerned stakeholders and established means of securing forex for the suppliers. Among such means is the opening of additional foreign currency dominated accounts so that the Trust secures larger forex cover.

The Trust also continued to face the prolonged effects of the Covid-19 pandemic, including its effects in global logistics which presented problems in shipping medicines and medical supplies into Malawi.

### **1.9. Way Forward**

The Trust is propelled by the responsibility to always make medicines and medical supplies available. Therefore, the Board, Management and staff continue to implement strategies for increased sustainability to make sure the Trust operates to its best of abilities.

Going forward, the Board, with all powers vested in it to oversee the success of the Trust, pledges to support management with all needed resources and direction towards attainment of the corporate and strategic ambitions.

### **1.10. Appreciation**

On behalf the Board of Trustees, let me thank the Board Committees and the institutions they represent for the dedication exhibited in the

year. To make well-informed decisions in the interest of the survival and success of the Trust, the Board of Trustees depends on the rigorous scrutiny of issues by the committees.

I also wish to thank our clients, the health facilities, for always being there with constructive feedback and action to the challenges we face together.

Most of all, the Board and its Committees are thankful to the Malawi Government for the strategic support rendered from time to time, and this year, extending to the K12.5 billion recapitalisation sum. The Trust can guarantee the most prudent of uses for the amount provided.

It is CMST's hope that collaborating partners will continue to see value in the Trust and take appropriate interest to make corrective efforts where due. The Trust is always thankful for such support.



**Josiah Mayani,**

**CMST BOARD CHAIRPERSON**

## 1.0 CHIEF EXECUTIVE OFFICER'S REPORT

### 1.11. Overview



Dear Stakeholders,

I am pleased to share a report of the performance of the Trust in the year under review.

Under the stewardship of the Board of Trustees, the CMST Executive Management team was once again challenged to translate strategic ambitions of the Trust into operational targets. The Executive Management therefore attended to all planned and emerging issues, with support from the management and staff spread across three directorates, namely Pharmaceutical Operations; Procurement and Finance and Administration.



The work in the year revolved around targets isolated from the strategic documents approved by the Boards of Trustees. Below is a summary of the operational period under review.

The following is an account of performance by directorate:

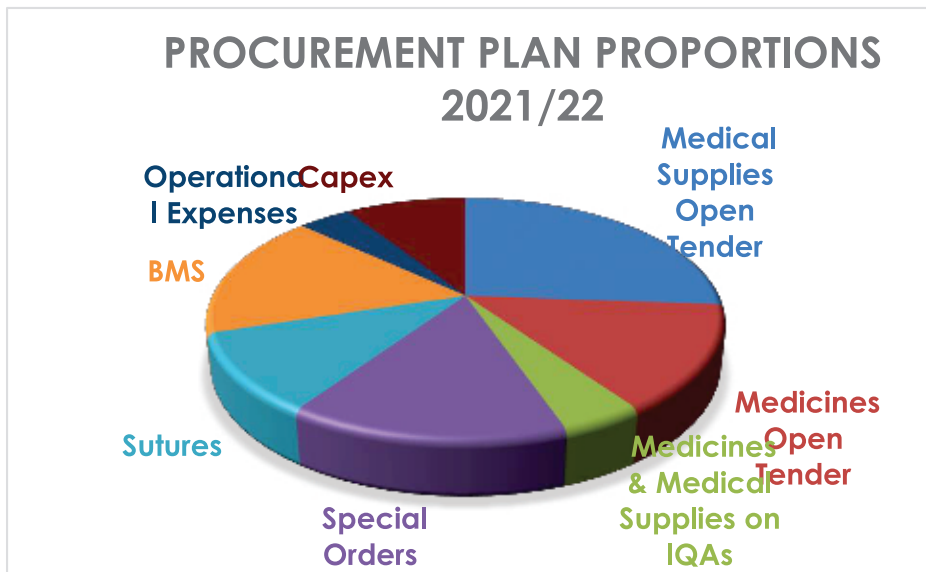
## **1.12. Procurement**

The Procurement Directorate continued to oversee implementation of procurement and disposal operations. As per strategic focus, the directorate aimed at working towards sustainability by increasing value for money through efficient procurements and disposals.

### **1.12.1. Procurement plan**

The total procurement plan for the nine months under review was valued at K21,546,994,753.19, with Medicines and Medical Supplies (MMS) estimated at K18, 721,691,753.19, operational expenditure at K870,499,000 and capital assets procurement at K1,954,804,000.

Figure 1: Procurement proportions for period 1 July - 31 March 2022



In the period, the contracts for Medicines and Medical supplies (MMS) worth MK11.5 billion were drawn from local manufacturers under the Buy Malawi Strategy (BMS) and Victoria Pharmaceuticals Industry Ltd (VPIL) contracts. These amounted to K9.8 billion. Out of the budgeted K18.7 billion, products worth K21.05 billion were on call orders, either delivered or in the pipeline. This represents 112.57 percent.

A delivery failure of an initial emergency procurement, with deliveries by suppliers to CMST only at 6% by 31<sup>st</sup> December 2021, forced CMST to initiate another emergency procurement at a cost of K4.27 billion, either as replacements of the undelivered items or additional ones. The second emergency initiated in December 2021 was already

approved by the Public Procurement and Disposal of Assets Authority (PPDA). Subsequent pre-contract negotiations focusing on the supply plan with the seven awardees were concluded and deliveries were ongoing by the close of the year.

Two (2) ICB Tenders for MMS estimated at K15.04 billion were initiated and the subsequent award of contracts awaited PPDA and Government Contracting Unit (GCU) for approvals. These were to result into 12-month Indefinite Quantity Agreements (IQAs) to replace expired contracts.

Contracts for General Goods, Works and Services (GGWS) valued at K2.43 billion were implemented during the period under review. These included maintenance services by various dealers or service providers for cold-rooms, air conditioners, fork lift trucks, gensets, printing equipment, plumbing, building maintenance and electrical maintenance works. Supply of general goods includes stationery, furniture, office supplies and sundries.

The performance of service providers for GGWS was satisfactory as no major issues were experienced. Already, IQAs were underway for most items, including medicines and medical suppliers, hence implementation would be through call orders.

### 1.12.2. Contract Management

For CMST, the importance of contract management lies in its ability to provide efficiency and guarantee the availability of quality medicines and medical supplies when and where needed, and in sufficient quantities, hence reducing risk of stock outs or overstocking which may lead to expiry.

Therefore, contract management was a vital feature in the year. The contracts for Medicines and Medical Supplies were realised through different categories of procurement methods, including International Competitive Bidding (ICB), National Competitive Bidding (NCB), Buy Malawi Strategy (BMS) and Request for Quotations (RFQs).

The table shows the summary of contracts managed from July 2021 to March 2022.

**Table 1: Summary of contracts for Year Ended 31 March 2022**

CATEGORY BY METHOD	TOTAL AMOUNT (MK)	TOTAL AMOUNT DELIVERED (MK)	BALANCE (MK)	% DELIVERED (VALUE)
ICB & BMS for normal stock	13,253,896,697.25	6,012,405,011.25	7,241,491,6896.00	45
RFQs [Stock gap filling: Initial Awards]MMS000579(i)	2,408,469,397.96	910,991,169.36	1,497,478,228.60	38
RFQs [Stock gap filling; Re-awards MMS000579(ii)]	3,613,689,050.60	932,067,320.95	2,681,621,729.65	26
RFQs (Stock gap filling; OTHERS)	182,538,650.00	89,364,650.00	93,174,000.00	49
Special Orders for various hospitals	37,884,131.60	20,246,095.48	17,638,036.12	53
Covid 19 response items, special for MoH	1,054,575,000.00	1,054,575,000.00	-	100
OVERALL DELIVERY	<b>20,551,050,552.41</b>	<b>9,019,649,247.04</b>	<b>11,531,401,680.37</b>	<b>44</b>

During this period, CMST had issued contracts worth K20.5 billion. Overall receipts from suppliers as at 31<sup>st</sup> March, 2022 were at 44%. There were still items in the pipeline worth MK11.5 billion. Some of the contracts were still within the stipulated delivery period while others had gone past the required delivery period, and were hence extended to allow suppliers to complete deliveries.

BMS contracts, at 65%, constituted the highest expenditure line of the total value, as presented below:

**Table 2: Comparative expenditure per procurement method**

PROCUREMENT	AMOUNT	PERCENTAGE
	MK'000	
ICB	2,175,285	13%
BMS	10,722,117	65%
SPECIAL ORDERS	27,304	0%
RFQs	2,511,183	15%
COVID-19	1,054,575	6%
<b>TOTALS</b>	<b>16,490,465</b>	<b>100%</b>

Contract management presented some challenges in the year, the common one being delays in deliveries of commodities by suppliers. For instance, an emergency procurement amounting to K2,625,332,472.47 for medicines and medical supplies done as a gap filler recorded poor performance as only 22% of the total amount awarded was delivered by the time of the report.

The most common excuse for delayed deliveries was the general scarcity of haulage space on cross-continental ships due to reduced frequency or travel due to Covid 19.

Another challenge was suppliers' requests for upward price adjustments on the items that were awarded to them.

The other challenge was delayed payments by CMST to suppliers. This was chiefly due to the Trust's cashflow problems. However, with the K12.5 billion that government provided to CMST as part of recapitalisation, the problem would be mitigated. Government also planned to off-set CMST debts amounting to K16 billion so that the K12.5 billion for recapitalisation would go a long way in sourcing Medicines and Medical supplies in consultation with MoH.

By the end of this reporting period, CMST was working on formally terminating contracts for medicines and medical supplies contracts expired as at 30<sup>th</sup> June 2021.

### **1.12.3. Report on PPDA Consultation**

CMST coordinated a consultative meeting with PPDA, ACB and GCU, aimed at coming up with the following sustainability approaches;

- Special waivers on emergency and special-order procurements, considering that CMST loses business due to the long procurement processes.
- Discussion on the possibility of CMST being considered for higher thresholds on prior approvals and use of RFQ documents, that is, pharmaceutical RFQ documents to have higher thresholds considering that medicines and medical supplies are high value products.

