

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR- GENERAL



REPORT

OF

OFFICE OF THE AUDITOR- GENERAL

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA FORESTRY RESEARCH INSTITUTE**

**FOR THE YEAR ENDED
30 JUNE 2015**

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KENYA FORESTRY RESEARCH INSTITUTE

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH JUNE 2015**

Prepared in accordance with the Accrual basis of Accounting method under the
International Public Sector Accounting Standards (IPSAS)



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

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KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

I. Key Institute Information and Management

a) Background Information

i. Incorporation

Kenya Forestry Research Institute, (KEFRI) hereby referred to as the Institute is a State Corporation established in 1986 under the Science and Technology Act (Cap 250) of the Laws of Kenya, which has since been repealed by the Science, Technology and Innovation Act No. 28 of 2013.

ii. Our Vision

A centre of excellence in forestry research for development.

iii. Our Mission

To conduct research and provide information and technologies for sustainable development of forestry and allied natural resources for socio-economic development.

iv. Our Core Values

- Creativity and Innovation
- Professionalism
- Integrity
- Teamwork
- Clean and Healthy Environment
- Partnership

v. Domicile

It is domiciled in Kenya.

b) Principal Activities

The principal activities of the Institute are to conduct research in Forestry and to disseminate research findings so as to contribute to Sound management, conservation and development of forest resources in Kenya.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

c) Key Management

KEFRI'S day- to- day management is under the following key officers:-

- The Chief Executive Officer (The Director)
- The Senior Deputy Director- Research & Development
- The Senior Deputy Director - Finance & Administration

- The Deputy Director - Technical Support Services
- The Deputy Director - Forest Biodiversity and Environment Management
- The Deputy Director - Forest Products Development Research
- The Deputy Director - Social Economics Policy & Governance
- The Deputy Director - Forest Productivity & Improvement
- The Deputy Director - Corporate Affairs & Quality Assurance
- The Deputy Director - Human Resource Management
- The Deputy Director - Administration
- Head of Accounts
- Head of Supplies Chain



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

d) Fiduciary Managements

The key management personnel who held office during the financial year ended 30th June 2015 and who had direct fiduciary responsibility were:-

NO	DESIGNATION	NAME
1.	The Chief Executive Officer (The Director)	Dr. Ben Chikamai
2.	The Senior Deputy Director- Research & Development	Dr. Bernard N. Kigomo
3.	The Senior Deputy Director - Finance & Administration	Mr. Patrick N. Omesa
4.	The Deputy Director - Technical Support Services	Dr. Ebby Chagala - Odera
5.	The Deputy Director - Forest Biodiversity and Environment Management	Dr. Gabriel M. Muturi
6.	The Deputy Director - Forest Product Development Research	Dr. Joseph Githiomi
7.	The Deputy Director - Social Economic Policy & Governance	Dr. Joshua Cheboiwo
8.	The Deputy Director - Forest Productivity & Improvement	Dr. Jane W. Njuguna
9.	The Deputy Director - Corporate Affairs & Quality Assurance	Dr. Jackson M. Mulatya
10.	The Deputy Director - Human Resource	Mrs. Evelyn I. Oroni
11.	The Deputy Director - Administration	Mr. John M. Gisemba
12.	Head of Accounts	Mr. Shem A. Ogao
13.	Head of Supplies Chain	Mr. Jonathan Ochieng



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

e) Fiduciary Oversight Arrangements

KEFRI Board of Management has established three oversight committees as required by the State Corporations Act. Section 9 of the State Corporations Act Cap 446 Laws of Kenya which states as follows:

"A state corporation may establish committees consisting of members of the Board to deal with such matters as the Board may specify and notice of establishment of any committee in accordance with this section whether established before or after the commencement of this Act shall be served on the State Corporations Advisory Committee".

This provision is further reinforced by section 15, on financial accountability of the Institute.

f) KEFRI Board Committees

i. Research & Development Committee

KEFRI Mandate and core business is to conduct research and provide information and technologies for sustainable development of forestry and allied natural resources for socio-economic development. So this being the case the above committee is to oversee that this is achieved.

ii. Finance & Administration Committee

The committee oversees the budgeting, reviews progress reports on expenditures of the Institute including capital expenditure from time to time and makes recommendations to the Board of Management on issues relating to procurement. The committee ensures overall sound financial reporting before approval of the board. The Committee also oversees human resource management including recruitment and other employee's related issues.

iii. Audit Committee

The committee has a charter setting out its responsibilities. Some of the duties include oversight over financial statements and financial reporting; compliance generally with set standards, internal control and risk management. The role of the committee is advisory. The committee meets at least once quarterly. The Chief Executive Officer is not a member of this committee as per common practice.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Consequently the State Corporations Advisory Committee (SCAC) issued guidelines for the formation of the Committees of which the Finance and Audit Committees are mandatory.

The Board of Kenya Forestry Research Institute has therefore met its legal and regulatory requirements as far as fiduciary oversight arrangements are concerned

g) KEFRI Headquarters
Off Nairobi/Nakuru Highway – Muguga
P.O Box 20412 – 00200
Nairobi

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+254734251888
Email: director@kefri.org
Website: www.kefri.org

i) KEFRI Bankers
Kenya Commercial Bank
Sarit Centre Branch
P.O. Box 14959 – 00800
Nairobi

j) Co-operative Bank
Westlands Branch
P.O. Box 66589– 00800
Nairobi

k) Commercial Bank of Africa
P.O. Box 30437- 00100
Nairobi




l) Independent Auditors
The Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084 – 00100
Nairobi

m) Principal Legal Adviser
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi





KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

II. THE BOARD OF DIRECTORS

DIRECTOR'S NAME	PASSPORT SIZE PHOTO	DIRECTOR'S DETAILS
<p>1. Prof. Daniel Mugendi - Chairman</p> <p>Professional/Academic qualification Post-Doctoral Fellowship - African Career Award PhD in Agroforestry</p>		<p>Date of Birth: 8th June 1961</p> <p>Key qualification: Principal Embu University College. Has extensive experience in Administration and Research work</p> <p>Work experience: 29 years</p>
<p>2. Dr. Abullahi D. Jillo - Director</p> <p>Professional/Academic qualification: PhD, Natural Resource Management</p>		<p>Date of Birth: 1956</p> <p>Key qualification: Agricultural Extension Services, Development Planning and Administration</p> <p>Work experience: 36 years</p>
<p>3. Prof. Agnes Mwang'ombe - Director</p> <p>Professional/Academic qualification: PhD in Plant Pathology, DIC</p>		<p>Date of Birth: 11th April 1953</p> <p>Key qualification: Principal College of Agricultural & Veterinary Science. Agricultural Scientist, Academician and Administrator at University of Nairobi</p> <p>Work experience: 38 years</p>






KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

DIRECTOR'S NAME	PASSPORT SIZE PHOTO	DIRECTOR'S DETAILS
<p>4. Ms. Caroline Oduor - Director</p> <p>LLB (Law) Diploma in Law</p>		<p>Date of Birth: 21st June 1981</p> <p>Key qualification: Advocate</p> <p>Work experience: 11 years</p>
<p>5. Dr. Supinder Soin - Director</p> <p>Professional/Academic qualification: Doctor of Veterinary Medicine</p>		<p>Date of Birth: 30th October 1954</p> <p>Key qualification: Veterinary Doctor</p> <p>Work experience: 41 years</p>
<p>7. Mr. Robinson Ng'ethe – Director</p> <p>Professional/Academic qualification: MSc in Resource Management</p>		<p>Date of Birth: 15th March 1959</p> <p>Key qualification: Consultant in Natural Resource Management</p> <p>Work experience: 32 years</p>





KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

DIRECTOR'S NAME	PASSPORT SIZE PHOTO	DIRECTOR'S DETAILS
<p>8. Mr. Emilio Mugo – Director, KFS</p> <p>Professional/Academic qualifications: MSc Forestry</p>		<p>Date of Birth: 15th August 1962</p> <p>Key qualifications: Senior Deputy Director KFS</p> <p>Work experience: 29 years</p>
<p>9. Mr. Hewson Kabugi – Representing Principal Secretary, MEWNR</p> <p>Professional/Academic qualification: MSc – Watershed Management BSc – Forestry</p>		<p>Date of Birth: 8th November 1957</p> <p>Key qualification: Director Forest Conservation</p> <p>Work experience: 32 years</p>
<p>10. Mrs. Margaret Maimba</p> <p>Representing Director General – NACOSTI</p> <p>Professional/Academic qualification: Msc in Geochemistry</p>		<p>Date of Birth: 1960</p> <p>Key qualification: Chief Science Secretary</p> <p>Work experience: 31 years</p>






KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

DIRECTOR'S NAME	PASSPORT SIZE PHOTO	DIRECTOR'S DETAILS
<p>11. Mr. Onderi Ontweka – Representing Principal Secretary, the National Treasury</p> <p>Professional/Academic qualification: Bachelor of Arts; Diploma in Financial Management</p>		<p>Date of Birth: 1957</p> <p>Key qualification: Public Finance</p> <p>Work experience: 32 years</p>
<p>12. Dr. Ben Chikamai – Director/CEO</p> <p>Professional/Academic qualification: PhD in Forestry Utilization</p>		<p>Date of Birth: 27th October 1957</p> <p>Key qualification: Director</p> <p>Work experience: 32 years</p>



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

III. THE KEFRI MANAGEMENT TEAM

NAME	PASSPORT SIZE PHOTO	MAIN AREA OF RESPONSIBILITY
<p>1. Dr. Ben Chikamai – Director/CEO</p> <p>Professional/Academic qualification:</p> <p>PhD in Forestry Utilization</p>		<p>Chief Executive Officer (CEO)/ Director Kenya Forestry Research Institute (KEFRI)</p>
<p>2. Dr. Bernard N. Kigomo</p> <p>Professional/Academic qualification:</p> <p>PhD, Forest Ecology, Regeneration and Management,</p>		<p>Senior Deputy Director – Research & Development</p>
<p>3. Mr. Patrick N. Omesa</p> <p>Professional/Academic qualification:</p> <p>MA – Economics and management CPS (K)</p>		<p>Senior Deputy Director – Finance & Administration</p>



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

NAME	PASSPORT SIZE PHOTO	MAIN AREA OF RESPONSIBILITY
<p>4. Dr. Ebby Chagala-Odera</p> <p>Professional/Academic qualification:</p> <p>PhD – Forest Genetics and Tree Breeding</p>		<p>Deputy Director – Technical Support Services</p>
<p>5. Dr. Gabriel M. Muturi</p> <p>Professional/Academic qualification:</p> <p>PhD – Forestry</p>		<p>Deputy Director – Forest Biodiversity and Environment Management</p>
<p>6. Dr. Joseph Githiomi</p> <p>Professional/Academic qualification:</p> <p>PhD – Forestry</p>		<p>Deputy Director – Forest Products Development</p>
<p>7. Dr. Joshua Cheboiwo</p> <p>Professional/Academic qualification:</p> <p>PhD – Environmental Economics</p>		<p>Deputy Director – Socio-economics, Policy and Governance</p>



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

NAME	PASSPORT SIZE PHOTO	MAIN AREA OF RESPONSIBILITY
<p>8. Dr. Jane W. Njuguna</p> <p>Professional/Academic qualification:</p> <p>PhD – Forest Science</p>		<p>Deputy Director – Forest Productivity and Improvement</p>
<p>9. Dr. Jackson M. Mulatya</p> <p>Professional/Academic qualification:</p> <p>PhD – Tree Ecology and Agroforestry system interactions and management</p>		<p>Deputy Director – Corporate Affairs and Quality Assurance</p>
<p>10. Mrs. Evelyn I. Oroni</p> <p>Professional/Academic qualification:</p> <p>MBA – HRM HND – Human Resource Management</p>		<p>Deputy Director – Human Resource Management</p>



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

IV. CHAIRMAN'S STATEMENT

The KEFRI Board of management has been in office for two and three quarters years now during which it has applied every effort and diligence to see the Institute implement its mandate.

