



Trusted Partner in Healthcare

ANNUAL REPORT

YEAR ENDED 30TH JUNE 2020

COVER PHOTO: Lateral view the of CMST head office compound from the National
Pharmaceutical Warehouse yard

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ACRONYMS AND ABBREVIATIONS

| | |
|---------------|---|
| 3PL | Third Party Logistics |
| ARMC | Audit and Risk Management Committee |
| ASRM | Annual Stakeholders Review Meeting |
| CMS | Central Medical Stores |
| CMST | Central Medical Stores Trust |
| DHRMD | Department of Human Resource Management and Development |
| GF | Global Fund |
| GOM | Government of Malawi |
| GPS | Global Positioning Systems |
| HSJF | Health Sector Joint Fund |
| IQF | Indefinite Quantity Frameworks |
| MMS | Medicines and Medical Supplies |
| MOH | Ministry of Health |
| NLGFC | National Local Government Finance Committee |
| NPD | New Product Development |
| NPW | National Pharmaceutical Warehouse |
| PHASOM | Pharmaceutical Society of Malawi |
| PMT | Project Management Team |
| TBGL | Techno Brain Global Limited |
| WMS | Warehousing Management System |

1.0. EXECUTIVE SUMMARY

The Year Ended 30th June 2020 was a historic operational period as it marked a decade since the incorporation of the Central Medical Stores (CMS) as a Trust. As reported in annual reports in the decade, the road has been long and punctuated by pronounced hurdles as the Trust steered across both the strategic challenges inherited from the Trust's predecessor, the CMS, as well as new ones along the way.

At reaching this landmark, the Trust appreciates the positive contributions of stakeholders, the selfless collaboration of development partners, the strong resolve of the Government of Malawi (GOM) through the Ministry of Health (MOH), the dedicated efforts of the Boards of Trustees along the way, the devotion of the CMST's Executive Management and the unrelenting spirit of CMST staff.

Synergies among these groups have yielded reforms across CMST's three mandated functions of procurement, warehousing and sales and distribution of Medicines and Medical Supplies. Today, the Trust has instituted strategically sound objectives and managed to largely overturn a good part of deep-seated challenges such as inefficient procurement systems, inadequate and below standard warehouses and warehousing systems, and the insecure and wasteful customer ordering and product distribution systems.

Enhancements have generally aided the improvement of the average availability of essential Medicines and Medical Supplies (MMS) from around five percent (5%) in 2013 to around 70 percent (70%) at present, and CMST continues to work hard to further improve the availability. The reforms have also been instrumental in the Trust's regaining of stakeholder confidence and the consequent determination by the stakeholders that CMST is ready to take back into its fold the operations earlier lost by its predecessor CMS to parallel supply chains.

In that line, a Supply Chain Integration (SCI) project has been underway for a year now to take back such parallel functions to the Trust. The integration is with the support of a Project Management Team (PMT) of consultants from Chemonics International, with financial support from The Global Fund (GF).

Now pursuing a sought future of an effectively integrated national supply chain in the country, the Trust is not relenting in its reforms and has four pillars to guide further strategic and operational modifications as follows:

- Implementation of a finance and business model that takes care of strategies related to income generation, efficiencies and long-term

sustainability;

- Optimisation of warehousing and distribution functions;
- Employment of effective execution of Management Information Systems (MIS); and,
- Initiation of an organisational development model focusing on human capital needs and performance metrics.

Since 2014, the Trust's strategic reforms have also been informed and accelerated by the Malawi Public Sector Reforms Agenda (MPSRA). Facing forward, more reforms are on the cards.

New reforms in procurement include the establishment of e-procurement processes for cost efficiency and increased transparency, the rollout of Indefinite Quantity Agreements (IQA) or Indefinite Quantity Frameworks (IQF) with suppliers of essential medicines and the formerly frequently ordered items such as IV fluids, dental lignocaine, insulin and oncology products. CMST procurements have also promoted use of economical open tendering methods. The Procurement Unit (PU) has also been elevated to a full Directorate.

In warehousing, the Trust now enjoys secure, increased and more quality holding capacity courtesy of the following: completion and launch in November 2017 of the 5000m³ National Pharmaceutical Warehouse (NPW) at headquarters in Lilongwe which is complete with pharmaceutical grade roof insulation systems and state-of-the-art cold rooms; racking, introduction of floor markings, bins and zones for warehousing, software-based identification of products (radio frequency identification) in the warehouse; installation of Closed Circuit Television (CCTV), biometric access control facilities, smoke detectors in all warehouses.

Warehousing improvements will include procurement of a dedicated warehouse management system; the continued refurbishment of existing warehouses to meet international pharmaceutical standards; the construction of a new 26,000m³ warehouse towards the strategy to completely do away with rented warehouses towards being able to easily manage supply chain activities centrally; the automation of temperature monitoring; and the re-racking of warehouses to narrow the existing isles and thereby increase holding space .

Developments in distribution will include upgrading of the Global Positioning Systems (GPS) based fleet management tool to benefit from added parameters for effective monitoring of both the CMST-owned and outsourced distribution vehicles.

Apart from further improving procurement, warehousing and distribution, CMST is also

conscious of the desirable improvements around human resource, which is the most priceless asset and driver of all sought reforms. The Trust is therefore ready to implement recommendations of a Job Evaluation and Functional Review exercise conducted by the Department of Human Resource Management and Development (DHRMD) in consultation with stakeholders, subject to the approval by the CMST Board.

However, in both the previous and new reforms, financing remains a big hurdle. Therefore, apart from pursuing Government and other stakeholders for recapitalisation, CMST is exploring other efforts of improving utilisation of the limited available funds and embarking on income-generating initiatives such as New Product Development (NPD), including the current business opportunity of production of hand sanitisers as well as buying alcohol 96 percent by the bulk from producers — which is way cheaper than from middlemen — and repackaging this fast moving product in smaller units for sale at a markup.

As at 30th June 2020, a new Corporate Strategy and its accompanying Business Plan covering the period 1st July 2020 to 30th June 2025 had been developed in consultation with stakeholders. These too are awaiting approval by the Board of Trustees.

CMST appreciates the support rendered by the Public Sector Reforms Agenda so far and looks forward to Government support in achieving its outlined reforms. CMST commits to working tirelessly, with strict adherence to the awareness of its mandate of contributing to the national health gain through an uninterrupted supply of medicines and medical supplies at the most possible affordable prices so that we remain a trusted partner in health care.

2.0. MANDATE

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

The Trust is also mandated to sell its products to not-for-profit health facilities 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 may allow the organisation to start serving the private health facilities.

3.0. 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 the public, non-profit making private health facilities, and from such a time as the Trustees shall determine, profit making private health facilities, quality medicines and medical supplies at an affordable cost;
- To ensure that the quality of medicines and medical supplies complies with the requirements defined by the Ministry of Health and other regulatory bodies.
- To securely, safely and efficiently manage, warehouse, distribute and supply medicines, 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.

4.0. STRATEGIC DRIVING FACTORS

4.1. Vision

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

4.2. 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.

4.3. Core Values

CMST fundamental ideals are;

- Efficiency
- Integrity
- Accountability
- Transparency
- Professional leadership and teamwork
- Equal opportunity
- Customer-orientation
- Social Responsibility
- Innovation
- Reliability

5.0. GOVERNANCE

5.1. Board of Trustees

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 professional institutions, as guided by the Trust Deed.

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

Realising the central role it holds in deciding towards a continuous supply of adequate and quality medicines and medical supplies, the Board 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.

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

| | |
|---------------------|---|
| Chairperson: | Mrs. Hilda Singo, representing the Institute of Chartered Accountants in Malawi (ICAM). |
| Members : | Dr Titha Dzowela, representing Christian Health Association of Malawi (CHAM). |
| | Mr. Allans Muhome, representing Malawi Law Society (MLS) |
| | Mrs. Dinah Kamowa, representing Pharmaceutical Society of Malawi (RECAPITALISATION) |
| | Dr Dan Namarika, Secretary for Health and Population, Ministry of Health and Population, (Ex-Officio). |
| | Mr. Cliff Chunda, Secretary to the Treasury, Ministry of Finance, Economic Planning and Development, (Ex-Officio) |
| | Mr. Alifeyo Banda, The Executive Director, National Local Government Finance Committee (NLGFC), ex-officio) |
| Secretary : | Dr. Feston Kaupa, Chief Executive Officer, Central Medical Stores Trust (CMST) |

5.2. The Board Chairperson



MRS. HILDA SINGO
CHAIRPERSON

Mrs. Hilda Singo represents the Institute of Chartered Accountants in Malawi (ICAM).

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

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

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

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

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

She was named Country Winner of Africa's Most Influential Woman in Business and Government (MIW Award 2014).

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

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

5.3. Board Committees

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

5.3.1. Technical Committee

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

5.3.2. Finance and Administration Committee

- Chairperson :** Mr. Andrew Chikopa, Trustee
- Members :** Mrs. Linda Phiri, National Construction Industry Council
- Mr. Alufeyo Banda, National Local Government Finance Committee

Ms. Loyce Chilimsungwi, Ministry of Finance, Economic Planning and Development

Mr. Headwick Banda, Department of Statutory Corporations

Mrs. Chimwemwe Chimalu-Banda, Ministry of Health and Population

Ms. Chifundo Kalaile, Trustee

Mr. Peter Salamba, National Food Reserve Agency.

Mr. Justin Nyondo, Management International.

Secretary : Mr. Washington Kaimvi, CMST, Director Administration and Finance.

5.3.3. Audit and Risk Management Committee

Chairperson : Ms. Chifundo Kalaile, Trustee

Members : Mrs. Dalitso Gadama, Monsanto Malawi

Mr. Dickson Chasambira, Central Internal Audit Unit,

Mrs Jeane Munyenyeembe, Ministry of Finance — Accountant General's Department

Mrs. Patricia Soko, National Authorizing Office

Mr. John Mponda, Trustee

Mr. Kingsley Mulewa, CIC Insurance Co. Ltd.

Secretary : Mr. Joseph Chembezi, CMST Internal Audit Manager

5.4. Meetings of the Trust

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

The AGM is an important assembly which, among other issues, approves the Trust's accounts and annual report. In line with the provision of the Trust Deed, the AGM is attended by Trustees only.

To cater for other stakeholders that cannot attend the AGM, the Trust convenes an Annual Stakeholders Review Meeting (ASRM).



Inside a CMST coldroom

6.0. OPERATIONAL STRATEGIES

The Trust's operations in the period under review were guided by the following strategies:

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

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

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

Strategy #4: Establish and utilize information systems to build an organisational culture of planning, responsiveness, accountability and business unit integration: By establishing robust information systems, product flow management, operational planning and financial management will be optimised across the organisation.

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

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

7.0. MANAGEMENT TEAM

The Trust is managed by a Chief Executive Officer (CEO) who is assisted by three heads of directorates; Director of Pharmaceutical Operations, Director of Finance and Administration and Director of Procurement. The four make the Executive Management.

7.1. Executive Management

Here is the Executive Management Team for the period 1st July 2019 to 30th June 2020:



DR. FESTON KAUPA
CHIEF EXECUTIVE OFFICER

Feston has served in this role since April 2012. A highly self-motivated and results-oriented person, Feston is responsible for provision of strategic leadership in the transformation of CMST into an autonomous and self-sustaining national supply chain organisation.

He has over twenty five (25) years of professional experience in finance and strategic business management in both the private and public sectors.

He read for a PhD in Supply Chain Management with the University of KwaZulu-Natal, South Africa. He holds a Bachelor's Degree in Accountancy from the University of

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

He is a Chartered Global Management Accountant (CGMA), a Fellow of the Chartered Institute of Management Accountants (FCMA), and also a Fellow of the Association of Chartered Certified Accountants (FCCA).



MR. WASHINGTON KAIMVI
DIRECTOR OF FINANCE AND ADMINISTRATION

Washington is a consummate accounting and audit professional with over 25 years of work experience in management of finances, audits, grants, human resources and general administration at senior level in the private, public and not-for-profit and non-governmental organisations (NGO) sectors.

He has profound knowledge and practical experience in finance and accounting, external and internal audit, grants management including great exposure to coordination of multiple donor activities.

He is a Fellow of the Association of Chartered Certified Accountants (FCCA) of the United Kingdom, a Certified Public Accountant (CPA) in Malawi and holds a Bachelor of Commerce in Accountancy.



MR. JOE KHALANI
DIRECTOR OF PHARMACEUTICAL OPERATIONS

At his appointment to the position, Joe had been with CMST as Pharmacist in Charge for Manobec Warehouse, Warehouse and Distribution Manager, and Acting Director of Pharmaceutical Operations.

This was in addition to a combined fourteen years of experience in Pharmacy at St Lukes Mission Hospital.

He holds a Bachelor's Degree in Pharmacy and a Master in Supply Chain Management from University of Bolton (UK). He is registered with the Pharmacy Medicines Regulatory Authority (PMRA) and is a member of the Pharmaceutical Association of Malawi (RECAPITALISATION).



**MR. REX KUYELI,
DIRECTOR OF PROCUREMENT**

Rex is a Supply Chain Management Professional with over 25 years work experience in both private and public sectors.

Rex has extensive management experience in Quality Assurance, Manufacturing Supply Chain Planning, Warehousing, Logistics and Procurement. Before joining CMST, Rex served in senior and executive management positions, including Production Manager for Southern Bottlers Ltd, Group Supply Chain Manager for Carlsberg Group Ltd and General Manager for Chombe Foods Ltd.

He holds a Master of Science in Supply Chain Management from University of Bolton (UK) and a Bachelor of Science in Chemistry from University of Malawi — Chancellor College.

A Certified International Supply Chain Manager (CISCM) and a full member of the Malawi Institute of Procurement and Supply (MIPS), he has in depth experience in strategic aspects of Logistics and Supply Chain Management.

7.2. Managers

The year under review had eleven 11 line managers.



MR. DAVID CHIMA
INFORMATION TECHNOLOGY MANAGER

Prior to joining CMST, David worked with Nitel, formerly known as Malswitch, for 7 years as a Network Supervisor. His duties included working in networking for all wireless broadband solutions, providing network security through Cisco devices and Setup and managing the ISP business unit within the company.

Before joining Nitel, David worked for Malawi Sustainable Development Network Programme (Malawi SDNP) as an Assistant Network Engineer, running all technical services of the ISP from, that is, managing mail, web, proxy, AAA servers, running the ccTLD .mw domain, and doing monthly billing for both normal SDNP clients and the ccTLD domain clients all over the world. He has also done web development and hosting.