In addition, CMST noted that the availability of medicines and medical supplies is significantly affected by procurement processes due to reasons that include:

- Long-winded approval processes due to long periods of waiting to obtain PPDA/GCU approvals.
- Inventory management challenges in public facilities as most special orders, though not so regular, pertain to items critically needed, leading to emergency procurement, hence the only methods would be the ones that require PPDA approval.
- Low ceiling thresholds; Medicines and medical supplies are mostly high value items and as such most RFQ procurements fall

outside the provided PPDA thresholds, and as such they require CMST frequently seeking 'No Objections' from PPDA.

- Delayed or non-deliveries by suppliers identified through open tendering leave CMST with no option but to resort to the emergency methods of procurement to save the stock situation in facilities. This increases requests for "No Objections" for above-threshold RFQs.

At the end of the consultative meeting the following resolutions were agreed:

- PPDA to look into CMST's proposal for higher thresholds for prior review while intensifying the post procurement review process. Quarterly procurement review was proposed.
- Pre-bidding and pre-evaluation sessions with PPDA and GCU officers for every tender above a certain threshold to review prepared documents before actual submission for approval. PPDA to set thresholds.
- Working sessions with PPDA technical staff where critical issues that have been identified as procurement misdemeanours will be discussed and practical solutions arrived at.

A streamlined, timed Standard Operating Procedure (SOP) to be agreed upon by all parties involved (CMST, ACB, GCU and PPDA) that will guide the approval process.



#### **1.12.4. Training for IPDC and Managers**

To increase efficiency in planning and executing procurements and issues around them, the Procurement Directorate organised training sessions for members of the IPDC and Line Managers to equip them with knowledge of the Procurement Law and procedures.

The training took place at Golden Peacock Sogecoa Hotel from 9<sup>th</sup> February 2022 to 10<sup>th</sup> February 2022. The topics covered were Public Procurement Legal Framework, Public Procurement Process, Bid Submission and Evaluation, Specifying Requirements and Contract Management.

#### **1.12.5. Procurement Key Performance Indicators**

The following is a summary of Procurement Directory's key performance indicators:

**Table 3: Key Performance Indicators for Procurement**

NO	KEY KPI	TARGET	ACTUAL	REMARKS
1	Deliveries/supplier performance	80%	50%	Below target. Deliveries still heavily affected by shortage of forex and global logistical hiccups due to effects of Covid 19.
2	Product Price Variance (PPV)	Less than (<) or equal to (=) 100%	120%	The fixed BMS and VPL contracts prices and devaluation of Malawi Kwacha are major factors for higher PPV. This has improved as compared to previous PPV of 140% due to the suspension of BMS and VPIL contracts.
3	Procurement Cycle Time	100%	50%	Greatly affected by the prolonged chain of approval process.
4	Transparent Tendering	90%	70%	Panic procurements due to delivery delays on normal contracts triggered by lack of forex, and global logistical hiccups due to effects of Covid 19.
5	Effective Contract Utilisation	10% LPOs, 30% annual contracts (Framework s) and 60% multiyear contracts (IQA, BMS)	90%	Special orders to be on Framework Agreements for further improvements.



**One of the two warehouses at Regional Medical Stores North**

### **1.13. Warehousing**

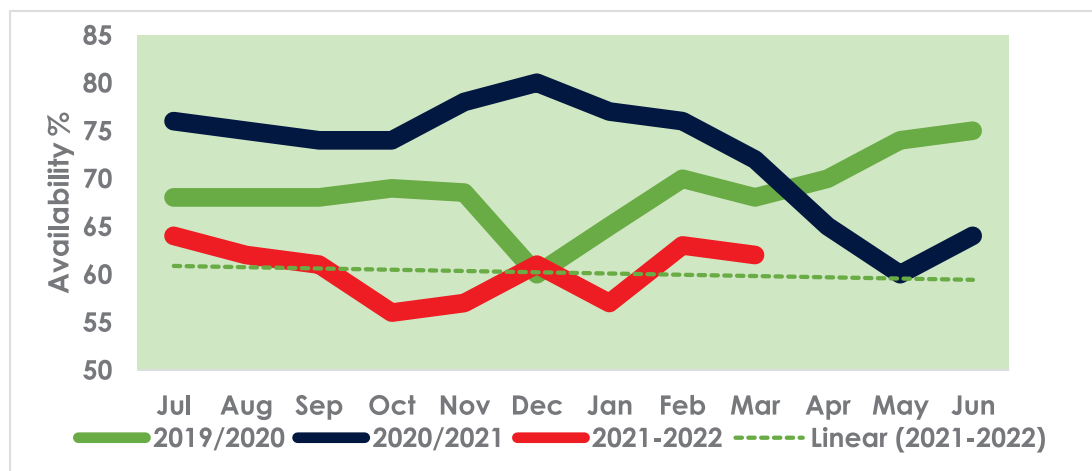
The Trust's warehousing function oversees the availability, quality and fill rates of stock items needed by health facilities. The function's end game is to make sure customers have stocks as per their preferences at ordering. The Trust's focus is therefore to identify customer needs and meet them.

### 1.13.1. Stock Availability

Stock availability continued to be a challenge in the year despite expectations that it would pick up after the slump resulting from a five-month delay by the PPDA to clear procurements. The availability was also affected by a number of suppliers failing to live up to delivery schedules, citing the global supply chain logistical challenges posed by the travel restrictions following the Covid 19 outbreak. Other suppliers cited a weak cashflow due to unsettled dues by the Trust.

Overall, the availability of medicines and medical supplies based on the Must Have List (MHL) for District Hospitals averaged 60%, compared to 72.6% in the previous financial year, as per figure below.

**Figure 2: Availability of medicines and medical supplies based on the Must Have List (MHL) for District Hospitals**



The availability for Central Hospitals stood at an average of 44% from 46.9% in the previous operating period.

### **1.13.2. Supply Fill Rate**

The supply fill rate for District Hospitals' MHL items averaged 56% compared to 57% in the previous financial year. The fill rate for Central Hospitals continues to remain low at 43% from 46% in the past year. Despite the sharp drop in availability for MHL items for District Hospitals, the fill rate only dropped by 1%, denoting an improvement in stocking mix on the MHL where more demanded items were in stock than slow movers.

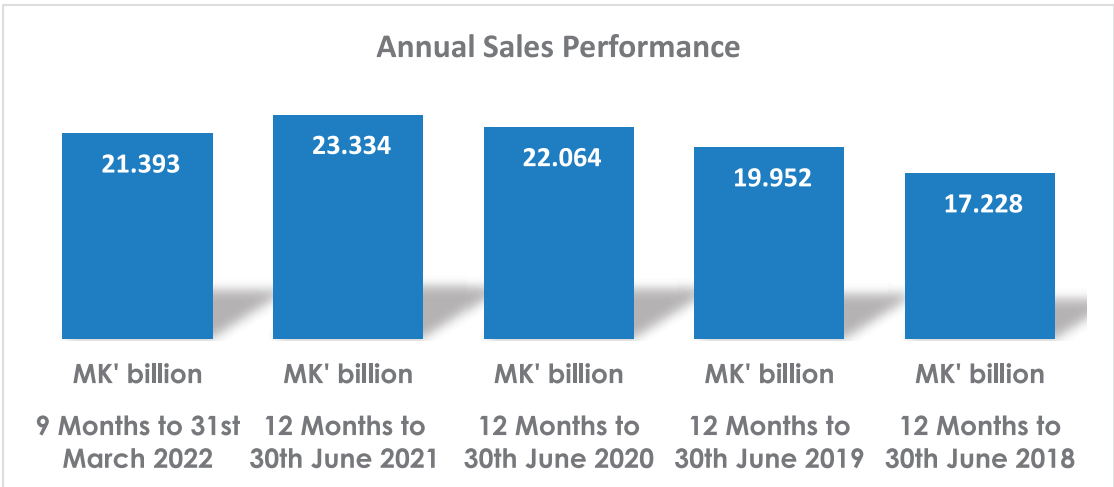
The observed reduction in slow moving items on the MHL leaves out the available slow-moving items on a non MHL front.

The availability is commendable considering the operating environment during the period in which inflow of commodities slowed down due to the impact of Covid 19 and also the shortage of forex.

### **1.13.3. Total Sales**

An improved sales performance was reported during the nine-month operating period under review with a recorded K21.39 billion compared to the K23.33 billion achieved in twelve-month period of 1<sup>st</sup> July 2020 to 30<sup>th</sup> June 2021 (as shown in the figure below.) This is due to availability of fast-moving stocks whose stock turns were relatively high.

**Figure 3: Comparative annual sales from 2018 to 2022**



**1.13.4. Drug Budget Draw Down**

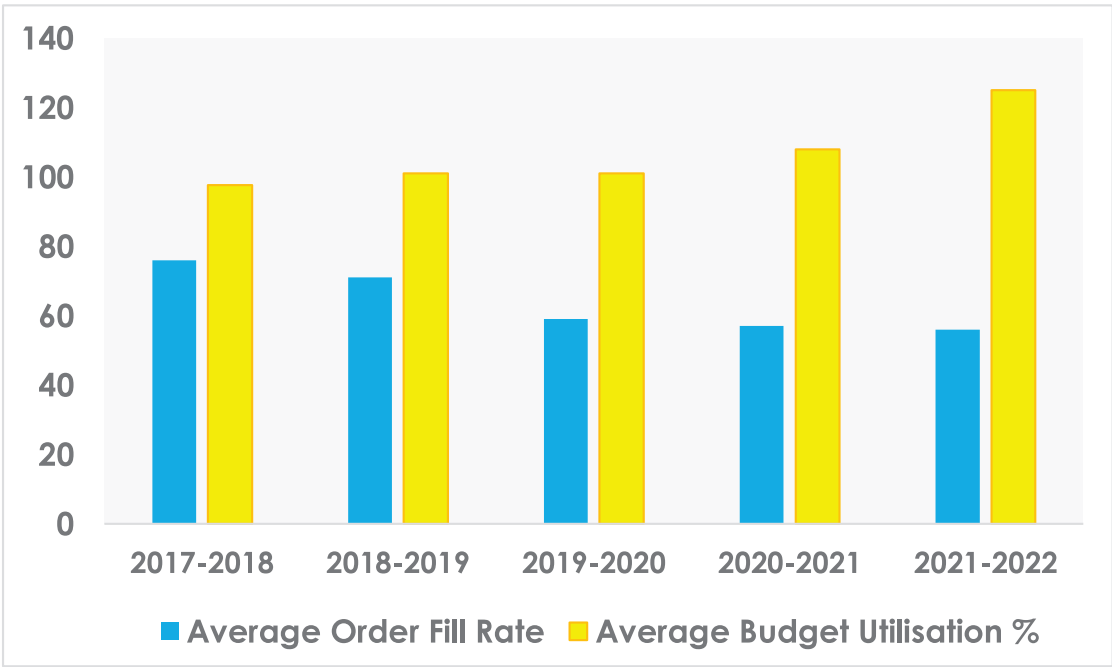
CMST closely monitors consumption of its customers in relation to their annual budgets. The tracking of budget draw-downs helps CMST in making stocking decisions in relation to the available, realisable buying power of its customers.

