



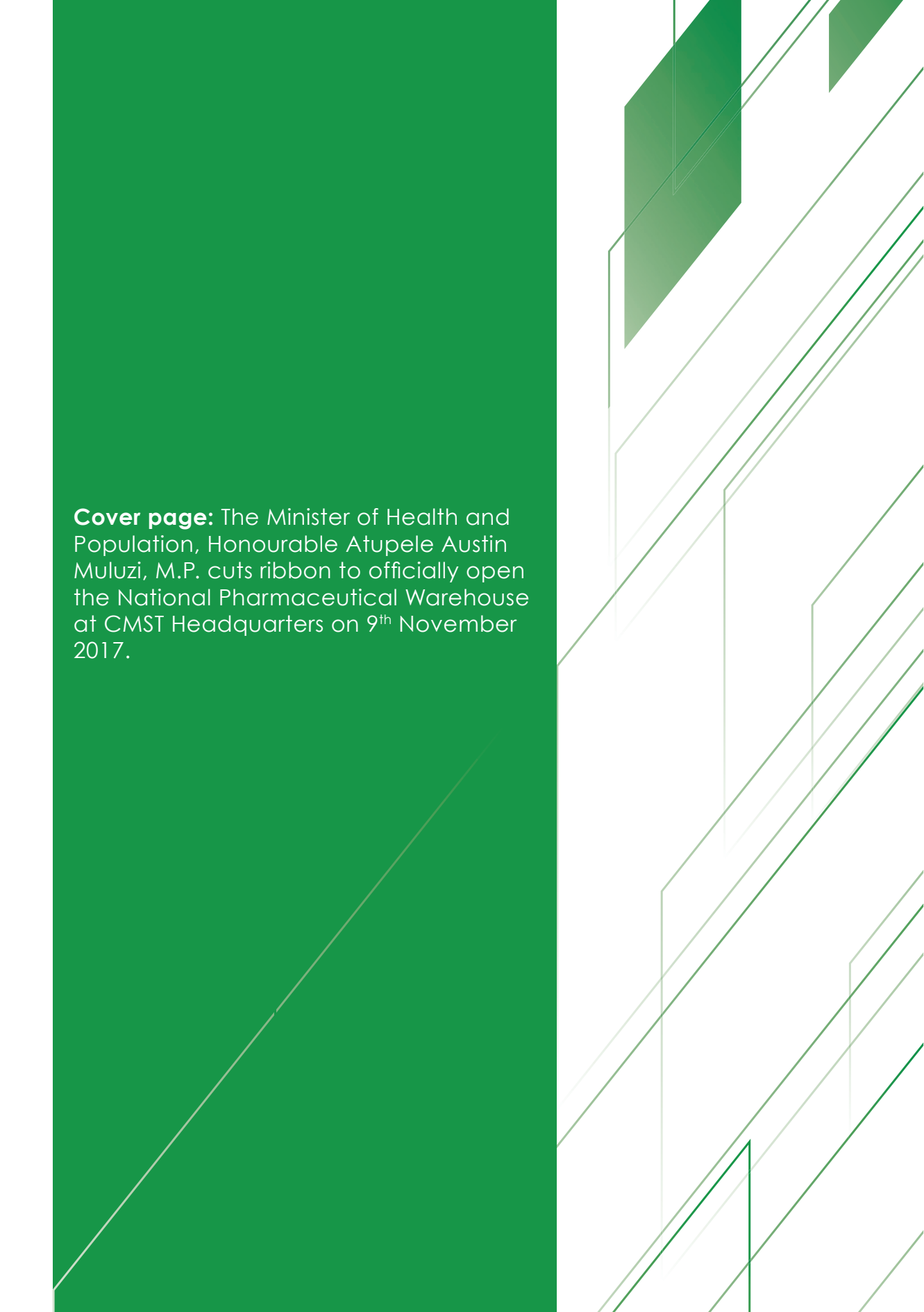
Trusted Partner in Healthcare

ANNUAL REPORT

Year Ended June

2018





Cover page: The Minister of Health and Population, Honourable Atupele Austin Muluzi, M.P. cuts ribbon to officially open the National Pharmaceutical Warehouse at CMST Headquarters on 9th November 2017.

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ACCRONYMS AND ABBREVIATIONS

AGM	Annual General Meeting
ASRM	Annual Stakeholders Review Meeting
CHAM	Christian Health Association of Malawi
CMS	Central Medical Stores
CMST	Central Medical Stores Trust
GoM	Government of Malawi
ICAM	Institute of Chartered Accountants in Malawi
ICB	International Competitive Bidding
MHL	Must Have List
MLS	Malawi Law Society
MoHP	Ministry of Health and Population
MSTG	Malawi Standard Treatment Guidelines
NCB	National Competitive Bidding
NLGFC	National Local Government Finance Committee
RMS	Regional Medical Stores
HSJF	Health Services Joint Fund
LMD	Last Mile Distribution
CML	Cargo Management Logistics

1.0. INTRODUCTION



View of the CMST Headquarters Building, Lilongwe

- 1.1.1. The Central Medical Stores Trust [CMST] is a not-for-profit autonomous organization wholly owned by the Government of Malawi (GoM). It was established in November 2010 but only became fully functional in 2012 after the recruitment of its Chief Executive Officer, Director Finance, Director of Corporate Services and Director of Pharmaceutical Operations.
- 1.1.2. The Trust replaced the Central Medical Stores (CMS), an operational arm of the Ministry of Health and Population [MoHP] since 1968. Though not expected to make profits, it has to generate enough resources — through the warehousing, sale and distribution of medicines and medical supplies — to fund its operations.
- 1.1.3. The Trust's creation was amid various operational, financial, management and governance challenges which plagued the functioning of its predecessor organization. These had led to serious drug shortages that culminated into a 95 percent out of stock in January 2013.
- 1.1.4. The Trust was therefore expected to overcome these challenges, operate on a commercial basis and fund its own operations. It was therefore incumbent upon the new set up to ensure that adequate quantities of medicines and medical supplies were made available to all public health facilities in Malawi.

- 1.1.5. To this end, the Trust rolled out a reform agenda enshrined in its Corporate Strategy and Business Plan for the period 2013 — 2018. However, implementation of the two documents was compromised by the lack of the necessary seed funds [recapitalization] to kick-start operations. Down that line, these documents were then revised to take into account existing operational realities, leading to the adoption by the CMST Board of the reviewed Corporate Strategy and Business Plan for the period 2015 — 2020.
- 1.1.6. From that time forward, the Trust operates as an autonomous organization whose main stakeholder is the Government of Malawi.

2.0. MISSION STATEMENT

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

3.0. MANDATE

- 3.0.1. The Mandate of the Trust remains to procure, warehouse and sale and distribute medicines and medical supplies to all public and affiliated health facilities in Malawi.
- 3.0.2. The single most important indicator of the Trust's success in fulfilling its Mandate is therefore the constant availability of good quality medicines and medical supplies in these health facilities.
- 3.0.3. To make good of this Mandate the Trust initiated reforms aimed at ensuring an adequate and sustainable supply of quality medicines and medical supplies to all public health facilities. The reforms are enshrined in the Trust's Corporate Strategy and Business Plan 2015 — 2020. Operations in the year under review were part of such reforms.
- 3.0.4. The reforms target operational, managerial and governance issues in the following key functional areas: **procurement, warehousing, sales and distribution, financial management, human resources and governance**. The reforms are also implemented in the context of the Public Service Reforms agenda as approved by the **Head of State, His Excellency Professor Arthur Peter Mutharika**.
- 3.0.5. The Board, Management and Staff of the Trust are therefore very grateful for the support received from the Government of Malawi and various development partners who are assisting in various ways and working with the Trust to ensure that it makes good of its Mandate.

4.0. OBJECTS OF THE TRUST

- 4.0.1. To ensure an efficient, sustainable and economical national procurement system of quality medicines and medical supplies;
- 4.0.2. To ensure the accessibility to and availability of quality medicines and medical supplies for the general population;
- 4.1.3. To offer to the public, non-profit making private health facilities and, from such a time as the Trustees shall determine, profit making private health facilities, with quality medicines and medical supplies;
- 4.1.4. To ensure that the standard and quality of medicines and medical supplies comply with the requirements as defined by the Ministry of Health and other regulatory bodies;
- 4.1.5. To securely, safely and efficiently manage, distribute and supply medicines, medical supplies and medical equipment having regard to national needs and to the special nature of the goods in question in accordance with the National Drug Policy;
- 4.1.6. To co-ordinate all medicines, medical supplies and equipment donations to the Trust and Government;
- 4.1.7. To timely and accurately inform the health authorities of all data related to the supply to public health institutions to facilitate planning and budgeting;
- 4.1.8. To develop and maintain an information policy which aims to contribute to transparency towards both the Ministry and clients; and
- 4.1.9. To properly perform such additional tasks or duties complementary or necessary to the performance of its objects.

5.0. GOVERNANCE

5.1 Board of Trustees

- 5.1.1. The Trust commits to attain and maintain the highest standards of corporate governance. The Board of Trustees is the supreme decision making body and is expected to meet once every quarter. Its membership is determined 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 of Malawi (ICAM)

Members:

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

Ms. Chifundo Kalaile, representing Malawi Law Society

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

Secretary for Health and Population, Ex-Officio

Secretary to the Treasury, Ex-Officio

Executive Director, National Local Government Finance Committee ex-officio

Secretary : Mr. Feston Kaupa, CMST, Chief Executive Officer

MRS. HILDA SINGO,**MBA, B.Com, DBS, ACMA, CGMA, CPA(M)****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 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 Chief Finance Office, 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.

MR. JOHN MPONDA,

MScPharm, BPharm (Hons), DipPharm, DHPEd
Trustee



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

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

He is also a private practicing pharmacist. He Managing Director of Life Pharmacies Limited, a subsidiary of Medical Aid Society of Malawi.

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

MR. ANDREW CHIKOPA,

MSc Strategic Mgt, BSc Econ
Trustee



Mr. Andrew Chikopa represents the Christian Health Association of Malawi (CHAM) where he is the Executive Director.

Mr. Chikopa is experienced in Strategy and Program Development, Team Management, Financial and Human Resources Management, Partnerships Management, Communication and Representation, and Governance.

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

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

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

Ms CHIFUNDO KALAILE,

LLM, LLB (Hons)

Trustee



Miss Chifundo Kalaile represents the Malawi Law Society (MLS). She is currently with Old Mutual as Corporate Governance Manager/Company Secretary.

Miss Kalaile is a highly committed practicing legal practitioner with relevant professional and academic qualifications and extensive on-the-ground experience in risk management, corporate governance, compliance, company secretarial, forensic, internal audit and legal matters.

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

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

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

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

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

She likes reading, researching, travelling and cooking.

MR. STANLEY CHUTHI,
MA Dev. Econ, BSc Econ
Ex-Officio Member



Mr. Chuthi represents the Executive Director of the National Local Government Finance Committee (NLGFC).

An experienced Development Economist, Mr. Chuthi's vast knowledge encompasses public finance, policy analysis, fiscal decentralisation and leadership of project management teams.

Added to his experience from his current employment with the NLGFC, he has gained technical know-how of his career demands from his engagement with the Ministry of Finance, Economic Planning and Development and the Ministry of Trade and Industry's involvement with a European Union project on Economic Partnership Agreements.

He holds a Master of Arts in Development Economics [William College, Massachusetts, USA], a Postgraduate Diploma in Economics [Economics Institute, Colorado, USA] and a Bachelor of Social Science in Economics [University of Malawi — Chancellor College].

He is a member of the Economics Association of Malawi (ECAMA).



MR. FESTON KAUPA,
MSc, FCMA, CGMA, FCCA, CPA(M) BAcc
Secretary to the Board

By virtue of being the Chief Executive Officer of the Central Medical Stores Trust, Mr. Secretary Kaupa is the Secretary to the Board.

Trained as a business and finance expert, Mr. Kaupa has over twenty years of progressive professional experience in the development and implementation of institutional strategies and policies at both strategic as well as operational levels.

Mr. Kaupa has developed a successful career in strategic business and finance management, institutional re-engineering, project management, corporate governance, corporate image marketing, sustainable leadership development in both the private and public sectors.

He has previously worked for the Malawi Broadcasting Corporation (MBC), Electricity supply Corporation of Malawi Ltd (ESCOM), MANICA (Mw) Ltd and the Natural Resources College.

He holds a Master's Degree in Strategic Management and a Bachelor's Degree in Accountancy. He is a Certified Public Accountant (CPA) and also a Chartered Global Management Accountant (CGMA). Mr. Kaupa is a Fellow of the Chartered Institute of Management Accountants (FCMA) and also a Fellow of the Association of Chartered Certified Accountants (FCCA).

He is a member of the Institute of Chartered Accountants in Malawi (ICAM) and also a member of the Malawi Institute of Procurement and Supply (MIPS).

5.2. Board Committees

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

5.3. Technical Committee

Chairperson: **Mr. John Mponda**, Trustee

Members: **Mr. Andrew Chikopa**, Trustee

Ms. Bernitta Fernandez, CHAM.

Mrs. Mabel Chinkhata, Kamuzu Central Hospital

Mr. Edson Kamtukule, Chilungamo Project, Ministry of Justice and Constitutional Affairs

Mr. Mphatso Kawaye, Pharmacy, Medicines and Poisons Board

Dr. Benson Chilima, Health Technical Support Services, Ministry of Health and Population

Mrs. Patricia Banda, National Local Government Finance Committee

Secretary: **Dr Moses Chisale**, CMST, Director of Pharmaceutical Operations

5.4. Finance and Administration Committee

Chairperson : **Mr. Andrew Chikopa**, Trustee

Members : **Ms. Chifundo Kalaile**, Trustee

Mr. Stanley Chuthi, National Local Government Finance Committee

Mrs. Linda Phiri, National Construction Industry Council

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

Mr. Headwick Banda, Department of Statutory Corporations

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

Mr. Peter Salamba, National Food Reserve Agency.

Mr. Justin Nyondo, Management International.

Secretary: **Mr. Washington Kaimvi**, CMST, Director of Finance Administration.

5.5. Audit and Risk Management Committee

Chairperson : **Ms. Chifundo Kalaile**, Trustee

Members : **Mr. John Mponda**, Trustee

Mrs. Dalitso Gadama, Monsanto Malawi

Mrs. Jeane Munyenye, Accountant General's Department

Mrs. Patricia Soko, Ministry of Finance, Economic Planning and Development

Mr. Dickson Chasambira, Central Internal Audit Unit

Mr. Kingsley Mulewa, CIC Insurance

Secretary: **Mr. Joseph Chembezi**, CMST, Internal Audit Manager

5.6. Meetings of the Trust

- 5.6.1. Article 13 of the Trust Deed requires inter alia that the Trustees hold ordinary meetings at least once every quarter and an Annual General Meeting (AGM) on a date not less than 120 days and not more than 180 days from the Trust's year end which falls on the 30th June. The AGM approves the Trust's accounts and annual report.
- 5.6.2. The Trust has to date organized three AGMs attended by Board Members and other CMST stakeholders [development partners, non-governmental organizations, health facilities, patient associations, training institutions]. Because of this extended participation, the AGM also served as annual review of the Trust's activities.
- 5.6.3. However, in order to be in line with the provision of the Trust Deed in which the AGM should be attended by the Trustees only, it was decided to also hold Annual Review Meetings to be attended by all CMST stakeholders and whose aim would be to review the implementation of the Trust's activities and its achievements. The Trust has so far held one such AGM.

