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**REPORT
OF
THE CONTROLLER
AND AUDITOR GENERAL**

ON

**THE FINANCIAL STATEMENTS OF
KENYA PLANT HEALTH INSPECTORATE
SERVICE FOR THE YEAR ENDED 30 JUNE
2006**

27

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 REGISTRY HEADQUARTERS
 NAIROBI

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KENYA PLANT HEALTH INSPECTORATE SERVICE
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KENYA PLANT HEALTH INSPECTORATE SERVICE

REPORT OF THE DIRECTORS

YEAR ENDED 30TH JUNE 2006

The Directors have the pleasure of presenting their Financial Statements for the period 1st July 2005 to 30th June 2006.

The Kenya Plant Health Inspectorate Service is a Government parastatal set up under the State Corporations Act (Chapter 446) and operates within the provisions of the Legal Notice No.305 of 18th October 1996.

The mandate of KEPHIS is to undertake services in plant variety protection, seed quality control, plant protection; quality control on agricultural inputs and produce; and the monitoring of the effect of agricultural activities on the environment with a view to ensuring acceptable plant health standards and sustainable land resource use.

The 2003/2004 financial year was a significant period for the Corporation in terms of the magnitude of activities undertaken. The Corporation's mission - to provide a dependable, effective, efficient and competitive regulatory service for ensuring quality agricultural inputs and produce thereby promoting sustainable agriculture and economic growth; and the vision to be the leading and credible regulatory agency for quality agricultural inputs and produce remained the guiding beacons for the Board of Directors, management and staff. In fulfilling the regulatory mandate, significant achievements in the core functions - plant variety protection, seed quality control, plant protection and the monitoring of the effect of agricultural activities on the environment were recorded...

During the year, a total of fifty applications for grant of Plant Breeders' Rights (PBR) in Kenya were received. Nine of the applications were granted certificates for Protective Direction which offers interim protection while the grant applicants are still being examined. Seed quality control activities involved registration of seed growers, field inspections of seed crops, seed processing inspection, laboratory testing of seeds, post control and post certification surveys. Seed field inspection was carried out in respect of slightly over seven thousand four hundred and thirty eight hectares of various seed crops. Eventually, over twenty million kilograms of harvested seed crops were processed, lot examined, sampled for laboratory analysis and post controlled to determine the quality. In seed testing, three thousand one hundred samples were received and tested in the seed testing laboratory to determine the purity, germination and health status of the seed lots.

The international accreditation process for the seed testing and analytical chemistry laboratory continued during the year. The analytical chemistry laboratory carried significant amount of work in analysis and certification of agro-input formulations. The activities included water analysis for irrigation suitability whereby thirty four samples were received which was a forty two per cent increase compared to the previous year. In an effort to ensure that the production efficiency of cropping systems was not compromised, seventy eight fertilizer samples were analysed. Other activities were analysis of soil and plant tissue, manure and organic compost, agrochemical formulations, animal feed and pesticide residues in animal tissues. Environmental monitoring through analysis of water, soil and sediment samples to ascertain the level of contamination as a result of agrochemical usage was also a key activity.



During the year, grading and inspection of agricultural exports and imports continued to ensure that the produce met the standards of the exporting/importing country. In terms of exports and imports, sixty eight thousand five hundred and seventy three phytosanitary certificates and three thousand two hundred and eighty nine plant import permits were issued. However, a total of slightly over twenty two tonnes of plant materials were intercepted and destroyed due to non-compliance to phytosanitary and quality requirements compared to three tonnes in the previous year. Other core phytosanitary service activities included plant quarantine services, field inspections and pathological analysis, soil analysis for nematodes, virus testing and tissue culture activities. The Corporation also undertook activities in biological control operations in addition to efforts to fulfil the mandate of implementation of the National policy on the introduction and use of genetically modified organisms.

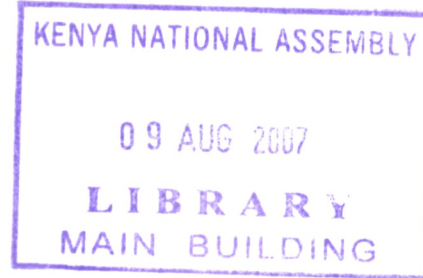
A significant portion of the budget was devoted to staff development as well as welfare facilities. The commitment of the staff, their unstinting hard work and dedication has produced good results and we are confident that the trend will continue into the future. Since the Corporation is a service provider operating within the international standards and requirements, the Board of Directors and management are committed to being world-class in all areas of operation. The focus will remain continued operations within the concepts of good corporate governance; individual and institutional integrity; and responsibility to all clients - both internal and external.