The customer draw-downs from the hospital drug budget in this reporting period averaged 125.2%, which represents an overdraw of commodities by the health facilities as compared to their supporting buying power. The Regional Medical Stores Centre recorded 139.9%, South at 114% and North at 121.8%. This Such budget exhaustion and overdrafts continue to occur even when CMST's fill rate is under 100%.

The situation could suggest low levels of funding to the hospitals when compared to their commodity needs. The over-the-budget drawdowns were allowable following Government's nod to accept overdrafts by district hospitals.

The figure below depicts the comparative scenarios of CMST's availability (fill rate) of items versus the relative draw-down by health facilities.

**Figure 4: Trend of Order Fill Rate Versus DHO Drug Budget Draw Down**

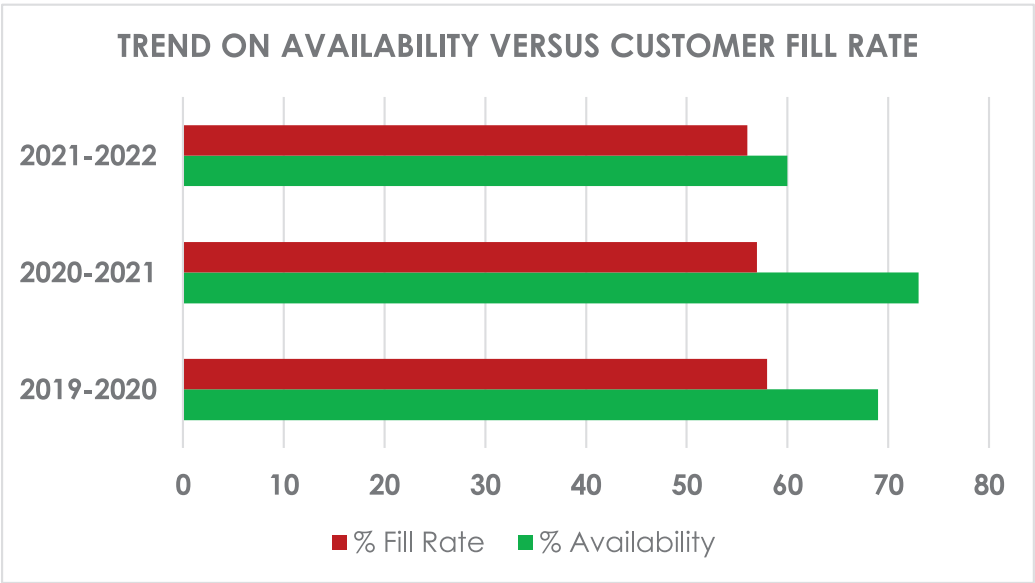


**1.13.5. Customer Relationship Management**

Customer service satisfaction levels in the year were challenged by low stock levels in the last financial year.

The drop in the gap between availability (at CMST) and fill rate (satisfaction against customer order) in the financial year implies that slow moving items under the MHL category were reduced, suggesting that customer service was not impacted much in the current financial year despite the sharp drop in availability.

**Figure 5: Trend on Availability Versus Supply Fill Rate**





In addition to the challenge of low stock levels, customer relationship visits were suspended for most part of the year due to Covid 19 travel restrictions.

#### **1.13.6. Efforts to Improve Stockholding, Fill Rates and Sales**

The Trust is determined to improve the match between what it stocks and what customers demand. Looking forward, the Trust carried out annual quantification for 2022—2023, valued at K28 billion. To align stock to exact needs of the customer, the trust also planned to continue with joint selection and quantification meetings with facilities.

In the year, the Trust courted Zomba Central Hospital. However, the two sides were yet to draw a Memorandum of Understanding (MOU) to guide procurement and consumption. The absence of such may pose a risk of overstocking and expiry on CMST. Therefore, CMST is facilitating the drawing of the MOU.

The Trust also refined its quantification and supply plan, with focus on mitigating overstocking of moderately moving stocks. The Trust therefore quantified for the top 300 demanded items. The initial order will aim at stocking 75 - 100% of annual quantities for the top 200 and

between 25% - 50% of the rest of the items. Replenishment of stocks will be based on the movement of the initial supply.

Facility requirements outside the top 300 items shall be made available through procure-to-order arrangements, including special orders and MOUs.



**Warehouse staff taking stock of commodities**

### **1.13.7. Improved Inventory and Warehouse Operations Management**

To improve stock registers, the Trust racked the location for Covid 19 supplies at Bakali by 810 spaces, resulting in more storage space and improved traceability through bin location.

The Trust also Improved documentation accuracy-update of records, tracking returns and related stock adjustments.

The stock picking efficiency was sustained, with order processing days reduced from 10 to 7 days.

### **1.13.8. Management of Third-Party Stocks**

CMST continues to stock third-party commodities on behalf of the Reproductive Health Department in the Ministry of Health; National Tuberculosis (TB) Program; Covid 19 items and Nutrition commodities under the UNICEF program.

Handling of Covid 19 supplies in the year brought in operational challenges of space and increased demand for staff as issuing of these items was on a daily basis. The Trust proposes that MOH arranges for a quarterly distribution list as this would not only ease storage space but also staff demands.

### 1.13.9. Annual Stock Take and Stock Valuation

The Trust undertakes annual stock taking covering both CMST's own stock and that of third parties. The Trust recorded total stocks valued at K21.8 billion as at March 31, 2022 of which K13.7 billion was CMST stock and K8.1 billion third party stocks.

### 1.13.10. Stock Movement Categorisation

Stock movement categorisation for existing stock was as follows:

**Table 4: Normal stock movement report**

STOCK MOVEMENT FOR CMST NORMAL STOCK AS AT 31_03_2022						
MOVEMENT	NPW	RMS-South	RMS-Center	RMS-North	Total Cost	Proportions
Fast Moving	3,348,890,222	1,698,030,463	662,798,369	665,837,130	6,375,556,184	46%
Moderate moving	2,586,140,091	383,872,897	296,715,112	28,880,386	3,295,608,486	24%
Non Moving	737,520,442	1,607,604	475,965,279	123,493,169	1,338,586,493	10%
Slow Moving	2,348,643,384	295,350,817	68,620,943	22,667,730	2,735,282,874	20%
<b>TOTAL</b>	<b>9,021,194,139</b>	<b>2,378,861,781</b>	<b>1,504,099,702</b>	<b>840,878,416</b>	<b>13,745,034,036</b>	<b>100%</b>

The above points to a total of 70% of stocks valued at K9.6 billion and composed of 46 % of fast-moving items (which can sell within 12 months) and 24% of moderate moving items (which can sell within 24 months). A total of 30% of the stock is composed of slow and non-moving items valued K4 billion. Recommendations have been made on disposal of slow and non-moving items, as well as overstocked commodities with valued at K3 billion and K19 million respectively.

### 1.13.11. Stock Accuracy

Average stock accuracy level of 96.7% net of hanging items in the ERP compared to 93% in the previous year. Hanging items in the ERP, especially at RMS South, compromised stock accuracy. Existence of hanging quantities in the system compromises stock accuracy. Table below shows accuracy levels per warehouse:

**Table 5: Stock accuracy report**

SUMMARY OF STOCK ACCURACY REPORT AS AT 31_03_2022		
WAREHOUSE	STOCK ACCURACY %	STOCK VARIANCE %
NPW	99.3	0.7
MANOBEC	92.4	7.6
RMSS	99.5	0.5
RMSC	96.7	3.3
RMSN	99.5	0.5
<b>AVERAGE</b>	<b>97</b>	<b>3</b>

### 1.13.12. Stock Ageing and Expiry Risk

The Trust monitors stock against the risk of expiry or ageing and below is a summary as at the close of the reporting period:

**Table 6: Expiry Status by Month**

<b>EXPIRY STATUS BY MONTH AS AT 31_03_2022</b>						
<b>Category</b>	<b>Lilongwe Value MK</b>	<b>Blantyre Value MK</b>	<b>Mzuzu Value in MK</b>	<b>Receipt Value MK</b>	<b>Total Value in MK</b>	<b>Proportions</b>
1-3 Months to Expiry	198,488,554	112,369,195	88,513,959	549,734,244	949,105,952	7%
4-6 Months to Expiry	67,521,906	75,698,822	35,122,442	129,993,915	308,337,085	2%
7-9 Months to Expiry	71,603,750	148,157,013	46,827,497	1,203,684,385	1,470,272,645	11%
10-12 Months to Expiry	41,863,845	36,223,626	39,944,978	314,075,865	432,108,315	3%
Over 12 Months to Expiry	1,124,621,646	2,006,413,125	630,469,540	6,823,705,730	10,585,210,041	77%
	<b>1,504,099,702</b>	<b>2,378,861,781</b>	<b>840,878,416</b>	<b>9,021,194,139</b>	<b>13,745,034,037</b>	<b>100%</b>

The last batch of short-dated items (with a life of 1-3 months) was valued at K949 million. Stock ageing for the rest of the commodities is very good and offers a positive direction towards the reduction of expiries. Writing off the overstocked slow-selling stock and all non-moving stocks would clear dead stock from the balance sheet. This recommendation is in line with the Prudence Concept in accounting for stocks.