During this period the Board has constituted committees to deliberate on requisite policy matters. The Board works through Research and Development Committee which mainly deals with forestry research issues; the Finance and Administration Committee dealing with crucial finance and administration issues and the Audit Committee which deals with Audit matters of the Institute. All these committees and the Full Board sit timely and provide the Board business the seriousness they deserve.

During our tenure the Board has closely worked with Management and other stakeholders to ensure development, implementation of the KEFRI's 5th strategic plan. This plan impresses thematic research in line with the National Forest Programme with a focus on research for impact. The 5th Strategic Plan also focuses on enhancing performance management through a robust monitoring and evaluation process.

One of the major achievements of the 8th Board was to constitute a Task Force to strategize and lobby through the Ministry for reversal of the earlier decision to include KEFRI in the Kenya Agricultural and Livestock Research Organization. Through the support of the Ministry, that decision was rescinded when the Task force on Parastatal Reforms recommended retention of KEFRI as a State Agency under the Ministry of Water, Environment & Natural Resources. Management is indeed grateful to the Board and Ministry for this initiative and success.

Finally, the Board has not spared any effort to facilitate the Institute to fulfill its mandate. The Chairman and the entire Board is always available to timely approve the Institute's Annual and Supplementary Budgets, annual workplans and support management in strategic decision related to implementation of the Strategic Plan and any other relevant policies/programmes.




Prof. Daniel N. Mugendi

Chairman, KEFRI Board of Management

Date: 19/08/2016



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

NAME	PASSPORT SIZE PHOTO	MAIN AREA OF RESPONSIBILITY
<p>11. Mr. John M. Gisemba</p> <p>Professional/Academic qualification:</p> <p>MA – Organizational Leadership CPS (K)</p>		<p>Deputy Director-Administration</p>
<p>12. Mr. Shem A. Ogao</p> <p>Professional/Academic qualification:</p> <p>BCom – Accounting CPA (K)</p>		<p>Head of Accounts</p>
<p>13. Jonathan Ochieng'</p> <p>Professional/Academic qualification:</p> <p>BA – Economic & English Literature Foundation Dip -CIPS</p>		<p>Ag. Head of Supplies</p>



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

V. REPORT OF CHIEF EXECUTIVE OFFICER

The Forest sector plays a key role in Kenya's social and economic development and forestry research is a major driver in the whole process. KEFRI is a State Corporation which was established in 1986 under the Science and Technology Act, which has since been repealed by the Science, Technology and Innovation Act No.28 of 2013, as a lead agency in carrying out research in forestry for development.

KEFRI has three key mandates namely: conducting research in forestry and allied natural resources, dissemination of the information and technologies generated to stakeholders; and cooperating with other research organizations and institutions of higher learning in joint research and trainings.

KEFRI is currently implementing the 5th Strategic Plan and which was launched by the Cabinet Secretary, Ministry of Environment, Water and Natural Resources on 20th June 2014. The plan has been aligned to the relevant sections of the 2nd Medium term Plan under Kenya's Vision 2030.

The Strategic Plan emphasizes enhanced performance and research for impact. To address these, the Plan has been prepared using the Balance Score Card which helps to align the strategy with Institute's Mission, Vision and provides for a robust monitoring and evaluation approach which ensures that the set targets are achieved.

Implementation of the Strategic Plan hinges on a number of factors commencing with human resources. KEFRI's staff strength currently stands at 1012. In the just ended FY forty seven (47) staff in various professions were recruited.

Management has also taken measures to improve staff capacity by attending to their social welfare. To this end a medical insurance cover for all staff has been in place for two years now and during the last FY members benefits were enhanced.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Further, the KEFRI Staff Schemes of Service which were operationalized from June 2011 are being revised to be in sync not only with the current Strategic Plan but to take cognizance of external conditions impacting on the Institute.

Other factors beyond human resources have to be taken on board if the Institute is to effectively respond to its mandate. New infrastructure and related facilities have been put up while enhancing older ones.

This is helping to devolve services to the people in line with the constitutional requirement on devolution. Management has lobbied for funds from the Exchequer and development partners to build an Office block in Migori County. The grant from the Government of Japan, in the past two years has been handy in the purchase of equipment and motor vehicles. During the launch of the Drylands Eco-region Research Programme, the Institute launched a book on "Socio-economic importance of *Melia volkensii* Based Enterprises in Kenya"

All the above wouldn't have been feasible without GoK funding. The Government remains the main financier of KEFRI accounting for about 90% of the total Institute funds. We acknowledge the fairly substantial funds from donors and KEFRI's internal sources.

With the foregoing, KEFRI has been enabled to come up with a number of achievements. Last year in particular, the Institute inter-a-lia developed, demonstrated and documented six (6) high value farm tree species, enhanced propagation of indigenous bamboo through cuttings, established eight (8) demonstration plots for rehabilitation of water catchment, incubated six (6) new tree products, produced and distributed over 12,000 Kgs of high quality tree seed, and produced 42 publications. Performance Contracting and in the 2014/15 FY obtained a score of 2.3577, which placed the Institute in the "Excellent Category". Previously the Institute has scored a "Very Good" category since the inception of Performance Contracting.

Ben Chikamai (PhD)

Director, KEFRI

Date: 19/08/2016



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

VI. CORPORATE GOVERNANCE STATEMENT

Corporate Governance refers to the exercise of power and authority in an organization. Broadly speaking corporate governance encompasses processes by which the organization is directed, controlled and held to account.

To that end the Board is an essential organ in the governance of the Institute. KEFRI's Board of Management is the supreme organ of the Institute which determines fundamental policies and decisions. It provides oversight of the Institute and is responsible to the Cabinet Secretary, Ministry of Environment, Water and Natural Resources.

The Board of Management consists of eleven (11) Board members, seven (7) of whom are independent members. The members are of sound and varied intellectual capacity, of varied skills and competencies which is quite essential for efficient and effective decision making.

To undertake its duties the Board has three (3) committees in place namely: -

Research and Development Committee which deals with forestry research issues; Finance and Administration Committee handling crucial finance and administrative matters of the Institute and the Audit Committee which deals with important audit issues. Then there is the Full Board to which all these Board Committees report their deliberations and recommendations for collective approval and resolution.

The Board operates on a government Financial Year. The Board Committees and the Full Board meet at least four (4) times a year. For unexpected issues a Special Board is called by the Chief Executive Officer in consultation with the Board Chairperson.

The Institute draws its mandate from the Science, Technology and Innovation Act No. 28 of 2013 and implements its mandate through five-year strategic plans with the current one running from 2013-18. The strategic plan clearly defines the objectives of the Institute and the requisite structure to attain the objectives.

The strategic plan is operationalized through the Annual Workplans formulated by the Management, discussed and approved by the Board of Management. The Director is the Chief Executive of the Institute assisted by the Senior Deputy Director, Research and



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Development; and Senior Deputy Director, Finance and Administration below whom are a number of Deputy Directors.

At the Management level the Institute has a number of committees to assist in decision making, these include the Executive Committee, the Consultative Committee, the Junior Staff Advisory Committee and the requisite committees provided for in the Public Procurement and Disposal Act.

A budget is essential to undertake the Institute operations and activities. The KEFRI budgetary process is annual, regular, consultative and participatory. Once the GoK budgetary allocation is known the Consultative Committee (made of Director, Senior Deputy Directors, Deputy Directors, Heads of Divisions, and Regional Centre Directors) meet every July to discuss and allocate funds to the various Institute activities. The budget is implemented after presentation to the Board's Finance and Administration Committee for deliberation and approval by the Full Board.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

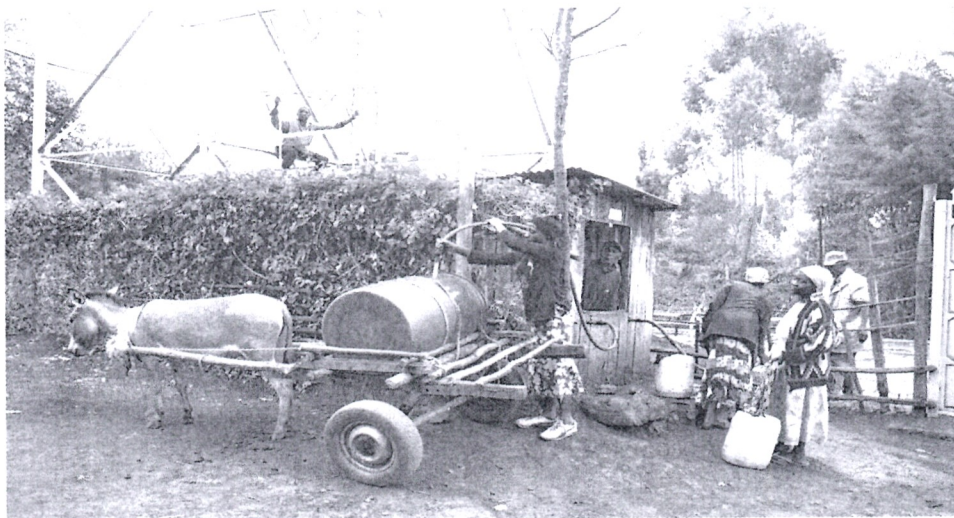
Kenya Forestry Research Institute (KEFRI) is a state corporation mandated to conduct research in forestry and allied natural resources. KEFRI provides information and technologies for sustainable development of forestry and establishes partnerships and cooperate with other research organizations and institutions of higher learning in joint research and training.

KEFRI through corporate social responsibility is committed to improving the quality of life of its workforce, their families as well as of the local community and society at large, thus contributing to socio-economic development and national growth.

The Institute actively encourages staff to recognize those responsibilities and behave in a responsible manner towards the society in which KEFRI functions. Below are some of the CSR activities.

