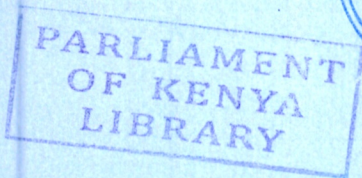




OFFICE OF THE AUDITOR-GENERAL



Paper laid on the table of the House by the leader of the Majority Party on Wednesday, 13th September 2017 (Afternoon)

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA PLANT HEALTH INSPECTORATE SERVICE

FOR THE YEAR ENDED 30 JUNE 2016





**KENYA PLANT HEALTH INSPECTORATE SERVICE
(KEPHIS)**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2016

**Prepared in accordance with the Accrual Basis of Accounting Method under the International
Public Sector Accounting Standards (IPSAS)**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
13 APR 2017
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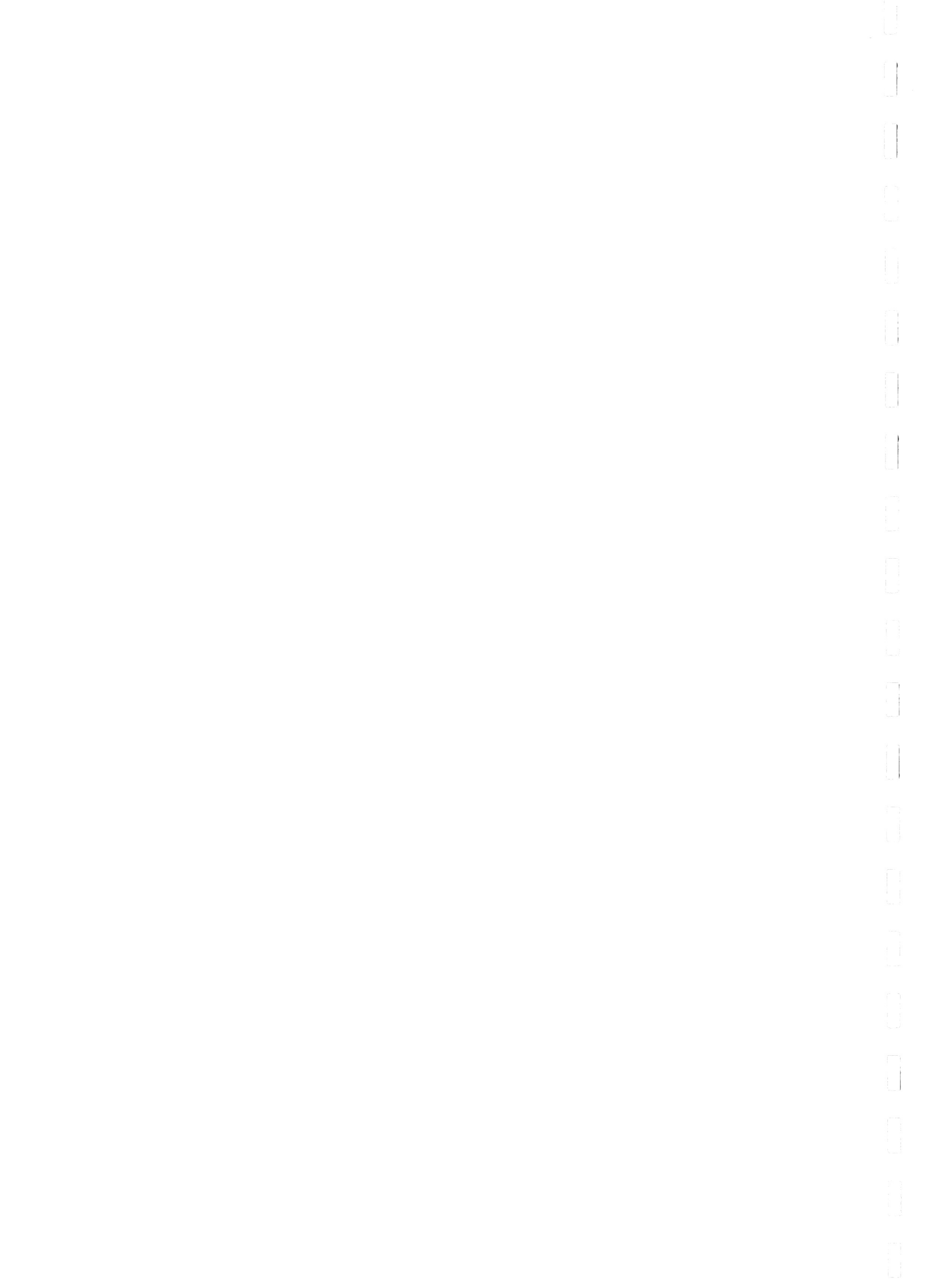


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I. KEY CORPORATION INFORMATION AND MANAGEMENT

(a) Background information

Kenya Plant Health Inspectorate Service (KEPHIS) was established in 1996 through Legal Notice No. 305 until the enactment of Kenya Plant Health Inspectorate Service Bill, 2011 in December 2012. The Corporation is regulatory body for the protection of plants, seeds and plant varieties.