He holds a Master of Business Administration from The University of Malawi — The Polytechnic and a Bachelor of Social Science in Computer Science and Statistics from The University of Malawi — Chancellor College.



MRS. GLADYS MAKWAKWA
HUMAN RESOURCE AND ADMINISTRATION MANAGER

Gladys joined CMST in 2016 as Human Resource and Administration Officer from Family Planning Association of Malawi (FPAM) where she was Senior Administration Officer.

Before FPAM she was with St Martin's Hospital as Human Resource Coordinator.

Gladys holds a Master of Business Administration from The University of Malawi — The Polytechnic and a Bachelor of Arts in Public Administration from University of Malawi — Chancellor College. She is registered with the Institute for People Management in Malawi (IPMM).



MR. ALFRED EDWIN
QUALITY ASSURANCE MANAGER

Alfred commands over 28 years of experience in pharmaceutical business. He worked as the Quality Assurance Manager for Kentam Products, a local pharmaceutical manufacturing company. Before that, Alfred worked for Zimbabwe's subsidiary of Pfizer Multinational Pharmaceutical Company.

He has also been with Zimbabwe's Medicines Control Regulatory Authority in several Quality Assurance Programs such as training of medicine analysts from medicines regulatory bodies in Africa — a project funded by the World Health Organisation. While there, he also worked as an inspector for Good Manufacturing Practices for pharmaceutical manufacturing plants across the globe, including India, United Kingdom, United States, Thailand, Malaysia and China.

Alfred was also involved in the inspection of manufacturing plants for family planning commodities on behalf of Crown Agents in early 2000.

He holds a Master of Applied Sciences from The University of New South Wales — Australia, a Bachelor of Technology in Applied Sciences and Certificate in Medical Laboratory Management from The University of Zimbabwe, and has several Quality Assurance certifications for courses obtained in the UK, Sweden and SADC.



MR. JOSEPH CHEMBEZI
INTERNAL AUDIT MANAGER

Joseph commenced his career at Deloitte in 2004 as Audit Trainee, later joining the University of Malawi — Kamuzu College of Nursing (KCN), as Deputy Finance Manager in 2007, after which he switched to Roads Fund Administration where he was Internal Auditor for seven (7) years.

Joseph holds a Master of Project Management from The University of Bolton(UK) and a Bachelor of Accountancy from The University of Malawi — The Polytechnic. He is also a Certified Accountant and Certified Internal Auditor with the Association of Chartered Certified Accountants (ACCA) and the Institute of Internal Auditors (IIA), respectively.



MR. CHARLES KHOMBENI
PROCUREMENT MANAGER

Charles was appointed Procurement Manager after acting in same position for three years since 2017.

Prior to joining CMST, he had for more than four (4) years been building, training and strengthening capacity of procurement personnel in the public sector while working for the Office of the Director of Public Procurement (ODPP) where he rose to the position of Chief Officer. Preceding ODPP, he worked as a teacher and later rose to head of department at Namitete Technical College where he was also doing procurement for the institution for more than seven (7) years.

Charles holds a Master of Science in Supply Chain Management from The University of Bolton (UK), a Bachelor of Science in Technical Education from The University of Malawi — The Polytechnic and a Diploma in Industrial Arts Education from Red River College of Canada. He is currently working on concluding his thesis for a PhD in Business Management.

Charles is a certified member of the Chartered Institute of Purchasing and Supply (MCIPS) and the Malawi Institute of Purchasing and Supply (MIPS).



MR. VINCENT CHILINDA
FINANCE MANAGER

Vincent's experience, spans both the private and semi-government financial management and analysis spheres. He started out with Press Corporation Limited (PCL) as a Management Trainee, later getting promoted to Company Accountant. He was then seconded to Blantyre Newspapers Limited in 2003 as Chief Accountant. Riding on the experience gained that far, Vincent went to the Central Region Water Board in 2016 as Finance Manager, later that year moving on to CMST.

He holds a Master in Administration from the Eastern and Southern African Management Institute (ESAMI) and a Bachelor of Accountancy from The University of Malawi — The Polytechnic.

He is a member of the Institute of Chartered Accountants in Malawi (ICAM) and a member of the Chartered Institute of Management Accountants (CIMA).

He has also been involved in financial analysis and policy formulation for institutional projects and has attended several capacity building sessions in Swaziland and South Africa, particularly in project management for donor-funded projects.



MR. DAVID KULEMELA
BRANCH MANAGER — CENTRE

Prior to current position, David served in acting capacity for a year between September 2015 and June 2016 on secondment from his role as Pharmacist for Regional Medical Stores (South).

He started his career at Mulanje Mission Hospital where he worked a combined ten (10) years as a Pharmacy Technician and Pharmacist. He has also worked as Pharmacist Manager for Galaxy Surgical and Pharmaceutical Limited.

He holds a Master of Business Administration from The Colombia Commonwealth University and a Bachelor of Pharmacy from The University of Malawi — College of Medicine. He is registered with the Pharmacy and Medicines Regulatory Authority (PMRA) and is also a member of the Pharmaceutical Society of Malawi (Recapitalisation).



MR. STEWART LICHAPA
BRANCH MANAGER — NORTH

Stewart joined CMST as Branch Manager for Regional Medical Stores (Centre), coming from the Malawi Switch Centre Limited in 2012.

He has 21 years of work experience obtained from the commercial, public and international non-governmental organisation (NGO) set ups. He started his career at Seba Foods (Malawi) Limited where he worked as Sales and Marketing Coordinator, and later, Imports and Exports Coordinator. From there, he joined Save the Children — an international NGO where he served in a variety of positions such as Procurement Specialist, Senior Administration Officer and Commodity Specialist. Stewart then joined Malawi Switch Centre Limited (Now NITEL) as Human Resources and Administration Officer.

He has distinct supply chain and managerial experience in projects, development and emergency operations. He holds a Master of Science in Supply Chain Management from The University of Bolton (UK) and a Bachelor of Business Administration from The University of Malawi — The Polytechnic. Currently, he is studying for a Master of Business Administration with the Malawi Institute of Management.

He holds professional membership with the Chartered Institute of Logistics and Transport (CILT), Malawi Institute of Procurement and Supply (MIPS) and the Institute of People Management in Malawi (IPMM).



MR. INNOCENT ISSA
BRANCH MANAGER — SOUTH

Innocent was appointed Branch Manager for the Regional Medical Stores (North) on 1st October, 2012 and relocated to Blantyre where he is Branch Manager for the Regional Medical Stores (South) since 1st February 2015.

A trained business management expert, Innocent has 15 years of professional experience in leading and managing operations and projects for varied organisations in diverse sectors of the economy, in both public and private set ups.

Prior to joining CMST, Innocent was General Manager for Malawi Dairy Industries (MDI) between 2010 and 2012 and Deputy General Manager for Malawi Post Corporation Conference Centre (MPCCC) from 2006 to 2010.

He holds a Master of Business Administration majoring in Marketing from The Open University of Tanzania and a Bachelor of Business Administration majoring in Accounting and Finance from Zanzibar University.



MRS. BEATRICE BANDA
DISTRIBUTION MANAGER

Beatrice joined CMST as a Receipt Pharmacist and was later appointed Pharmacist In-Charge of National Pharmaceutical Warehouse.

She is a Pharmacist and Supply Chain Specialist with 15 years of experience in both private and public sector institutions. She has knowledge and practical experience in hospital, retail and wholesale pharmaceutical operations, pharmaceutical quality assurance and supply chain management.

She holds a Master of Science in Supply Chain Management from Bolton University (UK) and a Bachelor of Pharmacy from the University of Malawi — College of Medicine. She is a member of the Pharmaceutical Society of Malawi (Recapitalisation).



MR. ENOCK FOSTER
ACTING WAREHOUSE MANAGER

Enock joined CMST in June 2013 as a Pharmacist responsible for the Regional Medical Stores (Centre) before being transferred to the Receipt Section from where he proceeded to his present portfolio in acting capacity.

Enock has worked in the Pharmaceutical industry for 10 years. Prior to joining CMST, he worked with Queen Elizabeth Central Hospital (QECH) as a Pharmacist and at Livingstone Pharmacy as a Managing Pharmacist.

He holds a Master of Business Administration from UNICAF University as well as Bachelor of Pharmacy from The University of Malawi — College of Medicine. He is currently pursuing a Master of Health Science (MSc HS) Antimicrobial Stewardship with University of Malawi — College of Medicine.

He is registered with the Pharmacy, Medicines and Poisons Board (PMPB) and the Pharmaceutical Society of Malawi (Recapitalisation) of which he was President from 2015 to 2018.

8.0. CHAIRPERSON'S REPORT



8.1. Overview

With utmost pleasure, I present to you, esteemed stakeholders, the strategic updates of the year ended 30th June 2020. The obligation to annually share with you the successes and challenges of each year completed is a constant reminder of CMST's accountability to you. This time of the year also presents us with a chance to consult on major issues that need joint solutions.

CMST values such joint stakeholder effort because the Trust's core business of timely making available the right quality and amount of effective medicines and medical supplies to public hospitals is a sensitive one as it has a huge consequence on the public healthcare system's ability to improve the population's health gain. I am therefore delighted that the Trust has, in its decade of existence, always applied a strategic joint stakeholder approach to the deep-seated challenges that laced the operating environment at turning into a Trust.

In that line, through implementation of planned and sustained approaches, the Trust has for the past 10 years undergone continuous transformation and it still commits to continue on a more strategic and customer-centric path. This report then therefore gives a quick brief on both the overall strategic period of the last decade as well as a sum of the accomplishments and bottlenecks of the year in review.

8.2. Strategic Direction

The year completed was the last of the implementation period for the 2015 — 2020 Corporate Strategy and its accompanying Business Plan. From 1st July 2020, the Corporate Strategy for 2020 — 2025 comes into focus, with its six (6) broad objectives that display a balance of financial controls and operational, customer focus and strategic measures, while still highlighting commitment to long-term sustainability. The six objectives are as follows:

8.2.1. Financial Objective

To improve operational cost efficiency with the overall goal of ensuring value-for-money to CMST and the long term operational sustainability of the organisation.

8.2.2. Customer-Focus Objective

To establish CMST as the supply chain provider of choice in Malawi by ensuring that customer needs and priorities drive operations, planning and organisational decision making.

8.2.3. Procurement Planning and Operations Objective

To strengthen procurement planning and contract management with clear coordination with operations to ensure that customer demands are met.

8.2.4. Information Systems Objective

To establish robust information systems to optimise the management of product flow, operational planning and financial management across the organisation with emphasis on warehousing and distribution.

8.2.5. Continuous Improvement Objective

To establish effective and efficient quality management systems to ensure continuous performance improvement throughout CMST.

8.2.6. Stakeholders Engagement Objective

To collaborate with the MOH and partners to apply CMST market knowledge in infrastructure and supply chain expertise to improve public health outcomes in Malawi.

8.3. Highlights of Year in Review

The year just completed was a challenging implementation period due the Covid 19 pandemic which adversely affected CMST's business environment. For instance, the pandemic increased the pressure for health commodities and drove up prices of health commodities on the world market.

Consequently, the pandemic put pressure on the already-overstretched national healthcare budget. The pandemic's contagious nature and consequent restrictions on mobility of both people and cargo worldwide also led to severely slowed logistics of medical supplies across continents, leaving the country's health commodity supply chain burdened.

8.3.1. Valuation of Inventory

Total inventories for the year were valued at K17.9 Billion, representing 55% of total assets of the Trust as at the reporting date of 30th June 2020. These inventories mainly consist of drugs and medical supplies kept at various warehouses managed by the Trust across the country.

The valuation of inventories is at lower of cost and net realisable value. The cost was determined using the weighted average cost method. The net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

8.3.2. Financial Performance

Initially the Trust posted a loss of K500 Million from operations, still signifying a breakeven performance for year ended 30th June 2020. However, overall loss totaled K7.6 Billion after interest on suppliers' contracts (K3.2 Billion) and stock write off (K3.9 Billion). The interest on suppliers' contracts was due to cash flow challenges while the stock write off was due to expiries, mostly due to inaccuracies in quantification.

Again, other reasons too accounted for the losses, such as a significant value of the expiries being due to CMST-procured Erythromycin 250mg tablets and laboratory items selling slowly because of presence elsewhere of similar stock received as donations and the breakdown of hospital equipment for whose use the lab items stocked by CMST could have been bought.

8.4. Way forward

Management is committed to continued exercise of control over costs so that the Trust is in line with the level of revenue. Meanwhile, CMST started implementing a National Supply Chain Integration and Transformation project with specific milestones and Key Performance Indicators (KPIs) and Targets to achieve cost efficiencies in key areas, especially stock management to reduce expiries and board off. The Project includes implementation of a Management Information System (MIS) known as Enterprise Resource Planning (ERP) system and Warehouse Management System (WMS) module to improve stock management for the Trust.

The NSCI project has a financial needs assessment component to determine the recapitalisation requirement which, once done will improve financial sustainability and cash flows to enable the Trust meet obligations when they fall due (for payment) thereby avoid such issues as interest charges on debts by suppliers and service providers.

8.5. Future Outlook

Looking ahead, the Trust expects to continue with reforming its procurement, warehousing and sales and distribution functions. While finances or recapitalisation remain among the biggest challenges, it is encouraging that Government has provided K5 Billion in this reporting period as part of the much needed recapitalisation.

CMST will continue to implement the ambitious 2020 — 2025 Corporate Strategy and Business Plan alongside the Public Service Reforms Agenda as coordinated by the Office of the President and Cabinet.

8.6. Appreciation and Conclusion

On behalf of fellow Board Members, Management and staff of the Trust, I thank the Government of Malawi, the Ministry of Health and all other stakeholders for their efforts in creating a bearable work environment for CMST and its customers.

My profound appreciation also goes to my fellow Board Members and members of the Committees of the Board for the direction and leadership we collectively gave to the CMST Management.

Lastly, I convey my gratitude to the Management and staff of the Trust for committing to the effective implementation of the Board's recommendations and insights.



HILDA SINGO
BOARD CHAIRPERSON



9.0. CHIEF EXECUTIVE OFFICER'S REPORT

9.1. Overview

As of 30th June 2020, the Trust had, from its previous reporting period, continued with reforms across its three major functions of procurement, warehousing and sales and distribution.