1. Provision of Clean Water

KEFRI provides safe and clean water to the community adjacent the head office. This has brought good working relations with the community.



Community member carrying water on a donkey cart from a KEFRI supply point



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

2. Advocacy for Environment

KEFRI advocates for a clean and healthy environment by providing tree seeds and seedlings for public institutions and for the national tree planting exercises. In the last FY, the institute participated in tree planting at Kiambu County in collaboration with the Muguga Environment Research Community Forest Association (MERCFA), the University of Nairobi, College of Agriculture and Veterinary Science (CAVs) Kabete and National Tree Planting at Ngong, Kibiko Primary School in Kajiado County.



KEFRI Staff participating in national tree planting at Ngong Kibiko Primary School in Kajiado County

KEFRI provide seeds and seedlings at subsidized prices to neighboring schools, supports community and public institutions activities such as sports, helps in building classes and provides land for the school. This has helped create good relationship with the community.

KEFRI also provides free advisory services and information on tree establishment and management and other appropriate technologies to farmers/stakeholders when requested.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

The Institute's choir performed a variety of songs in various forum during the year in review.



KEFRI Choir performing in one of the national events

3. Attachments for students

KEFRI offers internship and attachment for students from universities and tertiary colleges. Many students have benefited and gained experience that has helped them get acquainted with the working environment.

4. Facilities

KEFRI provides facilities for learning and excursions to stakeholders and the general public. These include training facilities, grounds for video and photo shooting.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

VIII. REPORT OF THE DIRECTORS

The Director's submit their report together with the audited financial statements for the year ended June 30, 2015 which show the state of the Institute's affairs.

Principal activities

The principal activities of the Institute are to conduct research in forestry and allied natural resources, disseminate research findings and establish partnerships and cooperate with research organizations and institutions of higher learning in joint research and training

Results

The results of the Institute for the year ended June 30, 2015 are set out on page 1-2.

Directors

The members of the Board of Director's who served during the year are shown on page iv to vi. In accordance with Science, Technology and Innovation Act No. 28 of 2013 (Repealed), the members serve for a period of three years and are eligible for reappointment depending on their performance.

Auditors

The Auditor General is responsible for the statutory audit of the Institute in accordance with the Section 13 of the Public Audit Act 2003.

By order of the Board

Ben E. N. Chikamai (PhD)

Board Secretary

Date: 19/08/2016



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 15 of the State Corporations Act, require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the *entity* for that year/period. The Directors are also required to ensure that the *entity* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The Directors are also responsible for safeguarding the assets of the *entity*.

The Directors are responsible for the preparation and presentation of the *Institute's* financial statements, which give a true and fair view of the state of affairs of the *Institute* for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *Institute*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Institute*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Institute's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *Institute's* financial statements give a true and fair view of the state of *Institute's* transactions during the financial year ended June 30, 2015, and of the *Institute's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Institute*, which have been relied upon in the preparation of the *Institute's* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the *Institute* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the Financial Statements

The Institutes financial statements were approved by the Board on **6th August 2015** and signed on its behalf by:

Prof. Daniel N. Mugendi
Chairman, KEFRI Board of Management

Date.....

Ben E. N. Chikamai (PhD)
Director - KEFRI

Date.....19/08/2016



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

X. Report of the Independent Auditors on Kenya Forestry Research Institute

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA FORESTRY RESEARCH INSTITUTE FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Forestry Research Institute set out on pages 1 to 27 which comprise the statement of financial position as at 30 June 2015, and the statement of financial performance, statement of changes in net assets, statement of cash flows, and statement of comparative of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003, and submit audit report in compliance with Article 229 (7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

Kenya Forestry Research Institute – Annual Report and Financial Statements for the year ended 30 June 2015

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Property, Plant and Equipment

As reported in 2013/2014, the property plant and equipment balance of Kshs.5,763,345,373 as at 30 June 2015 include an amount of Kshs.46,000,000 in respect of Maseno station building situated on a land belonging to Maseno University. Further, the balance excludes value of various parcels of land across the Country on which the Institute has put up developments including buildings that are owned by Kenya Forest Service, Maseno University, Ministry of Agriculture and Kitui and Lamu county governments. In addition, the balance excludes values of land on which the Institute headquarters is build but still under the name of the defunct Ministry of Environment and Natural Resources.

In view of the foregoing and in the absence of independent valuation, it has not been possible to confirm that the carrying balance of Kshs.5,763,345,373 as at 30 June 2015 is fairly stated.

2. Stalled Project-Karura Soap Line

The Institute entered into a contract with M/S Nature Soap Company Limited for supply, installation & commissioning of toilet soap processing line at the Institute's Forestry Product Research Centre in February 2012 at a contract sum of Kshs.4, 906,000 and the contract period was for eighteen (18) months ending August 2013. It was also noted that the product produced at the pre-test stage was bar soap and not toilet soap as stipulated in the contract.

However, the contract was terminated due to failure by contractor to complete the project as per terms of the contract. The termination was effected two (2) years after the intended completion period of August 2013 and the contractor paid Kshs.1,962,800. Further, no evidence of reports from Inspection and Acceptance Committee was availed for audit review. In light of the above, it has not been possible to confirm propriety and viability on these procurement or whether the Institute got value for money.

3. Abscondment from Duty and Irregular Salary Payment

Examination of human resource records revealed that three officers absconded duty and were irregularly paid salaries totalling Kshs.1,987,200. The affected officers had been sponsored for overseas training. In addition, one of the two officers later deserted duties and by the time her salary was stopped, she had been paid Kshs.621,000. In both instances, the management has not made any recovery. It was also noted that due to deficiencies in the Institute's human resource manual one officer proceeded to Australia before executing and submitting training bond as is required in the training policy.

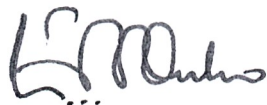
Under the circumstances, it has not been possible to ascertain that the expenditure of Kshs. 2,608,200 was a proper charge to public funds.

4. Medical Scheme Fund

The Institute formalized the establishment of medical Fund in 2004 but this was later replaced by a staff Medical Insurance Scheme. The Fund had a balance of Kshs.28,897,206 after closing operations in September 2014. However, no separate accounts have been prepared for the Fund but rather they were consolidated with the Institute's main accounts. In absence of a separate account, it has not been possible to confirm validity, accuracy and completeness of the Fund balance amounting to Kshs.28,897,206 as at 30 June 2015.

Qualified Opinion

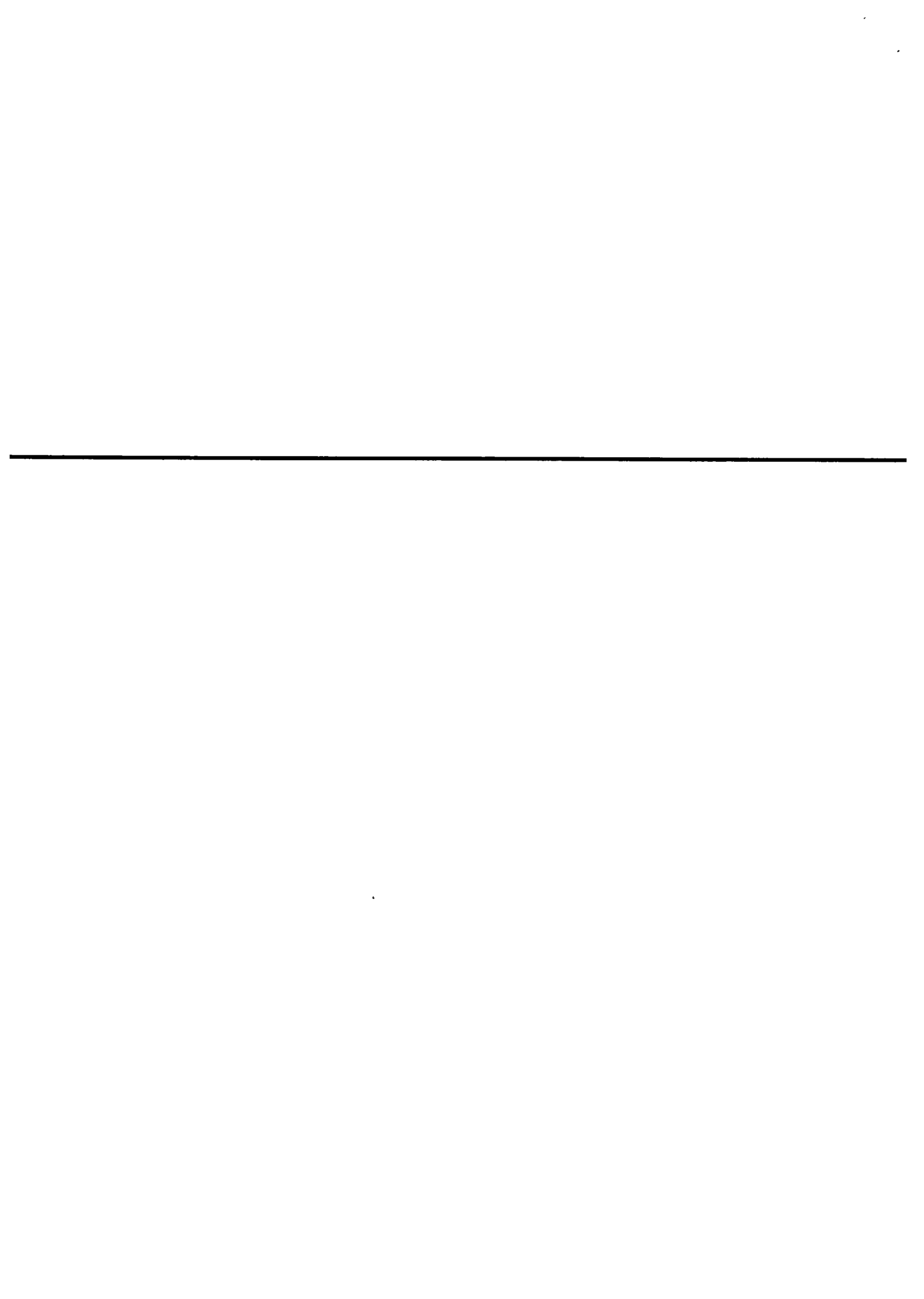
In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Forestry Research Institute as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Science, Technology and Innovation Act No.28 of 2013.