(b) Principal Activities

The functions of the Corporation are:

- (a) regulate matters relating to plant protection, seeds and plant varieties;
- (b) administer and enforce sanitary and phytosanitary measures;
- (c) support the administration and enforcement of food safety measures;
- (d) establish service laboratories to monitor the quality and levels of toxic residues in agro-inputs, irrigation water, plants, soils and produce;
- (e) be the principal advisor to the Government on issues relating to seeds and planting material;
- (f) implement plant variety protection in Kenya, administer plant breeders' rights and maintain the Plant Breeders' Rights Register;
- (g) undertake plant variety testing and description, seed certification and plant quarantine control;
- (h) undertake inspection and grading of plants and plant produce at the ports of entry and exit;
- (i) in consultation with other relevant agencies, develop and implement standards for seed and plant materials;
- (j) implement and enforce national bio-safety regulations on the introduction and use of genetically or living modified species of plants, insects and micro-organisms, plant products and other related species;
- (k) regulate import and export of plants and plant materials;
- (l) in consultation with other relevant agencies, regulate the commercial exploitation of naturally occurring plants and plant-related micro-organisms;
- (m) register and license seed merchants, seed growers, agents and any other person who may be required to be registered under the provisions of this Act or any of the laws specified in the First Schedule;
- (n) enter into association with such other bodies or organizations or authorized persons as the Board may consider desirable or appropriate in furtherance of the purposes for which the Service is established, and
- (o) be the liaison office for international conventions relating to plant variety protection, plant protection, seed certification and dealing with endangered species or any other related conventions.

Key Management

The Corporation's day-to-day management is under the following key organs:

- Board of Directors;
- Managing Director; and
- General Managers.

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:

<u>Name</u>	<u>Designation</u>
Dr. Esther Kimani	- Acting Managing Director
Mr. Stephen Kubai Ithili	- General Manager - Finance & Administration upto 31 st December 2015
Mr. Bartonjo Cheptarus	- Ag. General Manager - Finance & Administration from 1 st January 2016
Mr. Simeon Kibet Kogo	- General Manager Quality Assurance
Mr. Philip Njoroge	- Ag. General Manager - Phytosanitary Services upto 12 th October 2015
Mr. James Wahome	- Ag. General Manager - Phytosanitary Services from 12 th October 2015

(d) Fiduciary Oversight Arrangements

The Corporation has the following fiduciary oversight structures:

- Non-executive Chairman of the Board
- Board of Directors comprising independent non-executive directors
- Board Audit Committee
- Board Finance and Administration Committee
- Board Technical Committee

(e) KEPHIS Headquarters

P.O. Box 49592 -00100
Oloolua Ridge, Karen
Nairobi, KENYA

(f) Corporation Contacts

Telephone: +2540206618000/0709891000

E-mail: director@kephis.org

Website: www.kephis.org

(g) Corporation Bankers

1. Kenya Commercial Bank Ltd
P.O Box 720600100
NAIROBI
2. Commercial Bank of Africa
P. O Box 30437 00100
NAIROBI

(h) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O.Box 30084, 00100
Nairobi, Kenya

II. BOARD OF DIRECTORS

Mr. Wycliffe O. Murwayi – Chairperson



Appointed on 24th June 2016.

Mr. Wycliffe Murwayi has vast technical and management experience in agriculture and business, both in Kenya and the region. He has academic qualifications in Agronomy, Marketing and strategic management. He holds a Masters in Business Administration from Jomo Kenyatta University of Agriculture and Technology - JKUAT and a Bachelor of Commerce from The University of Nairobi.

He has over 27 years work experience, mostly at senior management level in coffee agronomy and the aid sector. Currently, he is the managing director of a Kenyan subsidiary of a large Swiss based commodity trade company.

Eng. Khamis Chome Abdi - Member



Appointed on 2nd October, 2015.

Eng. Chome is an accomplished professional with over 30 years' experience in water resources, development and humanitarian sectors. More recently, he was the Country Director for Somalia for Norwegian People's Aid and Oxfam GB; and previously the Deputy Executive Director for Kenya Water for Health Organization (KWAHO). He started his career in the Ministry of Water Development and moved to the National Water Conservation and Pipeline Corporation. Presently, he serves as Chair of the Finance and Administration Committee and Chairperson of KEPHIS Staff Retirement Benefits Scheme.

Eng. Chome also serves the civil society as Interim Chair of Christian Sports Contact (CHRISC) - Kenya and a Board Member of Tsavo Heritage Foundation. Eng. Chome holds a Masters Degree in Water Resources Engineering from University of Dar Es Salaam and a Bachelor's Degree in Civil Engineering from The University of Nairobi. He also holds Certificates in The Oxford Strategic Leadership Programme from Said Business School, University of Oxford; he has been trained by the Centre for Corporate Governance - a Course for Directors; and Peace building and Good Governance for African Civilian Personnel and Disarmament, Demobilisation and Reintegration, both from the Legon Centre for International Affairs (LECIA), University of Ghana. Eng. Chome also holds a Certificate of Distinguished Service in the Second National Selection Committee of UNDP Africa 2000 Network.