Apart from wrapping up the 2015 to 2020 strategic implementation period, the year ended June 2020 was a major planning period for the next strategic period of 2020 to 2025. The report therefore records successes and challenges in the last strategic planning period in general and the year ended June 2020 in particular

9.2. Operating Environment

CMST's operating environment is largely framed by its mandate in three key areas of procurement, warehousing and distribution of medicines and medical supplies to over 600 health facilities nationwide. The three functions are complemented by other utilities such as quality assurance and human resource management.

The health facilities are at varying service levels in the referral chain, that is, from health posts, rural hospitals, health centres, District Hospitals to Central Hospitals, amid regular and emerging challenges.



A bid opening session in progress

The following is how CMST units performed:

9.2.1. Procurement

The Procurement Directorate continued to approach its tasks in adherence to the Public Procurement Act and related laws and regulations, desk instructions and directives in order to maximise value for money as well CMST's integrity.

9.2.1.1. Procurement Plan 2019 — 2020

The Procurement Plan for the year 2019 — 2020, as approved by the CMST Board, covered K18 Billion for Medicines and Medical Supplies (MMS), K1 Billion for General Goods, Works and Services (GGWS) and a Capital Expenditure provision of K1.3 Billion towards works on the New Pharmaceutical Warehouse, all to a total of K20.3 Billion.

9.2.1.2. Actual Procurements for 2019 — 2020

As at 30th June 2020, CMST had procured Medicines and Medical Supplies valued at K23.7 Billion against the estimated K18 Billion. This represented an over-expenditure of 31.0%. This was mainly due to the increase in prices of supplies as a result of the increased need of medical supplies in the wake of the Covid-19 pandemic.

Another major reason was the additional requirements (previously unbudgeted for) that came as special orders and emergencies to fill gaps. This amounted to K2.6 Billion. The expenditure for Works, Services and Goods amounted to K0.77 Billion, which is a 23.0 % saving. The capital expenditure (Capex) of K1.3 Billion was deferred to the 2020 — 2021 financial year.

9.2.1.3. Procurement Approach

For medicines and medical supplies, all major procurements were through Open Tender methods International Competitive Bidding (ICB); National Competitive Bidding (NCB) and, for sutures and psychotropics, Restricted Tender (RT) direct to manufacturers and/or their agents.

Through the Government of Malawi's deliberate Buy Malawi Strategy (BMS) which is championed by the Ministry of Trade and Industry, contracts for medicines and medical supplies worth K9.5 Billion were issued to local manufacturing companies. All the procurements for the year (ICB, NCB, RT and BMS) were effected through two-year Framework Agreements (FA) by issuing of call orders.

Supply gaps that existed from these arrangements were filled up through emergency procurements using the Request for Quotations (RFQ) method. These were implemented only after obtaining no objections and approvals from the Public Procurements and Disposal of Assets Authority, as per law.

9.2.1.4. Contract Management

A total of 180 contracts were managed in the year and 50% of the total awarded value had been delivered within the year (40% achieved for International suppliers and over 80% for Buy Malawi Strategy). The low performance on international procurements is mainly attributed to suppliers withholding delivery due to nonpayment of previous invoices as well as logistical challenges that came about in the second half of the year as a result of Covid-19 cross border travel restrictions.

9.2.1.5. Disposal of Assets

In the year under review, CMST identified an auctioneer through Competitive Bidding to provide asset disposal services. The first high value assets to be disposed

of under the contract is a fleet of distribution trucks and other vehicles that were inherited from the Central Medical Stores.

9.2.1.6. Procurement Key Performance Indicators

Overall, the performance of the procurement function was, to some extent, affected by the Covid-19 pandemic. The industry shutdowns and travel restrictions in some countries translated into slowed deliveries, thereby prolonging the procurement cycle. See **Table 1** below:

Table 1: Procurement Key Performance Indicators

| NO | KEY KPI | TARGET | ACTUAL | REMARKS |
|----|---------------------------------|---|--------|---|
| 1 | Deliveries/supplier performance | 80% | 56% | Below target. Deliveries still heavily affected by Covid-19 travel restrictions. |
| 2 | Product Price Variance (PPV) | Less than (<) or equal to (=) 100% | 140% | The fixed Buy Malawi Strategy and Victoria Pharmaceutical Limited contracts' prices are a major factor for higher PPV. However we gained on prices of Covid-19 Personal Protective Equipment as they were much lower than other benchmarked entities. |
| 3 | Procurement Cycle Time | 100% | 70% | Challenges with special orders as they continue not being delivered on time. |
| 4 | Transparent Tendering | 90% | 87.5% | Increased by 1.5% due to the Open Tender for warehouse management system and racking. |
| 5 | Effective Contract Utilisation | 10% LPOs, 30% annual contracts (Frameworks) and 60% multiyear contracts (IQA,BMS) | 92% | Special orders to be on Indefinite Quantity Agreement for further improvement. |

9.2.1.7. Major Procurement Planned for 2020 — 2021

The 2018 — 2020 Prequalification and Indefinite Quantity Agreements (IQA) for medicines are coming to an end in August 2020. As such, the 2020 — 2021 requirements will be procured directly without prequalification. The criteria for prequalification will be considered and factored into a bidding document for the procurement of medicines. So, a big tender of medicines estimated at K5,325,422,766.34 was planned to be floated early July 2020.

A bid document has been prepared for the Procurement through ICB for warehousing racking modification and delivery of reach trucks. The procurement started in the last quarter of the year under review but will continue through to the first and second quarters of 2020 — 2021. This procurement is funded by Global Fund as part of the support to Supply Chain Integration.

9.2.1.8. Procurement Challenges

Challenges included the increased RFQs due to emergency procurement of items that were out of stock and the unplanned special orders from the hospitals. Some emergency procurement was necessitated by late deliveries by suppliers. With the Covid 19 pandemic, this got worse in the year because of lockdowns across the world and reduced speeds of doing trade or making deliveries.

9.2.2. Warehousing



National Pharmaceutical Warehouse

9.2.2.1. Warehousing Space

The Trust uses both owned as well as rented warehouses to store medicines and medical supplies. From the old CMS, The Trust inherited warehouses which were not purpose-built. Over the decade, the Trust has invested in improving these warehouses in order to make them suitable for storage of pharmaceuticals. This initiative has also seen improvements in security systems and racking to optimise warehouse space.

The Trust also managed to do away with some rented warehouses in Lilongwe, cutting the number of such rented warehouses from 23 to four (4). Currently, the Trust has a cumulative 11,000 m³ of storage space against an estimated requirement of 30,000 m³. The Trust therefore plans to construct an additional warehouse to minimize storage space challenges.

9.2.2.2. Availability of Medicines and Medical Supplies

The availability of supplies and the supply fill rate are some of the critical indicators of the Trust's efficiency in ensuring customer satisfaction. At turning into a Trust, the availability of medicines and medical supplies was at 5% (or 95% stock out). Over the years leading to the year under review, availability has been constantly improving, with an average availability of 69%. This is a slight drop from the 70% recorded in the previous year.

General trends show that the availability of items tends to drop between October and January every fiscal year. This can be explained by the disparity between the financing and procurement cycles. See **Figure 1** below:.

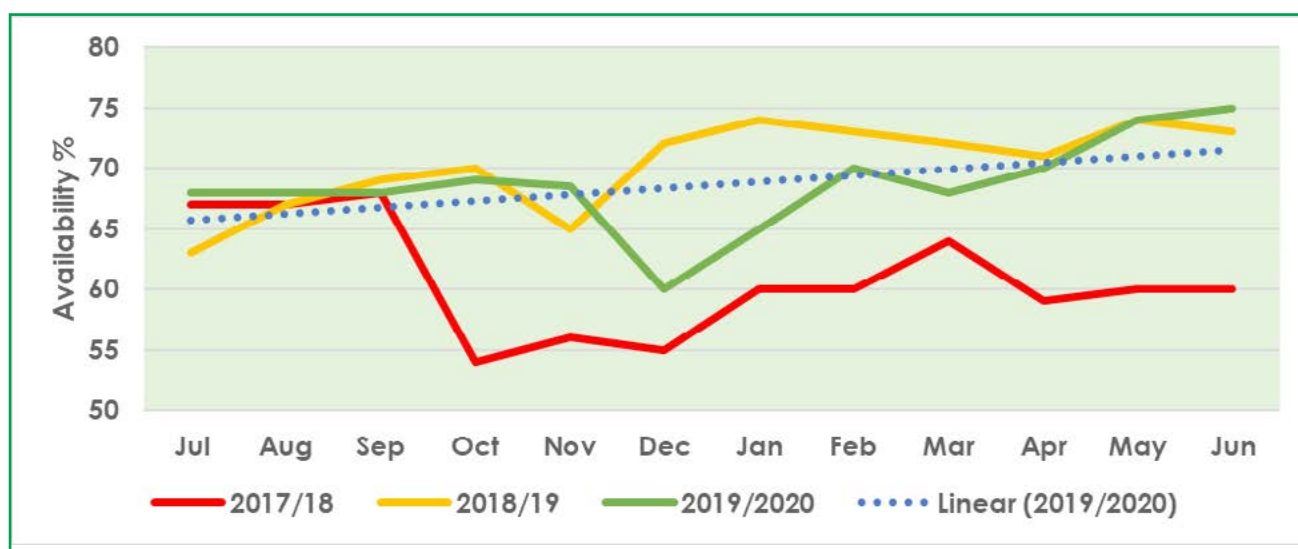


Figure 1: Availability of items

9.2.2.3. Inventory Management

The Trust continued with its efforts of improving inventory management. An inventory accuracy of 96% was achieved up from 86% in the previous year. Stock turns improved slightly from 0.8 to 1.0 against a target of 1.5 for the period under review. The Trust will continue with efforts to improve the various supply chain indicators to ensure supply chain efficiency.

A total of K3.6 Billion worth of supplies were written off. This represents 18% of average stock holding for the year. Several reasons contributed to the expiry of these items. A significant proportion of these expiries were Erythromycin 250mg tablets which expired because customers opted for cheaper or free alternatives the country received as donations. Again, most laboratory items also expired partly due to supply (donations) of similar items from the parallel supply chains — meaning CMST stocks were not moving as much. Again, the malfunctioning of lab equipment (in health facilities) for which the supplies would have been bought contributed to slow sales and eventual expiries.

A significant number of items, including galenicals, expired due to inaccuracies in quantification. Mechanisms have been put in place to improve the accuracy of data used in quantification to arrest this problem.



CMST product samples being submitted to PMRA for quality testing

9.2.3. Quality Assurance

The Quality Assurance unit sustained its determination to ensure that medicines and medical supplies either procured or received as donations are of the highest possible and consistent quality standard before dispatch to health facilities. New key performance indicators for various processes and systems were developed to make the Trust ready for the demands of the Supply Chain Integration underway.

9.2.3.1. Quality Control Testing

A total of 957 medicinal product batches were received, sampled and sent for quality testing prior to distribution to facilities. Of these, 579 batches, representing 61% of these batches, were cleared and released for distribution while the remaining 39% were under testing because they were received towards the end of the reporting period.

Eight (8) Laboratory reagents, among them Giemsa stain, EDTA tubes, phosphate buffers and urine dipsticks, were evaluated by the Community Health Sciences Unit (CHSU) National Reference Laboratory prior to distribution. The Trust shall continue to use this laboratory to eliminate low quality and counterfeit or falsified diagnostic reagents in its supply chain.

9.2.3.2. Rejected Products

Four (4) product batches were rejected upon receipt for the following reasons: short shelf life and poor labeling, characterized by the absence of product batch details, non-compliance to specifications and wrong products. All rejected products were taken back by their respective suppliers and fresh replacements were sought.

9.2.3.3. Product Recalls

Four (4) product batches (Paracetamol, Amoxiclav and Magnesium Trisilicate, Ringers Lactate and Vitamin B Complex) were recalled from facilities for the following reasons among them: tablet discoloration; friability (breaking); difficult to withdraw following reconstitution with sterile water; and fungal contamination. The products were submitted to Pharmacy and Medicines Regulatory Authority (PMRA) for further investigation and close-out of the quality issues.

9.2.3.4. Response to PMRA mandatory Recall of products containing Ranitidine

The Trust stopped the distribution of the CMST-procured 100 units of Ranitidine Injection 50mg/2ml following the PMRA and international mandatory recall and withdrawal of all ranitidine containing products from the market. It was reported that these products were contaminated with a Human carcinogenic N-Nitrosodiemethylamine (N-NDMA).

9.2.3.5. Response to WHO's alert on falsified medicines

In response to alerts by the World Health Organisation (WHO), the Trust ensured that the following falsified products were not in circulation in the country: three (3) batches of rabies vaccines, one (1) batch each of anti-rabies serum, quinine sulphate and amoxicla.

9.2.3.6. OIG Global Fund supply chain technical audit

The Geneva Global Fund Office of Inspector General [OIG] audited the Trust's supply chain with a focus on QMS compliance, documentation and Standard Operating Procedures (SOPs) and enforcement on best practices. Neither critical nor major findings or observations were reported by the audit team against the Trust's Quality Management System (QMS).

9.2.3.7. Improvements in product zones and product bin locations

In the reporting period, the Trust managed to create product bin locations/storages for the new software Microsoft Navision ERP system as a way of ensuring transparency, accountability, improved efficiencies in the receipt, storage and dispatch of items within the CMST warehouses as well as production of supply chain real time reports.

9.2.3.8. OPC Performance contract assessment results for 2019

The Trust, for the first time, participated in the Office of the President and Cabinet performance contract assessments of its 19 Key Performance Indicators covering operations and non-operations categories. Overall, the Trust achieved a good performance score of 2.243 against a standard cut off point of 2.5. The Trust will endeavor to improve the score in the coming year.

9.2.3.9. Implementation of Quality Assurance specific supply chain integration activities

In order to improve process and systems efficiencies, the Trust developed several supply chain KPIs across its areas of operations. In the reporting period, an ABC costing exercise focusing on warehouse operations was initiated with a focus on receiving, put away, picking and dispatch operations and equipment usage KPIs. These shall help measure the weaknesses in these areas and improve the overall performance in readiness for integration and meet or exceed customers and other stakeholders' expectations.

9.2.3.10. Management of controlled medicines

The technical audit of controlled medicines at the CMST's central Receipt Warehouse revealed that the Trust has safe management procedures, arrangements and best practices for monitoring and adherence to the Pharmacy, PMRA requirements.

9.2.4. Sales and Distribution

In the past decade, major transformation in sales and distribution has included the acquisition of a new fleet to replace the old one which was inefficient to run;

installation of an upgraded vehicle tracking system complete with fuel, route and speed monitors; the initiation and management of an outsourced distribution function for the last mile for efficiencies, and the detaching of the distribution function from warehousing for better management.