FCPA Edward R.O Ouko, CBS
AUDITOR-GENERAL

Nairobi

06 October 2016





KENYA FORESTRY RESEARCH INSTITUTE
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2015

	Note	2014-2015 Kshs.	2013-2014 Kshs.
REVENUE			
Revenue from non-exchange transactions:			
Government Grants	3	1,105,577,690	1,116,107,634
External Grant for Research	4	74,577,241	107,625,563
Deferred Income from Donors	5(b)	46,480,169	54,872,631
Revenue from exchange transactions:			
Interest on TB,FDR and Savings A/c	6	5,651,001	4,131,865
Other Income	7	<u>108,682,747</u>	<u>131,991,524</u>
TOTAL REVENUE		<u>1,340,968,848</u>	<u>1,414,729,217</u>
EXPENSES			
Employee Costs	8	(756,437,132)	(706,776,413)
Operating Expenses	9	(482,475,617)	(460,255,141)
Board of Management Expenses	10	(20,638,302)	(15,992,611)
Establishment Cost(Sinking Fund)	11(a)	(10,000,000)	(10,000,000)
Depreciation	5(a)	(102,242,453)	(102,445,035)
Amortization on Intangible Asset	12	<u>(3,893,034)</u>	<u>(4,232,095)</u>
TOTAL EXPENSES		<u>(1,375,686,538)</u>	<u>(1,299,701,295)</u>
OTHER GAINS/(LOSSES)			
Gain on Sale of Fixed Assets	13	256,140	2,692,343
Exchange Gain/(Loss)	13(b)	<u>54,366</u>	<u>383,166</u>
		<u>310,505</u>	<u>3,075,509</u>
Surplus/(Deficit) for the Year		<u>(34,407,184)</u>	<u>118,103,431</u>



KENYA FORESTRY RESEARCH INSTITUTE
STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2015

		2014-2015 Kshs.	2013-2014 Kshs.
ASSETS	Notes		
CURRENT ASSETS			
Cash and cash equivalents	14(a)	36,291,766	201,985,376
Receivables from exchange transactions	15(a)	8,561,500	6,123,098
Receivables from non- exchange transactions	16(b)	363,430	757,617
Inventories	16	58,835,433	45,411,724
Investment in FDR	14(b)	85,000,000	10,000,000
		<u>189,052,130</u>	<u>264,277,816</u>
NON-CURRENT ASSETS			
Property, Plant & Equipment	5(a)	5,763,345,373	5,685,673,462
Intangible Assets	12	15,572,135	16,928,381
		<u>5,778,917,508</u>	<u>5,702,601,843</u>
TOTAL ASSETS		<u>5,967,969,638</u>	<u>5,966,879,659</u>
LIABILITIES			
CURRENT LIABILITIES			
Payables from exchange transactions	17	12,256,435	5,909,006
Auditor General- accrued audit fee	17(c)	1,320,000	773,720
Provision for withholding tax		519,998	-
Unexpended External Donor Grants	4	23,237,147	26,669,555
Medical Scheme Funds	18	742,883	742,883
		<u>38,076,463</u>	<u>34,095,165</u>
NET ASSETS			
Government Grants for capital assets	19(a)	774,922,665	696,460,355
Deferred Income on Donated Assets	6(b)	691,450,034	737,930,202
Sinking Fund	11(b)	18,403,477	18,869,753
Revaluation Reserves	19(b)	4,467,199,488	4,467,199,488
Revenue Reserves	19(e)	(22,082,489)	12,324,695
		<u>5,929,893,174</u>	<u>5,932,784,494</u>
TOTAL NET ASSETS & LIABILITIES		<u>5,967,969,638</u>	<u>5,966,879,659</u>

The Financial Statements set out on pages 1-28 are signed on behalf of the Board of Management by:


Prof. Daneil N. Mugendi
Chairman, KEFRI Board of Management


Ben Chikamai (PhD):.....
Director, KEFRI

Date 19/08/2016

Date 19/08/2016



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2015

	Deferred Income on Government Grants for Capital Assets	Deferred Income on Donated Revenue Reserves	Revaluation Reserves	Sinking Fund	Total Kshs.
	Kshs.	Kshs.	Kshs.	Kshs.	
Balance as at 1st July 2013	635,228,001	670,093,113	(105,778,738)	134,410,413	1,380,163,087
As restated	635,228,001	670,093,113	(105,778,738)	134,410,413	1,380,163,087
Surplus/(Deficit) for the year	-	-	118,103,431	-	118,103,431
Revaluation gain	-	-	4,332,789,075	-	4,332,789,075
Sinking Fund expenses	-	-	-	(5,115,659)	(5,115,659)
Additions during the year	81,700,000	122,709,720	-	11,403,246	215,812,966
To Income & Expenditure	(20,467,634)	-	-	-	(20,467,634)
Deferred Income for the year	-	(54,872,631)	-	-	(54,872,631)
Balance as at 30th June 2014	696,460,355	737,930,202	12,324,695	4,467,199,488	5,932,784,494
Balance as at 1st July 2014	696,460,355	737,930,202	12,324,695	4,467,199,488	5,932,786,493
As restated	696,460,355	737,930,202	12,324,695	4,467,199,488	5,932,786,493
Surplus/(Deficit) for the year	-	-	(34,407,184)	-	(34,407,184)
Revaluation gain	-	-	-	-	-
Sinking Fund expenses	-	-	-	(12,207,817)	(12,207,817)
Additions during the year	85,400,000	-	-	-	11,739,541
To Income & Expenditure	(6,937,690)	-	-	-	(6,937,690)
Deferred Income for the year	-	(46,480,169)	-	-	(46,480,169)
Balance as at 30th June 2015	774,822,665	691,450,034	(22,082,489)	4,467,199,488	5,929,893,174



KENYA FORESTRY RESEARCH INSTITUTE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2015

		2014-2015	2013-2014
	NOTES	Kshs.	Kshs.
Cash Flows from Operating Activities			
Surplus(Deficit) for the Year		(34,407,184)	118,103,431
Adjustment for:			
Depreciation	5(a)	102,242,453	102,445,035
Amortization for Intangible Asset	12	3,893,034	4,232,095
Deferred Income	5(b)	(46,480,169)	(54,872,631)
KEFRI Surcharge		(123,207)	(46,763)
Commission Income		(167,900)	(166,842)
Interest Income from FDR/Savings	5	(5,651,001)	(4,131,865)
Gain on disposal of assets	13	(256,140)	(2,692,343)
Adjusted Surplus		19,049,887	162,870,117
Working Capital Changes:			
Decrease (Increase) in Stock		(13,423,709)	(16,962,293)
Decrease (Increase) in Debtors		(2,044,215)	30,687,204
Increase (Decrease) in Creditors		3,981,299	(13,299,994)
Net Cash from operating activities		(11,486,625)	424,916
Cash Flows from Investing Activities:			
Purchase of Assets	5(a)	(179,924,124)	(95,360,962)
Purchase of Intangible	12	(2,536,788)	(9,538,943)
Establishment Cost(Sinking Fund)	11(a)	10,000,000	10,000,000
Interest from FDR/Savings A/C -received	6	445,169	166,508
Proceeds from sale of assets	13	265,900	3,572,000
Net Cash from Investing activities		(171,749,842)	(91,161,397)
Cash Flows from Financing Activities:			
Development capital grants	3	78,462,310	61,232,366
Research Grants Received	4	81,520,510	101,962,199
Transfers/Adjustments		(11,912,607)	(1,295,211)
Research Grants Paid	4	(74,577,241)	(107,625,563)
Net Cash from Financing activities		73,492,972	54,273,791
Net Increase (Decrease) in Cash & Cash Equivalent		(90,693,609)	109,206,768
Opening Cash & Cash Equivalent		211,985,376	102,778,608
Closing Cash & Cash Equivalent		121,291,766	211,985,376
Cash & Cash Equivalent			
Bank balance	14(a)	36,291,766	201,985,376
Investment in FDR	14(b)	85,000,000	10,000,000
Closing Cash & Cash Equivalent		121,291,766	211,985,376



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

	Original budget	Adjustments	Full budget	Actual on Comparable	Performance difference	Budget Vs Actual Variance
	2014-2015 Kshs	2014-2015 Kshs	2014-2015 Kshs	2014-2015 Kshs	2014-2015 Kshs	%
Revenue						
Recurrent Grants	1,098,640,000	-	1,098,640,000	1,098,640,000	-	100
Development Grants	85,400,000	-	85,400,000	85,400,000	-	100
Research Grants	74,520,499	520,499	75,040,998	74,577,241	463,757	101
Interest Income(savings bank/FDR)	4,878,000	705,006	5,583,006	5,651,001	(67,995)	99
Hire of Training Facilities -Training	30,380,000	1,367,372	31,447,372	31,748,177	(300,805)	99
Sale of Forestry Produce	51,046,000	-	51,046,000	49,349,564	1,696,436	103
Sale of Seeds	9,397,457	300,000	9,697,457	9,397,457	300,000	103
Other Revenue	17,277,855	900,000	18,177,855	18,498,055	(320,200)	98
Deferred Income from donors	46,000,000	500,000	46,500,000	46,480,169	19,831	100
Sub-Total	1,417,539,810	4,292,877	1,421,532,687	1,419,741,663	1,791,024	100
Less:Development Grants capitalized (Note 3)	-	-	-	(78,462,310)	-	-
Total Income	1,417,539,810	4,292,877	1,421,532,687	1,341,279,353	1,791,024	100
Expenses						
Employees Costs	756,021,956	535,000	756,556,956	756,437,132	119,824	100
Insurance of Property and Motor vehicles Expenses	6,800,000	(540,000)	6,260,000	6,225,638	34,362	101
Operation Expenses	411,802,173	-	411,802,173	405,852,601	5,949,572	101
Contracted Professional Services	6,300,000	460,000	6,100,000	6,098,518	1,482	100
Audit Fee	700,000	-	660,000	660,000	-	100
Repairs & Maintenance Expenses	57,005,547	-	57,005,547	56,937,839	67,708	100
Research Expenses	6,000,000	(168,000)	5,832,000	5,831,763	237	100
Bank Service Commission and Charges	900,000	-	900,000	869,257	30,743	103
Establishment Cost (Sinking Fund)	10,000,000	-	10,000,000	10,000,000	-	100
Board Expenses	9,360,000	-	9,360,000	9,324,302	35,698	100
KEFRI Chief Executive Officer's(CEO) Remuneration	11,315,000	-	11,315,000	11,314,000	1,000	100
Depreciation & Amortization Expenses	103,200,000	3,480,000	106,380,000	106,135,487	244,513	100
Capital Expenditure	195,000,000	400,000	195,400,000	195,341,552	58,448	100
Total Expenditure	1,574,404,676	4,167,000	1,577,571,676	1,571,028,089	6,543,587	100
Suplus/(Deficit) for the period with capital assets	(156,864,866)	125,877	(156,038,989)	(229,748,736)	(4,752,563)	
Less:Capital Expenditure	(195,000,000)	(400,000)	(195,400,000)	(195,341,552)	(58,448)	
Suplus/(Deficit) for the period without capital assets	38,135,134	525,877	39,361,011	(34,407,184)	(4,694,115)	

Notes.

1. GOVERNMENT GRANTS RECEIVED (DEVELOPMENT)

Development Grants

Totals

Recognised Income

Development Grants: Deferred Income Recognised

Deferred Income -GoK Development Grants for capital assets

Totals

2014-2015

2014-2015

Kshs.

Kshs.