Prof. Anne W. T. Muigai– Member



Appointed on 2nd October, 2015.

Prof Anne Muigai is a molecular population geneticist with over 15 years' experience in the field of Genetics and Biotechnology. She holds a doctorate degree in Biochemistry and a Master of Science in Genetics. She joined Jomo Kenyatta University of Agriculture and Technology - JKUAT in 1992 as a teaching assistant and has risen to the position of a Professor of Genetics in the Department of Botany. She has held several academic and administrative positions within JKUAT including being the pioneer Chairperson of the Department of Botany.

She has served as the Director of the Institute for Biotechnology Research, member of the JKUAT Senate and has also served in the JKUAT University Council. Currently she is the Editor in Chief of the Journal of Agriculture Science and Technology, and is the Coordinator of the postgraduate programmes in the Department of Botany. She has also served as a Visiting Scientist at the International Livestock Research Institute (ILRI) in Nairobi, Kenya where she was the coordinator of a research project on the characterization of indigenous sheep genetic resources of Kenya. She has carried out several consultancies for ILRI. Currently she is a member of the Technical Advisory Group on Animal Genetics to the African Union InterAfrican Bureau on Animal Genetics (AU-IBAR). At the KEPHIS Board, she serves as the Chairperson of the Technical Committee and as a member of the Audit Committee.

Eng. M'Mwenda Kailu Joseph - Member



Appointed on 2nd October, 2015.

Eng. M'Mwenda joined KTDA as a management trainee in 1996. He has worked in various tea factories among them; Kangaita, Kamunye, Gitugi and Kionyo in different capacities; Factory Officer, Assistant Factory Manager and Production Manager. Currently, he works as a Factory Unit manager at KTDA Kapset. He holds a Bachelor of Science, Agricultural Engineering from The University of Nairobi. He serves as a member of the Finance and Administration Committee of the KEPHIS Board and a trustee in the Staff Retirement Benefits Scheme.

Mr. Mugambi Angaine - Member



Appointed on 31st May, 2016.

Mr. Mugambi Angaine is an experienced manager and leader at National and County Government levels with vast experience and exposure in institutional development and growth for social and economic benefits for the Kenyan people and the International Community. At the KEPHIS Board, he serves as a member of the Audit Committee. Previously, he has worked in the Ministry of Tourism as well as the Ministry of Public Works.

He is involved in private business which entails; managing large scale horticultural farming for export; managing zero grazing dairy farming; managing wheat farming for commercial and seed production; and managing petroleum products in partnership with Total Kenya. In his leadership role, he has participated in management at National and Community levels which entails: planning and development of strategic interventions; educating County employees and the general public on National values and principles stipulated in the Constitution; he has organized and supported youth projects on social and economic empowerment; he has organized and advised women groups for preparation and formulation of project proposals for funding; and he also serves as a Church elder for the Methodist Church of Kenya. Mr. Angaine was awarded by the retired President His Excellency Mwai Kibaki, a Presidential Farmers' Competition award scheme National Large Scale Farm Competition as the Farmer of the year during the Agricultural Society of Kenya Show at Nairobi. He holds a Bachelor's Degree in Business Administration, (Human Resource Management) from the Kenya Methodist University.

Mr. William K. Ngelechei - Member



Appointed on 2nd October, 2015.

Mr. William Kisorio Ngelechei is a Horticulturalist. He holds a Bachelor of Science Degree in Horticulture from the Jomo Kenyatta University of Agriculture and Technology - JKUAT and is currently undertaking a Masters Course in Strategic Management (MBA – Strategic Management). He has broad experience in Horticulture having previously worked as a Floriculture manager in the Kenyan and Ethiopian flower industries. At the KEPHIS Board, he serves as a member of the Finance and Administration Committee and the Technical Committee.

Dr. Rose Njeru - Member



Appointed on 2nd October, 2015.

Dr. Rose Njeru holds a Doctorate degree in Plant Sciences from Murdoch University, Australia and a Master's degree in Plant Pathology from The University of Nairobi. Dr. Njeru has a wide experience in the field of plant health having served as a senior lecturer at the Faculty of Agriculture, University of Nairobi for over 15 years. She has also served as a Senior Scientist with the Ministry of Agriculture in Rwanda under a World bank funded Rural Sector Support Program for a period of four years. During the subsequent four years, she was a director in charge of Capacity Building and Technology Deployment with an International Non-Governmental Organisation.

Dr. Njeru has published widely in peer reviewed journals, participated in International conferences and supervised PhD Students in the field of agronomy, plant breeding, biotechnology and plant health in general.

She has international experience as an; educator, trainer, researcher, in proposal development and capacity development with a focus on plant health, biotechnology, capacity building, documentation, communication, science, technology and innovation systems. Currently, Dr. Njeru is an independent international consultant in the field of plant health with an interest in plant health systems, compliance to international treaties especially the world Trade Organisation Sanitary and Phytosanitary Agreement. She has been a consultant with several organizations including; Food and Agriculture Organization of the United Nations, International Fund for Agriculture Development, Technical Centre for Agricultural and Rural Cooperation, Regional Universities Forum for Capacity Building in Agriculture, a consortium of over 33 Universities in Africa, International Potato Centre and International Centre for Tropical Agriculture among others. She serves the KEPHIS Board, as a member of the Technical Committee.