6.0. OPERATIONAL STRATEGIES

- 6.1.1. The Trust's Revised Corporate Strategy 2015-2020 identifies six strategies to which its activities and performance indicators are aligned:
- 6.1.1.1. **Strategy #1 — Ensure organizational financial controls, planning, cost-effectiveness and sustainability:** This should lead to improved operational efficiency and ensure value-for-money to CMST customers and the longer term operational sustainability of the organization.
 - 6.1.1.2. **Strategy #2 — Build and implement customer-focused organizational systems to become the preferred national health commodity supplier:** This should turn CMST into a supply chain provider of choice in Malawi by ensuring that customer needs and priorities drive operations, planning and organizational decision-making.
 - 6.1.1.3. **Strategy #3 — Execute procurement planning and operations to efficiently and effectively anticipate and fulfill customer demands:** This will strengthen procurement planning and operations in meeting customer demands.
 - 6.1.1.4. **Strategy #4 — Establish and utilize information systems to build an organizational culture of planning, responsiveness, accountability and business unit integration:** By establishing robust information systems, product flow management, operational planning and financial management will be optimized across the organization.
 - 6.1.1.5. **Strategy #5 — Continuously improve operational and management systems:** Effective and efficient quality management systems will ensure continuous performance improvement throughout CMST.
 - 6.1.1.6. **Strategy #6 — Engage stakeholders to address current and emerging national public health challenges in Malawi:** Sustained improvement of public health outcomes in Malawi will depend on continuous partnership with the MOHP and other partners particularly in applying CMST market knowledge, infrastructure, and supply chain expertise.

7.0. MANAGEMENT

- 7.1.1. The Trust is managed by a Chief Executive Officer, assisted by the Director of Pharmaceutical Operations and the Director of Finance and Administration. A Directorate of Procurement has just been created and its Director is being recruited.
- 7.1.2. There are also ten (10) line Managers for a total staff complement of 180.

**Mr. Feston Kaupa,
Chief Executive Officer**



**Mr. Washington Kaimvi,
Director of Finance and Administration**

**Dr. Moses Chisale,
Director of Pharmaceutical Operations**



**Mr. Mtamandeni Kalilangwe,
Human Resource and Administration Manager**



**Mr. David Chima,
Information Technology (IT) Manager**

**Mr. Alfred Edwin,
Quality Assurance Manager**



**Mr. Joseph Chembezi,
Internal Audit Manager**

**Mr. Charles Khombeni,
Acting Procurement Manager**



**Mr. Vincent Chilinda,
Finance Manager**



**Mr. Joe Khalani,
Warehouse and Distribution Manager**



**Mr. David Kulemela,
Branch Manager — Centre**



**Mr. Stewart Lichapa,
Branch Manager — North**



**Mr. Innocent Issa,
Branch Manager — South**



8.0. CHAIRPERSON'S REPORT

**MRS. HILDA SINGO,
CMST BOARD CHAIRPERSON**



8.1. Overview

- 8.1.1. Medicines and medical supplies are a critical aspect to the building and maintaining of a healthy nation. In Malawi, the obligation to oversee a robust supply of medicines and medical supplies to the public healthcare system rests upon the Central Medical Stores Trust.
- 8.1.2. It is incumbent upon the Trust to work with all essential stakeholders in order to meet the mandate. I am therefore glad to make this contribution towards the Trust's 5th Annual Report covering the period 1st July 2017 to 30th June 2018.
- 8.1.3. My biggest focus in this report is to reflect on achievements and challenges in the strategic pursuit of objectives, plus the mechanisms set to overcome the challenges anticipated or experienced.
- 8.1.4. Apart from handling routine operations of procurement, warehousing and sales and distribution, a spirited focus in this period was on integration of parallel supply chains into the national system through CMST.
- 8.1.5. This area demanded CMST's vigilant efforts in benchmarks determining its readiness to take back into CMST the tasks currently under parallel supply chains.
- 8.1.6. One remarkable achievement within the first nine months of implementing of supply chain integration benchmarks was the attainment of a score of 85 percent in September 2017, up from 66 percent in the first assessment in 2016.

- 8.1.7. This was immediately followed by a multi-stakeholder development of a parallel supply chain integration roadmap with the following focus areas: warehousing, distribution, information systems and business processes.
- 8.1.8. Scoring 85 percent was no mean achievement considering the fact that CMST operates in an environment of pressing micro and macro-economic factors.
- 8.1.9. Currently preparatory work towards the integration has included mapping of tasks. With support from the Global Fund, consultants were hired to conduct a study that would provide available options for integration.
- 8.1.10. In all routine operations and the integration drive, CMST acknowledges the untiring support rendered by the Government of Malawi, Development Partners, the Trustees and Board Committee Members, as well as the Management and Staff of the Trust. Their support and positive contributions have been central to our aspirations of being the Trusted Partner in Healthcare.
- 8.1.11. Looking ahead, I therefore anticipate continued support towards increasing CMST's ability to meet health facilities' demand for an uninterrupted and adequate supply of quality and affordable medicines and medical supplies in Malawi.
- 8.1.12. It is then with great pleasure that I present strategic outlines for the operating period 1st July 2017 — 30th June 2018.

8.2. Governance

- 8.2.1. The Trust freely and gladly commits to good corporate governance guidelines. To this effect, and in line with its Trust Deed, CMST has a Board of Trustees served by three committees namely; Audit and Risk Management Committee, Technical Committee and Finance and Administration Committee.
- 8.2.2. In the period under review, a new Board and committees were appointed. With a standing schedule of four quarterly meetings annually, the primary role of the Board is to protect and enhance long-term stakeholder interests, set the overall strategy for the Trust and supervise executive management. It also ensures that good corporate governance policies and practices are implemented within the Trust.
- 8.2.3. In the course of discharging its duties, the Board maintains to act in good faith, with due diligence and care, and in the best interests of the Trust and its stakeholders, chief of which is the public.
- 8.2.4. During the year, the Board of Trustees met four times at ordinary quarterly meetings and once at extra ordinary meetings to consider and approve reports of activities undertaken by the CMST. Board Committee meetings preceded the Board meetings.
- 8.2.5. To ensure provision of independent assurance on the adequacy and effectiveness of internal controls, risk management and governance, the Internal Audit function continued to report directly to the Audit and Risk Management Committee of

the Board. The function also carried out both business and control-related audit activities.

- 8.2.6. Risk management was embedded in all CMST's systems. A framework is in place to provide the necessary foundations and organizational arrangements for ensuring that risks are managed effectively and efficiently.

8.3. Strategic Direction

- 8.3.1. The vision of the Trust remains to serve its clients, mainly public health facilities, adequately and efficiently. With the realities of our operating environment, which always demand foresight and ability to blend solutions towards a robust supply of medicines and medical supplies, I am pleased to express that CMST continues to enjoy stakeholder collaboration. It is because of the same that CMST foresees a future of possibilities where we are able to serve clients satisfactorily.
- 8.3.2. In the period under consideration, going forward to 2020, successful completion of the integration of parallel supply systems is one vital strategic goal.

8.4. Performance Summary

- 8.4.1. CMST ended up with a net surplus of K1.1 Billion. With the Malawi Kwacha stabilization at MK733.95 to the US Dollar and the corresponding favourable inflation at 9%, the Trust managed its procurement and implementation of most of its financial and operational reforms despite having continued challenges in the management of suppliers' arrears.
- 8.4.2. The arrears led to some of the suppliers refusing to continue with deliveries or sign new contracts while others sought legal redress on overdue amounts owed by CMST and claimed interest for delayed payments.

8.5. Future Outlook

- 8.5.1. The country's medicine and medical supply situation has since the evolution of Central Medical Stores into a Trust been on stable and sure path to improvement.
- 8.5.2. In all that, the support of the GoM and various development partners cannot be overlooked. Going forward through the implementation of the revised Corporate Strategy and Business Plan, the Trust will continue to address challenges in critical areas such as financial management, capacity building, warehousing, distribution, procurement, risk management and accountability. Through these efforts, the Trust will serve its customers better.
- 8.5.3. The new Board reviewed the Trust Deed and Board Charter in order to align them with current realities on the ground. The reviewed Trust Deed was expected to be approved in the next reporting period.

8.6. Appreciation

- 8.6.1. On behalf of the Board and on my own behalf, I wish to thank management and staff of the Trust for their commitment to making good of the Trust's mandate.
- 8.6.2. It is this commitment, added to the support from the GoM and various development partners and stakeholders, that has led to the observed improvements in the availability of medicines and medical supplies in the country.
- 8.6.3. I therefore take the opportunity to sincerely thank the GoM and all stakeholders for being part of CMST's quest to remain the **Trusted Partner in Healthcare.**

Lilongwe, Friday 14th December 2018



Hilda Singo

CHAIRPERSON

9.0. CHIEF EXECUTIVE OFFICER'S REPORT

**MR. FESTON KAUPA,
CHIEF EXECUTIVE OFFICER**



9.1. Overview

- 9.1.1. Like all the four Annual General Meetings so far for the Trust, the present one gives the Trust yet another opportunity to reflect on the work from the current reporting period. The reflection is on the achievements, challenges and mechanisms set to overcome the challenges, with austere examination, against set strategies and benchmarks.
- 9.1.2. In the current reporting period, the Trust continued with its sincere efforts in all three mandated areas of procurement, warehousing and sales and distribution, all with cognizance of how their output affects the Trust's ultimate goal of maintaining an uninterrupted supply of adequate and quality medicines and medical supplies to the Malawi population.
- 9.1.3. It is therefore such a mark of trust to be entrusted with the task of leading an organisation as sensitive and complex as the Central Medical Stores Trust. This privilege challenges one to work through the extensiveness of tasks as guided by the CMST Corporate Strategy and Business Plan 2015 — 2020.
- 9.1.4. In doing so, the Trust has recorded milestones in the year under review. I report this with the utmost respect for both internal and external stakeholders. I appreciate their efforts and critique in quest for a Central Medical Stores Trust that maintains an uninterrupted supply of quality medicines and medical supplies.

- 9.1.5. In the year, with 679 facilities to serve, the Trust delivered a cumulative 17,896cm³ of stock, with an average of 1,491cm³ per month. The volumes represent both routine monthly orders for essential medicines and medical supplies as well as program items for nutrition, malaria, Tuberculosis and family planning.
- 9.1.6. In reaching out to health facilities, the Trust clocked a cumulative 4755 drops, with a monthly average of 396 drops. The deliveries translated into 391,775 kilometres covered, with an average of 32,647 kilometres per month.
- 9.1.7. In realizing all this, the Trust might not have attained a hundred percent of its dreams and aspirations. But the drive of the CMST staff is amazing and encouraging. The assistance rendered by stakeholders was awesome and the cooperation from customers — health facilities — is overwhelming.
- 9.1.8. This is why the Trust's ability continues to reach levels only imagined at taking over from its predecessor, Central Medical Stores.
- 9.1.9. I am grateful to the Board of Trustees and the Board Committees for their support and clear direction. The Trust is privileged to have a Board and committees whose members ooze robust proficiency to spearhead attainment of corporate goals. Let me convey special appreciation to the Board Chairperson for her sense of direction and the resolve to always get things efficiently done.
- 9.1.10. Recognition also goes to the staff — the Trust's most treasured resource — who bought the Board and Management's interpretation of the strategic approach and gave their all to service, thereby turning the wheels of implementation, with tireless effort.

9.2. Operating or Micro Environment

- 9.2.1. The annual drug quantified requirements (MK25.0 Billion) remained higher than the approved budget (MK17.3 Billion) by Parliament during the financial year.
- 9.2.2. However, in addition to the advance funding from MoHP and NLGFC, Treasury provided direct special funding to suppliers amounting to MK11.1 Billion which was basically in response to the receivables arrears that subsequently dropped from MK13.6 Billion to MK2.5 Billion.

9.3. Scope of Work

- 9.3.1. Procurement, warehousing and distribution of medicines and medical supplies constitute the core business of the Trust under the Directorate of Pharmaceutical Operations. However their success is dependent on critical support activities from the Directorate of Finance and Administration, and in particular the following units: finance, administration, security services, human resources as well as information technology.

9.4. Selection

- 9.4.1. This is the initial step of the procurement cycle during which a decision is taken on what to buy. This is based on the treatment of choice for various conditions as determined by the MoHP and included in the Malawi Standard Treatment Guidelines [MSTG].
- 9.4.2. The Trust developed and printed its first comprehensive Product Catalogue in 2015, with 3400 line items. Towards the end of the last financial year, the Trust reviewed the catalogue and the revised version is being processed for printing.
- 9.4.3. In July 2017, the Trust organized two consultative meetings; one with District Health Officers and the other with Directors of Central Hospitals. During these meetings the Trust presented the revised Must Have List (MHL) for district hospitals, health centres and central hospitals. Various specialists also attended these meetings to ensure that their needs were addressed.
- 9.4.4. The revised MHL for district hospitals and health centres now has 454 items while that for central hospitals has 309 items, which gives a consolidated total of 763 line items.

Table 1: Must Have List Summary

Class	Description	Number of Items		
		Old MHL	New DHO MHL	CH MHL
A	Tablets/Capsules	77	76	92
B	Injectable	82	55	100
C	Vaccines	2	5	4
D	Raw Materials	0	0	0
E	Galenicals	73	70	6
F	Surgical Dressings	19	19	5
G	Sutures	24	25	0
H	Surgical Equipment	64	49	0
I	Ophthalmic Productions	52	0	0
K	Dispensary Items	2	1	0
L	Hospital Equipment	2	1	0
M	Laboratory Reagents And Materials (Supplies)	300	138	101
N	X-ray films and equipment	17	7	0
P	Dental Items	16	8	1
R	Hospital Beddings	0	0	0
	Total Number of items	732	454	309

9.5. Quantification

- 9.5.1. This covers the estimation of quantities to buy in order to avoid stock outs on one hand and over stocking on the other. It involves the reconciliation of expressed needs in the light of available limited financial resources.
- 9.5.2. Subsequent to the MHL review, the Trust undertook a quantification exercise for the reporting period 2017 — 2018. The total quantified requirements were estimated at MK30 Billion. However, Parliament voted a drug budget of MK19.2 Billion only, including funds for medical gases, blood products and management fees for the Trust since the Trust recovers operating costs by charging 18 percent on invoiced sales to facilities.
- 9.5.3. The final quantities to be procured were therefore adjusted to the funds available, and that is MK13.7 Billion.
- 9.5.4. In April 2018, the Trust quantified the medicines and medical supplies' demand for the 2018 — 2019 financial year. The exercise was based on the Must Have List (MHL) that was reviewed in November 2017 in collaboration with the Ministry of Health [MoHP]. Some additional items were also quantified despite not being on the MHL. This is because they are still needed and requested by the hospitals.
- 9.5.5. The total requirements for the 2018 — 2019 financial year are estimated at MK18.6 Billion. However when pipeline supplies and current stocks are taken into account the figure comes down to MK15 Billion, including a total of MK4.3 Billion earmarked for special orders in particular for Central Hospitals (cf. Table 2).