85,400,000

81,700,000

85,400,000

81,700,000

6,937,690

20,467,634

78,462,310

61,232,366

85,400,000

81,700,000

2. Deferred Income

Deferred Income was realised from donated assets from development partners and donors

3. Capital Expenditure costs represent the assets the Institute acquired in the Financial Year 2014/2015



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2015

NOTE 1: GENERAL INFORMATION

Statement of compliance and basis of preparation - IPSAS 1

The Institute's Financial Statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) Accrual. The accounting policies have been consistently applied to all the years presented. The financial statements have been prepared on the basis of historical cost convention, as modified by the inclusion of certain Fixed Assets on a revalued basis. The cashflow statements have been prepared using the in-direct method.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Pronouncements from the Public Sector Accounting Standards Board (PSASB)

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the Institute has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements. The Financial Statements have therefore been prepared in accordance with the Accrual basis of Accounting method under the International Public Sector Accounting Standards (IPSAS)

(b) Property, Plant and Equipment- IPSAS 17

i) All categories of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. It is the policy of the Institute to capitalise major renovation and refurbishment expenses incurred on buildings. The Institute undertakes revaluation of its property (land, buildings and heavy machines including heavy vehicles) after every five years per category of property, plant and equipment subject to funds availability.

ii) Depreciation on property, plant and equipment is recognised in the income statement on a reducing balance basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Assets	Rate
Land	-
Buildings	2 ½%
Boreholes, Water Equipment & Plant	12 ½%
Loose Tools	12 ½%
Telephone Equipments, Apparatus & Instruments	12 ½%
Furniture and Fittings	12 ½%
Bicycles	12 ½%
Heavy Vehicles and Tractors	37 ½%
Motorcars and Motorcycles	25%
Computers, Photocopiers, Fax Machines, Calculators and IT Equipment	33 1/3%

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iii) Donated Assets - IPSAS 23

Donated Assets are deferred as income and recognized as such annually over their useful lives on a reducing balance method. This is as stipulated by IPSAS 23 for non exchange revenue. Their useful lives are listed below.

ASSET	Years
Buildings	40
Water Equipment & Plants	8
Loose Tools	8
Telephone Equipments	8
Lab. Equipments Apparatus & Electronics	8
Furniture & Fittings	8
Bicycles	8
Heavy Vehicles & Tractors	2.67
Motor Cars & Cycles	4
Computers, Photocopiers, Fax Machines & Calculators	3

(c) Intangible Assets - IPSAS 31

Costs incurred on computer software and other intangible assets are initially accounted for at cost as intangible assets and subsequently at total cost less any accumulated amortization. Amortization is calculated on the reducing balance basis at the rate of 20% over the expected useful life of the intangible assets/software.

(d) Income Recognition - IPSAS 23

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Institute and can be measured reliably.

i) Grants from the Kenya Government are recognised when received. Development Grants received for specific purposes are treated as capital grants and credited to the statement of financial performance when the activities for which they were provided for have been undertaken. The development grants that are capital in nature are treated as deferred income and recognised as income annually over their useful lives on a reducing balance method. The development grants which are meant for research are expensed within the year received.

ii) Donor/ Projects Grants are treated as deferred income and credited to Income & Expenditure Account to the extent they have been spent, otherwise the unused balance is carried forward as unexpended grants.

iii) Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.



KENYA FORESTRY RESEARCH INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Inventories - IPSAS 12

i) Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Institute.

ii) The Institute's Forests Plantations are for research purposes (experiments) and not for commercial use.

The plantations are harvested at the end of the experiment hence the provision of IPSAS 27 are not applicable

iii) Seed & Seedlings

The change in the seed and seedlings within the year is taken as cost of sale and netted to the expense account on purchase of research materials.

(f) Employees Benefit Obligation: IPSAS 25

i) The Institute operates a defined contribution Retirement Benefit Scheme for all its employees on permanent and pensionable terms. The assets of the scheme are held in a separate trustee fund which is administered by the scheme's trustees. It is funded by contributions from both the Institute (sponsor) and employees.

(ii) The Institute has a Medical Insurance cover for its employees.

(g) Taxation

The Institute is established in Kenya under the Science & Technology Act, Cap.250 and is exempt from the corporation tax.

(h) Foreign Currency Transaction

Transactions in foreign currencies during the year are converted into the functional currency i.e. Kshs using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from such transactions are recognized as such in the year of transactions

(i) Receivables

Receivables are recognised initially at fair value. A provision for impairment/Doubtful Debts is recognised in the comprehensive income statement in the year in which the recovery of the amount due as per original terms is doubtful. The provision is provided by identifying individual debtors who are likely to go bad given the age of the debt. Debtors who have been outstanding for more than one year are provided for 100% otherwise written off. Recoveries after write offs are recognized as incomes during the year received. Inter-departmental debts outstanding at the end of the financial year are all written off at the end of each year.

(j) Trade payables : Trade payables are not interest bearing and are stated at their fair value.

(k) Currency

The financial statements are presented in Kenya Shillings which is the functional and reporting currency of the Institute and all values are rounded to the nearest Shilling.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Cash and Cash Equivalent

For the purpose of the Cash Flows statement, Cash and cash equivalents include short term liquid investment which are readily convertible into known amounts of cash and which are within three months of maturity when acquired including Treasury Bills.

m) Financial risk management objectives: IPSAS 30

The Institute Funds' activities expose it to a variety of financial risks including credit and liquidity risks and the effects of changes in foreign currency. The fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. In the current year the management met and drafted a risk management manual that will guide in the management of the risks affecting the funds. The manual shall be launched in year ending 30/6/2015. The Board proposes to provide policies for overall risk management, as well as policies covering specific areas such as liquidity risk, market risk and credit risk.

j) Credit and market risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Institute. Credit risk arises from bank balances, trade receivables and amounts due from related parties. The market risk shall also be considered due to Investments. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Institute.

Classification of credit risk bearing assets

The table below represents company's maximum exposure to credit risk as at 30th June 2015

	Fully performing	Past due	Impaired
Cash at banks	36,291,766	-	-
Receivables from exchange	8,561,500	6,403,953	-
Investment in FDR	85,000,000	-	-
Total	129,853,267	604,650	-

ii) Liquidity risk management

Liquidity risk is the risk that the Institute will not be able to meet its financial obligations when they fall due. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the Institute's reputation. The Institute ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the board of Management. All capital expenditures are funded by general reserves, grants from Government and our development partners.

The table below provides a contractual maturity analysis of the Institute's financial liabilities:

At 30 June 2015	1-6 months	6-12 months	1 – 5 years
Financial liabilities			
Trade payables	12,256,435	4,085,478	2,451,287

n) The Institute recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

o) Impairment of cash-generating assets - IPSAS 26

An impairment loss of cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount. An impairment loss shall be recognized immediately in surplus or deficit the year and all other treatments shall be as permitted by the IPSAS.

p) Impairment of non-cash-generating assets - IPSAS 21

An impairment loss of non-cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount. An impairment loss shall be recognized immediately in surplus or deficit the year and all other treatments shall be as permitted by the IPSAS.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Budget information: IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Institute. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Institute differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the annual financial statements.

(r) Significant judgments and sources of estimation uncertainty: IPSAS 1

The preparation of the Institute's financial statements in conformity with IPSAS 1 requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

i) Judgments

In the process of applying the Institute's accounting policies, management has made judgments, which have the most significant effect on the amounts recognized in the financial statements.

ii) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Institute based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to circumstances arising beyond the control of the Institute. Such changes are reflected in the assumptions when they occur.

s) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

t) Provisions: IPSAS 19

(i) Contingent liabilities

The Institute does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

(ii) Contingent assets

The Institute does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Institute in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

u) Subsequent events: IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2015.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014-2015	2013-2014
	Kshs.	Kshs.
NOTE 3: GOVERNMENT GRANTS RECEIVED		
Recurrent Grants	1,098,640,000	1,095,640,000
Development Grants	<u>85,400,000</u>	<u>81,700,000</u>
Totals	<u>1,184,040,000</u>	<u>1,177,340,000</u>
(b) Recognised Income		
Recurrent : Income & Expenditure	1,098,640,000	1,095,640,000
Development Grants: Deferred Income Recognised	<u>6,937,690</u>	<u>20,467,634</u>
To Income & Expenditure	<u>1,105,577,690</u>	<u>1,116,107,634</u>
Deferred Income -GoK Development Grants for capital assets	<u>78,462,310</u>	<u>61,232,366</u>
Totals	<u>1,184,040,000</u>	<u>1,177,340,000</u>



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: EXTERNAL DONOR GRANTS FOR RESEARCH 2014-2015

	Various Projects	IFRI-CRC	MSB-UPP	ITK/IED-GEDE	SANREM	FOREA/IM	EURO A/C	ITK/IED-PROJECT A/C-HQTS	KAPP curving	KAPP Wood	Prosepsis	KAPP	ASARECA	US DOLLAR	KCDP-IDA	KCDP-GE	MMMB	KEFRI/REGIONAL TRAINING	KEFRI PALWECO PROJECT A/C	CLINTON CLIMATE INITIATIVE-SLEEK PROJECT	KEFRI CFOR PROJECT A/C	TOTAL
	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)
Balance b/f July 2014	11,070,462	62,183	647,045	2,179	24,167	11,774	3,594,716	2,655,542	(56,122)	(57,030)	-	472,594	3,567	2,980,199	10,677	14,296	2,811,837	250,977	1,306,472	505,448	701,540	26,689,555
Adjustment-closed A/Cs	(762,860)	-	-	-	-	-	(4,820,345)	57,030	-	(2,596,136)	-	-	-	-	-	-	(2,252,766)	(600)	-	-	-	(10,375,677)
Received during the Year	18,291,722	-	11,233,500	-	-	-	10,324,562	4,820,345	-	-	-	-	-	4,529,955	18,685,701	993,768	-	10,335,454	-	2,305,502	-	81,520,610
Transfer from Dollar A/C	2,483,085	-	-	-	-	-	-	-	-	-	-	-	-	(2,483,085)	-	-	-	-	-	-	-	-
Transfer from Euro A/C	2,160,360	-	-	3,197,774	-	-	(6,980,705)	1,622,971	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Available during the Year	33,242,769	62,183	11,880,545	3,199,953	24,167	11,774	6,938,575	4,278,113	908	908	472,594	3,567	2,930,933	18,695,276	1,009,065	2,811,837	8,332,665	1,305,872	2,810,950	701,540	701,540	97,614,388
Spent during the Year	(24,605,625)	(476,645)	(11,785,320)	(3,134,852)	(24,167)	(11,774)	(114,609)	(3,942,429)	(908)	(908)	(5,345)	(3,567)	(1,138,510)	(18,026,197)	(1,006,065)	(281,259)	(8,054,731)	(897,470)	(364,230)	(701,540)	(701,540)	(74,577,241)
Balance c/f	8,637,144	(414,462)	95,226	65,102	0	0	6,823,967	335,684	0	0	467,249	0	892,422	670,181	0	2,530,579	278,933	408,402	2,446,721	0	0	23,237,147