Ms. Teresa Muthoni Muchira - Member



Appointed on 31st May, 2016

Ms. Teresa Muthoni Muchira has vast experience in Finance having worked with the National Bank of Kenya for 35 years. At the point of leaving the banking sector, she had risen to the level of Operations Manager. At the KEPHIS Board, Ms. Teresa serves as the Chairperson of the Audit Committee as well as a member of the Technical Committee. She holds a Master's Degree in Business Administration (Strategic Management), a Bachelor's Degree in Business Administration and CPA 1. She previously served as a Board Member at the National Irrigation Board.

Mr. Julius Mutua – The National Treasury



Appointed on 16th May 2016.

Mr. Mutua is the Alternate Director to Cabinet Secretary, National Treasury. He is a seasoned civil servant with over 20 years experience in economic and financial policy formulation at the National Treasury. He has served in the National Fiscal Budget Preparation Team for many years and participated in regional integration issues including the negotiation of the East African Community Monetary Union Protocol. He is currently the Programme Co-ordinator for the Public Finance Management Reforms. Mr. Mutua holds a Bachelor's degree in Economics from Kenyatta University and a Master's degree in Economics from the University of Dar es Salaam.

He also holds certificates in Fiscal Decentralization and Financial Institutions for Private Enterprise development from Duke and Harvard Universities respectively. He serves the KEPHIS board and is a member of Finance & Administration committee.

Mr. Joseph Ng'etich – Ministry of Agriculture Livestock and Fisheries



Appointed on 11th November 2015

Alternate Director to the Principal Secretary, State Department of Agriculture Livestock and Fisheries. At the KEPHIS Board he serves as a member of the Audit Committee and the Technical Committee.

Dr. Esther Kimani – Managing Director



Dr. Kimani has held various positions at KEPHIS: Ag. Managing Director, August 2014 to July 2016; General Manager Phytosanitary Services, 2011 to August 2014; Head Phytosanitary and Biosafety Services, 2008 to 2010 and Officer In Charge – Plant Quarantine & Bio Safety Station Muguga, 2001 to 2008.

She holds a PhD in crop protection, an Msc in Plant Pathology and a Bsc in Agriculture from the University of Nairobi. She is pursuing an Masters of Business Administration, (Strategic Management) at Jomo Kenyatta University of Agriculture and Technology. Dr. Kimani has been instrumental in the development of standards under the International Plant Protection Convention (IPPC), where she has been serving as a standards committee member since 2012. She coordinated the activities for the establishment and operationalization of a Center for Phytosanitary Excellence (COPE) at KEPHIS, which to date has trained over 1044 participants from the Eastern Africa region.

III. MANAGEMENT TEAM

Dr. Esther Kimani – Managing Director

Profile on page 9 above

Mr. Simeon Kibet – General Manager, Quality Assurance



Mr. Kibet joined KEPHIS in October 2000. He has held various senior positions which include; Liaison Officer for Quality Assurance Division, Regional Manager Nakuru and Head Seed Certification & Plant Variety Protection. He has served as the General Manager-Quality Assurance since 2010.

Mr. Kibet holds an MPhil degree in Crop production and Seed Technology from Moi University, and a BSc in Agriculture from The University of Nairobi. He has extensive experience in seed quality assurance and has been trained in Seed Technology in Japan, Netherlands and South Africa.

Mr. Bartonjo Cheptarus - Acting General Manager, Finance & Administration



Mr. Bartonjo joined KEPHIS in the year 2000, and has served in the capacities of Head of Finance and Head of Audit. He holds a Bachelor's Degree in Commerce (Finance Option) from the University of Nairobi.

He is a Certified Public Accountant, and is a member of the Institute of Certified Public Accountants, Kenya

Mr. James Wahome – Acting General Manager, Phytosanitary Services



Mr. Wahome joined KEPHIS in 1998 as a Plant Inspector having previously worked as the Chief Editor of Kilimo News at the Ministry of Agriculture, Agricultural Information Centre. He served two years as the Head of department, Phytosanitary Services before transferring to KEPHIS Mombasa as the Regional Manager until August 2015. He is currently Acting General Manager-Phytosanitary Services since October 2015.

IV. CHAIRPERSON'S STATEMENT

It is my pleasure to present to you the KEPHIS Financial statements and annual report for the period ended 30th June 2016. In the period under review the Corporation made major strides in implementation of its mandate and provision of the very significant regulatory services within the Agriculture sector.

In the period under review, the country's economy grew by 5.6%. The growth was largely driven by the Agriculture sector which contributed up-to 30 per cent of the Gross Domestic Product (GDP) and 60 per cent of all employment in Kenya. The sector is also a major contributor to both domestic and international trade, hence important in providing incomes for farmers and foreign exchange earnings for the country.