Table 2: Quantification of medicines and medical supplies for 2017 — 2018

Class	Description	Total value Quantified	Total Adjusted Value
A	Tablets/Capsules	10,467,299,970.78	4,355,380,309.21
B	Injectable	2,688,855,024.84	1,922,869,453.89
C	Vaccines	858,192,927.66	394,398,872.29
D	Raw Materials	-	-
E	Galenicals	3,052,054,564.69	726,872,934.70
F	Surgical Dressings	2,491,848,993.73	604,603,422.71
G	Sutures	93,901,021.49	417,506,121.48
H	Surgical Equipment	6,452,958,937.24	2,696,116,550.16
I	Ophthalmic Productions	-	-
K	Dispensary Items	465,619,274.20	-
L	Hospital Equipment	273,090,000.87	28,120,567.63
M	Laboratory Reagents And Materials (Supplies)	2,944,265,604.93	1,751,824,848.04
N	X-ray films and equipment	113,014,543.54	487,502,085.73
P	Dental Items	191,958,249.44	188,968,814.14
Q	Miscellaneous Products	-	-
R	Hospital Beddings	-	-
	Grand Total	30,093,059,113.41	13,574,163,979.97

9.6. Procurement

- 9.6.1. This is the actual acquisition of medicines and medical supplies from local and international suppliers. Regardless of the method of procurement used, as a public procurement entity, all procurements by the Trust must be in line with the Public Procurement Act 2003.
- 9.6.2. However, a new Public Procurement and Disposal of Assets Act has been passed by parliament and was assented to. This has replaced the old Act but full implementation of the new one still awaits promulgation and will guide the Trust's procurement activities henceforth.

- 9.6.3. The approved procurement plan for 2017 — 2018 covered medicines, medical supplies as well as general goods, works and services at a budget of MK16.24 Billion. Of this, MK13.58 Billion, representing 84 percent, was for medicines and medical supplies [MMS]. General goods, works and services [GGWS] accounted for MK2.66 Billion, or 16 percent.
- 9.6.4. By close of the period under review, the planned procurements were at 70 percent of implementation and rest was to be completed in the next reporting period. The delay to meet the expected projection is due to late conclusion of some tenders which were to be signed later in July and August of 2018, especially those done in the last quarter of the financial year.
- 9.6.5. The delay resulted from late receipt of requisitions from health facilities. [cf. attachment — Table 3].

Table 3: 2017 – 2018 Procurement Plan Implementation Rates

CATEGORY	PLANNED	IMPLEMENTED July 2017-June 2018	EXPECTED
MMS	MK 13.58 Billion	MK9.83 Billion [72%]	MK13.58 Billion
GGWS	MK2.66 Billion	MK1.50 Billion [56%]	MK2.66 Billion
TOTAL	MK16.24 Billion	MK11.3 Billion [70%]	MK16.24 Billion

- 9.6.6. During the period under consideration, there were two times more procurements realized through Request for Quotations (RFQs) than through open tendering. The procurement values also follow the same trend [cf. Table 4].

Table 4: Procurement Methods

	PROCUREMENT METHODS			
	MMS	GGWS	TOTAL	%
Open Tender	14	19	33	20
RFQs	52	77	129	79
Single Sourcing	1	0	1	1
TOTAL	67	96	163	100%

- 9.6.7. The number of procurements under RFQs is still higher than open tendering because of the undelivered contracts where suppliers are withholding goods due to non-payment of outstanding invoices by CMST. This has resulted in emergency procurements through RFQs as a means of fulfilling urgent needs in the health facilities.
- 9.6.8. It should also be noted that towards the end of last quarter of the year under review, Central Hospitals and District Health Offices requested CMST to procure items using amounts remaining on their budgets. However, the requisitions from the facilities came late and it was not possible to float either NCB or ICB, hence use of the RFQ method.
- 9.6.9. During the period under review, there was a prequalification tender for suppliers of medicines and indefinite contracts out of which 35 (14 manufacturers and 21 suppliers, representing 65 percent) applicants of the total that submitted bids were prequalified for supply and delivery of medicines for a period of 2 years (2017 to 2019).
- 9.6.10. A total of 97 products from the prequalified list of products had been targeted by CMST to be on Indefinite Quantity Agreement contracts for a period of one year, 2018 to 2019. Indefinite Quantity Agreement contracts only targeted the 35 prequalified manufacturers and suppliers.
- 9.6.11. CMST completed the bid evaluation process and all the ninety 97 items tendered out were offered to 8 suppliers for a period of two years. The Public Procurement and Disposal Authority (PPDA) approved CMST's request for a 24-month contract period for the IQAs. Offers were sent to eight successful bidders. So far, contract documents have been signed and orders are being placed with suppliers as need arises.
- 9.6.12. Supplier performance on issued contracts: CMST issued contracts to both local and international suppliers for supply and delivery of medicines and medical supplies during the period under review.
- 9.6.13. The contracts were realized through International Competitive Bidding (ICB), Request for Quotations (RFQs), Buy Malawi Strategy (BMS) through the Pharmaceutical Manufacturers Association of Malawi (PHAMAM).
- 9.6.14. As at 30th June 2018, a total of 41 contracts were issued to various suppliers through ICB with a total value of US\$5,777,612.81. Out of the total value, goods worth US\$1,375,355.65 were delivered, representing 24 percent overall performance in all the contracts. Out of the 41 contracts, only eight contracts were completed while 16 were valid and 17 had expired before completion.
- 9.6.15. Fifty-one contracts were issued through RFQ at a total value of MK1,621,893,913.05. Of this, the total value delivered was MK1,135,240,564.90 representing 70 percent overall performance on all the contracts. Twenty-one contracts were completed while the other 30 were still outstanding are still outstanding.

- 9.6.16. A total of seven contracts were issued through BMC with a total value of US\$4,019,094.80 and items worth US\$1,306,673.11 have been delivered, representing 33 percent overall performance though most of the contracts were expired.
- 9.6.17. There were 3 contracts for Victoria Pharmaceuticals Limited at a total value of US\$5,129,390.00. Items worth US\$3,832,162.50 have been delivered, representing 75% overall performance.
- 9.6.18. Summaries for contracts under all the categories mentioned above [ICB, RFQ, BMC] as well as Victoria Pharmaceuticals Limited are attached. A detailed delivery status report, contract by contract, product by product, for each corresponding contract can be provided on request.
- 9.6.19. It should be noted that CMST continuously engages the suppliers with outstanding contracts by sending reminders through emails and letters. This is part of contract and supplier relationship management.
- 9.6.20. There are some **Procurement Challenges** to note. Generally, most suppliers never completed their contracts within the stipulated delivery period. CMST regularly engages the suppliers by sending reminders on outstanding contracts. The common excuse from suppliers is that CMST's delayed settling of debts renders them less able to finance new contracts.
- 9.6.21. On several occasions, CMST has also not been able to establish Letters of Credit (LCs) for international suppliers due to cashflow problems. In worst scenarios, and also in view of the above challenges, long overdue contracts end up being cancelled while in some circumstances delivery period is extended, depending on the information provided by the respective supplier.
- 9.6.22. The challenges cited above affect availability of stocks and therefore further affect the realization of CMST's mission of ensuring that there is continuous access to highest quality medicines and medical supplies in Malawi.
- 9.6.23. This can be averted by improving cash flow for the organization so it achieves efficient procurement, warehousing and distribution services at affordable cost.
- 9.6.24. Again, the Procurement Unit was elevated to the level of a Directorate in August 2016 but a Director is still not in place. Again, the position of Procurement Manager is yet to be filled.
- 9.6.25. Following a Department of Human Resource Management and Development (DHRMD) report, a new structure recommended the recruitment of two additional Procurement Officers and one Assistant Procurement Officer. So far a Procurement Officer and an Assistant Procurement Officer have been recruited.
- 9.6.26. For some very specialized medical supplies not on the CMST Catalogue, [for instance, neurosurgery, ophthalmology], precise specifications are difficult to come by, even from the users themselves. This leads to continued bidder queries, poor bid presentation and high failure rate at preliminary evaluation.

9.7. Quality Assurance

- 9.7.1. All medical supplies are inspected for conformity to specifications before distribution to health facilities. The medical supplies are sampled and quarantined pending quality control by the Pharmacy, Medicines and Poisons Board (PMPB) Quality Control laboratory. In the year completed, here are some notable updates:

9.8. Product Testing

- 9.8.1. During the year, the Trust continued to place importance on product quality before onward distribution to facilities. A total of 415 medicine product batches were received and sampled. Of these, two failed to meet uniformity of weight test specifications and were returned to their suppliers.
- 9.8.2. This test is a very important procedure that ensures that dosage units in a given batch contain equal amounts of active ingredients for patients to take precise doses.
- 9.8.3. In total, 99.5% product batches were cleared and released for distribution.

9.9. Rejected Products

- 9.9.1. CMST retains all approved samples following an evaluation process. In the course of receipt of actual consignments, a comparative examination is undertaken and the samples are used as benchmarks. Any consignment not in conformance with the retained sample is rejected forthwith and returned to the supplier.
- 9.9.2. Quality assurance vigilance led to the rejection of nine products [representing 2.1 percent] due to various reasons ranging from wrong products, poor labeling, incomplete sets, short shelf life and cold chain breaches.
- 9.9.3. Among the rejected products were wrong soda lime [instead of standard medical grade soda lime granules, with the appropriate carbon dioxide absorbent, for use in anaesthesia theatre machines] and six critical reagents for detection of the Tuberculosis mycobacterium. All rejected products were returned to their respective suppliers.

9.10. Product Recalls

- 9.10.1. During the year under review, CMST and PMPB recalled 10 batches [2.4 percent] from the facilities for the following products: misoprostol 200mcg, IV giving sets, EDTA blood collecting tubes, calamine lotion with sulphur 2%, cotrimoxazole 480mg, sodium valproate 200mg and praziquantel 600mg. Of these products, 2 were medical supplies and 8 were medicines.

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

9.11. WHO alert on falsified medicines

- 9.11.1. Falsified medicines are those that have been fraudulently fabricated and distributed and which fail to meet the quality criteria for that particular medicine.
- 9.11.2. Following a World Health Organization (WHO) alert on falsified Hepatitis B vaccines circulating in Eastern Africa and manufactured by one of our suppliers, (Serum Institute of India), the Trust, driven by its spirit of vigilance, launched a verification exercise at the end of which no batches of the incriminated product were found in the CMST supply chain system.
- 9.11.3. In responding to such alerts, CMST reduces the potential hazardous threat to the health of the public because there is always a huge risk of such products extending beyond the country where they were first discovered and reported.
- 9.11.4. Falsified medicines have a number of clinical consequences ranging from poisoning, medicine resistance, treatment failure, the masking of clinical symptoms of ailments, and in a worst case scenario, death.

9.12. Quality Assurance Achievements

- 9.12.1. **Warehouse inspection:** The National Pharmaceutical Warehouse and Regional Medical Stores (RMS) South were inspected by the drug regulatory board (PMPB) for compliance with the current quality warehouse requirements. The facilities passed the inspection.
- 9.12.2. The assessment was an opportunity to demonstrate standardized and optimized warehouse processes and how different areas contribute towards patients receiving quality products, in addition to being a team-ready workplace.
- 9.12.3. **Production unit regulatory approval:** The medicine production unit at Regional Medical Stores (RMS) south was inspected by PMPB for compliance with the current regulatory requirements for current Good Manufacturing Practices (cGMP) and passed. Since then, CMST has produced 4100 units of weak morphine 5mg/5ml and 600 units of strong morphine 50mg/5ml oral dosage forms for palliative care patients in the country.
- 9.12.4. **QMS Implementation:** The Trust continued to implement its Quality Management Systems (QMS) planned activities. The training of all warehouse personnel in all the three Regional Medical Stores on the use of warehousing Standard Operating Procedures (SOPs) to ensure consistent, effective and efficient execution of operational tasks was successfully conducted.

- 9.12.5. In the coming year, the Trust will continue to see how added robust quality improvement elements in ISO 9000 QMS systems across all the business units will be effectively enforced in the interest of the Trust's own systems and that of our stakeholders. In so doing, the quality assurance unit will look to support these business units to bring their services to acceptable standards.