KENYA FORESTRY RESEARCH INSTITUTE

NOTE 9(a): FIXED ASSETS SCHEDULE AS AT 30TH JUNE 2014

ACCOUNT	310101	311001	311002	311113	311104	311107	311001	311004	311006	311007	311001	310	311101	311029	TOTAL
COST VALUATION	LAND	BUILDINGS	WATER EQUIP & PLANTS	LOOSE TOOLS	TELEPHONE EQUIP	LAB EQUIP APPARATUS & ELECT EQUIP	FURNITURE AND FITTINGS	BICYCLES	HEAVY VEHICLE AND TRACTORS	MOTOR CARS & CYCLES	COMPUTERS OFFICE AND ICT EQUIPMENT	DENTAL EQUIP	PROGRESS WORK-IN-PROGRESS		
(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)
As at 1st July 2013	148,167,800	1,242,673,882	42,006,699	3,715,179	7,617,317	190,076,298	92,928,276	177,430	39,401,147	238,028,582	140,375,640	36,317	648,440	2,146,859,895	
Acquisition during the year	-	11,858,364	563,450	738,112	705,632	10,721,525	2,418,868	-	-	8,314,779	15,998,571	-	60,068,735	119,985,735	
Depreciated Assets	-	(161,879,500)	9,020,000	-	-	113,669,720	-	-	-	-	-	-	(648,440)	122,709,720	
Elimination on revaluation Transfer to completed buildings	-	648,440	-	-	-	-	-	-	-	-	-	-	648,440	-	
Revaluation	3,974,217,200	483,171,700	-	-	-	-	-	-	-	-	-	-	-	4,457,388,900	
Disposal during the year	-	-	-	-	-	-	-	-	-	(9,567,879)	-	-	-	(9,567,879)	
As at 30th June 2014	4,123,385,000	1,576,472,886	51,989,149	4,453,291	8,323,148	314,407,453	95,356,644	177,430	39,401,147	238,773,463	155,972,211	36,317	69,068,735	6,675,466,874	
Depreciation	-	396,264,869	25,782,171	2,894,489	4,420,989	152,053,193	75,789,493	159,960	37,273,704	129,557,141	109,331,188	20,376	-	933,347,272	
As at 1st July 2013	-	(37,260,674)	-	-	-	-	-	-	-	(8,689,221)	-	-	-	(8,689,221)	
Elimination on revaluation Charge for the year	-	30,437,467	3,225,872	219,138	466,570	20,304,263	2,445,694	2,184	797,791	28,976,136	15,547,008	1,993	-	102,442,035	
As at 30th June 2014	-	399,411,662	29,008,043	2,914,427	4,917,159	172,387,475	78,235,387	162,144	38,071,485	149,846,055	124,879,196	22,369	-	989,833,412	
Net Book Value	4,123,385,000	1,187,061,224	22,281,106	1,538,864	3,405,990	142,129,978	17,121,257	15,286	1,329,652	88,528,408	31,094,015	13,948	69,068,735	5,685,673,462	
As at 30th June 2014	148,167,800	846,419,013	16,223,528	1,020,990	3,186,728	38,023,015	17,140,793	17,470	2,127,443	108,469,421	31,044,452	15,941	648,440	1,213,512,624	

5(b): Deferred Income Schedule on Donated Assets (See Note 21 (b))

Donated Assets	As at 1st July 2013	As at 30th June 2014
As at 1st July 2013	559,528,198	1,390,116
Additions	9,020,000	50,189
Disposal	-	-
Deferred Income	559,528,198	10,400,116
To Income & expenditure for the year	13,988,455	1,300,015
As at 30th June 2014	545,549,743	9,100,102



KENYA FORESTRY RESEARCH INSTITUTE

NOTE 5(a): FIXED ASSETS SCHEDULE AS AT 30TH JUNE 2015

(a) Depreciation

ACCOUNT	313001 LAND	311000 BUILDINGS	311002 WATER EQUIP & PLANTS	311113 LOOSE TOOLS	311104 TELEPHONE EQUIP	311107 LAB EQUIP APPARATUS & ELECT. EQUIP.	310901 FURNITURE AND FITTINGS	311074 BICYCLES	311075 HEAVY VEHICLE AND TRACTORS	311071 MOTOR CARS & CYCLES	1310 COMPUTERS OFFICE AND IT EQUIPMENT	311101 MEDICAL & DENTAL EQUIP.	311029 PROGRESS WORK-IN- PROGRESS	TOTAL
	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)
As at 1st July 2014	4,123,385,000	1,576,472,886	51,595,149	4,453,291	8,231,148	314,487,453	95,356,644	177,430	39,401,147	236,773,463	155,972,211	36,317	69,068,735	6,675,496,874
Acquisition during the Year		77,810,025	1,505,784	75,400	359,105	3,895,586	4,953,423			12,201,152	25,874,132		53,249,517	179,924,124
Donated Assets													(66,130,157)	
Elimination on revaluation Transfer to completed buildings		66,130,157												
Revaluation										(1,870,000)				(1,870,000)
Disposal during the Year														
As at 30th June 2015	4,123,385,000	1,720,413,068	53,094,933	4,528,691	8,622,253	318,383,039	100,310,066	177,430	39,401,147	247,104,615	181,846,343	36,317	56,188,095	6,853,550,997
Depreciation														
As at 1st July 2014		389,411,662	29,008,043	2,914,427	4,917,159	172,357,475	78,235,387	162,144	38,071,495	149,846,095	124,878,196	22,269		988,823,412
Disposal														(1,860,240)
Elimination on revaluation														
Charge for the Year		33,275,035	3,010,861	201,783	470,637	18,253,195	2,759,335	1,911	498,620	24,779,950	19,589,383	1,744		102,242,453
As at 30th June 2015		422,686,697	32,018,904	3,116,210	5,387,796	190,610,671	80,994,722	164,055	38,570,114	172,764,166	143,867,578	24,112		1,090,206,625
Net Book Value														
As at 30th June 2015	4,123,385,000	1,297,726,371	21,076,028	1,412,481	3,294,458	127,772,368	19,315,345	13,375	831,033	74,339,849	37,978,765	12,205	56,188,095	5,763,345,373
As at 30th June 2014	4,123,385,000	1,187,061,224	23,581,106	1,538,884	3,405,990	142,129,978	17,171,267	15,286	1,328,652	86,928,408	31,694,015	13,948	69,068,735	5,686,673,462
5(b): Deferred Income Schedule on Donated Assets (See Note 32 (a) (ii))														
Donated Assets		545,549,743	9,100,102	43,916	103,678	108,457,831	4,324,210	15,679	7,791	70,315,054	12,200			797,900,202
As at 1st July 2014														
Additions														
Disposal														
Deferred Income		545,549,743	9,100,102	43,916	103,678	108,457,831	4,324,210	15,679	7,791	70,315,054	12,200			797,900,202
To income & expenditure for the year		13,638,744	1,137,513	5,489	12,860	13,557,229	540,526	1,960	2,918	17,678,763	4,067			46,480,169
As at 30th June 2015		531,910,999	7,962,589	38,405	90,718	94,900,602	3,783,683	13,719	4,873	52,736,290	8,134			691,450,033
Work-in - Progress	(KSHS)													
Balance b/fwd		69,068,735												
Transfer to finished buildings		(66,130,157)												
		2,938,578												
Add: additions within the year.														
Work-in-Progress Tree Management Plan - K.S.		2,845,694												
Work-in - Progress Mgori		49,822,871												
Work-in - Progress- Incinerator Murgu		581,154												
Total for the year		53,249,519												
Balance C/fwd		56,188,097												



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Notes	2014-2015 Kshs.	2013-2014 Kshs.
NOTE 6: INTEREST ON FDR & SAVINGS A/C			
Interest Income from FDR		5,205,832	3,965,358
Interest from Savings Bank A/c		445,169	166,508
Totals		5,651,001	4,131,865
NOTE 7(a): OTHER INCOME			
Sale of Forestry Produce	7(b)	58,747,021	83,616,841
Nominal Income (Rent, Water & Electricity)		9,322,977	6,939,434
Surcharges		123,207	46,763
Commission Income		167,900	166,842
Bus Charges (Income)		1,210,711	1,089,778
Other Income/Tenders and Hire of Grounds		729,000	1,387,100
Hire of KEFRI Facilities	7(c)	31,748,177	33,078,895
Lab Analysis	7(d)	5,544,555	3,085,419
Clinic Revenue		836,760	1,971,290
Insurance Compensation		-	589,875
Project Administration Fees		37,779	-
Compensation for lost items		58,250	-
Sale of Stores		156,411	19,287
Totals		108,682,747	131,991,524
NOTE 7(b): ANALYSIS OF FOREST PRODUCE INCOME			
Sale of Forestry Produce		3,046,171	1,875,775
Sale of Seeds		9,397,457	7,506,298
Karura Revenue		12,902,956	10,542,194
Londiani Income		16,408,783	34,743,777
Gede Income		872,112	1,641,377
Turbo Income		11,332,904	25,803,542
Kibwezi Income		896,840	584,270
Kakamega Revenue		457,095	162,670
Nyeri Income		844,660	291,250
Lodwar Revenue		2,367,756	345,500
Marigat Revenue		176,490	29,100
Kuja River Revenue		10,798	80,538
Ramogi Revenue		18,000	10,550
Garissa Revenue		15,000	-
Total		58,747,021	83,616,841
NOTE 7(c): HIRE OF TRAINING FACILITIES			
Hire of Training Facilities - Training[Muguga]		1,572,500	3,953,470
Kitui Revenue		25,568,304	18,320,990
KEFRI House Income		4,607,372	10,804,435
Total		31,748,177	33,078,895
NOTE 7(d): LAB ANALYSIS			
Muguga Laboratory Revenue		207,120	117,980
Maseno Revenue		5,337,435	2,967,439
Total		5,544,555	3,085,419



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2014-2015	2013-2014
		Kshs.	Kshs.
NOTE 8: EMPLOYEE COSTS			
Salaries and Wages	8(b)	456,742,804	396,966,831
Gratuity Costs		2,520,498	1,618,910
Staff Pension Cost/Administration Costs	8(c)	63,298,988	69,306,706
House Allowances		94,677,432	90,932,447
Medical Allowance N/A		116,608	58,719
Other Personal Allowances	8(d)	80,099,285	88,434,811
Staff Medical Costs (In-Patient)		365,750	776,439
Compensation & Ex-gratia		517,416	337,461
Leave & Passage Expenses		5,387,000	5,255,500
Transfer Expenses		1,961,171	1,758,628
Group Life Insurance Premium		5,024,082	4,887,533
Group Personal Accident		1,103,015	1,278,457
Group Personal Accident Premium- Casuals		-	166,395
Medical Insurance Cover for Staff		44,623,084	44,997,576
Total		756,437,132	706,776,413
NOTE 8(b): SALARIES & WAGES			
Basic Salaries		410,843,396	366,236,866
Contractual Employee		2,850,000	302,000
Casual Labour		43,049,408	30,427,965
Total		456,742,804	396,966,831
The number of employees as at the end of the year		987	965
NOTE 8(c): STAFF PENSION COST			
Pension Employer Cost		62,519,751	43,015,543
Pension Employer Cost - Individual Vouchers		43,862	28,275
Pension Element 27.5%		220,721	20,864
Pension -Arrears		-	25,623,998
NSSF Employer		514,654	618,026
Total		63,298,988	69,306,706