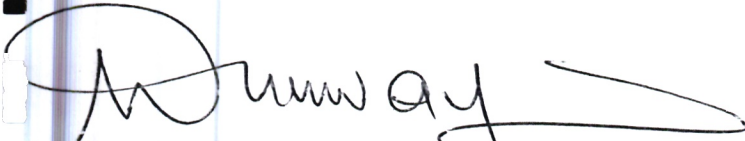
KEPHIS continues to implement Kenya's national economic blue-prints through its Strategic Plan 2013-2018. These included inter alia, the Vision 2030, the Agricultural Sector Development Strategy (ASDS) and the Jubilee government manifesto. In addition the KEPHIS Board and Management have ensured the corporation prescribes to the Constitution of Kenya through alignment of all its activities to the document. Good governance is paramount in the successful operation of any organization and KEPHIS has ensured this through the adoption of the Mwongozo code of conduct at Board and Management levels.

During the year, the country has advanced in securing as well as facilitating access of new markets for our horticultural produce. The Corporation continued to implement stringent measures in inspection of fresh produce and in undertaking laboratory analysis to check on MRLs which had been a problem in the past. KEPHIS has also partnered with other regulators and stakeholders in managing the challenges faced in the agriculture sub-sector. Results are evident with KSh. 220 billion export earnings from tea and horticulture in the year 2015. Another key milestone in the year under review was the ratification of the East Africa Community Sanitary and Phytosanitary (EAC-SPS) Protocol and approval of the amendments on CAP 326 spearheaded by the Parliamentary Departmental Committee on Agriculture, Livestock, Fisheries and cooperatives.

KEPHIS has also invested heavily on new technology in provision of services. During the period, the corporation upgraded the Electronic Certification system and signed an MOU with the Netherlands for use of e-Phytosanitary certificates. This is expected to enhance efficiency in the export certification process and move towards paperless transactions. In addition, the Plant Import Quarantine and Regulatory system (PIQRS) that facilitates the processing of imports at all entry points including borders has now expanded to over 500 users.

In the new constitutional dispensation, County governments play a very important role in enhancing growth in the agricultural sector. In the year under review, KEPHIS engaged County governments on various issues and carried out various joint activities to promote local agriculture. A case in point was the engagement of the ElgeyoMarakwet County government in the management of pests for its mango farmers with the goal of accessing the export market for their produce. With such initiatives replicated in other Counties, KEPHIS shall ensure quality for agricultural inputs and produce across the country.

In conclusion, on behalf of the KEPHIS Board of Directors, I take this opportunity to thank all our stakeholders and partners for the support given to the organization during the year. The support given by the Kenyan government through the Ministry of Agriculture, Livestock and Fisheries has been instrumental to the delivery institutional mandate. The KEPHIS Management commits to ensuring quality service delivery to its clientele for a better and vibrant agricultural economy for Kenya.



Wycliffe Odhiambo Murwayi
Chairperson, Board of Directors

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

Introduction

It is my great pleasure to present to you the KEPHIS Financial statements and annual report for the year ended 30th June 2016. The period was characterized by key milestones and challenges for the agriculture sector. The country acceded to UPOV 1991 and ratified the East Africa Community Sanitary and Phytosanitary (EAC SPS) Protocol. The Corporation expanded the Maize Lethal Necrosis testing capacity through opening a molecular laboratory in Nakuru. This contributed to effective pest diagnosis which resulted in declining effect of new pests and diseases such as MLND that had impacted negatively on local maize production since 2011. The continued collaboration with players in the horticulture industry has borne fruits with decline of notification due to pesticide residue by 53.1% compared to 2014/2015. Overall, the Corporation values the contribution made by stakeholders, clientele and staff in realizing the major milestones attained during the period under review. KEPHIS continues to excel in its effort to provide regulatory services for Kenya's agriculture sector.

Regulatory Framework

The Corporation continues to implement its Strategic Plan (2013-2018) that is coming to its final phase in the next financial year. The Corporation Strategy is aligned to the Kenya's government key economic blue prints which include; the Vision 2030 – Medium Term plan (MTP) II, Jubilee manifesto and the Agricultural Sector Development Strategy (ASDS) among others. KEPHIS has also put in place measures to ensure that all its operations comply with the Constitution. The Corporation under the umbrella of the Ministry of Agriculture, Livestock and Fisheries implements its mandate as per the State Corporations Act Cap 446, KEPHIS Act 2012, the Seeds and Plant Varieties Act Cap 326, The Plant Protection Act Cap 324, The Agriculture Export Act Cap 319, International Standards for Phytosanitary Measures (ISPMs) and other prevailing laws and treaties. In this endeavor, KEPHIS remains in the forefront in ensuring the quality of agricultural inputs and produce in Kenya.

Agricultural Productivity

KEPHIS' key mandate is ensuring quality of agricultural inputs for the Kenyan farmer. In the year under review, the Corporation undertook activities in plant variety protection and issued forty-two (42) Plant Breeder's Rights as compared to twenty-eight (28) last year. The horticultural sub-sector leads in the number of Plant Breeders Rights (PBR) issued, with flower Roses taking up 50% of PBRs issued.