9.2.4.1. Customer orders

In the year under review, customer order fill rates, which basically mean 'how much of a customer order CMST is able to fulfill' have hang around at an average of 59% for District Hospitals (DHs) and 49% for Central Hospitals (CHs). The disparity arises because of the need for more specialised requirements for the latter. The fill rates were impacted by financial constraints as suppliers withheld deliveries due to delayed payments. See **Figure 2** below:

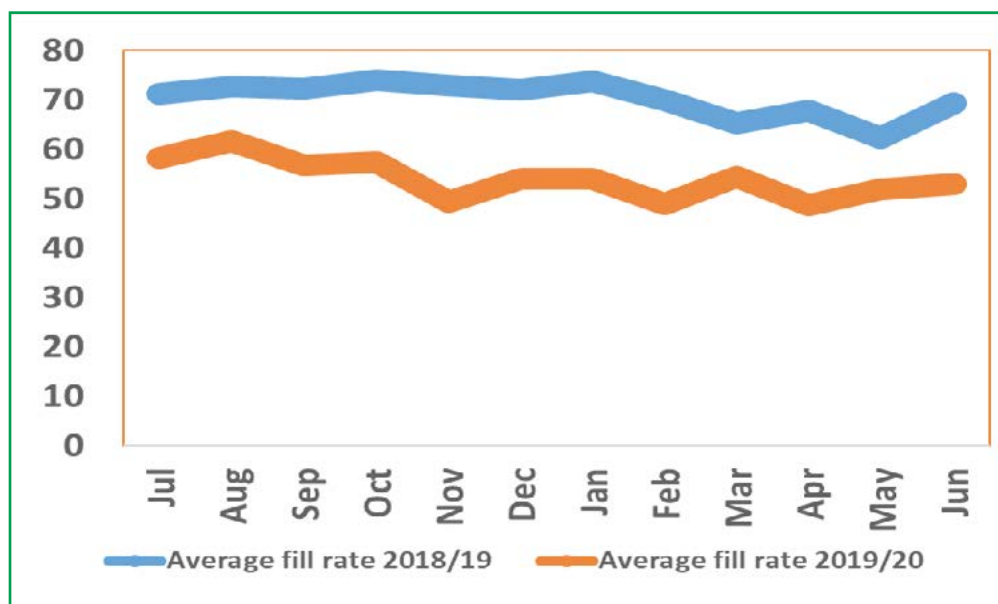


Figure 2: Average fill rates for Central and District Hospitals for years 2018 — 2019 and 2019 — 2020

9.2.4.2. Drug budget utilisation

The annual utilisation of the drug budget for district hospitals continues to go beyond 100% despite the present supply fill rates. This could be a pointer towards the inadequacy of the drug budget. See **Figure 3** below:

| AVERAGE FILL RATE VERSUS BUDGET UTILISATION FOR DISTRICT HOSPITALS | | |
|--|-------------------|----------------------------|
| Period | Average fill rate | Average Budget utilisation |
| 2019 — 2020 | 59% | 101% |
| 2018 — 2019 | 71% | 101% |
| 2017 — 2018 | 76% | 97.6% |

Figure 3: Average Fill Rate vs Average Budget Utilisation

Low fill rates against high budget utilisation signify trimming of customer orders amid low spending power. This ensures that processed orders are within facility drug budget allocation. Where customers order a little, fill rates are likely to present a rise.

9.2.4.3. Internal Distribution Key Performance Indicators (KPIs)

A total volume of 11,462m³ was distributed to the Regional Medical Stores against a volume of 11,229 m³ in the previous year. This represents an increase of 2%, with a monthly average of 955m³ of essential medicines and medical supplies distributed in the year. This was attributed to improved availability of stock at the central warehouse. Fuel distribution costs increased by 6% due to upward market price fluctuations. See **Figure 4** below:

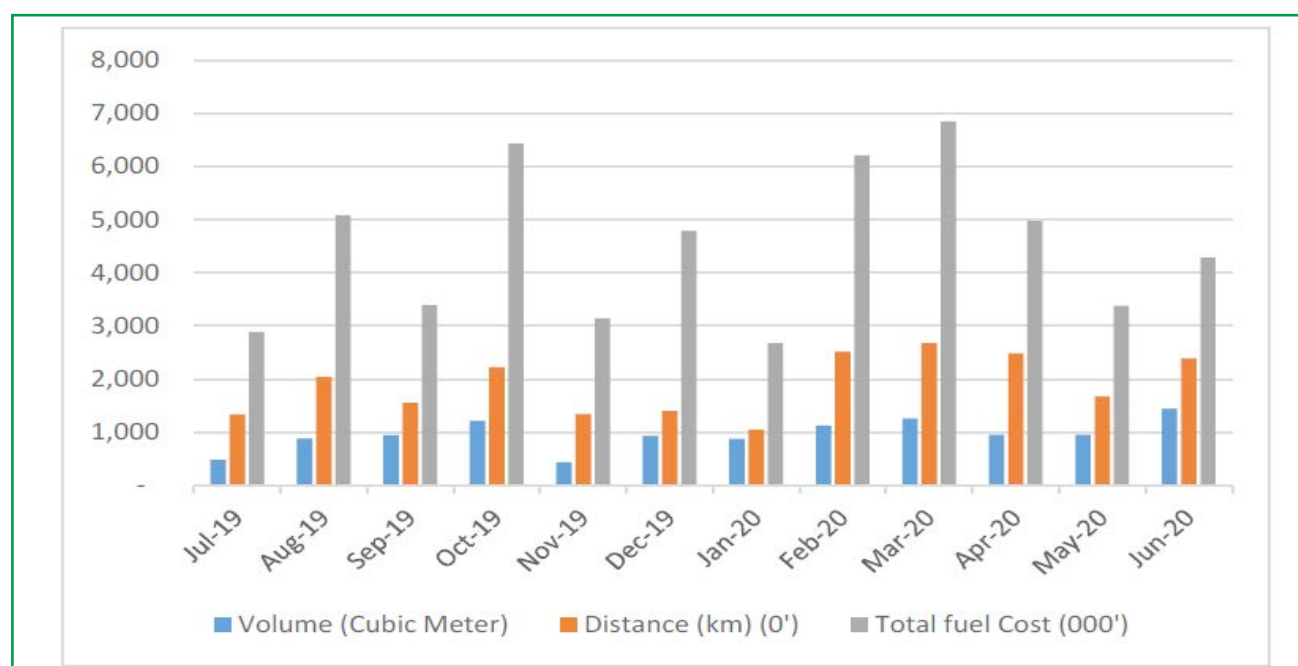


Figure 4: Internal Distribution KPIs

9.2.4.4. Volumes for Last Mile Distribution

Last Mile Distribution (LMD) is the shipment of customer orders to District Hospitals and their subsequent health facilities. During the period under review, a total volume of 16,837m³ for essential medicines and medical supplies and 2,207m³ for nutritional commodities was distributed to the facilities with a monthly average of 1,403m³ for the former and 184m³ for the latter.

This was an increase from the 15,774m³ distributed in the previous year, translating into a 7% rise attributed to improved availability of essential medicines towards the end of the year. Total distance covered decreased from 447,561km in the previous year to 391,570km in the present reporting period, a 12 percent cut due to consolidation of routes and deliveries of CMST managed essential medicines and medical supplies together with items from other health commodity supply programs.

In March, a higher distribution cost was registered due non-consolidation of Malaria commodities as they were urgently required by the facilities and had to be delivered separately. Furthermore, an increase in distribution costs was observed in the months of April, May and June due to a surge in volumes distributed towards the end of the year. See **Figure 5** below:

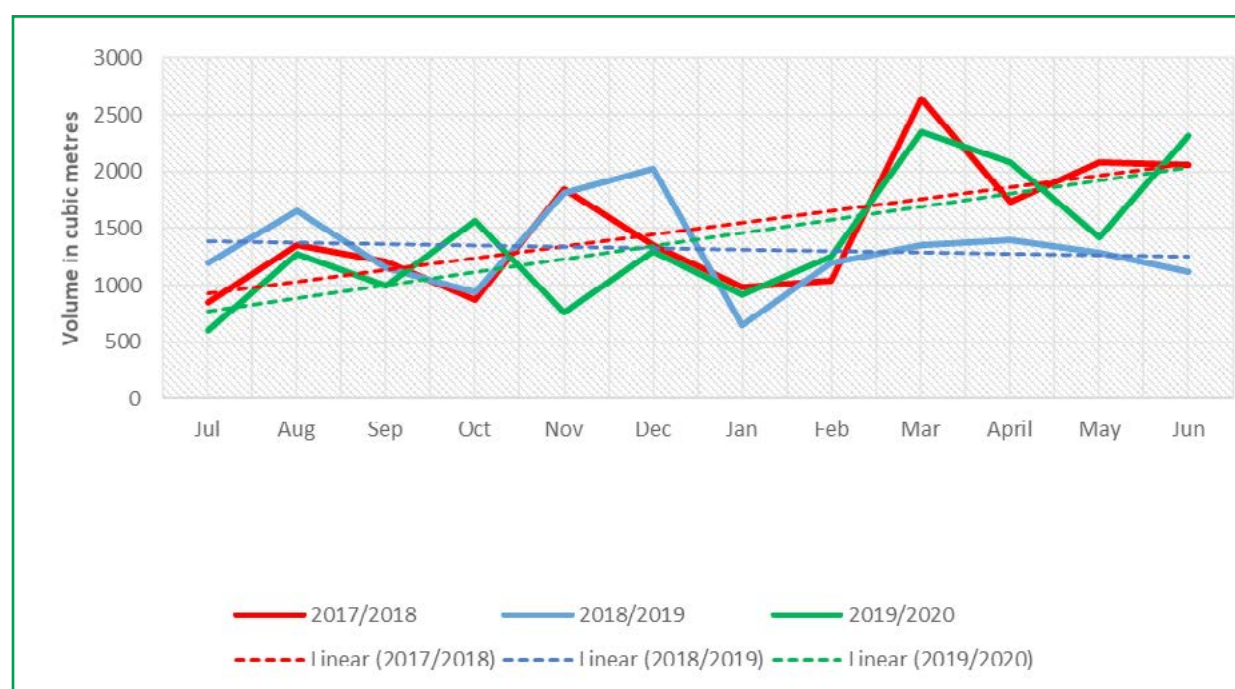


Figure 5: Volumes Distributed

9.2.4.5. Health facility visits and Delivery Conformance

A cumulative 9,372 health facility visits (drops) were made in the year to deliver medicines and medical supplies, representing a decrease of 9% from the previous financial year.

The overall average conformance to the last mile distribution was 91%.
See **Figure 6** below:

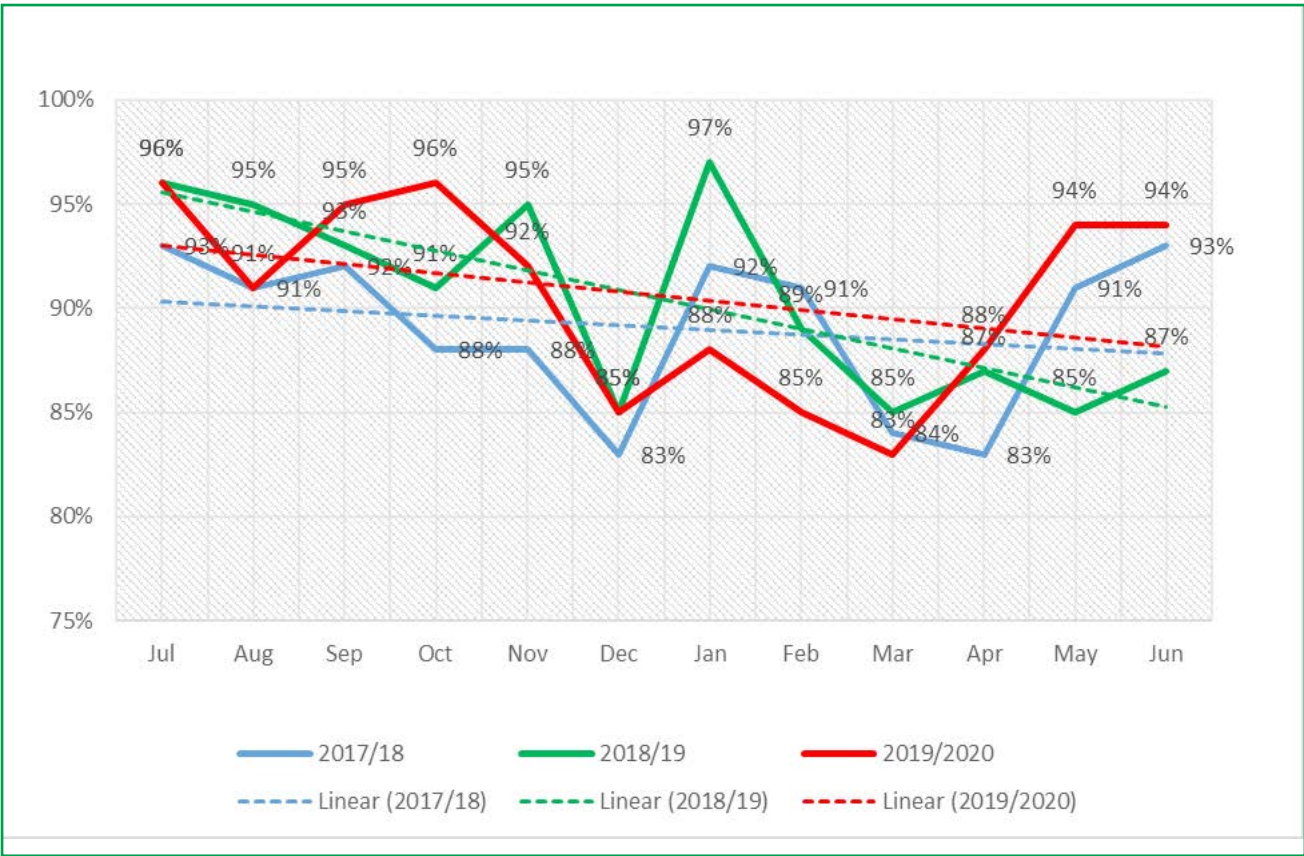


Figure 6: Delivery Conformance

9.2.4.6. Health Facility Orders

In the year, on average, 78% of health facilities submitted their monthly orders for essential medicines and medical supplies. CMST also observed that approximately 22% of health facilities do not receive their supplies every month. However, this could be attributed to untimely reporting of some health facilities. See **Figure 7** below:

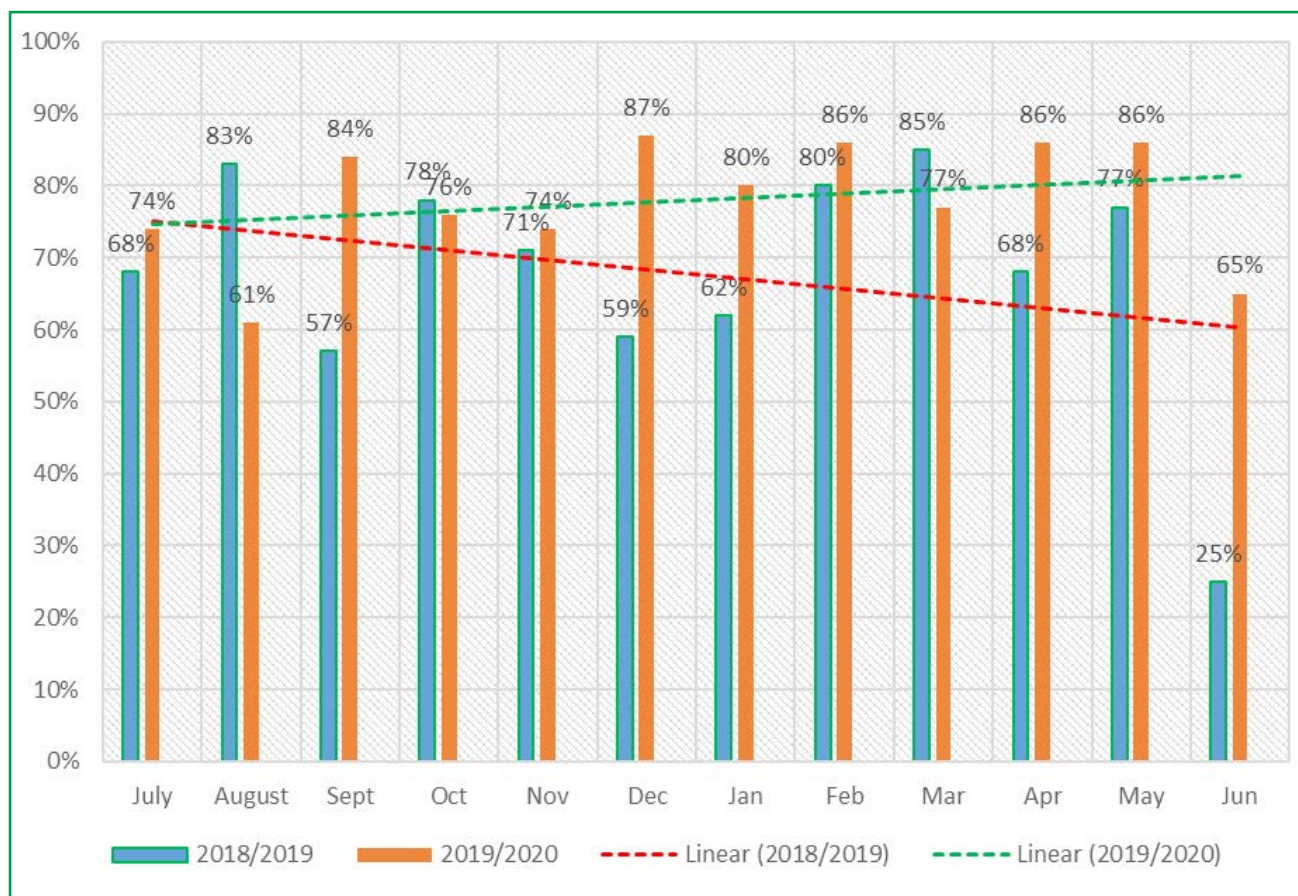


Figure 7: Health Facility Orders

9.2.4.7. **Distribution Performance**

CMST continued with Cargo Management Logistics (CML) as its third party logistics distributor with financial support of the Health Sector Joint Fund (HSJF). CML performed satisfactorily in all the six (6) distribution KPIs, except a minimal deviation on one KPI due to environmental conditions. See **Table 2** below:

Table 2: Distribution Performance

DISTRIBUTION PERFORMANCE

| Key Performance Indicator | Target | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Total Average Score | Remark |
|---|--------|-----------|-----------|-----------|-----------|---------------------|--|
| Number of monthly distribution cycles delivered within 10 days | 100% | 99% | 100% | 96% | 99% | 99% | Not conformed due to environmental conditions (impassable roads during rainy season) |
| Percentage of deliveries arriving in good condition | 100% | 100% | 100% | 100% | 100% | 100% | Conformed |
| Percentage of monthly distribution cycles with a maximum of 30 Degrees celsius | 90% | 91% | 97% | 100% | 100% | 97% | Conformed |
| Percentage of monthly distribution cycles with a maximum of 65% relative humidity | 90% | 92% | 98% | 95% | 96% | 95% | Conformed |
| Percentage of distribution cycles with complete sets of Proof of Deliveries within 72 hours | 100% | 100% | 100% | 100% | 100% | 100% | Conformed |
| Number of Trips with diversion not more than 10 km from the agreed standard route | 95% | 100% | 100% | 100% | 100% | 100% | Conformed |

9.2.5. Information and Communication Technology

In the reporting period, the Trust was implementing a new Enterprise Resource Planning (ERP) System called Microsoft Dynamics Navision 2018, commonly referred to as NAV. The new system replaced the Sage 300 ERP system (ACCPAC) and went live on 5th August 2019. The system was implemented with the help of Techno Brain Global Limited (TBGL).

The Trust is also engaged in parallel Supply Chain Integration activities to assimilate the supply line managed by CMST and those used by the parallel supply options. Once these systems are integrated, it is expected that the visibility of pharmaceutical products in the supply chains of all participating partners and CMST will be enhanced, among various dimensions, easing processes such as quantification and proper forecasting of commodities.

A new product catalogue has been developed and the corresponding codes have also been introduced into NAV, but are not operational. The Trust has also conducted training of users in Data Quality Management and produced a dashboard through the Power BI utility tool that connects to NAV to pull reports to be shared with other stakeholders.

9.2.5.1. ICT Plans

In the future, it is expected that the Trust will implement an enhancement of the Warehousing Management System (WMS). A tender for the supply of the WMS was floated and ensuing bids were evaluated. Another expected enhancement is on network security. The Trust, through Global Fund, is procuring firewalls and routers that will be used to enhance data security and accessibility.

9.2.6. Financial Management and Environment

The economic environment was averagely stable during the year with an increase in the exchange rates for the United States Dollar in the fourth quarter on the financial year.

The Trust still enhanced its potential in achieving its mandate as the demand for medicines and medical supplies continues to increase relative to the population growth.

9.2.6.1. Budget for Medicines and Medical Supplies

Cumulative funding by National Local Government Finance Committee (NLGFC) for all District Health Offices (DHOs) for the procurement of medicines and medical supplies amounted to K14.4 Billion as at 30th June 2020, translating into a 6% increase when compared to the K13.6 Billion funding in the prior year.

Central Hospitals continued procuring medicines and medical supplies on credit from CMST and they still had an outstanding debt of K1.9 Billion as at 30th June 2020.

The Trust recorded an increase in demand for medicines and medical supplies by all District Health Offices (DHOs) which resulted in an overutilisation of 2%, as indicated in **Table 3** below:

Table 3: Budget Draw Downs for June 2020

| Facility | Budget Allocation YTD draw downs | | % Draw Down | % Expected Draw Down |
|-------------------|----------------------------------|-------------------|---------------|----------------------|
| | MK'000 | MK'000 | | |
| Balaka DHO | 437,359 | 455,392 | 104.12 | 100.00 |
| Blantyre DHO | 1,019,735 | 1,115,884 | 109.43 | 100.00 |
| Chikhwawa DHO | 540,585 | 643,676 | 119.07 | 100.00 |
| Chiradzulu DHO | 468,051 | 606,397 | 129.56 | 100.00 |
| Machinga DHO | 501,360 | 430,084 | 85.78 | 100.00 |
| Mangochi DHO | 830,190 | 858,579 | 103.42 | 100.00 |
| Mulanje DHO | 627,369 | 621,495 | 99.06 | 100.00 |
| Mwanza DHO | 294,459 | 332,075 | 112.77 | 100.00 |
| Neno DHO | 340,862 | 304,990 | 89.48 | 100.00 |
| Nsanje DHO | 383,313 | 399,698 | 104.27 | 100.00 |
| Phalombe DHO | 410,918 | 448,262 | 109.09 | 100.00 |
| Thyolo DHO | 713,799 | 798,480 | 111.86 | 100.00 |
| Zomba DHO | 713,181 | 693,450 | 97.23 | 100.00 |
| Sub-Total | 7,281,181 | 7,708,463 | 105.87 | 100.00 |
| Dedza DHO | 714,005 | 690,779 | 96.75 | 100.00 |
| Dowa DHO | 623,989 | 568,362 | 91.09 | 100.00 |
| Kasungu DHO | 662,692 | 676,916 | 102.15 | 100.00 |
| Lilongwe DHO | 1,502,814 | 1,522,364 | 101.30 | 100.00 |
| Mchinji DHO | 519,380 | 537,041 | 103.40 | 100.00 |
| NkhotaKota DHO | 544,225 | 566,734 | 104.14 | 100.00 |
| Ntcheu DHO | 609,623 | 599,504 | 98.34 | 100.00 |
| Ntchisi DHO | 335,460 | 372,320 | 110.99 | 100.00 |
| Salima DHO | 475,885 | 478,440 | 100.54 | 100.00 |
| Sub-Total | 5,988,074 | 6,012,461 | 100.41 | 100.00 |
| Chitipa DHO | 351,681 | 369,911 | 105.18 | 100.00 |
| Karonga DHO | 358,503 | 358,170 | 99.91 | 100.00 |
| Likoma DHO | 95,523 | 89,289 | 93.47 | 100.00 |
| Mzimba North DHO | 284,798 | 282,799 | 99.30 | 100.00 |
| Mzimba South DHO | 559,221 | 545,948 | 97.63 | 100.00 |
| Nkhatabay DHO | 332,498 | 332,115 | 99.88 | 100.00 |
| Rumphi DHO | 348,522 | 347,374 | 99.67 | 100.00 |
| Sub-Total | 2,330,746 | 2,325,607 | 99.78 | 100.00 |
| TOTAL DHOs | 15,600,000 | 16,046,530 | 102.86 | 100.00 |

9.2.6.2. Recapitalisation

CMST continued to face financial constraints made submissions for CMST recapitalisation to Ministry of Finance, Economic Planning and Development (MoFEPD) and the Ministry of Health and Population (MoHP) which released part funding of K5 Billion towards the recapitalisation. This enabled the Trust to settle some outstanding suppliers' obligations and facilitate establishment of Letters of Credits (LCs) with commercial banks for the procurement of medicines and medical supplies. The financial need still exists, requiring a recapitalisation enough that to support present and emerging needs such as financing the construction of additional warehouses in order to reduce rental costs; enhancing fleet to undertake last mile distribution; procurement of enough medicines and medical supplies and managing operational expenditures.

In accordance with International Financial Reporting Standards (IFRS), the financial reporting provision of the Trustees Incorporation Act and the Public Finance Management Act, the Trust awarded a second External Audit Services contract to Graham Carr and conducted the audit for the year ended 30th June 2020.

The Trust recorded 11% increase in sales to K22 Billion from K20 Billion achieved year ended 30th June 2019.

However, there was a deficit of K7.6 Billion compared to K3.1 Billion posted prior year. This was due to stock write-offs and litigation charges in respect of compound interest for late payables settlements amounting to K3.8 Billion and K3.2 Billion respectively.

9.2.7. Risk Management and Audit

The risk management function in CMST is a continuous process which helps to support the business to take a proactive approach in identifying and effectively mitigating its critical risks. CMST's risk management approach is enterprise-wide based, meaning it is practiced holistically across all the business units because CMST recognizes that the impact of risks cuts across the entire business.

9.2.7.1. Responsibility for risk governance

The CMST's Board of Trustees is ultimately responsible for the governance of risk management. CMST's Executive Management ensures that there is an efficient risk management process in place. All management teams in the different businesses units are responsible for their own risk management. To this effect, each business unit

has a risk register in place and these are consolidated into one CMST Enterprise Wide Risk Register.

To enhance the Board's oversight role, the Internal Audit function provides assurance through direct reporting to the Audit and Risk Management Committee (ARMC) of the Board on the adequacy and effectiveness of internal controls, risk management and governance. Internal audits are planned and carried out independently but in coordination with other control functions and the external auditors.

The annual Internal Audit plan is approved by the Audit and Risk Management Committee of the Board which, in this year, met twice to receive reports.

9.2.8. Human Resource and Administration

With the breaking out of the Covid 19 pandemic, perhaps never had the role of human resource in any organisation been so pivotal than in the period under review. The demand for human resource decisions around safety at the workplace in the wake of the Covid 19 Pandemic had been so pronounced in the year that there was a need to rethink several aspects of the workforce. For the Trust, human resource remained the most valuable reserve and with such came the demand for increased motivation, development and safety.

9.2.8.1. CMST Covid 19 Response

CMST swiftly responded with implementation of preventive measures such as introduction of staff rotation, reduced physical meetings, increased social distance, provision of sanitiser, designated hand washing points and sensitisation of staff. CMST also put up National and Regional Covid 19 prevention committees to oversee implementation on ideals in the fight against the epidemic.



A demonstration on proper handwashing for Covid-19 prevention

9.2.8.2. Change Management

A change management committee completed an orientation, leading to the selection of change champions and mentors who are responsible for the continued discussion on change. CMST seeks to manage any change resistance and promote awareness on the benefits of change.

Change Management and Communication also included the examining of the current brand image to ascertain its suitability to the Trust's new ideals of doing business. Should there be any need established, CMST will rebrand.

9.2.8.3. Staff Establishment

At the start of the period under review, the Trust had 184 filled positions and 18 vacancies. The gender representation was 73% male and 27% female employees. The Trust being an equal employer continues to anticipate recruitment and retention of more females and encourages women to respond to job openings.

9.2.8.4. Strategy and Policy Review

CMST worked on reviewing the Corporate Strategy, Business Plan and other policies, a considerable number of which were due for implementation between 2015 and 2020.