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014-2015	2013-2014
	Kshs.	Kshs.
NOTE 8(d): OTHER ALLOWANCES		
Honoraria	1,372,933	901,893
Acting Allowance	93,510	167,412
Hardship Allowance	2,140,560	1,927,946
Special Duty Allowance	277,604	518,385
Incentive Allowance	119,472	1,028,888
Incentive Allowance - Individual Vouchers	882,465	11,254,599
Entertainment Allowance	4,701,774	5,491,081
Responsibility Allowance	8,337,209	7,755,274
Other Allowances	7,129,256	8,324,962
Other Allowances (Individual Vouchers)	399,850	-
Commuter Allowance	54,644,652	51,064,371
Total	80,099,285	88,434,811
NOTE 9: OPERATING EXPENSES		
Electricity Expenses	18,951,225	17,189,674
Water & Conservancy	2,582,042	2,892,700
Telephone, Telex & Mobile Phone	5,898,788	2,258,072
Internet Costs	4,295,929	8,027,066
Postal Courier & Telegrams	1,217,700	1,002,253
Travelling & Accommodation Expenses	195,429,546	141,900,953
External Travelling Costs	7,777,679	10,538,032
Printing & Publishing	4,766,917	4,258,985
Subscription, Newspapers & Periodicals	1,133,081	1,370,936
Advertising & Publicity	12,289,976	14,256,402
Trade Show and Exhibitions	2,755,657	3,565,587
Training Expenses and Attachment fee	13,426,985	13,809,703
Cost of Conference & Seminars	278,200	598,373
Purchase of Coffin	233,500	489,239
Insurance of Buildings & Equipment	756,301	1,133,413
Insurance of Motor Vehicles	5,469,337	5,851,137
Supplies of medical Drugs	1,463,876	1,986,176
Supplies of Dressings	123,510	80,643



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: OPERATING EXPENSES (Continued)		2014-2015	2013-2014
		Kshs.	Kshs.
Fungicides & Insecticides		693,220	412,966
Purchase of Utensils and Cutlery		2,222,719	656,574
Purchase of Research Materials	9(b)	5,831,763	5,020,241
Library Expenses		382,531	983,442
Food & Ration		24,391,664	26,612,421
Staff Uniform Expenses		2,442,220	2,749,037
Purchase of Supplies for Production		23,342,724	32,804,418
Stationery Expenses		9,319,140	10,971,717
Computer Expenses		7,882,770	7,741,428
Sanitary & Cleaning Material		3,044,416	2,529,860
Fuel & Lubricants Expenses	9(c)	37,176,341	45,112,762
Bank Charges	9(d)	869,257	1,043,396
Membership Fees to Statutory Organization		1,516,861	3,270,603
Legal Dues, Arbitration and Compensation Payments		683,980	1,740,000
Contracted Professional Services	9(e)	6,758,518	17,675,694
Audit Fees		660,000	967,440
Security Operations		15,943,981	12,364,321
Write Offs/Bad Debts Expenses		219,137	-
Maintenance Expenses	9(f)	56,937,839	54,183,523
Land Rent & Rates		-	165,882
Withholding Tax on Interest Accounts		834,606	24,976
Project Administrative Expenses		-	205,705
Import Duty (Kenya Revenue Authority)		639,373	-
N.S.S.F Penalty		27,251	-
Silver Jubilee/Team Building Activities		1,166,200	1,216,580
Choir and Sports exp		638,856	592,810
Total Operating Expenses		482,475,617	460,255,141
NOTE 9(b): PURCHASE OF RESEARCH MATERIALS			
Chemicals & Industrial Gases		2,798,443	2,642,342
Laboratory Materials		2,207,818	1,566,817
Workshop Materials		433,410	488,919
Photographic & Audio Visual Material		392,091	322,163
Total		5,831,763	5,020,241



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: OPERATING EXPENSES (Continued)	2014-2015	2013-2014
	Kshs.	Kshs.
NOTE 9(c): FUEL EXPENSES		
Fuel & Lubricants Expenses	35,897,287	44,680,362
Other Fuels (wood, charcoal, gas etc.)	314,224	184,960
Fuel for Generators	<u>964,830</u>	<u>247,440</u>
Total	<u>37,176,341</u>	<u>45,112,762</u>
NOTE 9(d): BANK CHARGES		
Recurrent	603,900	761,430
Development	24,550	29,182
Various Projects	22,908	38,611
IFRI project	<u>15,085</u>	<u>11,180</u>
Gold Plus Revenue	36,249	45,110
Gold Plus Savings	1,550	1,000
KEFRI-MSB/UPP PROJECT - Millenium Seed for Life	18,123	13,623
KEFRI ITK/IIED PROJECT A/C-GEDE	10,331	7,294
SANREM - CRSP	24,167	9,515
EU FOREAIM	11,774	10,645
EURO A/C	2,176	3,466
Sinking Fund	6,665	5,480
KEFRI ITK/IIED PROJECT A/C-HQTS	8,663	8,068
KAPP Woodcurving	908	9,515
KAPP Prosopis	5,345	4,930
ASARECA	3,567	5,930
KEFRI US Dollar Account	10,755	1,981
KCDP-IDA	26,374	37,349
KCDP-GEF	11,560	19,691
MMMB GOF Project	4,219	7,436
KEFRI/REGIONAL TRAINING	1,540	2,200
KEFRI PALWECO PROJECT A/C	6,720	5,445
CLINTON CLIMATE INITIATIVE- SLEEK PROJECT	4,230	2,802
KEFRI CIFOR PROJECT A/C	<u>7,900</u>	<u>1,515</u>
Totals	<u>869,257</u>	<u>1,043,396</u>



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: OPERATING EXPENSES (Continued)	2014-2015	2013-2014
	Kshs.	Kshs.
NOTE 9(e): CONTRACTED PROFESSIONAL SERVICES		
Contracted Prof. Services- Valuation	1,482,800	1,160,000
Contracted Prof. Services- Others	3,488,862	13,253,333
Contracted Prof. Services- Consultancy	1,286,467	2,536,281
Contracted Professional Services - EMS surveillance Audit	293,700	622,920
Technical Services	206,688	103,160
Total	6,758,518	17,675,694
NOTE 9(f): MAINTENANCE EXPENSES		
Vehicle Maintenance Expenses	24,436,355	24,429,082
Maintenance of Plant & Machinery	3,871,490	2,764,884
Maintenance of Furniture	947,352	1,375,386
Maintenance of Buildings - Residential	3,909,670	3,583,236
Maintenance of Buildings	10,212,744	14,408,661
Maintenance of Roads	62,880	1,036,105
Minor Alterations	4,362,186	2,774,111
Maintenance of Computer Software	8,170,615	2,400,318
Maintenance of Water Supplies & Sewage	964,547	1,411,739
Total	56,937,839	54,183,523
NOTE 10: BOARD OF MANAGEMENT EXPENSES		
Board Costs	8,445,910	8,586,980
Conferences	520,674	-
KEFRI Chief Executive Officer's Remuneration	11,314,000	6,770,000
Medical Insurance Cover for Board Members	357,718	635,631
Total	20,638,302	15,992,611



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014-2015	2013-2014
	Kshs.	Kshs.
NOTE: 11(a) ESTABLISHMENT COST		
Sinking Fund	10,000,000	10,000,000

The Establishment cost relates to the contributions for the year to the Sinking Fund Account. Each year's contribution is dependant on the availability of funds. The fund is for future replacement on wornout assets.

NOTE 11(b): SINKING FUND

Balance b/f	18,869,754	12,582,167
Received during the Year	11,739,541	11,403,246
Available during the Year	30,609,295	23,985,413
Spent during the Year	(12,207,817)	(5,115,659)
Balance c/f	18,401,478	18,869,754

NB: See Note 32(c.) The fund was established by Management for the replacement of worn out fixed assets in future. The Institute contributes a determined amount every year to the fund account for this purpose.

NOTE 12: INTANGIBLE ASSETS - COMPUTER SOFTWARE

Cost

At the beginning of the year-Net	16,928,381	11,621,534
Additions for the year	2,536,788	9,538,943
Amortization on Intangible Assets - Software	(3,893,034)	(4,232,095)
At the end of the year	15,572,135	16,928,381

This represents costs related to the acquisition of computer software and expenditure incurred towards enhancing and extending the benefits and lives of computer software programs beyond their original specifications.

NOTE 13: GAIN ON SALE OF FIXED ASSETS

Sale Proceeds	265,900	3,572,000
Value at Cost	1,870,000	9,567,878
Less: Accumulated Depreciation	(1,860,240)	(8,688,221)
Net Book Value	9,760	879,657
Gain on Disposal	256,140	2,692,343

NOTE 13(b): EXCHANGE GAIN/(LOSS)

Exchange Gain	166,799	399,181
Exchange Loss	(112,433)	(16,015)
Total	54,366	383,166

NOTE 14(a): CASH AND CASH EQUIVALENT - CASH AT BANK

Recurrent	1,192,130	26,710,734
Development	4,734,672	18,997,166
Various Projects	8,427,010	10,910,786
IFRI project	190,542	667,187
Sinking Fund	3,584,119	9,619,468
Gold Plus Savings	400,494	3,310,554
Gold Plus Revenue	2,103,692	116,235,241
EU FOREAIM	-	11,773
KEFRI US Dollar Account	1,569,296	2,580,198
SANREM - CRSP	-	9,822
EURO A/C	6,823,966	3,594,719
KAPP Woodcurving	-	1,269
KAPP Prosopis	467,309	472,654
ASARECA	-	3,566
KCDP-IDA	683,052	10,663
KCDP-GEF	-	14,296
MMMB GOF Project	2,535,419	2,816,677



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 14(a): CASH AND CASH EQUIVALENT -CASH AT BANK (Continued)	2014-2015	2013-2014
	Kshs.	Kshs.
KEFRI-MSB/UPP PROJECT -Millenium Seed for Life	45,226	597,045
KEFRI/REGIONAL TRAINING	278,933	250,977
KEFRI ITK/IIED PROJECT A/C-HQTS	335,683	2,655,541
KEFRI CIFOR PROJECT A/C	-	701,540
KEFRI PALWECO PROJECT A/C	408,402	1,305,872
CLINTON CLIMATE INITIATIVE-SLEEK PROJECT	2,446,720	505,448
KEFRI ITK/IIED PROJECT A/C-GEDE	65,102	2,179
Totals	36,291,766	201,985,376

NOTE 14(b): Investment in Fixed deposit account

The Institute has short term investment of Ksh. 85,000,000 in fixed deposit in an account held at the Co-operative bank of Kenya. The investment interest rate is 10.5% and shall mature on 14/7/2014 unless a roll-over shall be desirable.