The seed industry takes center-stage in enhancing agricultural productivity for local farmers. During the period under review the Corporation facilitated release and gazettment of 138 varieties for various crops which included 31 drought torelant varieties. A majority of the crop varieties released were Maize, Sorghum, Wheat and Potato. Increasing demand of the Sorghum by the brewing industry has resulted in breeders and merchants focusing on the crop. Potato has also shown marked improvements coming in second to Maize as a staple food and contributing significantly to Kenya's food security.

There are 135 active registered seed merchants. In the year under review, the Corporation issued 3,702 seed sellers' licenses. The Corporation expanded seed testing capabilities by expanding the capacity of Kitale laboratory; 4,105 seed samples were tested. The

VI. CORPORATE GOVERNANCE STATEMENT

The KEPHIS Board of Directors is the superior organ in the Corporation's Organization Structure and is responsible for both leadership and Governance of the organization. The Board provides leadership and oversight by working with management to formulate strategy, set corporate values and monitor performance of the Corporation. In its leadership role, the Board provides the strategic direction of the organization while in its governance role, the Board ensures that good corporate governance practices are embedded in the management of the Corporation.

As a State Corporation established under the State Corporation Act, Cap 446, under Legal Notice No. 305 of 1996, the Corporation is implementing the Mwongozo Code of Corporate Governance issued by His Excellency the President on 26th April, 2015 vide the Executive Order No. 7. The implementation of Mwongozo ensures enhanced transparency and disclosure, strengthened accountability, risk management and internal control, enhanced ethical leadership and corporate citizenship, shareholder rights and obligations, strengthened sustainability and performance management as well as compliance with Laws and Regulations.

While adhering to the highest standards of ethics, application of the law and international best practices, the Corporation has ensured compliance with policies and legal principles. With the implementation of Mwongozo in progress, KEPHIS fully embodies the six principles of good governance developed by Organisation for Economic Cooperation and Development (OECD) i.e. ensuring the basis for an effective corporate governance framework, the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders, disclosure and transparency and responsibilities of the board (to act with integrity and be held accountable for their actions).

The Corporation's core values of customer focus, integrity, team work, innovation & creativity, professionalism and Corporate Social Responsibility have been the guiding principles in the operations of KEPHIS. The KEPHIS Board of Directors and Management have continued to ensure that the Mission, Vision and core values are upheld while sustaining a reputable corporate culture.

On 2nd October 2015 vide Gazette Notice Number 7412, five Board of Directors were appointed to serve in KEPHIS and these are Eng. M'Mwenda Joseph Kailu, Mr. William KisorioNgelechej, Prof. Anne WangariThairu – Muigai, Dr. Rose W. Njeru and Eng. KhamisChomeAbdi. The Ministry of Agriculture Livestock and Fisheries appointed Mr. Joseph Ngetich on 11th November 2015, as an alternate director to the Principal Secretary while the National Treasury, on 16th May 2016, appointed Mr. Julius Mutua as the alternate director to the Cabinet Secretary. Two additional board members Ms. Teresa MuthoniMuchira and Mr. MugambiAngaine were appointed vide Gazette Notice No. 4449 dated 30th May 2016. The President appointed the KEPHIS Chairperson, Mr. Wycliffe O. Murwayi vide Gazette Notice No. 4643 on 23rd June 2016.

Board Charter and Corporate Governance Guidelines

The Board has developed a charter which provides in detail the following:

1. The duties and responsibilities of the Board;
2. The role of the Board Chair;
3. Operations of the Board including performance evaluation;
4. Conduct of Individual Directors;
5. Board Committees i.e. (a) Finance and Administration, (b) Technical and (c) Audit.

Board Committees

Three standing committees exist and operate in accordance with written terms of reference to facilitate efficient decision making of the Board in accomplishing its mandate.

Finance and Administration Committee

The committee is mandated to undertake the following:

- Review budget proposals and recommend budget for approval by the board;
- Evaluate financial and administrative reports and ensure the Board receives timely reports.
- Ensure the Corporation has appropriate financial and administrative policies on ICT, Training, Career Progression, Conduct and Ethics, Fraud and Corruption, Procurement, Financial Management and others;
- Handle staff welfare and dismissal issues in line with Human Resource Policies;
- Undertake responsibilities assigned to it in other policies;
- General administration of the institution;
- Any other issues assigned by the Board.

Technical Committee

The duties and responsibilities of this committee include the following:

- Review of technical operations of the institution;
- Ensure enforcement of laws pertaining to plant health;
- Evaluate and approve annual work plans and projects;
- Evaluate performance reports and ensure the Board receives timely reports;
- Undertake responsibilities assigned to it in other policies;
- Any other issues assigned by the Board.

Audit Committee

Audit Committee is responsible for the following:

- Reviewing and approving the internal audit charter and internal audit plans.
- Reviewing the internal and external audit findings and recommendations and proposing corrective and preventive action where necessary.
- Reviewing the systems established to ensure sound public financial management and internal controls, as well as compliance with policies, laws, regulations, procedures, plans and ethics.
- Initiating special audit / investigation on any allegations, concerns and complaints regarding corruption, lack of accountability and transparency in consultation with the Accounting Officer / Managing Director.