### **1.13.13. Summary of Commodity Expiries**

Total expiries for the year were valued at K1.96 billion of which K1.6 billion was for CMST stock and K306 million for third-party items, representing an expiry rate of 5% from 7% in the past year.

Efforts to donate short-dated stock continue; in the year, K163 million worth of short-dated stock was disposed of as donations.

#### **1.13.14. Summary of Key Achievements in Warehousing**

The table below summarises the significant achievements in warehousing in the year under review:

Table 7: Key achievements in warehousing

KEY ACHIEVEMENTS IN WAREHOUSING					
NO.	PERFORMANCE INDICATOR	MARCH 2022	JUNE 2021	TARGET	COMMENTS
1	Sales	95%	92%	100%	Sales of COVID PPE improved sales and authority to spend over drug budget
2	Stock Turns	1.3	0.9	4	Stock turn of 3.9 for all three RMS and 1.3 at national level. This is due to high stocking level at NPW for slow moving stock and high stocking of fast and moderate moving stock at RMSs (pull system). Also, general low stock holding due to Covid 19 and forex shortages
3	Expiry	5%	7%	2%	High value of slow-moving stocks increasing expiries
4	Inventory Accuracy	96.60%	93%	98%	Stock variance average 3.4%



5	Distribution Accuracy	98%	97.30%		
6	GDP Score	90%	89.00%	90%	
7	Stock Availability MHL	60%	73%	95%	Impacted by COVID 19 and shortage of forex
8	Customer Order Fill Rate	56%	57%		Low stock levels
9	DHO Drug Budget Utilisation	125%	108%	100%	Authorised budget overdraw
10	Warehouse cost/Pallet	US\$ 51.93		US\$33.41	Full racking of Bakali will drive cost down
11	Distribution Cost/Km	US\$ 2		US\$8.18	



**Staff performing routine checks on stock**

### **1.14. Quality Control**

CMST remains steadfast on issues of quality, bearing in mind its duty of care in procuring, warehousing and distributing safe health commodities. The Trust is always thoughtful about improving its quality systems to sustain the culture of quality in all its products and services alongside its desire to becoming an ISO 9001 certified institution.

CMST therefore undertakes quality testing of medicines at the National Quality Control Laboratory (NQCL) of the Pharmacy and Medicines Regulatory Authority (PMRA) and performance testing for medical supplies, reagents and devices at facilities within Kamuzu

Central Hospital (KCH), Bwaila Hospital and Malawi Blood Transfusion Services (MBTS).

In the year under review, a total of 1,307 product batches were received from suppliers, of which 1,011 batches were sampled for quality control testing. Overall, CMST received more locally produced product batches (674, which makes 52%) than imported ones (633, translating into 48%). It is gratifying to report that only 46 batches, representing 0.05%, failed the tests and were hence withheld from sale or distribution.

While a skip batch testing procedure is in place for imported product batches, all locally manufactured product batches are tested for quality. This has resulted in increased costs for testing. For the year under review, the cost of quality control testing at NQCL slightly exceeded K323 Million.

### **1.15. Distribution**

The distribution function facilitates the movement of stocks from CMST receipt warehouse to regional stores in the South, Centre and North from where onward delivery takes place to facilities after sales. CMST uses a hybrid distribution system involving its own vehicles for deliveries of items from receipt warehouse to branches and from branches to Central Hospitals. However, deliveries from the branches to District

Hospitals and their subsequent health centres are by a third-party logistics company.



**A distribution van on a long way to the Lower Shire**

#### **1.15.1. Delivery Conformance**

In total, a monthly scheduled delivery round to Central and District Hospitals and their subsequent facilities totals over 600 drops countrywide. In the year under review, distribution was met with a notable accuracy as discrepancies only averaged 0.1% by item and 0.4% by Point of Delivery (POD).

#### **1.15.2. Inter-warehouse transfers**

Internal distribution from the National Pharmaceutical Warehouse to Regional Stores moved a total volume of 9,488 Cubic Metres (CBM)

of commodities, which is equivalent to 23,487,729 units of CMST's commercial stock. Third-Party and donor commodities distributed to the Regional Stores during the period under review were at 1,054 CBM.

There was a significant decrease of 28% of volumes distributed to Regional Medical Stores as compared to the previous period. The drop was attributed to shortage of stocks at the Central Receipt Warehouse as a result of procurement challenges.

### **1.15.3. Distribution Volumes**

Last Mile Distribution of commodities from Regional Stores to health facilities accounted for a total of 8,627 cubic metres of essential medicines and medical supplies and 1538 cubic metres of nutritional commodities, a sum equivalent of 22,762,303 units which were distributed to the facilities, with a monthly average of 959 cubic metres and 171 cubic meters respectively.

The total volumes of commercial stock distributed represented a decrease of 15% compared to the previous period. This was as a result of continued low stock levels across CMST warehouses in the year, as well as budgetary constraints faced by health facilities. This led facilities to draw less from the Trust.

Similarly, the volumes of nutritional commodities decreased by 18% due to low uptake by the facilities. This is however attributed to lower cases of malnourished children country wide.



**A distribution van doing rounds in Machinga**

#### **1.15.4. Distance covered**

Distribution clocked 152,944 kilometres; a drop compared to 214,122 kilometres in the previous reporting period. This represents a decrease of 29% attributed to low availability of essential medicines and medical supplies distributed. Again, the decrease was from improved



efficiency by consolidation of distribution routes and co-loading of commercial and third-party commodities.

Total fuel expenditure was K52 million in the period under review, with a monthly average of approximately 6,226 litres. This is against 6,458 litres in the previous reporting period. Despite the drop in litres, actual fuel expenditure increased from K39 million to K52 million due to fuel price increase on the market.

#### **1.15.5. Delivery Conformance**

Delivery Conformance to the distribution schedule for the last mile averaged 91%. This represents a 3% decrease from the previous reporting period. The decrease was experienced during the rainy season due to the impact of the tropical cyclones that affected roads. In some cases, unconventional methods such as canoes, bicycles and motorcycles were used to reach facilities isolated by the impact of the cyclones (see figure below).



Initiative to make it to a facility rendered inaccessible by road in Phalombe

#### **1.15.6. Monthly orders**

On average, 92% of the 505 health facilities served by CMST in the period under review submitted their monthly orders for essential medicines and medical supplies on time. This was a 6% improvement over the previous reporting period.

The improvement was attributed to Management's continuous engagement with the health facilities to timely submit their orders.



### **1.16. Malawi Supply Chain Transformation Project**

The Trust continues with preparations for the Malawi Supply Chain Transformation Project (MSCTP). Meanwhile, the Trust is undertaking an Operational Excellence Project towards improving operational efficiencies. This is financed by the Global Fund, with implementation support by Kaizen Institute of Management Consultants

Its key components or initiatives include data clean up in ERP; operational process alignment on warehouse floor and ERP; improvement of warehouse efficiency; quantification and inventory management improvements; procurement improvements and collection of warehouse volumetrics data and bar coding.

The Kaizen concept of 3Cs has been introduced to staff in identifying causes of a problem, its concern and counter measures.



**6Warehouse operation and machinery require proper training**

### **1.17. Human Resource and Administration**

In the year under review, staff worked hard and ensured that CMST operations do not meet any hurdles. Management put in measures and innovations to make sure the operations of the Trust satisfy the organisation's mandate. The following is run through issues in the year.

#### **1.17.1. Covid 19 Response**

CMST was able to deliver its services and mandate despite the lingering Covid 19 Pandemic. Over the two years of the presence of

the Pandemic, CMST quickly repositioned itself. This was done through Covid 19 Pandemic awareness meetings, and consequently the prevention measures put in place by CMST, along Government's guidance.

CMST approached the issue of the Covid 19 Pandemic holistically. A Response Team was put in place within the structure of CMST operations. All issues of Covid 19 Pandemic for CMST fall under an umbrella policy which is awaiting full adoption by CMST's Board of Trustees.

#### **1.17.2. Change Management and HR Function**

CMST continues to experience developments that demand vibrant change management processes. Therefore, CMST'S effort is to have a continuous discourse on change within each and every project or development. Of necessity is that every change occurring through such developments must be managed and focused towards being more efficient and effective. CMST's role in the health supply chain management, therefore reinforces the need for change management processes.

#### **1.17.3. Staff Numbers**

In the period under review the Trust had 178 filled positions and 26 Vacancies. The gender representation was 74% male and 26% female employees. CMST proceeded to fill 11 positions and is proceeding to

fill the remaining positions although cautiously in response to prevailing circumstances.

Central Medical Stores Trust is an equal opportunity employer, it encourages recruitment of more female employees and encourages women to respond job adverts of the Trust. It also provides an equal working environment for both male and female staff to ensure that there is retention for its employees.

#### **1.17.4. Strategy and Policy Review**

The CMST HR function also coordinates drawing and review of strategies to guide operations. The CMST Corporate Strategy and Business Plan effected on 1<sup>st</sup> July, 2020 are in use up to 2025. As their implementation period runs into mid-term, the Trust expects the rigorous process of reporting half-term successes and challenges, and refining possible areas for implementation in the remaining period.

In the period under review CMST has also worked on its policy environment by implementation of a Turnaround Strategy to guide strategic ambitions.



**A Navision refresher class in session**

#### **1.17.5. Staff Training and Development**

Training and capacity building are essential for the organisation to achieve its vision for 2025 and beyond. CMST staff were involved in a number of trainings, both inhouse and outsourced. For instance, warehouse staff were involved in supervisory skills training to enhance responsibility in supervision of subordinates. Selected staff across the institution were also trained in records management through the University of Malawi.

CMST has also sustained training of staff on the use of the Microsoft Navision software to enhance their skills. A process review looking into CMST operations with an aim of making best use of systems by

aligning operational procedures and structures to Navision processes was taken to all CMST branches.

#### **1.17.6. Confirmations, Recruitments and Staff Loss**

The Trust confirmed staff in various roles. Dr. Chikaiko joined Chadzunda on 19<sup>th</sup> July, 2021 as Chief Executive Officer, Mr Geoffrey Ngwira as Director of Pharmaceutical Operations on 1<sup>st</sup> July, 2021 and Mr. Washington Kaimvi rejoined on 1<sup>st</sup> August, 2021 as Director of Finance and Administration.