NOTE 15: DEBTORS SCHEDULE (RECEIVABLES)**(a) RECEIVABLES FROM EXCHANGE TRANSACTIONS**

	2014-2015	2013-2014
	Kshs.	Kshs.
KCB - Lodwar	-	10,000
KCB - Londiani	-	15,000
Water and Electricity Debtors	1,597,717	1,291,432
Kenya Forest Service	-	589,750
A. A. R Credit Service	-	114,339
Interest Receivable-Accrued	6,403,953	2,937,299
Sundry Debtors	559,830	726,300
National Bank-Loan A/C	-	208,964
Select Management Services	-	46,214
Catholic Diocese of Kitui	-	14,900
Freshco Kenya Limited	-	140,000
Jomo Kenyatta University of Agr & Tec	-	28,900
Total	8,561,500	6,123,098

(b) RECEIVABLES FROM NON- EXCHANGE TRANSACTIONS

Travelling Imprest	25,650	63,650
Station/Special Imprest	-	140,000
Salary in Advance	108,294	37,000
Salary Advance	229,486	510,967
Meshack Kiarie	-	6,000
Total	363,430	757,617
Total Debtors	8,924,930	6,880,715



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 16: INVENTORIES

Stationery/Computer Accessories	1,837,417	2,050,150
Motor Vehicle Spare Parts & Fuel	387,959	783,765
Uniforms and Clothings	104,567	3,463
Food Stuff	31,598	71,683
Hardware, Electricals & Cleaning Materials	6,880,916	2,102,652
Seeds & Seedlings	44,303,372	36,132,325
Forest Plantations 1. (e)(ii)	4,668,919	3,682,350
Drugs & Dressings	620,685	526,047
Fungicides & Sprays/Chemicals	-	9,580
Small Lab Equipment	-	16,250
Utensils and cutlery	-	33,460
Total	58,835,433	45,411,724

NB: Note 1. (e) ii) The Institute's Forests Plantations are for research purposes (experiments) and not for commercial use.
The plantations are harvested at the end of the experiment hence the provision of IPSAS 27 are not applicable.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 17: CREDITORS SCHEDULE (PAYABLES)	2014-2015 Kshs.	2013-2014 Kshs.
Sundry Creditors - Merchants	9,623,018	3,026,512
Accruals - (KPLC)	1,734,322	1,588,222
Insurance Compensation	360,419	443,564
Miscellaneous Recovery (Unpaid June BTLs) 17(b)	538,677	850,709
Totals	12,256,435	5,909,006
NOTE 17(b): MISCELLANEOUS RECOVERIES		
Family Remittance	21,697	2,800
Harambee Co-operative	-	2,000
BRITAK	-	146,807
Pioneer Insurance Co.	-	3,341
Mercantile Ass. Co.	-	2,652
Madison Insurance Co.	-	13,070
Blue Shield	4,850	1,959
Cooperative Ins (C.I.S.)	3,955	11,865
Appollo Insurance Co.	-	1,086
CFC Life Assurance	-	12,865
Corporate Insurance	-	113,094
S.A.Y.E.	68,000	111,300
NVRC	-	10,200
PS Min.of Roads & Pub. Works- Rent	-	2,500
Londiani Forestry College	-	10,000
Transport Welfare	-	72,493
Attachment fees	63,000	66,500
Ukulima Fosa - Advances	347,289	161,058
DFO -House Rent	-	4,000
Kenya Professional Association of Women in Agriculture	4,800	7,800
Karura Welfare	-	25,600
KANASA	1,200	4,200
Metropolitan Teachers SACCO	-	1,900
Gede Welfare Group	-	17,800
Platinum Credit	-	26,526
Marigat Welfare Society	8,390	9,493
HR Welfare	-	4,800
UKULIMA Housing Soc	-	3,000
Imarisha SACCO	3,200	-
Elimu SACCO	12,296	-
Total	538,677	850,709
NOTE 17(c): Auditor General- accrued audit fee		
Auditor General- accrued audit fee	1,320,000	773,720



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 18: KEFRI MEDICAL SCHEME FUND ACCOUNT A/C	2014-2015	2013-2014
	Kshs.	Kshs.
Items contributing to Fund balance:		
Income: Interest from FDR	<u>671,875</u>	-
Contribution to the Fund	<u>671,875</u>	-
Items Reducing Fund balance:		
Medical Claims Paid	-	-
Bank charges	6,335	8,430
Printing & Publishing	-	17,700
Food & Ration	18,000	5,680
Transport operating exp	-	73,500
Travelling & Accommodation	<u>254,825</u>	<u>731,500</u>
Reduction to the Fund	<u>279,160</u>	<u>836,810</u>
Fund Surplus	<u>392,715</u>	<u>(836,810)</u>
Current Assets:		
Cash at Bank	3,153,684	28,432,844
FDR Account	25,000,000	-
Debtors: GoldPlus Savings Account	345,205	345,205
Recurrent	<u>397,678</u>	<u>397,678</u>
Interest Receivable	<u>671,875</u>	-
Fund Net Assets	<u>29,568,442</u>	<u>29,175,727</u>
Fund Balance as at 01.07.2014	<u>29,175,727</u>	<u>30,012,537</u>
Surplus for the year	<u>392,715</u>	<u>(836,810)</u>
Fund Balance as at 30.06.2015	<u>29,568,442</u>	<u>29,175,727</u>



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19: CAPITAL GRANTS/DEFERRED INCOME & RESERVES

Nature and Purpose of Reserves

The Institute creates and maintains reserves in terms of specific requirements.

(a)(i) Deferred Income from Government Grants for Capital Assets		2014-2015	2013-2014
Government Grants for Capital Assets /Donations		Kshs.	Kshs.
Balance b/fwd	Note	696,460,355	635,228,001
Additions	3	78,462,310	61,232,366
Transfer from/ to Deferred Income/ Donated Assets		-	-
Balance c/fwd		774,922,665	696,460,355
(a) (ii) Deferred Income from External Donors on Donated Assets		737,930,202	670,093,113
Balance b/fwd		737,930,202	670,093,113
Deferred Income/ Donated Assets	5(b)	-	122,709,720
Deferred Income	5(b)	(46,480,169)	(54,872,631)
Balance c/fwd		691,450,034	737,930,202

(b) Revaluation Reserves

The Revaluation Reserves cater for the revalued amount in the cost of Property, Plant and Equipment. The amount in the Reserve Account includes revalued amount of the Institute's land and buildings as indicated below:

REVALUATION SURPLUS RESERVE

LAND PARCEL NO.		Date	Kshs.
23877		29/03/1999	51,400,000
23879		29/03/1999	41,442,800
23883		29/03/1999	18,000,000
TOTAL			110,842,800
BUILDINGS ON LAND PARCEL NO.			
23877		29/03/1999	6,867,630
23879		29/03/1999	7,076,500
23883		29/03/1999	6,656,000
TOTAL			20,600,130
Total Gain on revaluation			131,442,930
Revaluation on heavy vehicles		30/6/2013	2,967,483
Balance b/f 1/7/2013			134,410,413
Revaluation gain on Land			
Nos. 23877/23879/23883	Muguga	30/6/2014	3,829,157,200
Nos. 24600	Kitui-Tiva	30/6/2014	117,160,000
Block 11/127	Kitui-Hqts	30/6/2014	27,900,000
			3,974,217,200
Revaluation gain on Buildings			
Muguga Hts/Seed Centre		30/6/2014	318,324,237
Kitui-Hqts/Kitui-Tiva		30/6/2014	40,247,638
			358,571,875
Revaluation gain for the year 2014			4,332,789,075
Balance c/f 30/6/2014			4,467,199,488
Balance c/f 30/6/2015			4,467,199,488



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19: CAPITAL GRANTS/DEFERRED INCOME & RESERVES (Continued)

(c) Sinking Fund (See Note 12(b))

The Institute sets aside a determined amount of money every year from its internal sources to the fund account for the purpose of purchasing and maintenance of capital assets. The cash funds that back up the Sinking fund a/c are sometimes invested to boost the fund with interest earned.

Sinking Fund	2014-2015 Kshs.	2013-2014 Kshs.
Balance b/f	18,869,754	12,582,167
Received during the Year	<u>11,739,541</u>	<u>11,403,246</u>
Available during the Year	30,609,295	23,985,413
Spent during the Year	<u>(12,207,817)</u>	<u>(5,115,659)</u>
Balance c/f	<u>18,401,478</u>	<u>18,869,754</u>

(d) External Grants Reserve

The External Grant Reserve captures the unspent Donor Funds. Most of the Donor Grants cover a period of over one year. It is on this basis that the Institute only recognize the spent amount as the income for the period. The unutilized fund is carried forward in this reserve to the next period.

(e) Accumulated Surplus / (Deficit)

Accumulated Deficit is as a result of the depreciation charge per year which does not have any monetary effect on Income and Expenditure statement. Any surplus realised within the year reduces this deficit.

Balance b/f	12,324,695	(105,778,736)
Surplus/(Deficit) for the Year	<u>(34,407,184)</u>	<u>118,103,431</u>
Balance c/f	<u>(22,082,489)</u>	<u>12,324,695</u>

NOTE 20: IPSAS 20 Related Party Disclosures

Related parties are parties that control or have significant influence over the reporting Institute including key management personnel and parties that are controlled or significantly influenced by the reporting Institute.

RELATED PARTY TRANSACTIONS	Note	Kshs.	
Remuneration and other costs of Directors	10	20,638,302	15,992,611
Salaries and other staff employment benefits including key Management	8(a)	756,437,132	705,017,785
Staff receivables	16	<u>363,430</u>	<u>4,529,326</u>
Total		<u>777,438,864</u>	<u>725,539,722</u>



KENYA FORESTRY RESEARCH INSTITUTE

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

a) Reference No. on the external audit report b) Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue		Status
a) No. 1 2013/2014 Report. b) Property, Plant and Equipment	A joint task force on land and asset sharing between the two institutions (KEFRI/KFS) has since been constituted to review land and asset belonging to KEFRI within the forest land for purposes of formal ownership. The institute	Bernard Kigomo, Senior Deputy Director		Not resolved
	is also engaging the National Land Commission and County Government on the acquisition of land for its research and development use.			

Prof. Daniel N. Mugendi
Chairman, KEFRI Board of Management

Date 19/08/2016

Ben Chikamai (PhD)
Director, KEFRI

Date 19/08/2016