Board and Committees Meetings

During the period, the Board and its Committees met severally to deliberate on various issues as per the set mandate. The frequency of the meetings was determined by the requirements of business and the Board's work plan.

The Board and its Committees held a total of twenty two meetings during the year (full board – eleven; finance & administration committee – four; technical committee – three and audit committee - four), which were attended as shown below:

Member	F&A Committee	Technical Committee	Audit Committee	Full Board	Other activities *****
Mr. Wycliffe O. Murwayi*	-	-	-	-	-
Eng. Khamis Chome Abdi	4	-	-	10	14
Prof. Anne W.T. Muigai	-	3	3	8	7
Eng. M'Mwenda Kailu Joseph	4	-	-	10	4
Mr. William K. Ngelechei	4	3	-	11	8
Dr. Rose Njeru*****	-	3	1	10	2
Mr. Joseph Ngetich	-	2	3	9	2
Ms. Teresa Muthoni Muchira**	-	-	-	-	-
Mr. Mugambi Angaine**	-	-	-	-	-
Mr. Julius Mutua***	-	-	-	-	-

* Appointed on 24th June, 2016

** Appointed on 31st May, 2016

*** Appointed on 16th May, 2016

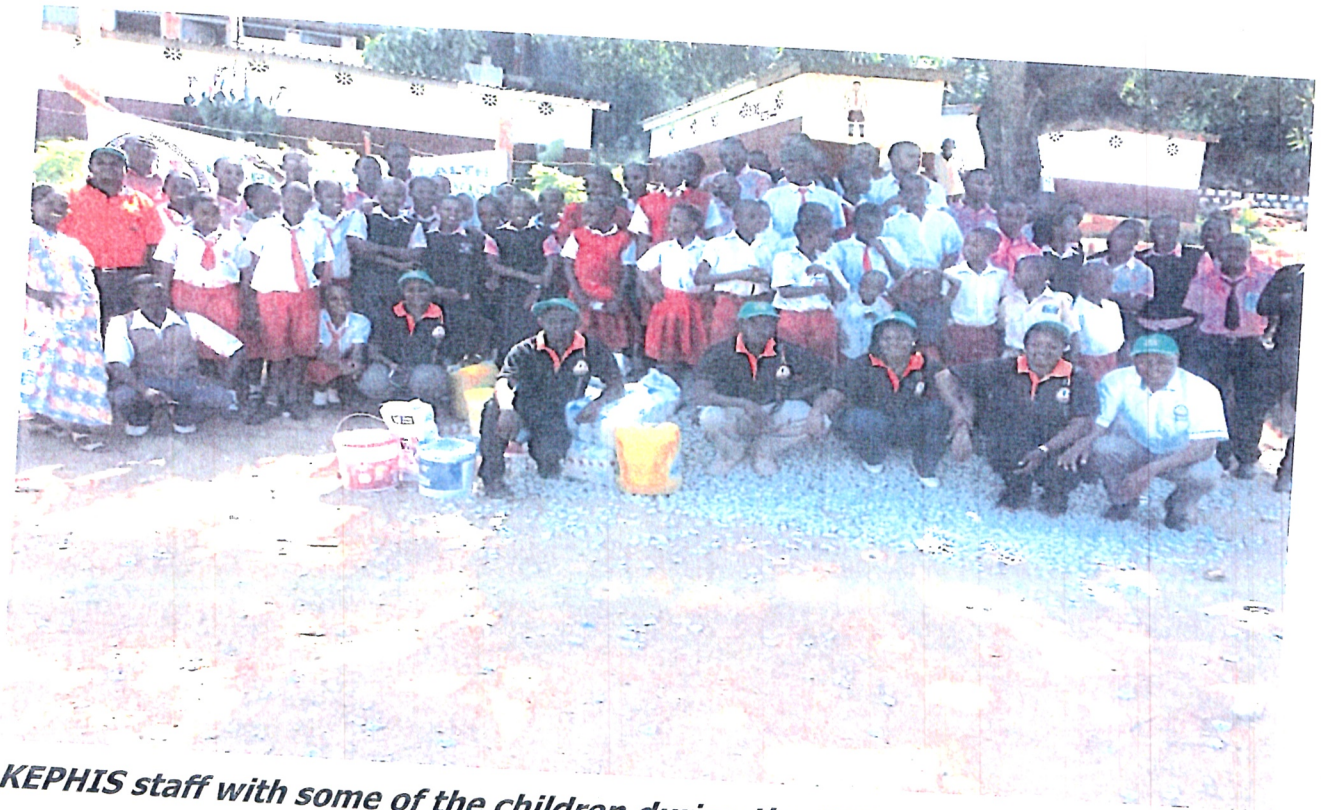
**** Attended one Audit Committee on invitation.