The Trust also processed recruitment for Procurement Officer positions, Assistant Procurement Officer positions and Inventory Control Officer position.

Regrettably, CMST lost two staff members—Network Administrator, the Late Mrs Kettie Rusiwa and Logistics Officer, Ms Treza Magalasi. May their souls rest in peace.

#### **1.17.7. Asset Transfers**

The Trust in finalising paperwork for transfer of assets from Government. The process — especially for land and property transfer — had slowed down due to the Covid 19 pandemic in the country. Transfer for motor vehicles had reached an advanced stage with Malawi Revenue Authority (MRA) and Interpol on tax and ownership clearance. CMST

ended up transferring ownership of vehicles for RMS North. Processes for assets in other locations is ongoing.

#### **1.17.1. Property Listing and Insurance Cover**

The Trust's listing of property are office and buildings; office equipment; plant and motor vehicles; and land. Valuation for the items is done every two years. However, depreciation for vehicles is done annually.

The Trust maintains insurance cover for its investments and property. During the reporting period, the Trust's insurance provider, was Reunion Insurance with Rhino as a Broker. CMST's investments and property of the Trust are covered under insurance.

#### **1.17.2. Warehouse Rentals**

In the period under review, CMST closed 2 rented warehouses to bring about operational efficiency. Plans are still under way for the construction of a spacious warehouse, beginning with the 2022 — 2023 budget.

The new warehouse once built will answer to the specific CMST operational requirements in storing of medicines and medical supplies, will be cost -effective as there will be no need for paying of

rent for its use and will also be technically advanced to match with new developments of such infrastructure in the supply chain industry.

### **1.17.3. Board off and waste management**

The Trust's business, at some point, involves management of waste or left-overs from wear, obsolescence, damage or expiry. Such need disposing or boarding off.

For any board off, the Trust continues to ensure that board offs or other disposals do not negatively affect the surrounding environment or communities. Board offs of medicines and medical supplies are done in consultation with authorities such as the City Assemblies and District Health Offices to ensure compliance to stated ethics and the Laws of Malawi.

In the year under review, the Trust continued to use incineration facilities at St. Gabriel Mission Hospital for its modernity and conformance to City Assembly Regulations on boarding off all expired medicines and medical supplies.

### **1.18. Information and Communication Technology**

In the year, the Information and Communication Technology Department continued to provide support services company-wide towards efficiency. In the spirit of promoting continuity of services, the



department presented to the Board for approval the Disaster Recovery Plan drafted earlier.

The Department also enhanced security of critical ICT infrastructure (data, Software and Hardware) in the main Server Room. It also oversaw installation of an automatic fire suppression system and biometric system to the area.

Planned ICT projects underway included digitisation of warehouse processes through barcode scanning solution

Integration of ERP System with other Electronic Management Information Systems (ELMIS) through Open Interoperability Layer (Open HIE platform)

### **1.19. Stakeholder Engagement and Corporate Social Responsibility**

CMST takes Corporate Social Responsibility for an integral part of its brand image. This is because CMST strives to achieve a corporate image truly rooted in ethical stakeholder obligations, within such, the duty of care and responsibility such as environmental sustainability.

The nature and amounts of commodities that CMST deals in are sensitive. Among such sensitivities is the need to guard against loss. For example, to avoid expiries, CMST monitors stock life and would

donate slow moving items which, if still clung to, would expire. In the period under review, CMST donated items worth K163 million.

CMST also takes responsibility to promote media practitioners' understanding of issues in the health commodity supply chain. CMST sponsors a category each in print and electronic Best Reporter of Medicine and Medical Supply Chain categories in the Media Institute of Southern Africa (Misa) Malawi awards.

## **1.20. Financial Management and Environment**

During the year, the Trust continued engaging the shareholder in respect of recapitalisation and governance. Efforts were also sustained in aligning all finance issues along the Trust's Turnaround Strategy which focuses on financial sustainability and revenue generation as per Government's expectation of Ministries, Department and Agencies (MDAs).

The Treasury provided MK12.5 billion as part recapitalisation for the Trust to support procurements of medicines and medical supplies, warehousing and distribution obligations.

### **1.20.1. Funding**

The quarterly advance funding for District Health Offices (DHOs) from National Local Government Finance Committee (NLFGC) for the

financial year amounted to MK10.81 billion as highlighted in the Table below.

During the period, DHOs were supplied with K14.35 billion worth of medicines and medical supplies out of K10.81 billion advance payments reflecting a funding overrun of MK3.54 billion. As such, the cumulative arrears for NLGFC were K6.54 billion as at March 2022 (K3 billion being arrears as at 30<sup>th</sup> June 2021).

**Table 8: Quarterly Funding and Billing for District Health Offices**

	<b>NLGFC/DHOs</b>		
	<b>Total Bills</b>	<b>Funding</b>	<b>Balance</b>
	<b>MK' billion</b>	<b>MK' billion</b>	<b>MK' billion</b>
<b>Opening Balance</b>			<b>3.002</b>
<b>First Quarter</b>	5.137	3.619	1.518
<b>Second Quarter</b>	4.435	3.824	0.611
<b>Third Quarter</b>	4.777	3.368	1.409
<b>TOTALS</b>	<b>14.349</b>	<b>10.811</b>	<b>6.540</b>

### **1.21. Financial Management**

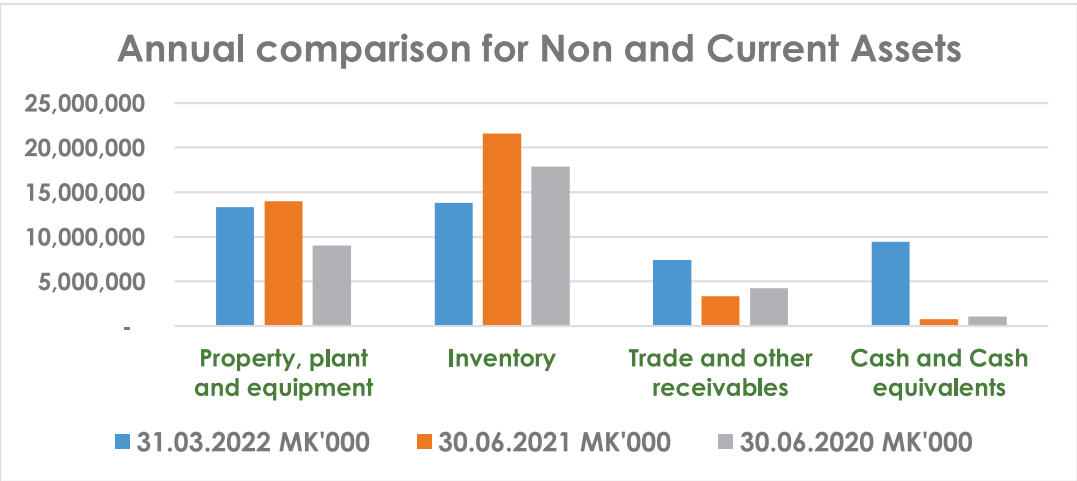
During the year, there was an increase in cash and cash equivalents following a K12.5 billion recapitalisation by Government which supported procurement of medicines and medical supplies. However, the 121% increase in trade receivables was due to inability by the Ministry of Health, Central Hospitals, National Local

Government Committee and other debtors in settling their obligations.

The scarcity of foreign currency, in particular the United States Dollar, resulted in delayed deliveries by suppliers, culminating into reduced inventory levels by 36% as highlighted in Figure below. There was a 5% reduction in property, plant and equipment due to minimal non-current assets additions and depreciation recorded for the year.

Trade payables for the year 1<sup>st</sup> July 2021 to 31<sup>st</sup> March 2022 were K19.519 billion which was a 10% reduction from the K21.588 billion reported as at 30<sup>th</sup> June 2021.

**Figure 7: Current vs Non Current Assets**



There was a deficit of K5.944 billion reported as at 31<sup>st</sup> March 2022 due to stock write-offs amounting to K2.869 billion and impairment loss on receivables of K929 billion resulting from delayed settlement.

## **1.22. Future Outlook**

Despite challenges that slowed CMST's pursuit of goals and objectives in the year gone by, Management would rate the period as an eye-opening term where CMST had to navigate through circumstances far beyond its control.

The Trust is pleased by the stakeholder support received in the period, making it possible to wade through some challenges that would have otherwise destabilised operations.

CMST will go into the next operational period looking forward to replicate successes and turn around challenges met. This will require undying support and Management wishes to court collaborating partners to increasingly continue to feel free to discuss CMST's potential and offer solutions to challenges.

Management also wishes to acknowledge the efforts by staff which made all success possible. In all efforts



**Chikaiko Chadzunda, PhD**

**CHIEF EXECUTIVE OFFICER**

## **Financial Report for Year Ended 31<sup>st</sup> March, 2022**

**CENTRAL MEDICAL STORES TRUST**

**FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 MARCH 2022**

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## CENTRAL MEDICAL STORES TRUST

### TRUSTEES' REPORT

FOR THE YEAR ENDED 31 MARCH 2022

The Trustees' have pleasure in submitting their report together with the audited financial statements of Central Medical Stores Trust for the year ended 31st March 2022.

#### Nature of business and incorporation

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

#### Financial performance

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

CMST posted a decrease in revenue by 6% as at 31st March 2022 revenue was MK 21.4 billion while 2021 revenue was MK23.3 billion. However CMST performed below the budgeted revenue by 6% as budgeted revenue was MK22.8 billion.

CMST posted a gross profit of MK3.8 billion before provisions and stock write off, overall a loss of MK5.9 billion has been posted and net deficit was MK5.7 billion. Prior year the gross profit was MK4.2 billion and a deficit of MK5.3 billion before provisions and write off was posted and a net deficit of MK5.1 billion was posted.

The Trust performance indicators as at 31st March 2022 reported a gross profit Margin of 18% while Trade debtors days and Trade Creditors days were 226 and 352 respectively. Inventory holding days were at 99 with a stock expiry rate of 5%.