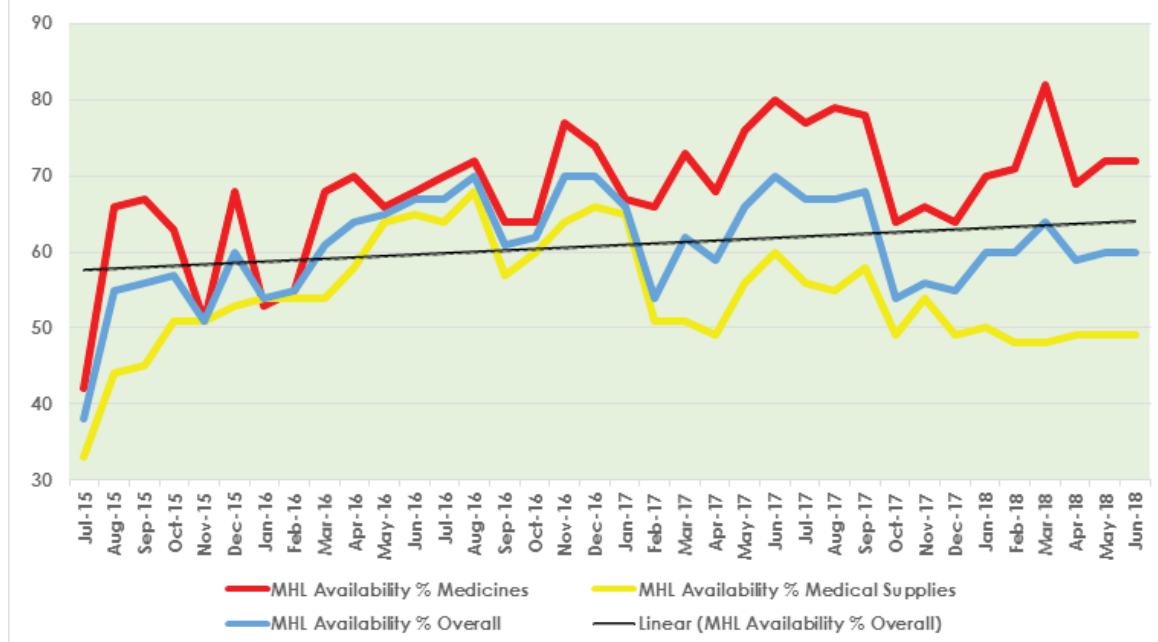
9.13. Warehousing

- 9.13.1. This involves the storage of the procured items in the Trust's Receipt Warehouse in Lilongwe before their dispatch for onward storage at three regional warehouses in Blantyre, Lilongwe and Mzuzu. These warehouses are also sales outlets. The current total holding capacity for CMST-owned warehouses is about 11,000 cubic metres.
- 9.13.2. The Trust continued to experience storage space challenges in the just ended year, mainly due to the improved availability of supplies and the commencement of warehousing and distribution of nutrition commodities procured by Unicef with support from the World Bank.
- 9.13.3. Again, the closing of and vacating from the Capital Container Warehouse in Kanengo (Lilongwe) exerted more pressure on already scarce warehousing space. This prompted CMST to hire an additional 1,000 cubic metres of space from the Imperial Health Sciences (IHS) Warehouse for a period of one year.
- 9.13.4. The Trust started using the National Pharmaceutical Warehouse which was officially opened by the Minister of Health and Population Honourable Atupele Austin Muluji, M.P. on 9th November 2017. The warehouse has a capacity of 3,000 cubic metres with an additional 300 cubic metres of cold room space. This brings the total CMST storage capacity to 11,000 cubic metres but still falls short with 19,000 cubic metres in anticipation of the Parallel Supply Chain Integration.
- 9.13.5. The construction of the warehouse was funded by the Malawi Government at an original cost of MK914, 909, 470.00. Construction started in 2007 but was interrupted in 2012 due to financial challenges. The MoHP handed over an uncompleted structure to CMST in 2014.
- 9.13.6. The completion works resumed in 2015, co-financed by the Trust at MK1 Billion and the Global Fund at US\$1 Million. According to the original plans, and funds permitting, an additional warehouse should be constructed under Phase II, followed by a third one under Phase III. Land for the two projects is already available.
- 9.13.7. The construction of the additional warehouses is vital if integration of parallel supply channels into CMST is to be a reality. To this effect, the Trust has earmarked some funds in the 2018 — 2019 budget to initiate the construction of the second phase.

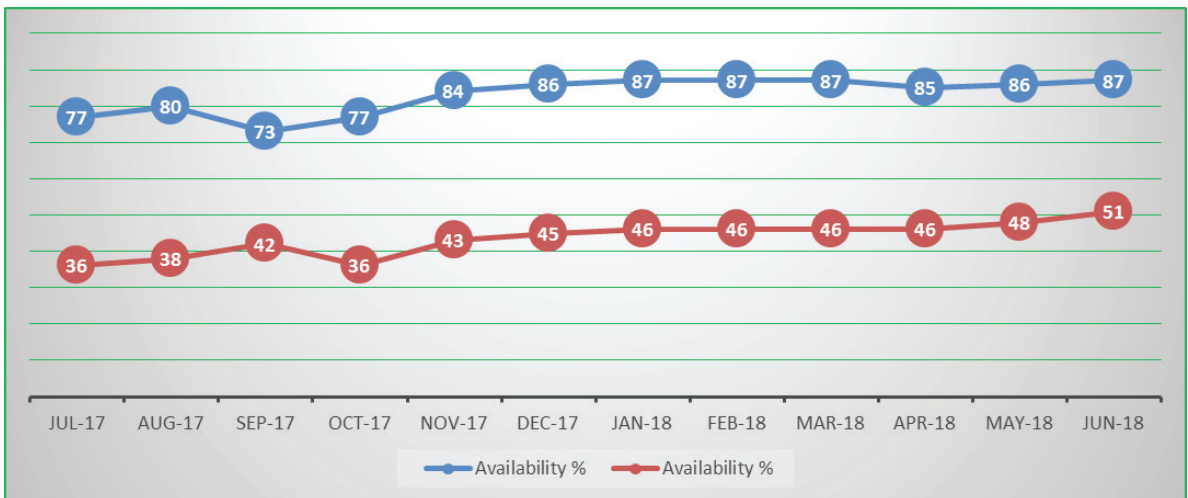
9.14. Availability of medicines and medical supplies

- 9.14.1. The availability of medicines and medical supplies based on the MHL averaged 61 percent in the year under review, with the average for medicines alone at 72 percent and that for medical supplies at 51 percent. The average was a drop from the 64 percent recorded in the previous year [c.f. Figure 1].

Figure 1: Availability of medicines and medical supplies based on Must Have



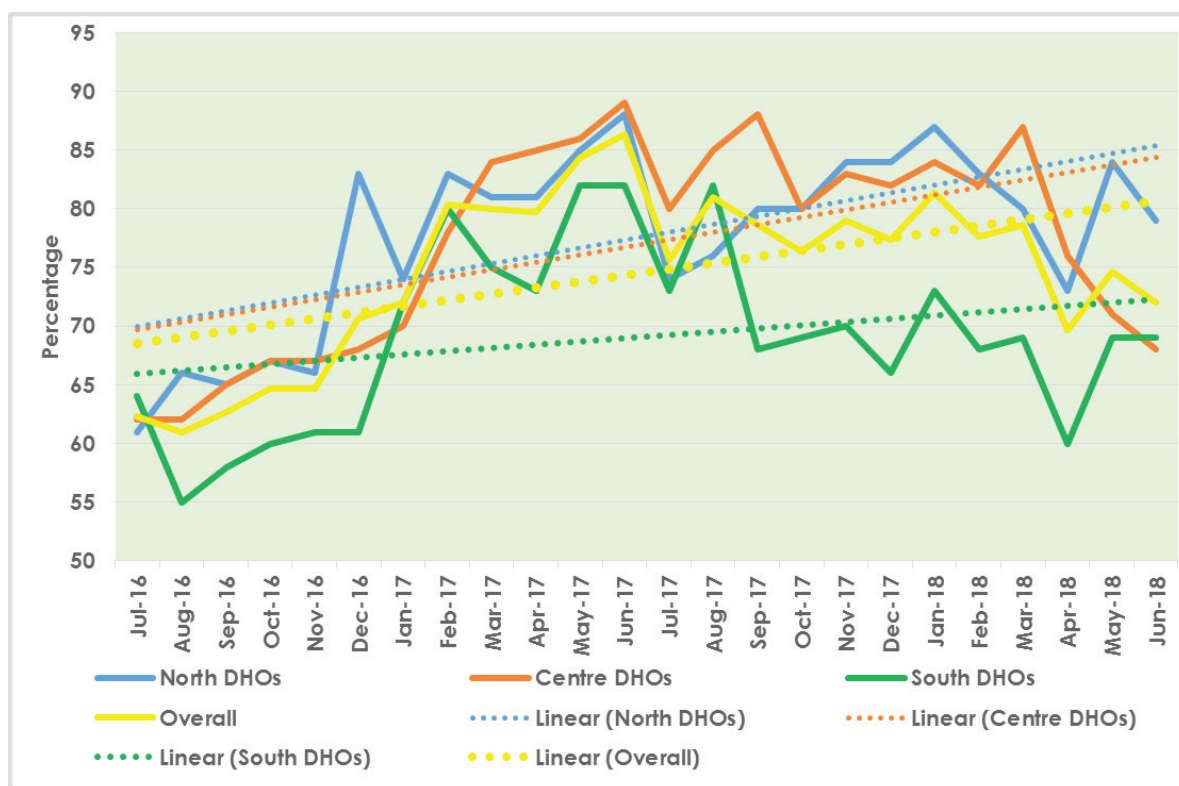
- 9.14.2. The average availability includes specialized items. However, when the specialized items are excluded, the average availability for the medicines goes up to 83% [c.f. figure 2] giving an overall average of 67%. On the other hand the availability for the specialized items stood at 42%. This confirms CMST's struggle ensuring that central hospital requirements are adequately met.

Figure 2: Availability for General MHL vs. Specialized Items

- 9.14.3. The drop is attributed to some suppliers who refused to effect deliveries due to non-payment of previous bills by CMST. The issue was resolved towards the end of the financial year when Treasury paid them through promissory notes.
- 9.14.4. The availability of medicines and medical supplies is expected to improve in the next financial year as most supplies are in the pipeline and suppliers started delivering after being paid through promissory notes.

9.15. The supply fill rate

- 9.15.1. The supply fill rate for district hospitals and health centres registered an improvement from an average of 72 percent in the previous year to 77 percent in the year under review. This improvement is attributed to the strict budget control measures instituted by the councils to prevent overdrawing of the drug budget. The facilities were consequently more cautious of their budgets, leading to prioritization on items and quantities ordered.
- 9.15.2. A similar trend was observed for the central hospitals which registered a slight improvement in the supply fill rates, moving from an average of 53 percent in the previous year to 59 percent in the year under review.
- 9.15.3. Although the most notable improvement was registered with Zomba Mental Hospital, the budget burn out rate for Zomba Central Hospital remained low at 48 percent. Further investigations will be done in the forthcoming financial year to understand other factors behind this trend.

Figure 3: Average supply fill rates for DHOs and health centres**Table 5: Average supply fill rates for the five Central hospitals**

NAME OF CENTRAL HOSPITAL	FINANCIAL YEARS	
	2016/2017	2017/2018
Kamuzu Central Hospital	61 percent	61 percent
Queen Elizabeth Central Hospital	49 percent	53 percent
Mzuzu Central Hospital	46 percent	56 percent
Zomba Central Hospital	54 percent	56 percent
Zomba Mental Hospital	56 percent	71 percent
Overall Average	53 percent	59 percent

9.16. Inventory Management

- 9.16.1. The Trust continued with its efforts in strengthening inventory control activities in all its warehouses. Several trainings, both in-house as well as external, were undertaken on inventory management. In addition, the Trust introduced quarterly stock takes which resulted in improved inventory accuracy levels in all the warehouses.
- 9.16.2. All the same, supplies valued at MK3, 143,557,167.86 were lost due to either expiries or damages, representing 6.7 percent of the total value of supplies handled during the same period [c.f. Table 6 below]. This is against an anticipated target of 5 percent.
- 9.16.3. Despite the unsatisfactory performance with the expiries, the Trust performed well in minimizing stock losses due to damages, with an average of 0.001%.
- 9.16.4. Budget control measures instituted in the course of the year to guard against health facilities going beyond their allocated monthly ceilings had a negative impact on the operations of the Trust. The measures exposed CMST stock to expiries since supplies had already been procured early in the year before these measures were introduced.
- 9.16.5. Inventory accuracy in all the warehouses stood at an average of 86%, against a target of 95%. The Trust will put more effort in inventory monitoring to reverse this trend. In this regard, a proposal has been approved by the Board to recruit an Inventory Control Officer to be responsible for this activity as well as procurement of a new ERP with a warehouse management system.
- 9.16.6. **Donations** received continued to be a challenge as some benefactors failed to comply with the current Malawi Donation Guidelines, with respect to adherence to recommendations on expiry dates of the donated items. The PMPB and the Trust agreed to enforce the implementation of the current guidelines so that no donation will be handled by the Trust without prior clearance of the PMPB.

9.17. Sales and Distribution

- 9.17.1. Inventory accuracy in all the warehouses stood at an average of 86%, against a target of 95%. The Trust will put more effort in inventory monitoring to reverse this trend. In this regard, a proposal has been approved by the Board to recruit an Inventory Control Officer to be responsible for this activity as well as procurement of a new ERP with a warehouse management system.
- 9.17.2. Once cleared by the Quality Control Laboratory, the medicines and medical supplies are dispatched to the three regional warehouses from where they are sold to customers. Sales agreement for public facilities is on sales and deliver basis; orders are expected to be submitted by the facilities to CMST by the 10th of each month. Commodities are invoiced at a handling fee of 18% for normal orders and 10% for donated commodities.

- 9.17.3. The Trust continued to implement the hybrid distribution system which was adopted in 2015 following the results of a distribution options study conducted with support from DfID. In this arrangement, all deliveries from the CMST receipt warehouse to Regional Medical Stores (RMS) and onward deliveries to Central Hospitals are made by CMST. The rest of deliveries to DHOs and their subsequent facilities are made by an outsourced third party logistics firm, Cargo Management Logistics (CML).
- 9.17.4. The Health Services Joint Fund (HSJF), as part of donor support to the Malawi Government, continues to fully fund the Last Mile Distribution (LMD) and MK929,172,054.00 was committed to the same in the financial year under review.
- 9.17.5. In the same period, the Trust cumulatively shipped to health facilities a total of 17,896 cubic metres, with a monthly average of 1491cm³. The volume measurement and tracking started in January 2017 as a performance measure and a cost component in the outsourcing contract with Cargo Management Logistics.

Table 6 – Monthly Volumes Shipped

MONTHLY VOLUMES SHIPPED	
9.0.1. MONTH	CM ³
Jul-17	847
Aug-17	1351
Sep-17	1208
Oct-17	867
Nov-17	1845
Dec-17	1249
Jan-18	979
Feb-18	1040
Mar-18	2638
Apr-18	1737
May-18	2077
Jun-18	2058
TOTAL	17896

- 9.17.6. The substantial increase in volumes from March 2017 to June 2018 was due to the rolling out of the distribution of nutrition commodities from the Department of Nutrition and HIV/AIDS (DNHA) with support from the World Bank, using Unicef as a procurement agent. This distribution arrangement with the DNHA is for 20-months and regulated by a Memorandum of Understanding and contract from 1st May 2017 to December 2019.
- 9.17.7. Every month, CMST keeps track of the distances covered during distribution to health facilities. For the period under review, the Trust covered a total of 391,755 kilometres. This represents a monthly average of 32,647km.
- 9.17.8. In the preceding reporting period, the total distance covered was 347,812 kilometres, with an average of 28,984. The reduction is mainly due to lesser facilities ordering and asking for deliveries in the year under review. This was due to the strict adherence to monthly ceilings by the facilities in the just-ended year, resulting in DHOs not asking for deliveries to some health centres.
- 9.17.9. Related to the volumes shipped is the number of trips made per month; the more the load, often because of the bulky nature of the nutrition comedies, the more the trips would be made to facilities. [Cf. Table 8]

Table 7 – Monthly Distances Covered

DISTANCE COVERED PER MONTH	
MONTH	DISTANCE
Jul-17	26343
Aug-17	27801
Sep-17	28971
Oct-17	15809
Nov-17	38161
Dec-17	28643
Jan-18	12812
Feb-18	22257
Mar-18	50485
Apr-18	40252
May-18	52873
Jun-18	47348
TOTAL	391,755

Table 8 – Monthly trips made

MONTHLY TRIPS TO FACILITIES	
MONTH	TRIP
Jul-17	48
Aug-17	67
Sep-17	64
Oct-17	43
Nov-17	92
Dec-17	62
Jan-18	38
Feb-18	49
Mar-18	118
Apr-18	81
May-18	113
Jun-18	99
TOTAL	874

- 9.17.10. CMST has a total 679 destinations from which a monthly distribution round can be drawn, according to orders made. This figure is inclusive of public health facilities and others [such CHAM facilities] in a Service Level Agreement with Government of Malawi through the Ministry of Health and Population.
- 9.17.11. In the year in review, CMST cumulatively made 4815 drops at individual health facilities. The average number of such visits per month is 401, which is about 60% average coverage for the year under review. The lowest coverage figures were in October 2017 and January and February 2018, both due to less orders.