To ensure that the Trust continues to operate efficiently, the review of the 2015 to 2020 Corporate Strategy and Business Plan and the drawing of the 2020 — 2025 documents ensured that the Trust repositions itself to increase responsiveness to its working environment by, for instance becoming more customer centric. The

Corporate Strategy and Business Plan 2020 — 2025 became effective on 1st July 2020.

9.2.8.5. Confirmations, Terminations and Retirements

The Trust confirmed Director of Pharmaceutical Operations (DPO), Mr. Joe Khalani and Director of Procurement (DOP), Mr. Rex Kuyeli following their appointments in the respective positions in acting capacity.

The Trust terminated employment services for two employees during the period under review. One was dismissed for theft of a fellow colleague's personal effects while the second one was dismissed for gross negligence of his work.

During the period under review the Trust bid farewell through retirement to some of its long serving employees; the Security Services Officer (SSO), Captain Kingstone Mbewe (Retired) and the Human Resource and Administration Manager (HRAM), Mr. Mtamandeni Kalilangwe.



Dr. Kaupa (Right) presents a gift to Kalilangwe



Issa (in blue shirt) shakes Mbewe goodbye

9.2.8.6. Assets Transfers and Property Listings

The Trust is working towards transferring all assets currently held elsewhere back into its ownership. To date, for instance, the Trust has been working on the title deed preparations at Ministry of Lands and Housing. The work towards change of ownership of motor vehicles that were inherited from CMS is at an advanced stage and the Trust has been working with MRA and Interpol

The Trust's listing of property includes 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.

9.2.8.7. Insurance Cover

The Trust continues to be steadfast in maintaining insurance cover for its investments and property. During the reporting period, the Trust's insurance provider, Reunion Insurance, was maintained, with Rhino as Broker.

9.2.8.8. Board off and Waste Management

The Trust's business, at some point, involves management of waste or left-overs in form of worn out parts from machines and expired or damaged medicines and medical supplies which need disposing or boarding off.

The Trust therefore continues to ensure that board offs or other disposals in no way affect the surrounding communities or environment negatively. Board offs of medicines and medical supplies are done in consultation with befitting 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.

9.2.9. Corporate Social Responsibility

The Trust is a citizen of its larger society and it continued to maintain a good relationship with the community at large. The manifestation of the relationship was in many ways in the year under review, including hosting of students on attachments.

9.3. Overall Summary Of 2019 — 2020 Performance Based On Key Indicators

Below (**Table 4**) is the Trust's summary of progress on specific reform areas:

Table 4: Progress on CMST reforms

| REFORM AREA | SPECIFICS | START AND END DATES | PROGRESS TO DATE | OUTCOMES | CHALLENGES | PROPOSED SOLUTIONS |
|-------------|--|---------------------|---|--|---|--|
| Procurement | Procurement of medicines and medical supplies direct from manufacturers through Framework Agreements | On-going | Selected and specialized commodities (Surgical sutures and psychotropics) procured from manufacturers but only through their international agents | Cost savings of 15 to 20% | Quantity requirements fall short of minimum order requirements by manufacturers | |
| | | | | | | Aggregating volumes with regional neighbors through SADC pooled procurements |
| | | | | Improved availability, especially on psychotropics | Lack of financial capacity to pay manufacturers per their terms | Recapitalisation and thereafter and become an agent for manufacturers |

| REFORM AREA | SPECIFICS | START AND END DATES | PROGRESS TO DATE | OUTCOMES | CHALLENGES | PROPOSED SOLUTIONS |
|-------------|---|---------------------|--|--|--|--|
| | Procuring through establishment of Indefinite Quantity Agreements and/or Framework Agreements | On-going | From 2018 all open tender awards have been on Indefinite Quantity Agreements | Reduced Procurement lead times by 50% (from 6 to 3 months maximum) | Procurement Law requires one year contracts | Multi-year (2 to 3 years) framework agreements |
| | Implementation of Buy Malawi Strategy (BMS) for Pharmaceutical Sector | 2018 — 2023 | List of essential products under BMS has increased from 42 to 84. | Increased capacity for local manufacturing | | Government to set up separate fund for BMS — Pharmaceutical Sector |
| | | | | | BMS prices higher than those of imported products | |
| | | | | | Burden of the increase in price is shouldered by drug budget | |

| REFORM AREA | SPECIFICS | START AND END DATES | PROGRESS TO DATE | OUTCOMES | CHALLENGES | PROPOSED SOLUTIONS |
|--------------|--|---------------------|---|--|------------|--------------------|
| | | | | Reduced holding costs as a result of lower inventories for locally manufactured products | | |
| Warehousing | Increase in warehousing space | 2017 | Phase one of National Pharmaceutical Warehouse (5000m ³) completed and launched in November 2017, Racking completed | Increased warehouse space by 5000m ³ | None | None |
| | | Dec-20 | Rehabilitation and construction of TB warehouses underway in Lilongwe and Blantyre respectively | Increased warehouse space | None | None |
| | Warehouse Improvement Plan | 2019 | CCTV, biometric access control, floor markings completed | Compliance to good warehousing practices | None | None |
| | | 2019 | Temperature control/installation of pharmaceutical grade ceilings | Compliance to good warehousing practices | Financing | Recapitalisation |
| Distribution | Outsourcing, implementation of pull system, installation of fleet tracking | 2017 – Ongoing | Outsourcing of last-mile distribution done | Enhanced efficiency in distribution | None | None |
| | | 2017 – Ongoing | Implementation of pull system of distribution away from the initial push system | Enhanced efficiency in distribution | None | None |

| REFORM AREA | SPECIFICS | START AND END DATES | PROGRESS TO DATE | OUTCOMES | CHALLENGES | PROPOSED SOLUTIONS |
|--------------------------------------|--|---------------------|--|--|---|-----------------------------|
| Supply Chain Integration | Implementation of Supply Chain Integration | 2019 | Implementation underway since 2019 with assistance from Chemonics, financed by The Global Fund | Operational efficiency and increased income | Unavailability of funds for key activities such as drawing of Supply Chain Master Plan and construction of the Phase two of the National Pharmaceutical Warehouse | Government or Donor Funding |
| | | 2019 and ongoing | CMST now warehousing nutrition commodities for UNICEF previously managed by parallel supply chains | Increased income | None | None |
| | | 2019 and ongoing | Supply Chain Steering Committee established | Improved Governance | None | None |
| | | 2019 | Developed Supply Chain KPIs for monitoring CMST supply chain project | Improved monitoring and evaluation | None | None |
| Information Communication Technology | Online ordering System | | | Reduced cost and turnaround for distribution | None | None |

Apart from completing ongoing reforms, The Trust commits to pursue new reforms as indicated in **Table 5** below:

Table 5: New Reforms

| REFORM AREA | SPECIFICS | START AND END DATES | PROGRESS TO DATE | CHALLENGES | PROPOSED SOLUTIONS |
|-------------|---|---------------------|---|--|--|
| PROCUREMENT | Procurement of medicines and medical supplies direct from manufacturers | On-going | Selected and specialized commodities (Surgical sutures and psychotropics) procured from manufacturers but only through their international agents | Quantity requirements fall short of minimum order requirements by manufacturers | Aggregating volumes with regional neighbours through SADC pooled procurements |
| | Procuring through establishment of Indefinite Quantity Agreements and/or Framework Agreements | On-going | From 2018 all open tender awards have been on Indefinite Quantity Agreements | Lack of financial capacity to pay manufacturers per their terms | Recapitalisation and thereafter become an agent for manufacturers |
| | Implementation of Buy Malawi Strategy (BMS) for Pharmaceutical Sector | 2018 to 2023 | List of essential products under BMS has increased from 42 to 84. | Procurement Law requires one year contracts BMS prices higher than those of imported products Burden of the increase in price is shouldered by drug budget | Multi-year (2 to 3 years) framework agreements Government to set up separate fund for BMS's pharmaceutical sector |
| | Increase in warehousing space | 2017 | Phase one of National Pharmaceutical Warehouse (5000m ³) completed and | None | |
| WAREHOUSING | | | | | |

| REFORM AREA | SPECIFICS | START AND END DATES | PROGRESS TO DATE | CHALLENGES | PROPOSED SOLUTIONS |
|---------------------------|--|---------------------|---|---|-----------------------------|
| | Warehouse Improvement Plan | | launched in November 2017 | | |
| | | December 2020 | Rehabilitation and construction of TB warehouses underway in Lilongwe and Blantyre respectively | | |
| | | 2019 | Racking, CCTV, biometric access control, floor markings completed | | |
| | | 2019 | Temperature control/installation of pharmaceutical grade ceilings | Financing | Recapitalisation |
| | | 2017 – Ongoing | Outsourcing of last-mile distribution done | None | |
| | | 2017 – Ongoing | Implementation of pull system of distribution away from the initial push system | None | |
| DISTRIBUTION | Outsourcing, implementation of pull system, installation of fleet tracking | 2017- Ongoing | Installation of fleet tracking system completed | None | |
| SUPPLY CHAIN INTERGRATION | Implementation of supply chain integration | 2019 | Implementation underway since 2019 with assistance from Chemonics financed by the Global Fund | Unavailability of funds for key activities such as drawing of Supply Chain Master Plan and construction of the Phase two of the National Pharmaceutical Warehouse | Government or Donor Funding |
| | | 2019 and ongoing | CMST now warehousing nutrition commodities for UNICEF previously managed | none | |

| REFORM AREA | SPECIFICS | START AND END DATES | PROGRESS TO DATE | CHALLENGES | PROPOSED SOLUTIONS |
|-------------|------------------------------------|---------------------|--|------------|--------------------|
| ICT | | | by parallel supply chains | | |
| | | 2019 and ongoing | Supply Chain steering Committee established | None | |
| | | 2019 | Developed Supply Chain KPIs for monitoring CMST supply chain project | None | |
| | Online ordering System | Ongoing | Implementation completed but likely to be superseded by Open LMS. | None | |
| | Operationalization of CMST website | 2018 | Completed and operational | None | |

| REFORM AREA | SPECIFICS | START AND END DATES | PROGRESS TO DATE | CHALLENGES | PROPOSED SOLUTIONS |
|-------------------|---|---------------------|--|------------|--------------------|
| PROCUREMENT | Establishment of e-Procurement processes for cost efficiency and increased transparency | 2020 — 2022 | To implement e-tendering module on the Enterprise Resource Planning (ERP) system. | | |
| WAREHOUSING | Increasing warehousing space | 2020 | Architectural drawings and Bill of Materials for a new Pharmaceutical warehouse | | |
| | Optimizing warehousing space utilization | Ongoing | Re-racking to create narrower aisles | | |
| | Improvement of warehouses facilities | 2020 — 2023 | Refurbishment of warehouse at RMS South (replacement of asbestos roof and other works) | | |
| PRODUCTION UNIT | New Product Development | 2020 — 2021 | Installation of automatic temperature monitoring systems in all warehouses | | |
| | | 2020 | Repackaging of alcohol 96% and methylated spirit | | |
| DISTRIBUTION | Outsourcing, implementation of pull system, installation of fleet tracking | 2020 — Ongoing | Production of hand sanitizer | | |
| | | 2020 — Ongoing | Upgrade GPS fleet management system | | |
| QUALITY ASSURANCE | Quality Management Systems | 2017 — Ongoing | Pursue ISO 9001: 2015 certification | | |

| REFORM AREA | SPECIFICS | START AND END DATES | PROGRESS TO DATE | CHALLENGES | PROPOSED SOLUTIONS |
|---------------------------|---|---------------------|---|---|-----------------------------|
| SUPPLY CHAIN INTERGRATION | Integration of parallel supply chains into CMST system | 2021 — Ongoing | Implementation underway since 2019 with assistance from Chemonics financed by the Global Fund | Unavailability of funds for key activities such as drawing of Supply Chain Master Plan and construction of the Phase two of the National Pharmaceutical Warehouse | Government or Donor Funding |
| | Deployment of a new ERP system (Microsoft Dynamics Navision 2018) | Ongoing | Installation, configuration, implementation at 98% | The Service provider delays to complete implementation of the last part of the project | |
| ICT | Online ordering System | Ongoing | Next Phase is to go into a two year support agreement with Service Provider | | |
| | | Ongoing | Implementation completed but likely to be superseded by Open LMIS. | | |
| | Organisational structure and capacity enhancement | 2020 — 2023 | Implementation of Functional Review recommendations | | |
| | Human Systems | 2020 — Ongoing | Skills Development | | |
| HUMAN CAPITAL DEVELOPMENT | Resource | 2020 — Ongoing | Procurement of HRM software | | |

9.3.1.Future Outlook

CMST fully appreciates its non-negotiable obligation to maintain an uninterrupted supply of medicines and medical supplies to the Malawi public health system to support towards a fit and strong population on which other development agendas rely. The Trust will therefore continue to execute its mandate with steadfastness in pursuing reforms and harnessing successes.

However, financing remains the biggest hurdle to the running of large, economic procurements and the servicing of payments due to suppliers. CMST therefore requests Government to prioritize its recapitalisation to enable it to stock adequately thereby increase the availability of medicines and medical supplies.

CMST also wishes for policy revision to take off pressures emanating from current arrangements. For instance, CMST would appreciate consideration for separate provisions governing procurement of medicines and medical supplies, unlike the current Procurement Law which cut across all sectors ignoring the urgency required to avail medicines to patients.

Allocation of a separate fund to support the Buy Malawi Strategy (BMS) would also take off pressure on the already limited drug budget to support BMS prices which are higher than those offered on the conventional market.

On integration, the Trust would benefit from high level political support in enhancing speed of the project's rollout.

9.3.2.Appreciation

The Trust appreciates the policy direction rendered by Board of Trustees and its committees, the hardwork by staff and commits to timely engage in reporting of successes, challenges and planned interventions for further guidance and direction.



DR. FESTON KAUPA
CHIEF EXECUTIVE OFFICER

FINANCIAL STATEMENTS

CENTRAL MEDICAL STORES TRUST

FINANCIAL STATEMENTS

30 JUNE 2020



CENTRAL MEDICAL STORES TRUST

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

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CENTRAL MEDICAL STORES TRUST
TRUSTEES' REPORT
FOR THE YEAR ENDED 30 JUNE 2020

The Trustees' have pleasure in submitting their report together with the audited financial statements of Central Medical Stores Trust for the year ended 30 June 2020.