CMST continued to sell its medicines and medical supplies to all District Hospitals and Health Centres in Malawi. 67% of annual sales were to public health facilities. Sales to Central Hospitals were accounted for 23% of the annual sales, Sales made to facilities under Covid MoH fund accounted to 9%, while CHAM and other private hospitals contributed 1% of sales in the year ended 31st March 2022.

In December 2021, the Government of Malawi through Ministry of Finance recapitalized the Trust with funds amounting to MK12.5 billion. The initial funds of MK5.0 billion, out of total requirement of MK30.0 billion, were disbursed during the year ended 30th June 2020. The Government committed to disburse the balance of K12.5 billion during 2022-2023 financial year.

#### Board of Trustees

The following Trustees served office during the year:

Mr. Josiah Mayani	Board Chairperson	Full year
Mr. Alifeyo Banda	Trustee	1st July 2021- 17th February
Dr. Kondwani Santhe	Trustee	18th February 2022- 31st March
Mr. Chauncy Simwaka	Trustee	1st July 2021- 16th December
Dr. MacDonald Mafuta Mwale	Trustee	17th December 2021- 31st
Dr. Charles Mwansambo	Trustee	Full year
Mr. Steven Chimtengo	Trustee	Full year
Mr. Happy Makala	Trustee	Full year
Mr. Alfred Edwin	Ag.CEO/Secretary	1st July 2021- 18th July 2021
Dr. Chikaiko Chadzuka	CEO/Secretary	19th July 2021- 31st March 2022



**CENTRAL MEDICAL STORES TRUST**

**TRUSTEES' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31ST MARCH 22**

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**Registered office:**

Central Medical Stores Trust  
Mzimba Street  
Private Bag 55  
Lilongwe

**Bankers:**

National Bank of Malawi Plc

**Attorneys:**

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

**Independent auditors:**

Graham Carr  
ADL House  
P.O. Box 898  
Lilongwe

Graham Carr, Chartered Accountants and Business Advisors (Malawi) have indicated their willingness to continue as auditors in respect of the 31st March 2023 financial statements.

  
\_\_\_\_\_  
BOARD CHAIRPERSON  
\_\_\_\_\_  
TRUSTEE

22nd July 2022  
DATE

22nd July 2022  
DATE

## CENTRAL MEDICAL STORES TRUST

### STATEMENT OF TRUSTEES' RESPONSIBILITIES FOR THE PERIOD ENDED 31 MARCH 2022

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 period ended 31 March 2022. The Trustees also makes sure that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

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

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

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

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

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

#### Approval of financial statements

The financial statements of the Trust were approved for issue by the Board of Trustees on 22nd July 2022 and were signed on its behalf by :-

  
BOARD CHAIRPERSON  
TRUSTEE

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

**ON THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 MARCH 2022**

**Opinion**

We have audited the financial statements of Central Medical Stores Trust, which comprise the statement of financial position as at 31 March 2022, and the statement of profit or loss and other comprehensive income, statement of changes in reserves and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

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

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

**Material uncertainty relating to going concern**

We draw attention to note 23 in the financial statements which indicates that the Trust incurred a loss for the period of MK5.7 billion (2021: loss for the period of MK5.2 billion). The going concern of the Trust is dependent on the continued business operations for the next foreseeable future, the resumption of profitable operations and continued support from the Government of Malawi. Our opinion is not modified in respect of this matter.

**Key audit matter**

Existence and valuation of inventories.

*See note 8 to the financial statements*

Total inventories of MK13.8 billion represent 31% of total assets of the Trust as at the reporting date. These inventories mainly consist of drugs and medical supplies kept at various warehouses managed by the Trust across the country. Valuation of inventories is at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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Audit . Tax . Advisory

Directors: Cornwell Banda, Dorothy Ngwira Mrs, Victoria Nkhoma Mrs



**AUDITOR'S REPORT TO THE MEMBERS OF  
CENTRAL MEDICAL STORES TRUST  
ON THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE PERIOD ENDED 31 MARCH 2022**

**Key audit matter (continued)**

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

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

**How we have addressed**

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

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

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

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

**AUDITOR'S REPORT TO THE MEMBERS OF  
CENTRAL MEDICAL STORES TRUST  
ON THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE PERIOD ENDED 31 MARCH 2022**

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

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

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

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

**Responsibilities of Trustees for the financial statements**

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

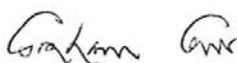
**ON THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE PERIOD ENDED 31 MARCH 2022**

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

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

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

We also provide the Trust with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Graham Carr  
Chartered Accountants (Malawi)  
Cornwell Banda

Date: 28th July 2022

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Audit . Tax . Advisory

Directors: Cornwell Banda, Dorothy Ngwira Mrs, Victoria Nkhoma Mrs



CENTRAL MEDICAL STORES TRUST

STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2022

	Note	9 months to 31/03/2022 MK'000	12 Months to 30/06/2021 MK'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	13,344,063	14,008,620
Long term staff receivables	9	169,055	111,537
<b>Total non-current assets</b>		<b>13,513,118</b>	<b>14,120,157</b>
<b>Current assets</b>			
Inventories	8	13,814,100	21,560,594
Trade and other receivables	9	7,379,688	3,341,245
Cash and cash equivalents	10	9,435,668	796,730
<b>Total current assets</b>		<b>30,629,456</b>	<b>25,698,570</b>
<b>Total assets</b>		<b>44,142,574</b>	<b>39,818,726</b>
<b>RESERVES AND LIABILITIES</b>			
<b>Reserves</b>			
Treasury fund	11	34,323,775	21,823,775
Capital fund	12	546,924	708,388
Revaluation reserve	13	11,500,098	11,687,607
Accumulated loss	14	(21,745,496)	(15,989,284)
<b>Total reserves</b>		<b>24,625,301</b>	<b>18,230,486</b>
<b>Current liabilities</b>			
Trade and other payables	15	19,517,273	21,588,240
<b>Total reserves and liabilities</b>		<b>44,142,574</b>	<b>39,818,726</b>

These financial statements were authorised for issue by the Board of Trustees on 22 July 2022  
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 PERIOD ENDED 31 MARCH 2022

	Note	9 months to 31/03/2022 MK'000	12 Months to 30/06/2021 MK'000
Revenue	16	21,392,635	23,334,295
Costs of sales	17	(17,541,961)	(19,134,122)
<b>Gross profit</b>		<b>3,850,674</b>	<b>4,200,173</b>
Other income	18	750,721	872,804
Administrative expenses	19	(7,949,254)	(7,437,533)
Distribution costs	19	(848,667)	(236,110)
Unrealised foreign exchange loss		(363,964)	(548,871)
Realised foreign exchange loss		(454,584)	(373,942)
(Loss) before impairment of receivables		(5,015,074)	(3,523,479)
Impairment loss	19	(928,647)	(1,785,874)
Loss for the year		(5,943,721)	(5,309,353)
<b>Other comprehensive income</b>			
Amortization of capital fund assets		161,464	163,266
Total other comprehensive income		161,464	163,266
<b>Total comprehensive loss for the period</b>		<b>(5,782,257)</b>	<b>(5,146,087)</b>



**CENTRAL MEDICAL STORES TRUST**  
**STATEMENT OF CHANGES IN RESERVES**  
**FOR THE PERIOD ENDED 31 MARCH 2022**

	Capital Fund MK'000	Treasury fund MK'000	Revaluation reserve MK'000	Accumulated loss MK'000	Total MK'000
<b>Balance as at 1 July 2020</b>	366,091	21,823,775	6,645,981	(10,679,931)	18,155,916
Loss for the year	-	-	-	(5,309,353)	(5,309,353)
Amortisation of capital fund assets	-	-	5,041,626	-	5,041,626
Recapitalisation funds	505,563	-	-	-	505,563
Depreciation relating to revalued assets	(163,266)	-	-	-	(163,266)
<b>Balance as at 1 July 2021</b>	708,388	21,823,775	11,687,607	(15,989,284)	18,230,486
Loss for the period	-	-	-	(5,943,721)	(5,943,721)
Recapitalisation funds	-	12,500,000	-	-	12,500,000
Amortisation of capital fund assets	(161,464)	-	-	-	(161,464)
Depreciation on revalued assets	-	-	(187,509)	187,509	-
<b>Balance as at 31st March 2022</b>	546,924	34,323,775	11,500,098	(21,745,496)	24,625,302

# CENTRAL MEDICAL STORES TRUST

## STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH 2022

	9 months to 31/03/2022 MK'000	12 Months to 30/06/2021 MK'000
<b>Operating activities</b>		
(Loss) for the period	(5,943,721)	(5,309,353)
Depreciation	711,626	848,698
Amortisation of capital fund assets	(161,464)	(163,266)
	<hr/> (5,393,559)	<hr/> (4,623,921)
Change in inventories	7,746,494	(3,678,842)
Change in long term staff receivables	(57,519)	-
Change in trade and other receivables	(4,038,443)	884,666
Change in trade and other payables	(2,070,967)	7,379,847
	<hr/> (3,813,993)	<hr/> (38,251)
<b>Investing/financing activities</b>		
Acquisition of property, plant and equipment	(47,069)	(768,452)
Assets received from Global Fund	-	505,563
Recapitalisation receipts from Treasury	12,500,000	-
	<hr/> 12,452,931	<hr/> (262,889)
<b>Net cash inflow from/(used in) investing/financing activities</b>		
Net increase /(decrease) in cash and cash equivalents	8,638,938	(301,141)
Cash and cash equivalents at the beginning of the year	796,731	1,097,871
	<hr/> 9,435,668	<hr/> 796,731
<b>Cash and cash equivalents at the end of the year</b>		
<b>ADDITIONAL INFORMATION</b>		
Increase in net working capital	<hr/> 10,276,022	<hr/> 4,284,529

## CENTRAL MEDICAL STORES TRUST

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2022

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#### 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, sale and distribution of medicines, medical supplies and related products to the government health facilities, approved NGO health facilities and private health facilities.