Table 9 – Monthly Facility Visits

MONTHLY FACILITY VISITS		
MONTH	FACILITIES	% Coverage
Jul-17	472	70
Aug-17	468	69
Sep-17	559	82
Oct-17	208	31
Nov-17	460	68
Dec-17	400	59
Jan-18	238	35
Feb-18	274	40
Mar-18	491	72
Apr-18	451	66
May-18	400	59
Jun-18	394	58
TOTAL /AVERAGE	4815	59

- 9.17.12. Building on from the achievements of last financial year, the Trust received three 34-tonne trucks from the Department of Nutrition and HIV/AIDS. These trucks were procured by UNICEF with financial support from World Bank. These are to primarily assist in the distribution of nutrition supplies currently being warehoused and distributed by CMST.



The Minister of Health and Population, Honorable Atupele Austin Muluzi M.P. (RIGHT) commissioning the trucks donated to CMST by UNICEF through the Department of Nutrition and HIV



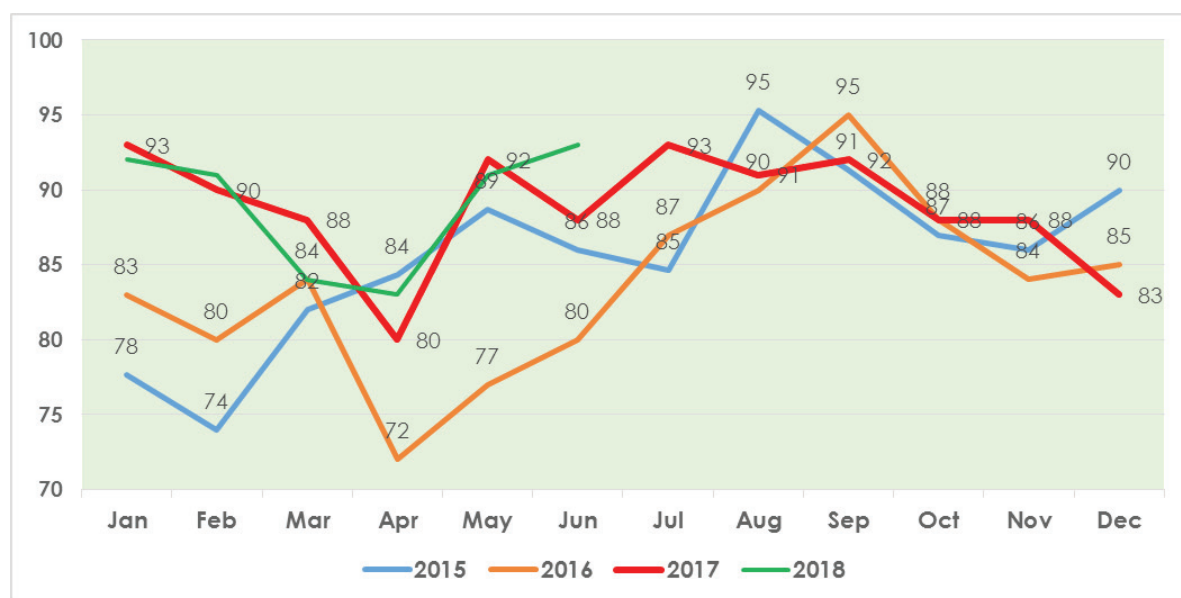
The trucks before branding



The trucks after branding

9.17.13. The Trust continues to enjoy efficiency gains as a result of outsourcing of the last mile distribution. The conformance to a distribution plan has been encouraging, with an average of 89 percent [c.f. Fig. 3].

Figure 3: Conformance to distribution plan



9.18. Warehousing and Distribution of Nutrition Commodities

- 9.18.1. The Trust's commencement of warehousing and distribution of nutrition commodities followed the signing of a Memorandum of Understanding (MOU) between UNICEF, MoHP and CMST.
- 9.18.2. While UNICEF is currently handling the procurement of these commodities, CMST will provide the warehousing and distribution services. The first distribution round for these commodities would be in July 2017. These distributions became more regular from March 2018.
- 9.18.3. The Trust welcomes this development as it demonstrates the confidence the stakeholders have in CMST and again is a step in the right direction towards the integration of parallel supply chains.

9.19. Drug Budget Utilization

- 9.19.1. As at 30th June, 2018, 97.9 percent of the total drug budget has been drawn. Central Hospitals are at 98 percent usage while the DHOs slightly overdrew theirs by an average of 100.7.
- 9.19.2. Almost all the DHOs in the Northern region overdrew their budgets, with Likoma being the only exception at 99.18 percent. Almost all the DHO's in central and Southern regions were within limits.
- 9.19.3. Two Central Hospitals, namely Kamuzu and Queen Elizabeth, utilized all their budgets in the year under review. Zomba Mental Hospital had the lowest budget utilization rate of 48 percent followed by Zomba Central Hospital at 80 percent.

Table 10 – Budget Utilization by Facilities

Facility	MK '000,000.00													% Draw Down	% Expected Draw Down
	Budget Allocation	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	YTD draw downs	
Balaka DHO	276.71	3.45	37.02	-	31.13	29.06	34.86	11.22	33.60	9.29	33.06	19.70	34.61	277.00	100.10
Blantyre DHO	732.12	37.75	50.04	50.44	4.60	73.37	157.60	6.66	48.50	40.78	119.66	7.05	141.23	736.70	100.63
Chikhwawa DHO	358.66	26.27	23.26	36.95	29.91	6.63	60.94	0.09	51.60	7.16	3.86	46.73	69.08	362.47	101.06
Chiradzulu DHO	310.41	-	16.55	26.42	0.07	86.42	34.76	3.18	71.04	2.33	34.24	31.86	3.50	310.37	99.99
Machinga DHO	331.40	11.91	28.73	29.14	36.38	24.82	30.01	20.56	9.42	30.81	40.84	42.66	26.05	331.33	99.98
Mangochi DHO	552.43	0.37	120.48	16.64	0.01	50.23	121.81	-	52.37	106.17	7.76	45.35	34.10	555.31	100.52
Mulanje DHO	422.13	19.61	47.82	6.85	40.68	22.53	74.44	22.10	21.40	65.13	21.50	56.44	29.49	427.99	101.39
Mwanza DHO	187.74	21.87	17.26	8.13	1.79	38.13	1.40	22.06	3.04	23.99	1.33	28.09	20.66	187.75	100.01
Neno DHO	213.85	-	5.33	33.03	6.09	48.01	12.14	3.60	57.32	9.88	2.45	-	35.99	213.85	100.00
Nsanje DHO	256.28	-	16.01	40.01	27.17	-	58.25	17.04	29.52	0.47	0.29	9.07	61.37	259.20	101.14
Phalame DHO	295.02	-	-	24.76	-	24.60	38.04	11.42	25.71	39.51	7.47	33.96	89.48	294.95	99.98
Thyolo DHO	479.49	48.41	10.37	54.97	3.57	56.83	80.51	25.39	20.44	50.17	47.27	(57.24)	119.63	460.32	96.00
Zomba DHO	512.03	18.63	39.49	56.31	-	83.37	48.57	15.39	27.25	55.07	3.54	36.62	132.92	517.16	101.00
Sub-Total	4,928.26	188.28	412.36	383.65	181.40	543.02	753.33	158.71	451.20	440.76	333.29	300.28	798.12	4,934.40	100.12
Dedza DHO	500.53	51.27	22.55	45.82	44.28	12.32	79.61	20.75	29.12	46.52	42.11	54.83	59.07	508.25	101.54
Dowa DHO	438.44	24.95	43.15	40.28	13.22	43.27	25.67	35.47	33.51	46.48	32.44	79.34	6.47	424.25	96.76
Kasungu DHO	461.32	-	49.80	79.36	6.91	76.21	20.58	60.99	33.35	18.07	42.08	72.73	1.27	461.35	100.01
Lilongwe DHO	1,044.61	0.81	133.35	18.11	137.25	27.16	157.98	88.85	135.35	80.36	42.65	137.91	84.49	1,044.27	99.97
Mchinji DHO	365.39	42.34	30.45	18.56	23.38	25.65	44.54	19.16	16.83	41.80	28.50	60.73	13.45	365.39	100.00
Nkhosakota DHO	381.52	34.98	19.80	38.01	25.69	75.90	(1.03)	15.00	25.64	34.17	42.18	51.77	2.41	364.52	95.54
Ntcheu DHO	413.45	29.51	35.30	37.58	26.28	33.17	31.85	35.39	29.29	33.65	33.97	79.33	6.77	412.11	99.67
Ntchisi DHO	225.85	19.27	8.24	43.15	18.04	20.81	4.48	18.74	36.64	19.72	13.65	21.89	1.17	225.79	99.97
Solima DHO	329.94	1.33	39.61	37.65	23.38	31.74	19.76	28.81	33.57	23.40	33.85	36.54	19.67	329.30	99.80
Sub-Total	4,161.07	204.45	382.25	358.52	318.43	346.23	383.43	323.17	373.30	344.18	311.44	595.06	194.77	4,135.22	99.38
Chitipa DHO	236.63	18.61	17.98	20.99	18.60	35.62	0.98	20.22	22.20	22.23	17.96	32.96	19.73	248.07	104.83
Karonga DHO	229.49	18.96	16.21	22.35	11.98	38.38	6.28	14.16	21.30	20.03	21.60	31.55	21.64	244.44	106.51
Likoma DHO	68.58	-	11.02	-	0.68	4.89	3.63	4.77	0.51	9.40	7.18	7.63	18.32	68.02	99.18
Mzimba North DHO	204.47	18.69	6.44	16.12	16.92	22.56	17.79	11.56	16.16	25.96	15.14	27.48	20.09	214.92	105.11
Mzimba South DHO	361.70	34.61	17.06	24.80	36.34	51.16	7.89	38.95	24.03	30.73	35.58	53.22	29.57	383.93	106.15

Facility	MK'000,000.00														% Draw Down	% Expected Draw Down
	Budget Allocation	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	YTD draw downs		
Nkhatabay DHO	207.53	8.41	24.03	14.49	26.95	24.86	4.78	11.12	20.52	14.21	23.57	29.83	17.53	220.30	106.16	100
Rumphi DHO	223.96	3.75	13.85	31.36	23.55	14.34	17.52	19.51	25.14	18.61	20.38	27.70	31.73	247.44	110.48	100
Sub-Total	1,532.36	103.02	106.60	130.10	135.03	191.82	58.87	120.29	129.85	141.16	141.41	210.37	158.61	1,627.13	106.18	100
Sub-Total for DHOs	10,621.69	495.75	901.21	872.27	634.85	1,081.07	1,195.63	602.17	954.36	926.10	776.13	1,105.71	1,151.49	10,696.75	100.71	100
Queen Elizabeth Central Hospital	2,413.02	-	208.16	243.36	49.98	294.59	424.77	137.91	152.59	14.94	246.36	75.77	566.29	2,414.72	100.07	100
Zomba Central Hospital	1,080.02	-	54.75	73.06	33.90	16.42	207.29	47.36	140.38	73.29	47.41	41.73	126.79	862.39	79.85	100
Zomba Mental Hospital	255.86	-	33.86	-	2.35	7.54	11.14	3.02	15.76	0.72	6.60	33.67	8.48	123.15	48.13	100
Kamuzu Central Hospital	1,929.25	128.43	166.06	243.69	251.14	154.69	132.01	131.79	130.28	147.27	132.34	272.01	40.11	1,929.83	100.03	100
Mzuzu Central Hospital	1,080.02	31.07	40.45	70.38	31.38	77.70	76.66	18.69	70.41	81.02	84.84	72.22	313.71	968.52	89.68	100
Sub-Total for CHs	6,758.18	159.50	503.28	630.48	368.75	550.94	851.87	338.78	509.43	317.24	517.55	495.40	1,055.39	6,298.61	93.20	100
Grand-Total for All Facilities	17,379.87	655.25	1,404.50	1,502.75	1,003.60	1,632.01	2,047.51	940.95	1,463.78	1,243.34	1,293.68	1,601.11	2,206.89	16,995.35	97.79	100

9.20. Integration of Parallel Supply Chains

- 9.20.1. The second independent assessment on the implementation of the 36 benchmarks towards integration of supply chains was conducted in September 2017. The results showed that CMST had accomplished an overall performance of 85 percent. The evaluators concluded that the documented achievement indicated CMST's readiness to assume supply chain functions currently managed by the parallel supply chains (PSCs) with support from stakeholders.
- 9.20.2. Consequently a roadmap was developed for the consolidation of supply chain functions currently managed by donor-supported systems in Malawi into a nationally-operated system, in support of the GoM's vision of the health supply chain integration.
- 9.20.2. In particular, the roadmap emphasizes a phased approach to integration with a focus on four key themes that will serve as the foundation for integration: accountability and governance, financing, information management, and coordination.
- 9.20.2. A national supply chain integration steering committee was therefore formed, with clear terms of reference (TORs) to spearhead the implementation of this roadmap.
- 9.20.2. In addition, Global Fund has committed to fund a Project Implementation Team that will work in collaboration with CMST and other stakeholders to ensure smooth integration.

9.21. Funding

- 9.21.1. Advance quarterly funding paid by both MoHP and NLGFC to CMST amounted to MK17.1 Billion for the procurement of medicines and medical supplies during the year up to 30th June 2018: MoHP (MK6.5 Billion) and NLGFC (MK10.6 Billion), as detailed below with one month delays in each quarter:

Table 11- Advance Quarterly Funding to CMST

DRUG BUDGET PAYMENTS FOR 2017/18 FINANCIAL YEAR			
DETAIL	CENTRAL HOSPITALS	DISTRICT HOSPITALS	TOTALS
	MK'000	MK'000	MK'000
Annual Drug Budget	6,519,746	10,860,124	17,379,870
Annual Payments	6,497,437	10,593,795	17,091,232
Variance (underpayment)	22,310	266,329	288,638

- 9.21.2. In addition, Treasury provided special funding to CMST amounting to MK11.1 Billion, following payables accounts verification audit conducted by the National Audit Office (NAO). This resulted in the reduction of CMST receivables arrears from MK13.6 Billion to MK2.5 Billion being owed by Central and District Hospitals.