Nature of business and incorporation

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

Financial performance

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

Board of trustees

The following Trustees served office during the year:

| | | |
|-------------------------|-------------------|----------------------------------|
| Mrs. Hilda Singo | Board Chair | Full year |
| Mr. Allan Muhome | Member | Full year |
| Ms. Dina Kamowa | Member | Full year |
| Dr. Titha Dzwela | Member | 1 July to 30 November 2019 |
| Ms. Innocencia Chirombo | Member | 1 December 2019 to 30 April 2020 |
| Mr. Happy Makala | Member | 1 May to 30 June 2020 |
| Mr. Alifeyo Banda | Ex-officio member | Full year |
| Dr. Dan Namarika | Ex-officio member | Full year |
| Mr. Cliff Chiunda | Ex-officio member | Full year |

Registered office:

Central Medical Stores Trust
Mzimba Street
Private Bag 55
Lilongwe

Bankers:

National Bank of Malawi Plc
FDH Investment Bank

Attorneys:

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

CENTRAL MEDICAL STORES TRUST

TRUSTEES' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020


Independent auditors:

Graham Carr
ADL House
P.O. Box 898
Lilongwe

Graham Carr, Chartered Accountants and Business Advisors (Malawi) have indicated their willingness to continue as auditors in respect of the 30 June 2021 financial statements.



BOARD OF TRUSTEES CHAIRPERSON



TRUSTEE

CENTRAL MEDICAL STORES TRUST**STATEMENT OF TRUSTEES' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2020**

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

The Trustees confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30 June 2020. The Trustees also that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

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

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


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

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

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

Approval of financial statements

The financial statements of the Trust were approved for issue by the Board of Trustees on 29/12/20 and were signed on its behalf by :-


BOARD OF TRUSTEES CHAIRPERSON

TRUSTEE



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

ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

ADL House, 2nd Floor, City Centre
P.O.Box 898 Lilongwe Malawi
Tel: (+265) 01-775-763
01-775-764
01-775-836
Fax: (+265) 01-775-762
E-mail: lilongwe@grahamcarmw.com

Opinion

We have audited the financial statements of Central Medical Stores Trust, which comprise the statement of financial position as at 30 June 2020, and the statement of profit or loss and other comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Central Medical Stores Trust as at 30 June 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the financial reporting provision of the Trustees Incorporation Act, 1962 and the Public Finance Management Act, 2003.

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 19 in the financial statements which indicates that the Trust incurred a loss for the year of MK7.6 billion (2019: loss for the year of MK3.2 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 MK17.9 billion represent 55% of total assets of the Trust as at the reporting date. These inventories mainly consists of drugs and medical supplies kept at various warehouses managed by the Trust across the country. Valuation of inventories is at lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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



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ADL House, 2nd Floor, City Centre
P.O.Box 898 Lilongwe Malawi
Tel: (+265) 01-775-763
01-775-764
01-775-836
Fax: (+265) 01-775-762
E-mail: lilongwe@grahamcarrmw.com

**AUDITOR'S REPORT TO THE MEMBERS OF
CENTRAL MEDICAL STORES TRUST
ON THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**

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

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

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



**AUDITOR'S REPORT TO THE MEMBERS OF
CENTRAL MEDICAL STORES TRUST
ON THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**

ADL House, 2nd Floor, City Centre
P.O.Box 898 Lilongwe Malawi
Tel: (+265) 01-775-763
01-775-764
01-775-836
Fax: (+265) 01-775-762
E-mail: lilongwe@grahamcarrmw.com

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 of 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.
- 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.

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

ON THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

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

- 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.

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



Graham Carr
Chartered Accountants (Malawi)
Cornwell Banda
Partner
ADL House
City Centre
P O Box 898
Lilongwe

Date: 29/12/20

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



Graham Carr is a member firm of the "Nexia International" network. Nexia International Limited does not deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes the word NEXIA) are not part of a worldwide partnership. Nexia International Limited does not accept any responsibility for the commission of any act, or omission to act by, or the liabilities of, any of its members. Each member firm within the Nexia International network is a separate legal entity.


CENTRAL MEDICAL STORES TRUST

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

| | Note | 2020 MK'000 | 2019 MK'000 |
|---------------------------------------|------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 9,047,239 | 9,239,380 |
| Long term staff receivables | 9 | 130,503 | 81,800 |
| Total non-current assets | | 9,177,742 | 9,321,180 |
| Current assets | | | |
| Inventories | 8 | 17,881,752 | 20,313,268 |
| Trade and other receivables | 9 | 4,225,911 | 2,155,213 |
| Cash and cash equivalents | 10 | 1,097,870 | 1,415,296 |
| Total current assets | | 23,205,532 | 23,883,777 |
| Total assets | | 32,383,275 | 33,204,957 |
| RESERVES AND LIABILITIES | | | |
| Reserves | | | |
| Treasury fund | | 21,823,775 | 16,823,775 |
| Capital fund | | 366,091 | 494,052 |
| Revaluation reserve | | 6,645,981 | 6,820,331 |
| Accumulated loss | | (10,679,931) | (3,254,100) |
| Total reserves | | 18,155,916 | 20,884,058 |
| Current liabilities | | | |
| Trade and other payables | 11 | 14,227,359 | 12,320,899 |
| Total reserves and liabilities | | 32,383,275 | 33,204,957 |

These financial statements were authorised for issue by the Board of Trustees on 29/12/20 following acceptance by the Auditor General and are signed on its behalf by:


BOARD CHAIRPERSON


TRUSTEE

CENTRAL MEDICAL STORES TRUST

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

| | Note | 2020 MK'000 | 2019 MK'000 |
|--|------|--------------------|--------------------|
| Revenue | 12 | 22,063,463 | 19,950,591 |
| Costs of sales | 13 | (17,923,072) | (16,883,369) |
| Gross profit | | 4,140,391 | 3,067,222 |
| Other income | 14 | 1,118,212 | 1,411,140 |
| Administrative expenses | 15 | (12,463,178) | (10,303,394) |
| Distribution costs | 15 | (307,201) | (100,951) |
| (Loss) before impairment of receivables | 15 | (7,511,776) | (5,925,983) |
| Impairment loss/ (loss reversal) | | (88,405) | 2,755,589 |
| Loss for the year | | (7,600,181) | (3,170,394) |
| Other comprehensive income | | | |
| Amortization of capital fund assets | | 127,961 | 113,044 |
| Assets received from UNICEF | | - | 149,169 |
| Total other comprehensive income | | 127,961 | 262,213 |
| Total comprehensive (loss) for the year | | (7,472,220) | (2,908,181) |

CENTRAL MEDICAL STORES TRUST
STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 30 JUNE 2020

| | Capital Fund MK'000 | Treasury fund MK'000 | Revaluation reserve MK'000 | Accumulated loss MK'000 | Total MK'000 |
|--|---------------------------|----------------------------|----------------------------------|-------------------------------|-----------------|
| Balance as at 1 July 2018 | 457,926 | 16,823,775 | 7,049,782 | (313,253) | 24,018,230 |
| Loss for the year | - | - | - | (3,170,394) | (3,170,394) |
| Assets received from UNICEF | 149,169 | - | - | - | 149,169 |
| Amortisation of capital fund assets | (113,043) | - | - | - | (113,043) |
| Depreciation relating to revalued assets | - | - | (229,451) | 229,451 | - |
| Prior year adjustment | - | - | - | 96 | 96 |
| Balance as at 1 July 2019 | 494,052 | 16,823,775 | 6,820,331 | (3,254,100) | 20,884,058 |
| Loss for the year | - | - | - | (7,600,181) | (7,600,181) |
| Depreciation relating to revalued assets | - | - | (174,350) | 174,350 | - |
| Recapitalisation funds | - | 5,000,000 | - | - | 5,000,000 |
| Amortisation of capital fund assets | (127,961) | - | - | - | (127,961) |
| Balance as at 30 June 2020 | 366,091 | 21,823,775 | 6,645,981 | (10,679,931) | 18,155,916 |

CENTRAL MEDICAL STORES TRUST

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 MK'000 | 2019 MK'000 |
|--|----------------|----------------|
| Operating activities | | |
| (Loss) for the year | (7,600,181) | (3,170,394) |
| Depreciation | 667,145 | 712,980 |
| Adjustment for amortisation of capital fund assets | (127,961) | (113,044) |
| | (7,060,997) | (2,570,458) |
| Change in inventories | 2,431,516 | 3,933,554 |
| Change in trade and other receivables | (2,119,400) | (1,674,682) |
| Change in trade and other payables | 1,906,460 | 117,099 |
| Net cashused on operating activities | (4,842,421) | (194,487) |
| Investing/financing activities | | |
| Acquisition of property, plant and equipment | (475,004) | (692,080) |
| Assets received from UNICEF | - | 149,170 |
| Recapitalisation receipts from Treasury | 5,000,000 | - |
| Net cash inflow from/(used in) investing/financing activities | 4,524,996 | (542,910) |
| Net (decrease) in cash and cash equivalents | (317,425) | (737,397) |
| Cash and cash equivalents at the beginning of the year | 1,415,296 | 2,152,693 |
| Cash and cash equivalents at the end of the year | 1,097,871 | 1,415,296 |
| ADDITIONAL INFORMATION | | |
| Increase in net working capital | 1,901,152 | 1,638,574 |

CENTRAL MEDICAL STORES TRUST**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

1 REPORTING ENTITY

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

The Trust is primarily engaged in procurement, storage and distribution of drugs, medical supplies and related products to the government health facilities and approved NGO health facilities.

2 BASIS OF PREPARATION**(a) Statement of compliance**

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**2.1 New standards and interpretations adopted**

In the current year, the entity has adopted those new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 July 2019.

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

| | |
|---|---|
| <i>IFRIC 23 Uncertainty over Income Tax</i> | Issued in June 2017. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. Effective for annual reporting periods beginning on or after 1 January 2019. |
|---|---|

| | |
|---------------------------------------|--|
| <i>IAS 23 Borrowing costs</i> | Issued in December 2017. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. Effective for annual periods beginning on or after 1 January 2019. |
|---------------------------------------|--|

2.2 Standards and Interpretations in issue not yet adopted

| | |
|--|---|
| <i>Amendments to IAS 1 and IAS 8</i> | The amendments in definition of material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with |
|--|---|

| | |
|---|---|
| <i>Conceptual framework in IFRS Standards</i> | Issued in March 2018. There are amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Effective for annual periods beginning on or after 1 January 2020. |
|---|---|

The Trust's directors anticipate that the new standards, amendments and interpretations will be adopted in the Trust's 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.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**3 SIGNIFICANT ACCOUNTING POLICIES**

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

3.1 Revenue

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

3.2 Property, plant and equipment**(i) Recognition and measurement**

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

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

(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 cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

(iii) Depreciation

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

| | Years | Percentage |
|------------------------|----------|------------|
| Buildings | 33 years | 3% |
| Plant and machinery | 5 years | 20% |
| Motor Vehicles | 5 years | 20% |
| Office equipment | 5 years | 20% |
| Furniture and fittings | 5 years | 20% |

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

Property, plant and equipment

(iii) Depreciation (continued)

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

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

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

3.3 Inventories

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

3.4 Impairment of assets

(i) Financial assets

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

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

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

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**(i) Financial assets (continued)**

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 year 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.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

Financial instruments (continued)

Recognition (continued)

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 YEAR ENDED 30 JUNE 2020**(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 and long positions at a bid price and liabilities and short positions at an ask price. Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Trust on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

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 YEAR ENDED 30 JUNE 2020****3.6 Trade payables**

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

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

3.7 Provisions

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

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

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

3.8 Cash and cash equivalents

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

3.9 Treasury fund

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

3.10 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.

3.11 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.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 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.

3.13 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 year- end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

3.14 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.

3.15 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 YEAR ENDED 30 JUNE 2020**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 YEAR ENDED 30 JUNE 2020

(i) Foreign currency risk

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

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

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

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

| | 2020 MK'000 | 2019 MK'000 |
|---|----------------|----------------|
| United States Dollars (\$) denominated monetary liabilities | | |
| Amount payable | 9,568,478 | 11,406,345 |

5.1.2 Credit risk

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

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

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

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

5.1.2 Credit risk (continued)

The table below analyses Trust credit risk exposure:

| | Gross carrying amount | 0 - 6 Months | 6 - 12 Months | Over 12 months |
|---|--------------------------|------------------|---------------|-------------------|
| | MK'000 | MK'000 | MK'000 | MK'000 |
| As at 30 June 2020 | | | | |
| Trade receivables and other receivables (excluding prepayments) | 6,662,097 | | - | 6,662,097 |
| Cash and cash equivalents | 1,537,399 | 1,537,399 | - | - |
| | <u>8,199,496</u> | <u>1,537,399</u> | <u>-</u> | <u>6,662,097</u> |
| As at 30 June 2019 | | | | |
| Trade receivables and other receivables(excluding | 4,543,281 | - | - | 4,543,281 |
| Cash and cash equivalents | 1,415,281 | 1,415,281 | - | - |
| | <u>5,958,562</u> | <u>1,415,281</u> | <u>-</u> | <u>4,543,281</u> |

(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 2020 MK'000 | Carrying amount 2020 MK'000 | Gross 2019 MK'000 | Carrying amount 2019 MK'000 |
|--------------------------------|------|-------------------------|--------------------------------------|-------------------------|-----------------------------------|
| Trade and other receivables | 9 | 7,234,879 | 4,356,414 | 5,027,072 | 2,237,013 |
| Cash and cash equivalents | 10 | 1,097,870 | 1,097,870 | 1,610,974 | 1,610,974 |
| | | <u>8,332,748</u> | <u>5,454,283</u> | <u>6,638,046</u> | <u>3,847,987</u> |

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

5.1.2 Credit risk (continued)

iv) Impairment losses

The aging of trade receivables at the reporting date was:

| | Gross 2020 MK'000 | Impairment 2020 MK'000 | Gross 2019 MK'000 | Impairment 2019 MK'000 |
|------------------------|-------------------------|------------------------------|-------------------------|------------------------------|
| Not past due | 23,990 | - | 1,004,180 | - |
| Past due 0 - 30 days | 1,414,642 | - | 28,782 | - |
| Past due 31 - 90 days | 1,670,435 | - | 371,867 | - |
| Past due above 90 days | 3,553,031 | 2,878,465 | 3,138,452 | 2,790,059 |
| Total | 6,662,097 | 2,878,465 | 4,543,281 | 2,790,059 |