#### 2 BASIS OF PREPARATION

##### (a) Statement of compliance

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

##### (b) Basis of measurement

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

##### (c) Functional and presentation currency

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

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

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

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

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

##### (d) Going Concern

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

## CENTRAL MEDICAL STORES TRUST

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

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

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

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

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

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

##### *IFRS 16 Leases*

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

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

#### **3 SIGNIFICANT ACCOUNTING POLICIES**

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

##### **3.1 Revenue**

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

##### **3.2 Property, plant and equipment**

###### **(i) Recognition and measurement**

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

Cost includes expenditure that rare 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.

**CENTRAL MEDICAL STORES TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE PERIOD ENDED 31 MARCH 2022**

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**(ii) Subsequent costs**

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

**(iii) Depreciation**

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

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

**(iii) Depreciation**

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

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

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

**3.3 Inventories**

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

**3.4 Impairment of assets**

**(i) Financial assets**

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

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.

## CENTRAL MEDICAL STORES TRUST

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

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#### **Financial assets (continued)**

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

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

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

#### **(ii) Non - Financial assets**

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

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

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

### 3.5 Financial Instruments

#### (i) Recognition

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

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

#### (ii) Derecognition

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

#### (iii) Offsetting

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

#### (iv) Fair value measurement

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

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

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

## CENTRAL MEDICAL STORES TRUST

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

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#### (iv) Fair value measurement (continued)

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

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

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

#### 3.6 Employee services benefits

##### a) Short term employee benefits

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

Short term employee benefit obligations are measures 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.



## CENTRAL MEDICAL STORES TRUST

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

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#### 3.7 Trade payables

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

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

#### 3.8 Provisions

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

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

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

#### 3.9 Cash and cash equivalents

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

#### 3.10 Treasury fund

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

#### 3.11 Financing costs

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

#### 3.12 Income tax

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

**SIGNIFICANT ACCOUNTING POLICIES ( CONTINUED )**

**3.13 Trade and other receivables**

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

**3.14 Foreign currency transactions**

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

**3.15 Revaluation reserve**

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

**3.16 Contingent liabilities**

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

**4 DETERMINATION OF FAIR VALUES**

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

**4.1 Property, plant and equipment**

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

## CENTRAL MEDICAL STORES TRUST

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

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#### **Property, plant and equipment (continued)**

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

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

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

## **5 RISK MANAGEMENT**

### **5.1 Financial risk management**

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

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

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

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

#### **5.1.1 Market risk**

##### **Market**

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

## CENTRAL MEDICAL STORES TRUST

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

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(i) **Foreign currency risk**

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

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

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

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

	2022 MK'000	2021 MK'000
United States Dollars (\$) denominated monetary liabilities		
Amount payable	14,087,358	17,237,381

#### 5.1.2 Credit risk

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

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

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

CENTRAL MEDICAL STORES TRUST

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

5.1.2 Credit risk (continued)

The table below analyses Trust credit risk exposure:

	Gross carrying amount MK'000	0 - 6 Months MK'000	Over 12 Months MK'000
As at 31 March 2022			
Trade receivables and other receivables (excluding prepayments)	12,477,821	-	12,477,821
Cash and cash equivalents	9,435,668	9,435,668	-
	<u>21,913,489</u>	<u>9,435,668</u>	<u>12,477,821</u>
As at 30 June 2021			
Trade receivables and other receivables(excluding prepayments)	7,546,964	-	7,546,964
Cash and cash equivalents	796,730	796,730	-
	<u>8,343,694</u>	<u>796,730</u>	<u>7,546,964</u>

(i) **Staff receivables**

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

(ii) **Short-term deposits**

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

(iii) **Exposure to credit risk**

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

	Note	Gross 2022 MK'000	Carrying amount 2022 MK'000	Gross 2021 MK'000
Trade and other receivables	9	13,141,729	7,548,743	8,117,121
Cash and cash equivalents	10	9,435,668	9,435,668	796,730
		<u>22,577,397</u>	<u>16,984,411</u>	<u>8,913,851</u>

## CENTRAL MEDICAL STORES TRUST

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

#### 5.1.2 Credit risk (continued)

##### iv) Impairment losses

The aging of trade receivables at the reporting date was:

	<b>Gross 2022 MK'000</b>	<b>Impairment 2022 MK'000</b>	<b>Gross 2021 MK'000</b>
Not past due	3,049,309	-	406,334
Past due 31 - 90 days	2,485,273	-	2,241,606
Past due above 90 days	6,943,239	5,592,986	4,899,014
<b>Total</b>	<b>12,477,821</b>	<b>5,592,986</b>	<b>7,546,954</b>

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

	<b>2022 MK'000</b>	<b>2021 MK'000</b>
Opening balance	2,934,975	2,878,464
Impairment loss recognised	273,121	56,510
<b>Closing balance</b>	<b>3,208,095</b>	<b>2,934,974</b>

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

##### Impaired trade and other receivables

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

##### Allowances for impairment

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

##### iv) Impairment losses

##### Impairment policy

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

## CENTRAL MEDICAL STORES TRUST

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

#### 5.1.2 Credit risk (continued)

##### v) Profile

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

	Note	Carrying amount	
		2022 MK'000	2021 MK'000
<b>Fixed rate instructions</b>			
Financial assets	10	9,435,668	796,730

##### vi) Fair values versus carrying amounts

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

#### 5.1.3 Liquidity risk

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

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

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

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

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

## CENTRAL MEDICAL STORES TRUST

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

#### 5.1.3 Liquidity risk (continued)

	0 - 3 months	3 - 12 months	Greater than 12 months
<b>As at 31st March 2022</b>			
<b>Assets</b>			
Trade and other receivables	7,379,688	6,943,239	14,322,926
Cash and cash equivalents	9,435,668	-	9,435,668
	<u>16,815,356</u>	<u>6,943,239</u>	<u>23,758,594</u>
<b>Liabilities</b>			
Trade and other payables	4,231,166	15,286,107	19,517,273
Current liquidity gap	<u>12,584,190</u>	<u>(8,342,868)</u>	<u>4,241,321</u>
<b>As at 30 June 2021</b>			
<b>Assets</b>			
Trade and other receivables	3,218,097	4,899,014	8,117,111
Cash and cash equivalents	796,730	-	796,730
	<u>4,014,827</u>	<u>4,899,014</u>	<u>8,913,841</u>
<b>Liabilities</b>			
Trade and other payables	3,393,281	18,194,959	21,588,240
Current liquidity gap	<u>621,546</u>	<u>(13,295,945)</u>	<u>(12,674,399)</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.



## CENTRAL MEDICAL STORES TRUST

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

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#### 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. 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 PERIOD ENDED 31 MARCH 2022**

<b>7</b>	<b>PROPERTY, PLANT AND EQUIPMENT</b>						<b>Total</b>
	<b>Land &amp; Buildings MK'000</b>	<b>Furniture and fittings MK'000</b>	<b>Motor vehicles MK'000</b>	<b>Plant and machinery MK'000</b>	<b>Office equipment MK'000</b>	<b>Computer Software MK'000</b>	<b>MK'000</b>
<b>Cost or valuation</b>							
As at 1 July 2020	7,811,597	157,387	2,082,656	295,486	545,640	468,534	11,361,300
Revaluation	5,041,626	-	-	-	-	-	5,041,626
Additions	-	23,456	-	384,376	105,179	255,441	768,452
As at 30 June 2021	12,853,223	180,843	2,082,656	679,862	650,819	723,975	17,171,378
Additions	-	8,828	-	-	38,241	-	47,069
As at 31st March 2022	12,853,223	189,671	2,082,656	679,862	689,060	723,975	17,218,447
<b>Depreciation</b>							
As at 1 July 2020	407,998	117,264	1,171,258	228,461	389,080	-	2,314,061
Charge for the year	179,247	10,343	369,352	58,977	63,875	166,904	848,698
As at 30 June 2021	587,245	127,607	1,540,610	287,438	452,955	166,904	3,162,759
Charge for the year	187,508	8,525	274,503	79,417	51,426	110,247	711,626
As at 31st March 2022	774,753	136,132	1,815,113	366,855	504,381	277,151	3,874,385
<b>Carrying amount</b>							
As 31st March 2022	12,078,470	53,539	267,543	313,008	184,679	446,824	13,344,063
As at 30 June 2021	12,265,978	53,236	542,046	392,425	197,864	557,071	14,008,620

**CENTRAL MEDICAL STORES TRUST**

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

**PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

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

**Fair Value hierarchy**

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

	Level 1	Level 2	Level 3	Total
<b>2022</b>				
Land and buildings		-	12,853,223	12,853,223
<b>2021</b>				
Land and buildings	-	-	12,853,223	12,853,223

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

	2022 MK'000	2021 MK'000
Cost	7,811,597	7,811,597
Accumulated depreciation	3,162,759	3,162,759
Net carrying amount	4,648,838	4,648,838

# CENTRAL MEDICAL STORES TRUST

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

	2022 MK'000	2021 MK'000
<b>8 INVENTORIES</b>		
Surgical equipment	3,330,217	5,422,265
Tablets and capsules	2,371,837	4,391,099
Injectables	2,177,340	3,440,091
Galenicals	1,192,580	2,216,724
Sutures	1,234,452	1,847,973
Surgical dressings	1,451,602	1,275,224
X-ray films and equipment	727,585	979,782
Laboratory items & Reagents	610,543	936,242
Dispensary items	202,675	341,764
Dental items	182,821	277,673
Hospital equipment	134,443	138,364
Raw materials	55,082	90,010
Vaccines	44,606	71,782
Hospital beddings	62,142	66,323
Mantino DFID	22,530	25,817
Ophthalmic	1,013	8,783
Expired inventory	1,661,179	1,672,380
	15,462,646	23,202,295
Less: provision for expired inventory	(1,661,179)	(1,672,380)
	13,801,467	21,529,914
Stationery	12,633	30,680
<b>Total inventory</b>	<b>13,814,100</b>	<b>21,560,594</b>
<b>9 TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	12,477,821	7,546,964
Other receivables and prepayments	663,908	570,157
	13,141,729	8,117,121
Less provision for doubtful receivables	(5,592,986)	(4,664,339)
	7,548,743	3,452,782
Less long term staff receivables	(169,055)	(111,537)
	7,379,688	3,341,245
Short term trade and other receivables		

**CENTRAL MEDICAL STORES TRUST**

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

**TRADE AND OTHER RECEIVABLES (CONTINUED)**

	<b>2022</b> <b>MK'000</b>	<b>2021</b> <b>MK'000</b>
The ageing of trade receivables at the reporting date was as follows:-		
Current	3,049,309	406,334
31-90 days	2,485,273	2,241,606
Above 90 days	6,943,239	4,899,014
	<u>12,477,821</u>	<u>7,546,954</u>

The carrying amount of trade receivables of MK12.5 billion is a reasonable approximation of their fair values.