9.22. Financial Management and Audits

- 9.22.1. Total drug sales amounted to MK17.3 Billion for the twelve months from 1st July 2017 to 30th June 2018, representing 17% below the annual budget of MK21.0 Billion. This was due to strict budget ceiling adherence by most health facilities.
- 9.22.2. However, a net surplus of K1.1 Billion against budget of MK99 million was achieved as a result of the reversal of doubtful receivables provision on Government debts of MK9.6 Billion upon settlement by Treasury, as stated in 1.2 above.
- 9.22.3. Favourable variances averaging 57% were reported during the year especially on staff salaries, motor vehicle expenses, capacity building and board expenses as an adherence to operating costs control measures by CMST Management despite the adverse impact on the overall operating costs as a result of the general increase in costs.
- 9.22.4. The Trust continued to achieve its accountability and transparency strategy excellently by conducting all planned internal and external audit timely and reported findings discussed in respective committees.

9.23. Information Technology

- 9.23.1. The Trust supported initiatives pursued by the Ministry of Health through the Health Technical Support Services (HTSS) Directorate to implement the OpenLMIS platform which manages the reporting of medicines and medical supplies by health facilities. The software is also used for ordering of supplies from CMST electronically.
- 9.23.2. However, the CMST's online ordering platform that was developed in-house is still available and accessible on the Trust's website <http://www.cmst.mw>. The Trust's online ordering system has been developed to also take in orders by CHAM and private hospitals.
- 9.23.3. The Trust through the Global Fund, is procuring a new ERP System which will replace the current Sage 300 ERP System (ACCPAC). The new system is expected to come with a complete warehousing management module currently missing in the existing ERP system. It is hoped that once the new ERP system has been installed, it will help in the quick visibility of items along the supply chain. The system will also come along with a bar-coding solution to help improve data capturing accuracy.

- 9.23.4. The Trust is also supporting various initiatives by the Ministry of Health (MoHP). One of them is the End-to-End (ETE) product tracking system. The system will help MoHP to get quick visibility of stocks which are in the pipeline and also help curb drug pilferage within the supply chain. The system will ensure that the drugs are received by the intended end user (patient).
- 9.23.5. The Trust, with the support of MoHP and the Development Partners, is in the process of integrating all parallel supply chains into the national supply chain. This means the Trust will be involved in the integration of several systems into one coordinated system that will manage all the supply chains. With integration, the Trust's ERP will have interoperability with the ETE product tracking and other systems.

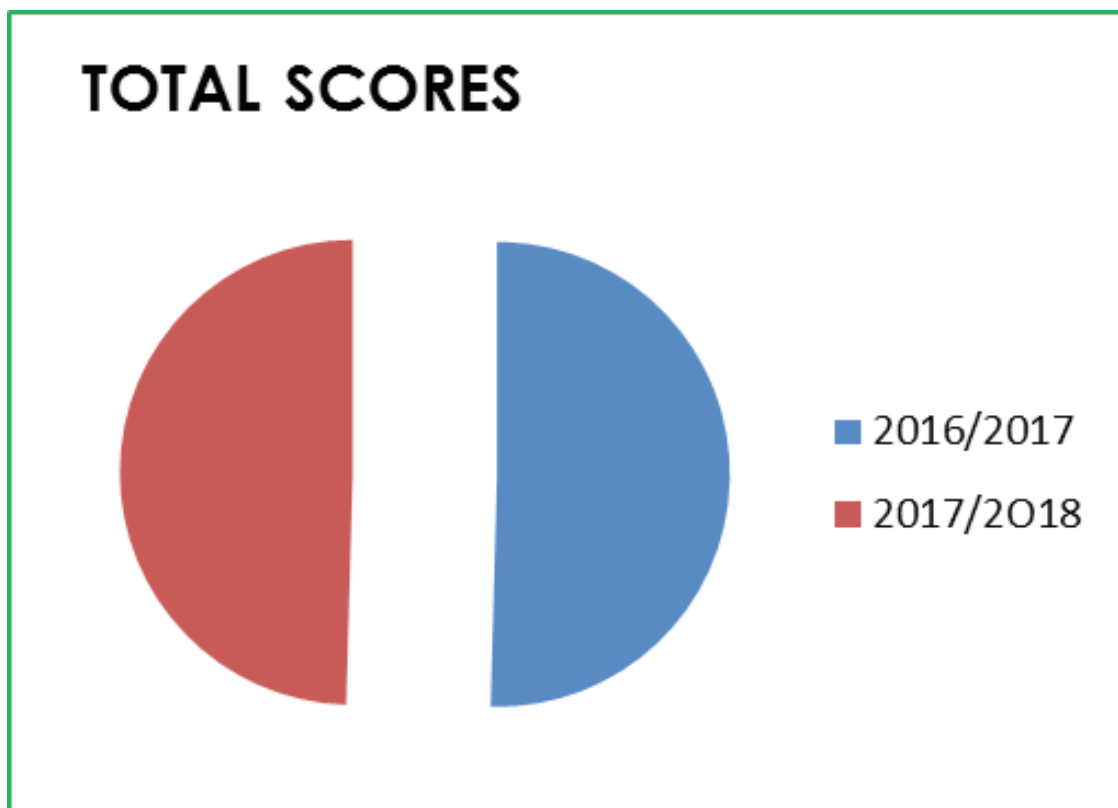
9.24. Human Resources Management

- 9.24.1. The filled staff complement is at 180, with 19 vacant positions planned to be filled in the 2018 — 2019 fiscal year. The total Establishment is 199.
- 9.24.2. In the year, the Trust continued to reform its Procurement Unit. Processes to fill established positions of Director of Procurement, Procurement Manager and other senior posts are underway. It is anticipated that before the end of the next fiscal year the positions would be filled.
- 9.24.3. Overall, staff is seen to be motivated to achieve more targets as can be seen in staff appraisals in this third year of using the electronic Performance Improvement Measurement System (PIMS) with agreed work-plans.

Table 12 – Performance Appraisals

PERFORMANCE APPRAISAL SCORES		
	2016/2017	2017/2018
TOTAL SCORES	13767	13523
AVERAGE (%)	74	77.28

Figure 4 – Comparative total for 2016—2017 and 2017—2018



9.25. Administration

- 9.25.1. The administrative function oversees matters that include estate, assets and property management, as follows:
- 9.25.2. **Offices and Warehouses:** During this period the Trust managed 12 warehouses at all its Regional Medical Stores, added to the National Pharmaceutical Warehouse (NPW). CMST had leased five warehouses and offloaded two: one each in Mzuzu and Lilongwe. The office buildings in Blantyre, Lilongwe, Mzuzu and Head Office are wholly owned by the Trust.
- 9.25.3. **Residential Houses:** The Trust has 52 residential houses which it inherited from Ministry of Health and Population, as per the CMST Trust Deed. The Trust is in the process of confirming the properties with the Ministry of Health, Ministry of Public Works and the Ministry of Lands and Valuation so as to proceed with acquiring title deeds for the properties. The same is true with inherited motor vehicles towards registration in the Trust's name.
- 9.25.4. **New Vehicles:** In the current year, the CMST has received three 30 tonne truck-and-trailers so that the aged fleet is efficiently and effectively being phased out without disruption of operations. Operational vehicles for supervision and inspections were also procured for Executive Management and Managers.

- 9.25.5. Insurance:** CMST has insurance cover for its medicines, medical supplies, staff and all other assets. For staff, there is a 24 hour cover and for medicines and medical supplies, insurance extends from receipt of the commodities, their transit, up to the last mile.

9.26. Corporate Social Responsibility



CMST C.E.O. Mr. Feston Kaupa (Left) hands over a donation to Ministry of Health and Population representative, Dr Mathias Joshua and Acting Director of Health and Social Services for Mangochi (Both Centre) as CMST Director of Pharmaceutical Operations Dr. Moses Chisale (Right) looks on.

- 9.26.1. The Trust continues to undertake its corporate social responsibility with the aim of giving back to the community they serve as well establishing and maintaining goodwill with stakeholders, chief of who are groups of special interest and the general public.
- 9.26.2. The Trust therefore donated medicines and medical supplies worth K22 Million to Mangochi District Hospital in response to a fire that on 15th April 2018 gutted the facility's integrated maternal and child health clinic.

- 9.26.3. The Trust also donated sunscreen worth K17 million to the Association of Persons with Albinism in Malawi (APAM) and finalized the procurement of a drug storage box following a request from Mwanza District Hospital. The box is vital for management of medicines and medical supplies requiring optimum security.
- 9.26.4. Again, the Trust also undertook its commitment to protect the environment by making sure the disposal of expired and damaged medicines and medical supplies followed requisite authorizations and administration relevant authorities such as PMPB City Councils and Police.
- 9.26.5. CMST then opened its doors and extended a learning opportunity to students on internship throughout its departments, as and when need arose.
- 9.26.6. Finally, the Trust also sponsored the Reporting Supply Chain Management in the annual National Media Institute of Southern Africa (Namisa) Malawi Chapter Awards.

9.27. Summary of CMST Performance based on Key Indicators

- 9.27.1. The following is a summary of Key Performance Indicators in the year under review expressed as a percentage of standards set by recognised authorities.

Table 13 – Summary of KPIs

	Indicator	Description of Indicator	Score	Standard	Reference
1.	Selection	Percentage of Medicine items received that are in MHL	100%	100%	Corporate strategy 2015-2020
2.	Availability	Percentage of items available / total number of items	67%	90%	Corporate strategy 2015-2020
3.	Procurement Efficiency	Ration between median price of products procured and the international median reference value	139%	100%	USAID
4.	Emergency Procurement	Proportion of the value of emergency orders issued in the year	65%	50%	USAID
5.	Supplier Performance	Percentage of orders delivered in full and on time (as stated in the procurement contract) from total number of orders in a defined period	47%	100%	USAID
6.	Expiration Management	[Total value of expired items / Total value of products handled annually] x 100%	6.67%	5%	WHO
7.	Registration of items	[Registered items that are procured / Number of items procured in a defined period] x 100%	100%	100%	PMPB/WHO
8.	Quality of items before release	[Medicines and medical supplies that met national quality standards / Number of items procured in a defines period] x 100%	99.5%	100%	PMPB
9.	Recall System	Percentage of batches recalled from the market	2.4%	0	CMST

10.	Rejected products upon receipt	Percentage products rejected upon CMST receipt for defects or shortfalls including a shelf life less than 80% at the time of arrival, wrong products, incomplete sets, cold chain breaches	100%	100%	CMST
11.	Inventory Physical Count (Accuracy Count)	[Absolute value of difference between recorded quantities and counted quantities / Physical quantity] x 100%	86%	95%	Corporate strategy 2015-2020
12.	Value of expired items	[Total value of expired items / Average inventory value] x100%	6.76%	5%	Corporate strategy 2015-2020
14.		Total number of units supplied/Total units ordered (Supply fill rate) for Central Hospitals	59%	90%	Corporate strategy 2015-2020
13.	The quality of CMST services	Total number of units supplied/Total units ordered (Supply fill rate) for District Hospitals and Health Centres	77%	90%	Corporate strategy 2015-2020
14.		Delivery conformance plan	89%	100%	Corporate strategy 2015-2020

9.28. Future Outlook

- 9.28.1. With the current performance and as guided by the Corporate Strategy and Business Plan, alongside the reviewed Trust Deed and Board Charter, the Trust expects to overcome all identified challenges in its critical areas of its operations.
- 9.28.2. In the medium t foreseeable future, that is from the present to 2020, the biggest commitment is presented by the supply chain integration which is being championed by the GoM through Ministry of Health and Population.
- 9.28.3. The above initiative is aimed at enhancing sustainability and capacity of the Trust in attaining an uninterrupted supply of medicines and medical supplies to all public health and affiliated facilities.
- 9.28.4. The integration drive is an effort requiring the Trust's serious commitment. But with the support from the GoM, Development Partners and other stakeholders, CMST is already making progress and the future outlook to achieve its mandate is positive.

9.29. Conclusion

- 9.29.1. CMST is encouraged by the improvement in supply fill rates for district hospitals and health centres, from an average of 72 percent in the previous year to 77 percent in the year under review and, for the central hospitals, from an average of 53 percent in the previous year to 59 percent in the year under review.
- 9.29.2. This is an important indicator. However, there is always need to maintain the efforts so that these gains are sustained.
- 9.29.3. Again, the focus towards 2020 is on Supply Chain Integration. CMST will invest all efforts to accelerate the process.

9.30. Appreciation

- 9.30.1. On behalf of the Management and Staff of the Trust, and on my own behalf, I wish to thank the Board Chairperson and all Trustees for the sound advice and direction towards achievement of the objectives spelt out in the Trust Deed, Corporate Strategy and Business Plan.
- 9.30.2. I also acknowledge the support in various forms provided by the Government of Malawi and other stakeholders. It is through such support that the Trust's vision to improve the medicine and medical supply availability in the country is materializing.

- 9.30.3. Finally, I can ascertain that the stock levels, though not currently as high as we may have anticipated, are improving and that encourages us to work harder.

Lilongwe, Friday 14th December 2018



Feston Kaupa

CHIEF EXECUTIVE OFFICER



CENTRAL MEDICAL STORES TRUST

FINANCIAL STATEMENTS

For the year ended 30 June 2018



CENTRAL MEDICAL STORES TRUST

TRUSTEES' REPORT

For the year ended 30 June 2018

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 2018.

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 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	Chairperson	Full year
Ms. Chifundo Kalaile	Member	Full year
Mr. John Mponda	Member	Full year
Mr. Andrew Chikopa	Member	Full year
Mr. Stanley Chuthii	Ex-officio member	Full year
Dr. Dan Namalika	Ex-officio member	Full year
Mr. Ben Botolo	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

Independent auditors:

Grant Thornton
 Anamwino House
 P.O. Box 30453
 Lilongwe 3

Grant Thornton Chartered Accountants and Business Advisors have indicated their willingness to continue as auditors in respect of the 30 June 2019 financial statements.



Board of Trustees Chairperson



Trustee



2018

Date

CENTRAL MEDICAL STORES TRUST

STATEMENT OF THE TRUSTEES' RESPONSIBILITIES

For the year ended 30 June 2018

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 end of 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 judgments and estimates have been made in the preparation of the financial statements for the year ended 30 June 2018. The Trustees also confirm 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 and 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



2018 and were signed on its behalf by:



Board of Trustees Chairperson



Trustee

**INDEPENDENT AUDITOR'S REPORT
TO THE REGISTERED TRUSTEES OF CENTRAL MEDICAL STORES TRUST**

Opinion

We have audited the financial statements of Central Trust Medical Trust as set out on pages 6 to 28, which comprise the statement of financial position as at 30 June 2018, and the statements of profit or loss and other comprehensive income, changes in reserves and cash flows for the year then ended, and the notes to the financial statements, including significant accounting policies and other explanatory information,

In our opinion, the financial statements give a true and fair view of the financial position of Central Medical Stores Trust as at 30 June 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How we have addressed
<p>Existence and valuation of inventories <i>See notes 3.3 and 8 to the financial statements</i></p> <p>Total inventories of MK24 billion represent 67% of total assets of the Trust as at the reporting date. These inventories mainly consist of drugs and medical supplies kept at various warehouses managed by the Trust across the country. Valuation of inventories is at 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.</p> <p>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.</p> <p>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.</p>	<p>Our audit procedures to test the existence of the inventories consisted of the following:</p> <ul style="list-style-type: none"> • Testing the inventory cycle counts that are periodically performed by management by 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. <p>Procedures carried out to test valuation of inventories included the following:</p> <ul style="list-style-type: none"> • We applied data-analysis software on the valuation report to obtain a sample of inventory items from 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.