Board of Directors

The Board of Directors during the year comprised of the following:

- | | | |
|--|---|--|
| Prof. Juma A.Lugogo | - | Chairman (up to 7 th October 2005) |
| Prof. Justin Irina | - | Chairman (effective 15 th March 2006) |
| Dr. Wilson R.Opile | | |
| Dr. Paul K.A.Konuche | | |
| Dr. James M.Osando | | |
| Dr. David Mureithi | | |
| Mrs. Lucy Waithaka | | |
| Mr. Stephen Muna | | |
| Permanent Secretary, Ministry of Finance | - | (Alternate – Mrs. Truphena Mokaya) |
| Permanent Secretary, Ministry of Agriculture | - | (Alternate – Mr.J.Mwangi) |
| Dr. Chagema J. Kedera | - | Managing Director/Secretary to the Board |



Statement of Directors' Responsibilities

The State Corporations Act Cap 446 requires the directors to prepare financial statement for each financial year, which give a true and fair view of the state of affairs of the corporation as at the end of the financial year and of the operating results of the corporation for that year. It also requires the directors to ensure the corporation keeps proper accounting records, which disclose with reasonable accuracy the financial position of the corporation. They are also responsible for safeguarding the assets of the corporation.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in a manner required by the State Corporation Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the corporation and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in preparation of the financial statements, as well as adequate systems of internal financial control.

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



.....
Director
29th January 2007



.....
Director
29th January 2007



KENYA PLANT HEALTH INSPECTORATE SERVICE

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 30TH JUNE 2006

	Notes	2005/2006	2004/2005
		<u>Kshs</u>	<u>Kshs</u>
<u>INCOME</u>			
Recurrent grants	(3)	363,192,687	216,439,280
USAID grants		16,251,935	30,438,635
Fees for services rendered		<u>90,475,932</u>	<u>80,609,599</u>
Total Income		<u>469,920,554</u>	<u>327,487,514</u>
<u>EXPENDITURE</u>			
Personnel costs	(8)	213,952,596	167,463,916
Other operating expenses	(9)	154,428,382	150,579,180
Depreciation	(2)	<u>29,181,248</u>	<u>31,165,050</u>
Total Expenditure		<u>397,562,266</u>	<u>349,208,146</u>
Surplus Income over Expenditure		72,358,328	(21,720,632)
Surplus Income over Expenditure brought forward		<u>325,285,936</u>	<u>352,580,027</u>
Surplus Income over Expenditure carried forward		<u>397,644,264</u>	<u>330,859,395</u>



KENYA PLANT HEALTH INSPECTORATE SERVICE

BALANCE SHEET AS AT 30TH JUNE 2006

	Notes	2005/2006 <u>Kshs</u>	2004/2005 <u>Kshs</u>
Represented by:			
Revaluation Reserves		166,373,043	166,373,043
Donation Reserve		4,082,000	-
Surplus Income over Expenditure		72,358,328	(21,720,632)
Surplus Income over Expenditure brought forward		<u>325,285,936</u>	<u>352,580,027</u>
Total		<u>568,099,307</u>	<u>497,232,438</u>
 ASSETS:			
Non current assets			
Property, Plant & Equipment	(2)	431,391,850	420,742,210
 Current assets:			
Cash and Bank Balances	(4)	60,124,896	29,460,410
Investment in Government securities	(5)	29,604,750	-
Debtors & Prepayments	(7)	48,508,660	44,778,832
Stock		<u>11,485,666</u>	<u>10,150,494</u>
Total current assets		<u>149,723,953</u>	<u>84,389,736</u>
Creditors	(6)	<u>13,016,496</u>	<u>7,899,508</u>
Net current assets		<u>136,707,457</u>	<u>76,490,228</u>
 Total		 <u>568,099,307</u>	 <u>497,232,438</u>

Prof. Justin Irina
Chairman
Board of Directors



Date 29th January 2007

Dr. Chagema J. Kedera
Managing Director



Date 29th January 2007



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA PLANT HEALTH INSPECTORATE SERVICE FOR THE YEAR ENDED 30 JUNE 2006

I have audited the financial statements of Kenya Plant Health Inspectorate Service for the year ended 30 June 2006 in accordance with the provisions of 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. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

The directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Inspectorate and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Property, Plant and Equipment

Included in the property, plant and equipment figure of Kshs.431,391,850 as at 30 June 2006 is an amount of Kshs.103,516,351 being the value of nine (9) parcels of land in Nakuru municipality, Muguga - Kiambu, Kitale - Trans Nzoia and Karen in Nairobi, all measuring approximately 119.64 Hectares. However, except for the Karen land, the Inspectorate does not possess title documents in respect of the parcels of land in Nakuru, Muguga and Kitale, which are still registered in the name of Kenya Agricultural Research Institute. In addition, the ownership of a parcel of land in Kabete, which is excluded from the Inspectorate's financial statements is in dispute between the Inspectorate Service and the Veterinary Department of the Ministry of Livestock and Fisheries Development. Further, 91.21 Hectares of land

also in Kitale excluded from the Inspectorate's financial statements have been taken up by third parties with part of the land being allocated to private developers, while the other part has been encroached upon and is occupied by squatters. In view of the foregoing it was not possible to confirm the ownership status of the land without title documents and to ascertain that the property, plant and equipment balance of Kshs.431,391,850 as at 30 June 2006 is fairly stated.

2. Debtors and Prepayments

The debtors and prepayments balance of Kshs.48,508,660 as at 30 June 2006 includes a debt of Kshs.14,403,496 owed by Kenya Agricultural Research Institute which has remained outstanding since the year 2000. No indication has been given as to the recoverability of this debt considering that the debtor is a reputable and financially sound organization.

3. Illegal Water Connection

The Inspectorate purchased its current premises together with the developments thereon including a borehole that supplies it with water. However, unknown to the Inspectorate at the time, a neighbour to the premises had made an underground connection enabling him to draw water from the borehole for his private use. The neighbour happens to be a senior official of a multi-national bank, which sold the property to the Inspectorate. It is, therefore, apparent that the neighbour used his position to illegally draw water from the Inspectorate's premises. Efforts by the Inspectorate to stop this illegal connection have since failed and a case has been filed in court by the neighbour. The Inspectorate has, however, invoiced the neighbour for the water consumed worth Kshs.236,385 which he has failed to settle, while the bill continues to accumulate. Management has not explained when or how the Inspectorate will recover the outstanding amount, which now stands at about Kshs.472,770 excluding the costs of the case that is in court and is yet to be determined.

Opinion

Except for the matters set out in the foregoing paragraphs, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of Kenya Plant Health Inspectorate Service as at 30 June 2006 and of its surplus and cash flows for the year then ended and comply with the Kenya Plant Health Inspectorate Service Order No. 305 of 1996.



P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

28 February 2007

KENYA PLANT HEALTH INSPECTORATE SERVICE

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30TH JUNE 2006

	2005/2006 <u>Kshs</u>	2004/2005 <u>Kshs</u>
Cash flow from Operating Activities		
Surplus Income over expenditure for the year	72,358,328	(21,720,632)
Adjustments for:		
Depreciation	29,181,248	31,165,050
Interest on Treasury Bills/FDR/Savings	(363,503)	(122,639)
Surplus Income over Expenditure for the year	101,178,073	9,321,779
Prior period – stock items		
Net surplus	101,176,073	9,321,779
Working Capital changes		
(Increase) Decrease in Stock	1,335,172	(3,909,353)
(Increase) Decrease in Debtors & prepayments	(3,351,456)	(12,334,906)
Increase (Decrease) in Creditors	5,116,988	(12,211,198)
Cash flow from Financing Activities	3,100,704	(28,456,457)
Interest on treasury Bills/FDR/Savings	363,503	122,639
Cash flow from Investing Activities		
Purchase of Fixed Assets	(35,748,888)	(41,598,640)
Net increase in cash and cash equivalents	68,891,392	(60,609,679)
Cash and cash equivalents opening balance	20,838,254	81,447,933
* Cash and cash equivalents closing balance	89,729,646	20,838,254

* The Inspectorate had commitments amounting to Ksh.53, 800,000.00 in respect of construction of an office block at a cost of Ksh.36, 000,000.00 at the Jomo Kenyatta International Airports and purchase of two Atomic Absorption Spectrometers at Kshs 17,800,000.00 for the Analytical Chemistry Laboratory.