**10 CASH AND CASH EQUIVALENTS**

Cash at bank and in hand	<u>9,435,668</u>	<u>796,730</u>
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**11 TREASURY FUND**

Opening balance	21,823,775	21,823,775
Recapitalisation fund	12,500,000	-
	<u>34,323,775</u>	<u>21,823,775</u>

**12 CAPITAL FUND**

Opening balance	708,388	366,091
Assets received during the period	-	505,563
Amortisation of capital fund assets	(161,464)	(163,266)
	<u>546,924</u>	<u>708,388</u>

**13 REVALUATION RESERVE**

Opening balance	11,687,607	6,645,981
Revaluation surplus during the period	-	5,041,626
Depreciation relating to revaluated assets	(187,509)	-
	<u>11,500,098</u>	<u>11,687,607</u>

**14 ACCUMULATED LOSS**

Opening balance	(15,989,284)	(10,679,931)
Loss for the period	(5,943,721)	(5,309,353)
Depreciation relating to revaluated assets	187,509	-
	<u>(21,745,496)</u>	<u>(15,989,284)</u>

**CENTRAL MEDICAL STORES TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE PERIOD ENDED 31 MARCH 2022**

	<b>2022 MK'000</b>	<b>2021 MK'000</b>
<b>15 TRADE AND OTHER PAYABLES</b>		
Trade payables	16,933,782	20,121,636
Other payables and accruals	2,583,491	1,466,604
	<u>19,517,273</u>	<u>21,588,240</u>
The ageing of trade payables at the reporting date was as follows:-		
Current	1,033,318	1,474,737
0-30 days	614,357	451,940
31-90 days	1,147,172	5,974,995
Above 90 days	14,138,935	12,219,964
	<u>16,933,782</u>	<u>20,121,636</u>
The carrying amount of payables of MK20.1 billion is a reasonable approximation of their fair values.		
<b>16 REVENUE</b>		
Regional Medical Stores (South)	8,728,178	10,500,034
Regional Medical Stores (Centre)	9,655,369	9,452,176
Regional Medical Stores (North)	3,009,088	3,382,085
	<u>21,392,635</u>	<u>23,334,295</u>
<b>17 COST OF SALES</b>		
Opening inventory	21,529,914	17,839,189
Add Purchases	9,813,513	22,824,847
Less: Closing inventory	(13,801,467)	(21,529,914)
<b>Cost of sales</b>	<u>17,541,961</u>	<u>19,134,122</u>
<b>18 OTHER INCOME</b>		
Service charge-UNICEF commodities	288,798	411,949
Service charge-Covid 2019 Procurements	-	276,392
Service charge-distribution of donated items	106,588	95,719
Interest received	334,012	62,073
Rent received	14,765	21,455
Sale of bid documents	6,559	5,216
	<u>750,721</u>	<u>872,804</u>

**CENTRAL MEDICAL STORES TRUST**

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

	2022 MK'000	2021 MK'000
<b>19 ADMINISTRATIVE EXPENSES</b>		
Salaries and benefits	2,026,942	2,474,435
Boarded off items/expired inventory	2,869,641	1,930,810
Impairment loss of receivables	928,647	1,785,874
Depreciation	550,161	506,221
Hiring of security guards	327,517	422,136
Fuel and lubricants	973,699	419,101
Rent/lease (warehouse/office)	338,159	370,539
Subsistence allowance	336,660	335,175
Other expenses (AGM, quality control costs and others)	230,818	290,582
Motor vehicle maintenance	100,078	136,488
Office sundries	57,676	106,748
Training	56,520	85,341
Telephone charges	72,871	84,547
Insurance costs	83,566	80,945
Electricity charges	58,730	73,784
Legal and Consultancy Fee	273,121	56,510
Bank charges	21,143	55,420
Repairs of plant and equipment	28,720	53,405
Publications and advertising	9,496	40,277
Maintenance of buildings	38,465	39,380
Stationery	7,205	32,363
Water and sanitation	34,652	29,813
Audit fees	25,418	27,994
Uniform and protective clothing	79	19,993
Computer costs	4,145	1,636
Corporate social responsibility(medicines donations)	272,441	-
	<u>9,726,568</u>	<u>9,459,517</u>
<b>Presented on page 9 as follows:</b>		
Administration costs	7,949,254	7,437,533
Distribution costs	848,667	236,110
Impairment loss	928,647	1,785,874
	<u>9,726,568</u>	<u>9,459,517</u>

## CENTRAL MEDICAL STORES TRUST

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

#### 20 RELATED PARTIES

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

The following were related party transactions and balances:

a)	Funding and donations in kind		
	Global Fund - Assets donated	-	505,563
	Key management remuneration	212,656	265,644
	Trustees remuneration	2,575	1,800
b)	Period end balances		
	Amounts due to key management	19,238	72,190
c)	Government receivable balance:		
	All government receivables	12,212,031	7,562,224

#### 21 CAPITAL COMMITMENTS

As at 31 March 2022, the Trust had several commitments amounting to MK216 million (2021: MK146million). The commitments will be financed by the Trust's and internal resources.

#### 22 CONTINGENT LIABILITIES

As at 31 March 2022, CMST has the following lawsuits

NAME	NATURE OF CASE
Prisca Kumwenda(MIRA INVESTMENT)	The plaintiff is claiming the sum of MK220,800,000.00 from the defendant. The defendant is counter claiming the sum of MK6,624,000.00 being WHT on the innitial amount. However, the claimant was paid in full the principal sum.  The plaintiff is claiming MK39,000,000.00 being legal charges and collection fees on the matter.CMST is of the opinion that the plaintiff lawyers are only entitled to MK7,000,000.00.
Glyn Sosola vs Majid Panjwani,UNICHEM,Trustees CMST, PMPB and AG	The plaintiff's is claiming for aggrivated damages for defamation, false improsonment and milicious procesution. CMST will likely not incur any liability in the case as the person was not an employee of CMST. The only liability to be incurred will be cost for defending the case.



**CENTRAL MEDICAL STORES TRUST****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE PERIOD ENDED 31 MARCH 2022**

<b>NAME</b>	<b>NATURE OF CASE</b>
Reliance Trading Compant vs CMST	The plaintiff's claim is for the sum of MK8,500,000.00 being Legal Fees for an out of court settlement for supply on N95 at a total cost of MK196,000,000.00. CMST has refused and has counter offered to pay MK3,000,000. After negotiations CMST is expected to pay MK3,000,000.00 as agreed.
SADM Pharmaceulticals Limited	The plaintiff's claim is for compound interest on the sum of USD 4,366,848.76 on invoice amounts when delayed. The Judge has granted that the amount be paid, compound interest as well as cost of action. CMST appealed against the decision to Supreme Court of Appeal and CMST is waiting for date of hearing and strongly believes for a successful appeal.
Godfrey Linje and 5 Others	The plaintiff claim is for the sum of MK1,200,000.00 damages for unfair dismissal, employer and employees pension contribution severance pay, annual leave pay cash in lieu of notice pay interest on cumulative terminal benefits and legal cost. This amount was proposed by the Claimants legal council after CMST refused to pay an innitial claim on MK10,266,180.00. CMST will likely pay the amount and have the case closed.
Levison Changole t/a Hosmate Vs CMST	The Plaintiff claim is for the sum of MK134,086,500 or in alternative an order for specific performance of contract for the supply of 3,154 masks, the claimant claims damage s for breach of contact of CMST'S failure to order the remaining masks.CSMT will likely be found liable for the claimed amount.
Keryn Oleander Theu vs CMST	The plaintiff is claiming for unfair dismissal and severance allowance. The case went for prehearing conference where the parties failed to reach an agreement. The plaintiff withdrew the matter wholly.CMST will not incur any liability.

## CENTRAL MEDICAL STORES TRUST

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

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#### 23 MATTER OF UNCERTAINTY RELATING TO GOING CONCERN

The Trust had made a loss for the period of MK5.7 billion (2021: loss of MK5.1 billion). The going concern of the Trust is dependent on the continued business operations for the next foreseeable future, the resumption of profitable operations and continued support from the Government of Malawi.

The Trust is expected to continue being in business as recapitalization of MK12.5 billion was received in December 2021 to support business turn-around strategies which focus on financial sustainability (through recapitalization and increase in revenue generation) and operational efficiency to reduce expiries and streamline operational expenditure primarily aiming at boosting revenues for the organisation and improve cash flow.

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

#### 24 SUBSEQUENT EVENTS

Covid-19 pandemic continued in the period 2021. The pandemic continued affecting operations of the Trust, as slow down in service delivery was being experienced as some Staff were working on rotation. The pandemic has impacted on Procurement of Medicines and Medical Supplies negatively as most suppliers were not supplying timely due worldwide closures of manufacturing plants and delays in shipments due to the pandemic. The Trust cash flow was affected as there were delays in receipts from customers as a result of shut downs in operations in most institutions.

#### 25 CHANGE IN ACCOUNTING PERIOD

The Government of Malawi has changed its financial calendar year from 30th June to 31st March. The Authority being a whole institution owned by government has been affected by this change, resulting into nine months being reported in the period under review.

#### 26 INFLATION AND EXCHANGE RATES

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

	2022	2021
Kwacha/US Dollar	825.00	806.02
Kwacha/Euro	1,216.08	1,024.04
Kwacha/Rand	66.22	61.04
Inflation rate (%)	19.1%	9.1%
At the time of signing the financial statements, the exchange rates were as follows:-		
Kwacha/US Dollar	1028.48	816.91
Kwacha/Euro	1080.02	1000.93
Kwacha/Rand	63.11	57.12





*Trusted Partner in Healthcare*

## **HEAD OFFICE**

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