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INDEPENDENT AUDITOR'S REPORT

TO THE REGISTERED TRUSTEES OF CENTRAL MEDICAL STORES TRUST

Other information

The Trustees are responsible for the other information. The other information comprises of the Trustees' Report and the Statement of the Trustee' Responsibilities. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 directors determine is necessary to enable the preparation of the 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 Trustees either intend to liquidate the Trust or to cease operations, or have 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 skepticism 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 Trustees.
- Conclude on the appropriateness of Trustees' 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 Trust'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 Trust 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 events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

TO THE REGISTERED TRUSTEES OF CENTRAL MEDICAL STORES TRUST

Auditor's responsibilities for the audit of the financial statements (continued)

We communicate with the management 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.

From the matters communicated with the Trustees we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Grant Thornton



Joel Mwenelupembe

Chartered Accountant (Malawi)

Partner

Lilongwe, Malawi

Date: 31 October 2018

CENTRAL MEDICAL STORES TRUST


STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

In thousands of Malawi Kwacha

	<u>Note</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Non-current assets			
Property, plant and equipment	7	<u>9,260,280</u>	<u>7,404,044</u>
Current assets			
Inventories	8	<u>24,246,822</u>	26,174,556
Trade and other receivables	9	<u>562,235</u>	5,500,676
Cash and cash equivalents	10	<u>2,152,693</u>	<u>445,156</u>
Total current assets		<u>26,961,950</u>	<u>32,120,388</u>
Total assets		<u>36,222,030</u>	<u>39,524,432</u>
RESERVES AND LIABILITIES			
Reserves			
Capital fund		<u>457,926</u>	-
Treasury fund		<u>16,823,775</u>	16,823,775
Revaluation reserve		<u>7,049,782</u>	5,693,242
Accumulated fund		<u>(313,253)</u>	<u>(1,384,871)</u>
Total reserves		<u>24,018,230</u>	<u>21,132,146</u>
Current liabilities			
Trade and other payables	11	<u>12,203,800</u>	<u>18,392,286</u>
Total reserves and liabilities		<u>36,222,030</u>	<u>39,524,432</u>

These financial statements were authorised for issue by the Board of Trustees on

 2018 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 2018

In thousands of Malawi Kwacha

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Revenue	12	17,228,018	19,098,647
Costs of sales	13	<u>(14,600,887)</u>	<u>(15,420,677)</u>
Gross profit		2,627,131	3,677,970
Other income	14	609,078	3,775,260
Distribution costs	15	(48,498)	(940)
Administrative expenses	15	<u>(8,707,079)</u>	<u>(5,485,009)</u>
(Loss)/profit before provision for doubtful receivables		(5,519,368)	1,967,281
Provision for doubtful receivables	9,15	<u>6,590,986</u>	<u>(2,327,777)</u>
Profit/(loss) for the year		<u>1,071,618</u>	<u>(360,496)</u>
Other comprehensive income			
Assets received from UNICEF		490,635	-
Amortization of capital fund assets		(32,709)	-
Revaluation surplus		<u>1,356,540</u>	-
Total other comprehensive income		<u>1,814,466</u>	-
Total comprehensive income for the year		<u>2,886,084</u>	<u>(360,496)</u>

CENTRAL MEDICAL STORES TRUST

STATEMENT OF CHANGES IN RESERVES

For the year ended 30 June 2018

In thousands of Malawi Kwacha

<u>Year ended 30 June 2018</u>	<u>Note</u>	<u>Capital</u>	<u>Treasury</u>	<u>Revaluation</u>	<u>Accumulated</u>	<u>Total</u>
		<u>Fund</u>	<u>Fund</u>	<u>Reserve</u>	<u>Surplus</u>	
Balance as at 1 July 2017		-	<u>16,823,775</u>	<u>5,693,242</u>	<u>(1,384,871)</u>	<u>21,132,146</u>
Total comprehensive income for the year						
Loss for the year		-	-	-	<u>1,071,618</u>	<u>1,071,618</u>
Other comprehensive income						
Assets received from UNICEF		<u>490,635</u>	-	-	-	<u>490,635</u>
Amortization of capital fund assets		<u>(32,709)</u>	-	-	-	<u>(32,709)</u>
Revaluation surplus		-	-	<u>1,356,540</u>	-	<u>1,356,540</u>
Total other comprehensive income		<u>457,926</u>	-	<u>1,356,540</u>	-	<u>1,814,466</u>
Total comprehensive income		<u>457,926</u>	-	<u>1,356,540</u>	<u>1,071,618</u>	<u>2,886,084</u>

Balance as at 30 June 2018	<u>457,926</u>	<u>16,823,775</u>	<u>7,049,782</u>	<u>(313,253)</u>	<u>24,018,230</u>
<u>Year ended 30 June 2017</u>					
Balance as at 1 July 2016	<u>-</u>	<u>16,823,775</u>	<u>5,812,369</u>	<u>(1,143,502)</u>	<u>21,492,642</u>
Total comprehensive income for the year					
Loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(360,496)</u>	<u>(360,496)</u>
Other comprehensive income					
Depreciation on revaluation surplus	<u>-</u>	<u>-</u>	<u>(119,127)</u>	<u>119,127</u>	<u>-</u>
Total other comprehensive income	<u>-</u>	<u>-</u>	<u>(119,127)</u>	<u>119,127</u>	<u>-</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>(119,127)</u>	<u>(241,369)</u>	<u>(360,496)</u>
Balance as at 30 June 2017	<u><u>-</u></u>	<u><u>16,823,775</u></u>	<u><u>5,693,242</u></u>	<u><u>(1,384,871)</u></u>	<u><u>21,132,146</u></u>

CENTRAL MEDICAL STORES TRUST

STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

In thousands of Malawi Kwacha

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Operating activities			
Profit /(Loss) for the year		1,071,618	(360,496)
Depreciation	7	391,106	301,223
Adjustment for amortization of capital fund assets		<u>(32,709)</u>	-
		1,430,015	(59,273)
Change in inventories		1,927,735	(8,657,302)
Change in trade and other receivables		4,938,442	(2,126,197)
Change in trade and other payables		<u>(6,188,489)</u>	<u>11,847,253</u>
Net cash generated from operating activities		<u>2,140,703</u>	<u>1,004,481</u>
Investing activities			
Acquisition of property, plant and equipment	7	(890,801)	(1,462,887)
Assets received from UNICEF		<u>490,635</u>	-
Net cash used in investing activities		<u>(400,166)</u>	<u>(1,462,887)</u>
Net decrease in cash and cash equivalent		1,707,537	(458,406)
Cash and cash equivalent at the beginning of the year		<u>445 156</u>	<u>903,562</u>
Cash and cash equivalent at the end of the year	10	<u>2,152,693</u>	<u>445,156</u>
ADDITIONAL INFORMATION		<u>1,110,304</u>	<u>(590,284)</u>
Increase/(decrease) in net working capital		<u>1,030,048</u>	<u>(1,522,160)</u>

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

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 in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also in accordance with the requirements of Trustees Incorporation Act of 1962.

(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 judgments

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgment 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 judgments 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 IFRSs that have significant effect on the financial statements and estimates on the amounts recognised are discussed in Note 3.2 and 4.

(e) New standards and interpretations not yet 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 2017.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the Trust.

New and amended standards and interpretations

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

- ***IFRS 9 Financial Instruments***

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39.

The Trust has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2. BASIS OF PREPARATION (CONTINUED)

(e) New standards and interpretations not yet adopted (continued)

- ***IFRS 9 Financial Instruments (continued)***

(i) Classification and measurement

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

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

There will be no impact on the Trust's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Trust does not have any such liabilities.

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

Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment

model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

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

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

(iii) Classification – Financial liabilities

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

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

The Trust has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Trust's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Disclosures

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Trust's disclosures about its financial instruments when the Trust adopts the standard.

(v) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below. The Trust will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2. BASIS OF PREPARATION (CONTINUED)

(e) New standards and interpretations not yet adopted (continued)

- **IFRS 9 Financial Instruments (continued)**

(v) Transition

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

IFRS 9 will impact the measurement of financial instruments. The Trust will assess the impact of the standard before the effective date as the impact is not known and cannot reasonably be estimated. The effective date is annual periods beginning on or after 1 January 2018, with early adoption permitted. The assessment made by the entity is preliminary as not all transition work requirements have been finalised and therefore may be subject to adjustment.

- **IFRS 16 Leases**

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

The standard is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Trust is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

- **IFRS 15 Revenue from contracts with customers**

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

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

Manufacturing and Sales of medicines and medical supplies

Revenue is currently recognised when medicines and medical supplies are delivered. Under IFRS 15 Revenue from contracts with customers, revenue will be recognised when a customer obtains control of the Medicines and medical supplies. The Trust does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these products.

Transition

The Trust plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Trust will not apply the requirements of IFRS 15 to the comparative period presented.

The assessment made by the entity is preliminary as not all transition work requirements have been finalised and therefore may be subject to adjustment.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2. BASIS OF PREPARATION (CONTINUED)

(e) New standards and interpretations not yet adopted (continued)

- ***IFRIC 22 Foreign Currency Transactions and Advance Considerations***

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

This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the Trust initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The Trust does not expect the application of IFRIC 22 to result in significant differences in the translation of foreign currency transactions. The interpretation applies for annual reporting periods beginning on or after 1 January 2018.

- ***IFRIC 23 Uncertainty over Income Tax Treatments***

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

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

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

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

IFRIC 23 applies for annual periods beginning on or after 1 January 2019.

Earlier adoption is permitted.

3. SUMMARY OF 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 financial statements:

3.1 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods supplied, net of discounts, returns, 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 expenditures 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 cost 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 recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Property, plant and equipment (continued)

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:

Buildings	33 years
Plant and machinery	5 years
Motor vehicles	5 years
Office equipment	5 years
Furniture and fittings	5 years

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 recognized in other operating income/other operating expense in profit or loss. On disposal of revalued assets, amounts in the revaluation reserve relating to that 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.

The Trust considers evidence 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 then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

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

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Impairment of assets (continued)

ii) Non-financial assets

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

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

3.5 Financial instruments

i) Recognition

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

Subsequent to initial recognition, all financial statements are measured at fair value except for the Trust's originated loans and receivables (not 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 transfers nor retains 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.

The Trust derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

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 to 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 regarded 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 account in pricing a transaction.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

iv) Fair value measurement (continued)

The best evidence of the fair value of a financial instrument at initial recognition 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 value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, 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 recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

3.6 Employee service benefits

a) Short term employee benefits

Short-term benefits consist of salaries, accumulated leave payments, bonuses and any non-monetary

benefits such as medical aid contributions.

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

b) Pension obligations

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

3.7 Trade payables

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

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

3.8 Provisions

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

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

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

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Cash and cash equivalents

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

3.10 Treasury fund

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

3.11 Financing costs

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

3.12 Income tax

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

3.13 Trade and other receivables

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

3.14 Comparative information

Comparative information is restated in respect of changes in accounting policy and prior period material errors, where applicable.

3.15 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions 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.

3.16 Revaluation reserve

Surplus on the revaluation of assets is transferred to a 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 revaluable surplus remaining in the property revaluation reserve is transferred directly to the surplus/ deficit reserve.

3.17 Contingent liabilities

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

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

4. DETERMINATION OF FAIR VALUES

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

4.1 Property, plant and equipment

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

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

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

Properties and plant in course of construction for production or administrative purposes 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 their estimated useful lives, using the straight-line method. The gain or loss 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 recognized 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 positions in (a) foreign currencies and (b) interest bearing assets and liabilities to the extent that these are exposed to general and specific market movements.

i) Foreign currency risk

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

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

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

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

5. RISK MANAGEMENT (CONITNUED)

5.1 Financial risk management (continued)

5.1.1 Market risk (continued)

i) Foreign currency risk (continued)

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

	<u>2018</u>	<u>2017</u>
<i>US\$ denominated monetary liabilities</i>		
Amounts payable	<u>7 432 684</u>	<u>11,569,293</u>

Sensitivity

Foreign currency sensitivity analysis

At 30 June 2018, if the Kwacha had weakened or strengthened by 10% against the United States Dollar ("US\$") with all other variables held constant, the effect on post-tax surplus for the year would be **MK6.832** Million (2017: MK6.1 million).

1.1.2 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 that the debtors will not meet their payment obligations. No collateral is held to reduce credit risk.