KENYA PLANT HEALTH INSPECTORATE SERVICE

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDING 30TH JUNE 2006

	Revaluation Reserves <u>Kshs</u>	Accumulated Surplus <u>Kshs</u>	Total ' <u>Kshs</u>
At 1st July 2005	166,373,043	298,138,120	497,232,438
Surplus for the year		72,358,328	72,358,328
Donation		4,082,000	4,082,000
Adjustment		(5,573,459)	(5,573,459)
At 30th June 2006	166,373,043	363,209,456	568,099,307

Food and Agriculture Organization donated equipment valued at KSh.4, 082,000.00 to set up the Microbiology Laboratory at the Headquarters.



NOTES TO THE FINANCIAL STATEMENTS

1) ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted remain unchanged from the previous year.

a) Revenue recognition

Revenue is recognised at the time the service is provided. Fees for services rendered and other miscellaneous receipts are recognised as revenue in the period in which the service is provided. Interest income is accrued on a time proportion basis.

Project grants received directly from GOK and donors are recognised as revenue in the year of receipt.

b) Retirement benefits costs

The organisation operates a defined benefits provident fund for eligible employees. The scheme is administered by an independent investment management company and is funded by contributions from both the employer and employee. The organisations obligations to staff retirement benefits plan are charged to the income statement as they fall due.

c) Property, plant and equipment

Properties held for use in the production or supply of goods and services or for administrative purposes are carried at cost. Freehold land is not depreciated as it is deemed to have an infinite life. Depreciation on other property is charged so as to write off the cost of the assets over their useful lives using the straight-line method, applied on pro rata basis for assets acquired or disposed off during the year.

Depreciation is charged so as to write off the cost of property, plant and equipment to their residual values over their expected useful lives at the following rates:

Buildings 2%

Plant and Machinery 12.5%

Motor Vehicles 25%

Office Equipment 12.5%

Furniture and fixtures 12.5%

Laboratory Equipment 12.5%

Computers & Accessories 30%

d) Treasury bills

Treasury bills are stated at cost. Interest is credited to income over the period of issue.

e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises the normal cost of bringing inventory to their existing state and condition less any trade discounts.



f) Trade debtors

Trade debtors are stated at their nominal values as reduced by appropriate provision of 2.5% for estimated irrecoverable amounts.

g) Trade creditors

Trade creditors are stated at their nominal values

h) Provisions

Provisions are recognised when the organisation has a present obligation as a result of a past event and it is probable that an outflow of resources involving economic benefit will be required to settle the obligation and a realisable estimate can be made of the amount of the obligation.

2) PROPERTY, PLANT AND EQUIPMENT

COST OR VALUATION	LAND	BUILDINGS	PLANT AND MACHINERY	MOTOR VEHICLES	COMPUTERS AND ACCESSORIES	OFFICE EQUIPMENT	FURNITURE AND FITTINGS	LABORATORY EQUIPMENT	TOTALS
At 1st July 2005	103,516,351	234,583,934	9,578,317	78,485,466	19,042,809	8,251,631	7,797,782	81,425,712	542,682,002
Additions				16,075,820	390,021	1,945,427	904,835	20,514,785	39,830,888
At 30th June 2006	103,516,351	234,583,934	9,578,317	94,561,286	19,432,830	10,197,058	8,702,617	101,940,497	582,512,890
Depreciation									
At 1st July 2005		12,521,008	4,540,264	53,513,565	7,282,703	3,185,240	3,991,953	36,905,059	121,939,792
Charge for the Year		4,441,259	629,757	11,506,155	3,599,372	713,270	524,792	7,766,643	29,181,248
At 30th June 2006		16,962,267	5,170,021	65,019,720	10,882,075	3,898,510	4,516,745	44,671,702	151,121,040
Net Book Value									
At 30th June 2006	103,516,351	217,621,667	4,408,296	29,541,566	8,550,755	6,298,548	4,185,872	57,268,795	431,391,850
Net Book Value									
At 30th June 2005	103,506,351	222,062,926	5,038,053	24,971,900	10,760,106	5,066,390	3,805,829	44,520,653	420,742,210

The Inspectorate is pursuing the issue of land and buildings inherited from Kenya Agricultural Research Institute upon inception with the relevant Government Ministries