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

| | 2020 MK'000 | 2019 MK'000 |
|-----------------------------------|------------------|------------------|
| Balance at 1 July 2019 | 2,790,059 | 5,580,021 |
| Impairment loss recognised | 88,405 | (34,373) |
| Impairment reversal | - | (2,755,589) |
| Balance as at 30 June 2020 | 2,878,464 | 2,790,059 |

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 YEAR ENDED 30 JUNE 2020

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 2020 MK'000 | 2019 MK'000 |
|--------------------------------|------|-----------------------------------|----------------|
| Fixed rate instructions | | | |
| Financial assets | 10 | 1,097,870 | 1,415,296 |
| Financial liabilities | | - | - |

vi) Fair values versus carrying amounts

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

5.1.3 Liquidity risk

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

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

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

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

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

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

5.1.3 Liquidity risk (continued)

| | 0 - 3 months | 3 - 12 months | Greater than 12 months | Total |
|-----------------------------|--------------|---------------|---------------------------|-------------|
| As at 30 June 2020 | | | | |
| Assets | | | | |
| Trade and other receivables | 3,681,848 | 3,553,031 | - | 7,234,879 |
| Cash and cash equivalents | 1,097,870 | - | - | 1,097,870 |
| | 4,779,718 | 3,553,031 | - | 8,332,748 |
| Liabilities | | | | |
| Trade and other payables | 6,021,321 | 8,206,038 | - | 14,227,359 |
| Current liquidity gap | (1,241,604) | (4,653,007) | - | (5,894,611) |
| As at 30 June 2019 | | | | |
| Assets | | | | |
| Trade and other receivables | 1,888,620 | 3,138,452 | - | 5,027,072 |
| Cash and cash equivalents | 1,610,974 | - | - | 1,610,974 |
| | 3,499,594 | 3,138,452 | - | 6,638,046 |
| Liabilities | | | | |
| Trade and other payables | 3,932,809 | 8,388,090 | - | 12,320,899 |
| Current liquidity gap | (433,215) | (5,249,638) | - | (5,682,853) |

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 YEAR ENDED 30 JUNE 2020**6 ACCOUNTING CLASSIFICATIONS AND FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

Valuation models

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

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

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

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

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

CENTRAL MEDICAL STORES TRUST
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

7 PROPERTY, PLANT AND EQUIPMENT

| | Land & Buildings | Furniture and fittings | Motor vehicles | Plant and machinery | Office equipment | Capital work in progress | Total |
|--------------------------|------------------|------------------------|----------------|---------------------|------------------|--------------------------|------------|
| | MK'000 | MK'000 | MK'000 | MK'000 | MK'000 | MK'000 | MK'000 |
| Cost or valuation | | | | | | | |
| As at 1 July 2018 | 7,648,364 | 144,489 | 1,704,330 | 262,930 | 434,103 | - | 10,194,216 |
| Additions | - | 8,560 | 325,686 | 448 | 38,036 | 319,350 | 692,080 |
| As at 30 June 2019 | 7,648,364 | 153,049 | 2,030,016 | 263,378 | 472,139 | 319,350 | 10,886,296 |
| Additions | 163,233 | 4,338 | 52,640 | 32,108 | 73,501 | 149,184 | 475,004 |
| As at 30 June 2020 | 7,811,597 | 157,387 | 2,082,656 | 295,486 | 545,640 | 468,534 | 11,361,300 |
| Depreciation | | | | | | | |
| As at 1 July 2018 | - | 85,900 | 447,816 | 156,610 | 243,610 | - | 933,936 |
| Charge for the year | 229,451 | 21,800 | 351,271 | 43,139 | 67,319 | - | 712,980 |
| As at 30 June 2019 | 229,451 | 107,700 | 799,087 | 199,749 | 310,929 | - | 1,646,916 |
| Charge for the year | 178,547 | 9,564 | 372,171 | 28,712 | 78,151 | - | 667,145 |
| As at 30 June 2020 | 407,998 | 117,264 | 1,171,258 | 228,461 | 389,080 | - | 2,314,061 |
| Carrying amount | | | | | | | |
| As 30 June 2020 | 7,403,599 | 40,123 | 911,398 | 67,025 | 156,560 | 468,534 | 9,047,239 |
| As at 30 June 2019 | 7,418,913 | 45,349 | 1,230,929 | 63,629 | 161,210 | 319,350 | 9,239,380 |

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Land and buildings were re-valued on 30 June 2018 by Euphemia C. Bota (MSIM) MA Real Management (UWE Bristol UK BSc (MW), Independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and categories of the property value. The property were valued on an Open Market Value (OMV). Under the method used, the re-valued cost is treated as the new gross amount and accumulated depreciation is eliminated.

Fair Value hierarchy

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

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------|---------|---------|-----------|-----------|
| 2020 | | | | |
| Land and buildings | | - | 7,811,597 | 7,811,597 |
| 2019 | | | | |
| Land and buildings | - | - | 7,648,364 | 7,648,364 |

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

| | 2020 MK'000 | 2019 MK'000 |
|--|------------------|------------------|
| Cost | | |
| Accumulated depreciation and impairment losses | 2,314,061 | 2,747,085 |
| Net carrying amount | <u>2,314,061</u> | <u>2,747,085</u> |

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 MK'000 | 2019 MK'000 |
|--|-------------------|-------------------|
| 8 INVENTORIES | | |
| Tablets and capsules | 2,101,650 | 3,527,369 |
| Injectables | 3,038,798 | 1,699,649 |
| Vaccines | 106,992 | 137,166 |
| Raw materials | 112,929 | 143,641 |
| Galenicals | 2,688,092 | 3,008,580 |
| Surgical dressings | 3,117,792 | 2,022,189 |
| Mantino DFID | 26,481 | 65,934 |
| Sutures | 186,461 | 971,347 |
| Surgical equipment | 3,623,270 | 4,687,695 |
| Ophthalmic | 10,312 | 19,225 |
| Dispensary items | 393,079 | 599,869 |
| Hospital equipment | 33,947 | 95,534 |
| Laboratory items & Reagents | 1,000,688 | 1,498,259 |
| X-ray films and equipment | 1,052,584 | 1,374,310 |
| Dental items | 279,041 | 244,056 |
| Miscellaneous products | 4 | 87 |
| Hospital beddings | 67,070 | 175,095 |
| Expired inventory | 3,856,182 | 4,938,329 |
| | 21,695,371 | 25,208,334 |
| Less: provision for expired inventory | (3,856,182) | (4,938,329) |
| | 17,839,189 | 20,270,005 |
| Stationery | 42,563 | 43,263 |
| Total inventory | 17,881,752 | 20,313,268 |
| 9 TRADE AND OTHER RECEIVABLES | | |
| Trade receivables | 6,662,097 | 4,543,281 |
| Other receivables and prepayments | 572,782 | 483,791 |
| | 7,234,879 | 5,027,072 |
| Less provision for doubtful receivables | (2,878,465) | (2,790,059) |
| | 4,356,414 | 2,237,013 |
| Less long term staff receivable | (130,503) | (81,800) |
| Short term trade and other receivable | 4,225,911 | 2,155,213 |

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

TRADE AND OTHER RECEIVABLES (CONTINUED)

| | 2020 MK'000 | 2019 MK'000 |
|--|------------------|------------------|
| The ageing of trade receivables at the reporting date was as follows:- | | |
| Current | 23,990 | 1,004,180 |
| 0-30 days | 1,414,642 | 28,782 |
| 31-90 days | 1,670,435 | 371,867 |
| Above 90 days | 3,553,031 | 3,138,452 |
| | <u>6,662,097</u> | <u>4,543,281</u> |

The carrying amount of trade receivables of MK4.3 billion is a reasonable approximation of their fair values.

10 CASH AND CASH EQUIVALENTS

| | | |
|---|------------------|------------------|
| Cash at bank and in hand | 1,538,107 | 1,610,974 |
| Ministry of Health-Cash clearing account*** | (440,237) | (195,678) |
| | <u>1,097,870</u> | <u>1,415,296</u> |

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

11 TRADE AND OTHER PAYABLES

| | | |
|-----------------------------|-------------------|-------------------|
| Trade payables | 10,425,820 | 11,737,374 |
| Other payables and accruals | 3,801,539 | 583,525 |
| | <u>14,227,359</u> | <u>12,320,899</u> |

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

| | | |
|---------------|-------------------|-------------------|
| Current | 76,917 | 1,613,058 |
| 0-30 days | 2,142,865 | 1,736,226 |
| 31-90 days | 3,090,759 | 2,354,224 |
| Above 90 days | 5,115,279 | 6,033,866 |
| | <u>10,425,820</u> | <u>11,737,374</u> |

The carrying amount of payables of MK14.2 billion is a reasonable approximation of their fair values.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 MK'000 | 2019 MK'000 |
|--|-------------------|-------------------|
| 12 REVENUE | | |
| Regional Medical Stores (South) | 10,731,568 | 9,737,539 |
| Regional Medical Stores (Centre) | 7,689,032 | 7,072,990 |
| Regional Medical Stores (North) | 3,642,863 | 3,140,062 |
| | <u>22,063,463</u> | <u>19,950,591</u> |
| 13 COST OF SALES | | |
| Opening stock | 20,270,005 | 24,246,822 |
| Add Purchases | 15,492,255 | 12,906,552 |
| Less: Closing stock | (17,839,189) | (20,270,005) |
| Cost of sales | <u>17,923,072</u> | <u>16,883,369</u> |
| 14 OTHER INCOME | | |
| Service charge-UNICEF commodities | 481,410 | 201,625 |
| Covid 2019 Procurements | 358,731 | - |
| Interest received | 99,844 | 23,048 |
| Service charge-distribution of donated items | 96,819 | 99,593 |
| Exchange gain | 35,220 | - |
| Rent received | 21,060 | 68,389 |
| Service charge-procurement of malaria commodities-MG | 16,955 | 509,446 |
| Equipment rental | 4,200 | 4,200 |
| Sale of bid documents | 3,522 | 2,662 |
| Forklift hire | 450 | 2,267 |
| Service charge-procurement of family planning commodities-Mi | - | 120,557 |
| Storage charges -Manobec warehouse | - | 142,398 |
| Gain on promissory notes | - | 231,480 |
| Disposal of fixed assets | - | 5,475 |
| | <u>1,118,212</u> | <u>1,411,140</u> |

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 MK'000 | 2019 MK'000 |
|---|-------------------|------------------|
| 15 ADMINISTRATIVE EXPENSES | | |
| Expired, obsolete and damaged stock | 3,856,182 | 4,938,329 |
| Board off expenses | 33,990 | 55,231 |
| Interest on suppliers' contracts | 3,253,296 | - |
| Legal and consultancy fees | 26,635 | 105,106 |
| Salaries | 2,185,411 | 1,986,569 |
| Depreciation | 539,191 | 599,939 |
| Fuel and lubricants | 462,386 | 244,457 |
| Subsistence allowance | 392,096 | 281,078 |
| Rent/lease (warehouse/office) | 366,666 | 442,335 |
| Hiring of security guards | 295,848 | 295,845 |
| Other expenses(AGM, quality control costs and others) | 190,573 | 202,307 |
| Corporate social responsibility(medicines) | 170,454 | 309,978 |
| Motor vehicle maintenance | 165,881 | 89,128 |
| Training | 158,308 | 90,013 |
| Insurance costs | 106,106 | 74,967 |
| Publications and advertising | 100,924 | 100,186 |
| Telephone charges | 97,425 | 110,572 |
| Provision for doubtful debts/impairment loss | 88,405 | (2,755,589) |
| Repairs of plant and equipment | 81,894 | 62,966 |
| Office sundries | 81,439 | 29,646 |
| Electricity charges | 66,572 | 62,233 |
| Water and sanitation | 31,651 | 24,544 |
| Maintenance of buildings | 30,129 | 30,322 |
| Stationery | 26,855 | 27,777 |
| Bank charges | 20,226 | 25,188 |
| Audit fees | 20,000 | 19,996 |
| Computer costs | 9,383 | 7,154 |
| Uniform and protective clothing | 743 | 14,314 |
| Hotel accomodation charges | 112 | 643 |
| Realised foreign exchange loss | - | 173,522 |
| | <u>12,858,784</u> | <u>7,648,756</u> |
| Presented on page 9 as follows: | | |
| Administration costs | 12,463,178 | 10,303,394 |
| Distribution costs | 307,201 | 100,951 |
| Provision for doubtful debts | 88,405 | (2,755,589) |
| | <u>12,858,784</u> | <u>7,648,756</u> |

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**16 RELATED PARTIES**

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

The following were related party transactions and balances:

| | | |
|-----------------------------------|-----------|-----------|
| a) Funding and donations in kind | | |
| UNICEF - Assets donated | - | 149,169 |
| Key management remuneration | 257,929 | 228,079 |
| Trustees remuneration | 3,800 | 3,125 |
| b) Year end balances | | |
| Amounts due to key management | 42,031 | 22,498 |
| c) Government receivable balance: | | |
| All government receivables | 6,281,787 | 4,242,825 |

17 CAPITAL COMMITMENTS

There were no capital commitments as at year end requiring disclosures in the financial statements (2019:nil).

18 CONTINGENT LIABILITIES

There were no contingent liabilities as at year end requiring disclosures in the financial statements (2019:nil).

19 MATTER OF UNCERTAINTY RELATING TO GOING CONCERN

The Trust had made a loss for the year of MK7.6 billion (2019: loss of MK3.2 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.

The procurement of the ERP Navision 2018 and Warehouse Management System is a strategy to improve inventory management for the Trust. Employment of Senior Procurement Officer- responsible for contracts managements is expected to improve management of contracts hence preventing suffering future legal charges as an organisation.

20 SUBSEQUENT EVENTS

There was Covid-19 outbreak after the year end requiring disclosure or non-adjusting the financial statements.

21 INFLATION AND EXCHANGE RATES

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

| | 2020 | 2019 |
|---|--------|--------|
| Kwacha/US Dollar | 745.00 | 780.50 |
| Kwacha/Euro | 846.06 | 887.94 |
| Kwacha/Rand | 44.07 | 56.17 |
| Inflation rate (%) | 9.9% | 8.9% |
| At the time of signing the financial statements, the exchange rates were as follows:- | | |
| Kwacha/US Dollar | | 736.71 |
| Kwacha/Euro | | 814.06 |
| Kwacha/Rand | | 49.96 |

[illegible]

[illegible]

[illegible]

[illegible]

**Opposite Kamuzu College of Nursing,
Mzimba Drive,
Private Bag 55,
Lilongwe,
Malawi.**

Tel: +265 1753 910/912

**ceo@cmst.mw
www.cmst.mw**