The table below analyses Trust credit risk exposure:

	Gross			
	Carrying	0 - 6	6 - 12	Over 12
As at 30 June 2018	<u>Amount</u>	<u>Months</u>	<u>Months</u>	<u>months</u>
Trade receivables (excluding prepayments)	6,142,256	60,547	-	6,081,709
Cash and cash equivalents	<u>2,384,174</u>	<u>2,384,174</u>	-	-
	<u>8,526,430</u>	<u>2,444,721</u>	-	<u>6,081,709</u>
As at 30 June 2017				
Trade receivables (excluding prepayments)	17,671,683	4,937,631	563,045	12,171,007
Cash and cash equivalents	<u>445,156</u>	<u>445,156</u>	-	-
	<u>18,116,839</u>	<u>5,382,787</u>	<u>3,602,297</u>	<u>12,171,007</u>

i) Staff receivables

Staff receivables 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 institutions, management does not expect any institution to fail to meet its obligations.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

In Thousands of Malawi Kwacha

5. RISK MANAGEMENT (CONTINUED)

5.1 Financial risk management (continued)

5.1.2 Credit risk (continued)

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:

		<u>Gross</u>	<u>Carrying amount</u>	<u>Gross</u>	<u>Carrying amount</u>
<i>In Thousands of Malawi Kwacha</i>	<u>Note</u>	<u>2018</u>	<u>2018</u>	<u>2017</u>	<u>2017</u>
Trade and other receivables	9	6,142,256	562,235	17,671,683	5,500,756
Cash and cash equivalents	10	2,384,174	2,152,693	445,156	445,156
Total		8,526,430	2,714,928	18,116,839	5,945,912

iv) Impairment losses

The aging of trade receivables at the reporting date was:

In Thousands of Malawi Kwacha

	Gross		Gross	
	amount	Impairment	amount	Impairment
	<u>2018</u>	<u>2018</u>	<u>2017</u>	<u>2017</u>
Not past due	60,567	-	449,238	-
Past due 0-30 days	-	-	4,488,393	-
Past due 31-365 days	-	-	563,045	-
/ Past due above 365	<u>6,081,689</u>	<u>5,580,021</u>	<u>12,171,007</u>	<u>12,171,007</u>
Total	<u>6,142,256</u>	<u>5,580,021</u>	<u>17,671,693</u>	<u>12,171,007</u>

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

<i>In thousands of Malawi Kwacha</i>	<u>2018</u>	<u>2017</u>
Balance at 1 July 2017	12,171,007	9,843,230
Impairment loss recognized	-	2,327,777
Impairment reversal	<u>(6,590,986)</u>	-
Balance as at 30 June 2018	<u>5,580,021</u>	<u>12,171,007</u>

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

Impaired trade and other receivables

Impaired trade and other receivables 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 receivables balance and any related allowances for impairment losses when the Trust determines that the receivable balances are uncollectible.

v) Profile

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

instruments were:

Carrying amount

In Thousands of Malawi Kwacha

Note **2018** 2017

Fixed rate instruments

Financial assets	10	<u>2,152,693</u>	<u>445,156</u>
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CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

In Thousands of Malawi Kwacha

5. RISK MANAGEMENT (CONTINUED)

5.1 Financial risk management (continued)

5.1.2 Credit risk (continued)

vi) Fair values versus carrying amounts

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

5.1.3 Liquidity risk

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

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

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

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

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

As at 30 June 2018	<u>0 - 3 months</u>	<u>3 - 12 months</u>	<u>Greater than 12 months</u>	<u>Total</u>
Assets				
Trade and other receivables	60,547	501,688	-	562,235
Cash and cash equivalents	<u>1,345,765</u>	<u>806,928</u>	<u>-</u>	<u>2,152,693</u>
	<u>1,406,312</u>	<u>1,308,616</u>	<u>5,579,966</u>	<u>2,714,928</u>
Liabilities				
Trade and other payables	<u>12,203,800</u>	<u>-</u>	<u>-</u>	<u>12,203,800</u>
Current liquidity gap	<u>(10,797,488)</u>	<u>1,308,616</u>	<u>-</u>	<u>(9,488,872)</u>
Cumulative liquidity gap	<u>(10,797,488)</u>	<u>(9,488,872)</u>	<u>(9,488,872)</u>	<u>-</u>
As at 30 June 2017				
Assets				
Trade and other receivables	5,500,676	-	-	5,500,676
Cash and cash equivalents	<u>445,156</u>	<u>-</u>	<u>-</u>	<u>445,156</u>
	<u>5,945,832</u>	<u>-</u>	<u>-</u>	<u>5,945,832</u>
Liabilities				
Trade and other payables	<u>18,392,286</u>	<u>-</u>	<u>-</u>	<u>18,392,286</u>
Current liquidity gap	<u>(12,446,454)</u>	<u>-</u>	<u>-</u>	<u>(12,446,454)</u>
Cumulative liquidity gap	<u>(12,446,454)</u>	<u>(12,446,454)</u>	<u>(12,446,454)</u>	<u>-</u>

5.2. Capital risk management

Trust's 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.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

In Thousands of Malawi Kwacha

5. RISK MANAGEMENT (CONTINUED)

5.1 Financial risk management (continued)

5.3. Fair value estimation

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

6. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

6. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

6.1 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 data and the unobservable 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 uses widely recognized 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 judgment and estimation. Observable 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 judgment 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 judgment 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 counterparty).

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

In Thousands of Malawi Kwacha

6. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

1.2 Accounting classification of financial instruments

The following table shows the carrying amounts classification of financial assets and financial liabilities:-

30 June 2018	Note	<u>Loans and receivables</u>	<u>Other financial liabilities</u>	<u>Total</u>
Financial assets not measured at fair value				
Cash and cash equivalents	10	2,152,693	-	2,152,693
Trade and other receivables	9	<u>562,235</u>	-	<u>562,235</u>
Total		<u>2,714,928</u>	-	<u>2,714,928</u>
Liabilities				
Trade and other payables	11	-	<u>15,086,599</u>	<u>15,086,599</u>
30 June 2017	Note	<u>Loans and receivables</u>	<u>Other financial liabilities</u>	<u>Total</u>
Financial assets not measured at fair value				
Cash and cash equivalents	10	445,156	-	444,796
Trade and other receivables	9	<u>5,500,676</u>	-	<u>5,500,676</u>
Total		<u>5,945,832</u>	-	<u>5,945,832</u>
Liabilities				
Trade and other payables	11	-	<u>18,392,286</u>	<u>18,392,286</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

In thousands of Malawi Kwacha

7. PROPERTY, PLANT AND EQUIPMENT

Refer accounting policy note 3.2

Cost or valuation	Land	Buildings	Furniture and fittings	Motor vehicles	Plant and machinery	Office equipment	Total
As at 1 July 2017	1,984,277	4,539,036	122,055	945,877	254,666	356,747	8,202,658
Additions			22,434	758 453	8,264	77,356	890,801
Revaluations surplus		24,294,444,288	-	-	-	-	1,356,541
Elimination of depreciation on revaluation	912,253	(255,784)	-	-	-	-	(255,784)
As at 30 June 2018	2,896,530	4,751,834	144 489	1 704 330	262 930	434 103	10,194,216
Depreciation							
As at 1 July 2017		119,127	59,589	340,293	112,262	167,343	798,614
Charge for the year		136,657	26,311	107,523	44,348	76,267	391,106
Elimination of depreciation on revaluation		(255,784)	-	-	-	-	(255,784)

As at 30 June 2018	-	<u>85,900</u>	<u>447 816</u>	<u>156 610</u>	<u>243 610</u>	<u>933,936</u>
Carrying amount						
As at 30 June 2018	<u>2,896,530</u>	<u>58 589</u>	<u>1 256 514</u>	<u>106 320</u>	<u>190 493</u>	<u>9,260,280</u>
As at 1 July 2016	<u>1,984,277</u>	<u>74,504</u>	<u>340,063</u>	<u>150,418</u>	<u>267,992</u>	<u>6,739,771</u>
Additions		<u>47,551</u>	<u>605,814</u>	<u>104,248</u>	<u>88,755</u>	<u>1,462,887</u>
As at 30 June 2017	<u>1,984,277</u>	<u>122,055</u>	<u>945,877</u>	<u>254,666</u>	<u>356,747</u>	<u>8,202,658</u>
Depreciation						
As at 1 July 2016	-	<u>36,643</u>	<u>281,822</u>	<u>76,993</u>	<u>101,933</u>	<u>497,391</u>
Charge for the year	<u>119,127</u>	<u>22,946</u>	<u>58,471</u>	<u>35,269</u>	<u>65,410</u>	<u>301,223</u>
As at 30 June 2017	<u>119,127</u>	<u>59,589</u>	<u>340,293</u>	<u>112,262</u>	<u>167,343</u>	<u>798,614</u>
Carrying amount						
At 30 June 2017	<u>1,984,277</u>	<u>62,466</u>	<u>605,584</u>	<u>142,404</u>	<u>189,404</u>	<u>7,404,044</u>

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 valued. 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 at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized.

<u>2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Land and buildings	<u> -</u>	<u> -</u>	<u>7,648,364</u>	<u>7,648,364</u>
 <u>2017</u>				
Land and buildings	<u> -</u>	<u> -</u>	<u>6,404,186</u>	<u>6,404,186</u>

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

	<u>2018</u>	<u>2017</u>
Cost	2,747,085	2,722,792
Accumulated depreciation and impairment losses		
Net carrying Amount	<u>2,747,085</u>	<u>2,722,792</u>

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

In thousands of Malawi Kwacha

8. INVENTORIES

Refer accounting policy note 3.3

	<u>2018</u>	<u>2017</u>
Tablets and capsules	8,560,907	8,426,174
Injectables	3,127,058	3,503,106
Vaccines	230,160	334,300
Raw materials	137,090	2,542
Galenicals	3,548,004	2,138,919
Surgical dressings	2,036,297	2,017,595
Mantino DFID	364,303	2,352,582
Sutures	850,963	1,080,736
Surgical equipment	5,288,171	2,887,153
Ophthalmic	23,092	25,593
Dispensary items	563,569	642,480
Hospital equipment	16,602	41,112
Laboratory items & Reagents	2,980,431	1,729,753
X-ray films and equipment	348,826	833,601
Dental items	202,629	902,901
Miscellaneous products	214	408
Hospital beddings	<u>66,391</u>	<u>35,955</u>
	28,344,707	26,954,910
Less: provision for obsolete (expired) inventory	<u>(4,129,328)</u>	<u>(830,733)</u>
	24,215,379	26,124,177
Stationery	<u>31,443</u>	<u>50,379</u>
Total inventory	<u>24,246,822</u>	<u>26,174,556</u>

9. TRADE AND OTHER RECEIVABLES

Refer accounting policy note 3.13

Ministry of finance receivables	-	2,540,756
Trade receivables	2,510,042	12,076,233
Sundry receivables	3,441,500	2,854,973
Staff receivables	149,631	169,654
Prepayments	<u>41,083</u>	<u>30,067</u>
	6,142,256	17,671,683
Less provision for doubtful receivables	<u>(5,580,021)</u>	<u>(12,171,007)</u>
	<u>562,235</u>	<u>5,500,676</u>

The carrying amount of receivables of **MK562,235** (2017: MK5,500,676) is a reasonable approximation of their fair values.

Provision for doubtful receivables

Opening balance	12,171,007	9,843,230
Provision for the year	-	2,327,777
Impairment reversal	<u>(6,590,986)</u>	<u>-</u>
Closing balance	<u>5,580,021</u>	<u>12,171,007</u>

These relate to hospital and medical facilities for whom there is recent history of default. The ageing analysis of these trade receivable is as follows:

Up to 12 months	<u>562,235</u>	<u>5,500,676</u>
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The maximum exposure to credit risk is at the reporting date is the carrying value of each class of receivables mentioned above. All receivables are denominated in Malawi Kwacha.

The Trust does not hold any collateral as security and debts to government hospitals are guaranteed by the Government of Malawi.

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

In thousands of Malawi Kwacha

10. CASH AND CASH EQUIVALENTS

<i>Refer accounting policy note 3.9</i>	<u>2018</u>	<u>2017</u>
Other banks	43,512	445,156
Promissory notes	<u>2,340,662</u>	-
	2,384,174	445,156
Less Impairment provisions	<u>(231,481)</u>	-
	<u>2,152,693</u>	<u>445,156</u>

The carrying amount of cash and cash equivalent of **MK2,152,693** (2017: MK445,156) is a reasonable approximation of their fair values. Promissory notes valued at MK 1,035,215,755 will mature on 13th June 2019 and MK 1,305,446,000.00 matures on 9th September 2018.

11. TRADE AND OTHER PAYABLES

Refer accounting policy note 3.7

Trade payables	11,727,059	16,860,504
Accruals	341,095	958,637
Provision for gratuity	19,178	30,882
Other payables and accruals	<u>116,468</u>	<u>542,263</u>
	<u>12,203,800</u>	<u>18,392,286</u>

The carrying amount of payables of **MK12.2 billion** (2017: MK18.3 billion) is a reasonable approximation of their fair values.

12. REVENUE

Refer accounting policy note 3.1

Regional Medical Stores (South)	8,334,982	9,445,549
Regional Medical Stores (Centre)	6,227,948	7,348,454
Regional Medical Stores (North)	<u>2,665,088</u>	<u>2,304,644</u>
	<u>17,228,018</u>	<u>19,098,647</u>

13. COST OF SALES

Opening stock	15,420,677	17,517,254
Add Purchases	23,427,032	24,077,979
Less Closing stock	<u>(24,246,822)</u>	<u>(26,174,556)</u>
	<u>14,600,887</u>	<u>15,420,677</u>

14. OTHER INCOME

Interest received	24,386	60,817
Rent received	123,775	35,148
Sundry income	445,292	3,679,295
Disposal of Fixed Assets	<u>15,625</u>	<u>-</u>
	<u>609,078</u>	<u>3,775,260</u>

CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

In Thousands of Malawi Kwacha

15. EXPENSES

Professional fees

	<u>2018</u>	<u>2017</u>
- Audit fees	22,600	22,600
- Legal and consultancy fees	21,780	14,657
Bank charges	26,686	5,477
Computer costs	1,859	29,763
Depreciation	391,106	301,223
Electricity charges	42,801	34,687
Boarded off items/ expired stock (note 8)	4,129,328	830,733
Fuel and lubricants	246,664	357,604
Hiring of security guards	289,085	337,074
Maintenance of buildings	84,197	75,730
Motor vehicle maintenance costs	105,976	133,698
Office sundries	56,505	6,371
Other expenses	184,382	236,030
Other insurance costs	79,124	271,950
Publication and advertising	114,166	122,013
Rent/lease (warehouse/office)	306,080	
Repairs of plant and equipment	44,214	
Salaries	1,826,190	333,370
Stationery	23,335	1,534,043
Subsistence allowance	286,582	32,934
Telephone charges	81,790	222,880
Provision for doubtful debts/impairment allowance	(6,590,986)	82,790
Provision for absolute stock	231,481	2,327,777
Training	72,396	245,235
Water and sanitation	31,303	14,996
Uniform and protective clothing	584	6,126
Realized foreign exchange loss	55,363	233,965
	<u>2,164,591</u>	<u>7,813,726</u>
Disclosed as		
Distribution costs	48,498	940
Administration costs	8,707,079	5,485,009
Provision for doubtful debts/impairment allowance	(6,590,986)	2,327,777
	<u>2,164,591</u>	<u>7,813,726</u>

17. 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	<u>2018</u>	<u>2017</u>
	UNICEF – Assets donated	490,635	-
	Key management remuneration	178,323	168,204
	Trustees remuneration	625	1,418
b)	Year end balances		
	Amounts due to key management	<u>19,179</u>	<u>30,888</u>
	Government receivable balance:		
	Treasury receivables	-	2,540,756
	All government receivables	<u>2,511,853</u>	<u>11,088,042</u>
		<u>2,511,853</u>	<u>13,628,798</u>

18. CAPITAL COMMITMENTS

Authorised but not contracted	=	<u>812,161</u>
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CENTRAL MEDICAL STORES TRUST

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

In Thousands of Malawi Kwacha

19. CONTINGENT LIABILITIES

There were no contingent liabilities as at year end requiring disclosure in the financial statements.

20. INFLATION AND EXCHANGE RATES

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

	As at the date of signing these financial statements	2018	2017
	<u>MK</u>	<u>MK</u>	<u>MK</u>
United States Dollar (US\$)	725.86	733.95	733.95
Euro (€)	852.91	856.5669	840.73
South African Rand (ZAR)	50.52	53,966	56.82
Inflation rate	<u>9.2%</u>	<u>9.0%</u>	<u>14.2%</u>

21. SUBSEQUENT EVENTS

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

Notes



ANNUAL REPORT

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2018



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