	2005/2006 <u>Kshs</u>	2004/2005 <u>Kshs</u>
3) INCOME		
Fees for services rendered	83,956,771	74,676,425
Miscellaneous receipts	5,477,258	5,046,401
Interest earned	363,503	122,639
Grants from Ministry of Agriculture	73,473,387	86,439,280
Grants from Ministry of Finance	289,719,300	130,000,000
License Fees	678,400	688,820
Sale of Property	-	72,694
Grants from USAID	<u>16,251,935</u>	<u>30,438,635</u>
Total	<u>469,920,554</u>	<u>327,487,514</u>

4) CASH AND BANK BALANCES

Current account I	39,546,178	13,997,927
Current account II	16,455,911	9,791,938
Regional offices	2,979,810	3,999,417
ADSP account	1,018,198	1,525,327
Cash in hand	<u>124,799</u>	<u>145,801</u>
Total	<u>60,124,896</u>	<u>29,460,410</u>

5) FIXED DEPOSITS

Central Bank of Kenya	29,604,750	-
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6) CREDITORS

Trade creditors	830,755	2,975,770
Staff Pension & Group Life	4,188,109	4,350,468
KARI Pension Scheme Refund	5,710,642	-
Others	<u>2,286,990</u>	<u>1,348,608</u>
Total	<u>13,016,496</u>	<u>8,674,846</u>

7) DEBTORS AND PREPAYMENTS

Trade debtors	32,028,192	30,246,201
Interest receivable	51,383	-
Regional offices	-	(81,391)
Advances	4,588,572	4,820,937
Deposits	1,803,167	1,304,016
Prepayments	<u>10,037,346</u>	<u>8,489,069</u>
Total	<u>48,508,660</u>	<u>44,778,832</u>

8) PERSONNEL COSTS

000	Personal Emoluments	97,451,617	88,926,712
040	Gratuity and Pension Contributions	42,234,502	6,864,925
050	House Allowance	47,928,000	45,598,500
060	Other Personal Allowances	16,914,686	12,477,046
064	Transfer Allowance	448,738	51,615
065	Medical Allowance	7,882,500	7,524,500
068	Training Expenses (Staff)	<u>1,092,553</u>	<u>6,020,617</u>
Total		<u>213,952,596</u>	<u>167,463,915</u>

9) OTHER OPERATING COSTS

070	Staff Counselling & Support	276,080	-
080	Passages and Leave Expenses	1,853,500	1,888,000
090	Medical Expenses	5,316,244	5,439,783
100	Transport Operating Expenses	22,583,231	23,062,272
110	Travelling and Accommodation Expenses	18,370,572	14,961,806
112	External Travelling and Accommodation	10,374,421	11,794,856
120	Postage and Telegram Expenses	1,263,498	1,127,138
121	Telephone Expenses	4,356,013	4,002,059
130	Official Entertainment	448,452	509,780
131	Expenses of Boards Committees & Conferences	2,443,305	2,525,696
140	Electricity Expenses	4,900,684	4,407,711
141	Water and Conservancy Expenses	250,094	474,150
150	Purchase of supplies for Production	521,686	417,943
153	Purchase of Fungicides	249,000	446,056
156	Purchase of Laboratory Stores	11,609,654	11,360,119
160	Purchase of Food & Rations	292,604	552,622
171	Publishing and Printing Expenses	7,589,742	9,411,267
172	Purchase of Uniform and Clothing	518,319	1,121,811
173	Library Expenses	383,009	706,138
174	Purchase of Stationery	1,697,282	2,230,263
175	Advertising and Publicity	3,396,336	2,381,613
176	Show Expenses	4,009,692	2,120,546
182	Payment of Rents and Rates Non-Residential	1,872,352	2,162,177
184	Contracted Professional Services	1,033,915	4,983,510
185	Computer Expenses	5,048,418	2,693,072
190	Miscellaneous Other Charges	1,805,702	1,446,067
192	Vehicle Insurance and Road Tax	4,441,421	5,749,121
193	Fees Commission and Honoraria	242,000	441,060
194	Training Expenses (Farmers)	867,029	1,129,900
199	Compensation & Ex-Gratia Payment	711,714	3,161,088
250	Maintenance of Plant Machinery & Equipment	5,674,772	4,052,170
260	Maintenance of Buildings and Stations	25,087,371	18,898,939
295	Minor Alterations and Repair Works	1,480,639	1,154,209
377	Contributions to International Organisations	2,158,926	2,770,672
391	Audit Fees	500,000	250,0000
392	Bad Debts Provision	800,705	775,538
Total		<u>154,428,382</u>	<u>150,579,180</u>