***** Includes official activities and functions of the Corporation besides Board meetings.

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Kisauni, Mombasa County

KEPHIS through Mombasa regional office visited the New Hope Children's Home on 27th May 2016. The children home is located in Kisauni Division, Mshomoroni next to Beng slums, Mombasa County. The children home is a rehabilitation centre and a community based organization founded in 2004 by Mr. JaphetEyama. The centre was established to cater for orphans, abandoned children and children from the streets who lack the basic needs. It is situated on a 1.5 acre piece of land and houses 53 orphaned children, 23 girls and 30 boys aged between 4 and 18 years. The children are either orphaned or from single parent families. The orphans are from families whose parents are infected or have died due to HIV/AIDS related complications while those from single parent families come from poor backgrounds. The home depends entirely on well-wishers for their food, clothing and school fees. The home also runs a primary and a secondary school where children from the neighboring community pay a subsidized fee.



KEPHIS staff with some of the children during the CSR activity

Challenges faced by the home

Accommodation—The mattresses and beddings were not sufficient. The ones available are worn out.

Food

The caretakers endeavour to provide sufficient and quality food due to the age and the sensitive condition of some of the children. This however is at times not possible due to financial constraints.

KEPHIS Contribution to the Home

The Corporation donated 10 mattresses, 60 bed sheets, sanitary towels and foodstuff (Benas, green grams, rice, wheat flour, cooking oil, sugar) and toiletries.



Japhet Eyama and his wife Violet (founders of the home) receiving the gifts from KEPHIS staff

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30th, 2016 which show the state of the Corporation's affairs.

Principal activities

The principal activities of the Corporation are as expounded in the KEPHIS legal framework i.e. Plant Variety Protection, Seed Certification, Analytical Chemistry Laboratory Services and Phytosanitary Services; others include Corporate Nature Activities, Projects and Support services (including financial).

Results

The results of the corporation for the year ended June 30th, 2016 are set out on pages 1 to 4.

Directors

The members of the board of directors who served during the year are shown on page 4 and 5 in accordance with section 6 (1) (a) of the State Corporations Act (Cap. 446).

Auditors

KEPHIS prepared and submitted accounts for the financial year in accordance with (Public Audit Act - CAP 412b) for audit to the Controller and Auditor-General. The Auditor General is responsible for the statutory audit of the corporation in accordance with Chapter 12, Part 6, Article 229 of the Constitution of Kenya for accounts of all authorities of the national governments; that have to be audited and reports prepared by the Auditor-General within six months after the end of the financial year.



Secretary to the Board of Directors, KEPHIS

Date: 12th APRIL 2017



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA PLANT HEALTH INSPECTORATE SERVICE FOR THE YEAR ENDED 30 JUNE 2016

REPORT OF THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Plant Health Inspectorate Service set out on pages 24 to 48, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison 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 35 of the Public Audit Act, 2015. 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 the International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable presentation 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 47 of the Public Audit Act, 2015.

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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. 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

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 Inspectorate'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 previously reported, property, plant and equipment balance of Kshs.1,091,194,000 as at 30 June 2016 includes eleven (11) parcels of land valued at Kshs.264,666,000 situated in Nakuru County, Muguga in Kiambu County, Kitale in Trans Nzoia, Kabete, Embu, Karen in Nairobi and Kisumu County. However, and except for the land in Karen, Embu, Kabete and Kisumu, the inspectorate does not possess ownership documents for the others. Further, out of the 125.3 hectares of land in Kitale held by third parties, the Inspectorate has so far recovered 34.09 hectares while a balance of 91.21 hectares is still held by private developers or occupied by squatters.

Although the management has made several attempts to repossess the parcel of land in Kitale that is in possession of third parties including and engaging a lawyer at a fee of Kshs.1,000,000 to facilitate production of the title deed, and initiated the process of transferring the ownership of the Nakuru and Muguga parcels of land from KALRO (formerly KARI) to KEPHIS, it is not clear if and when title deeds will be obtained.

Consequently, it has not been possible to confirm that property, plant and equipment balance of Kshs.1,091,194,000 as at 30 June 2016 is fairly stated.

2. Employee Costs

As reported in the previous year, included in the employee costs figure of Kshs.505,900,000 for the year ended 30 June 2016 is an amount of Kshs.15,532,593 paid to the former Managing Director who was sent on compulsory leave in accordance with Ministry of Agriculture Livestock and Fisheries (MOALF) letter Ref:MOAB.1/62A/A dated 7 August 2014. The compulsory leave was extended indefinitely after 62 days but the officer continued to draw salary and allowances and finally terminal dues without rendering services to the Inspectorate. I am, therefore, unable to confirm under the circumstances whether the amount of Kshs.15,532,593 was applied lawfully and in an effective way pursuant to Article 299(6) of the Constitution of Kenya.

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 Plant Health Inspectorate Service as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Plant Health Inspectorate Service Order, 1996.

Emphasis of Matter

Financial Performance

I draw attention to the statement of financial performance on page 24 which reflects a deficit of Kshs.158,383,000 for the year ended 30 June 2016 (2015: a deficit of Kshs.32,520,000). In consequence of the deficit, accumulated surplus decreased to Kshs.784,084,000 as at 30 June, 2016 (2015 – Kshs.942,468,000). This trend unless reversed may affect the Inspectorate's ability to continue its operations in the long term.

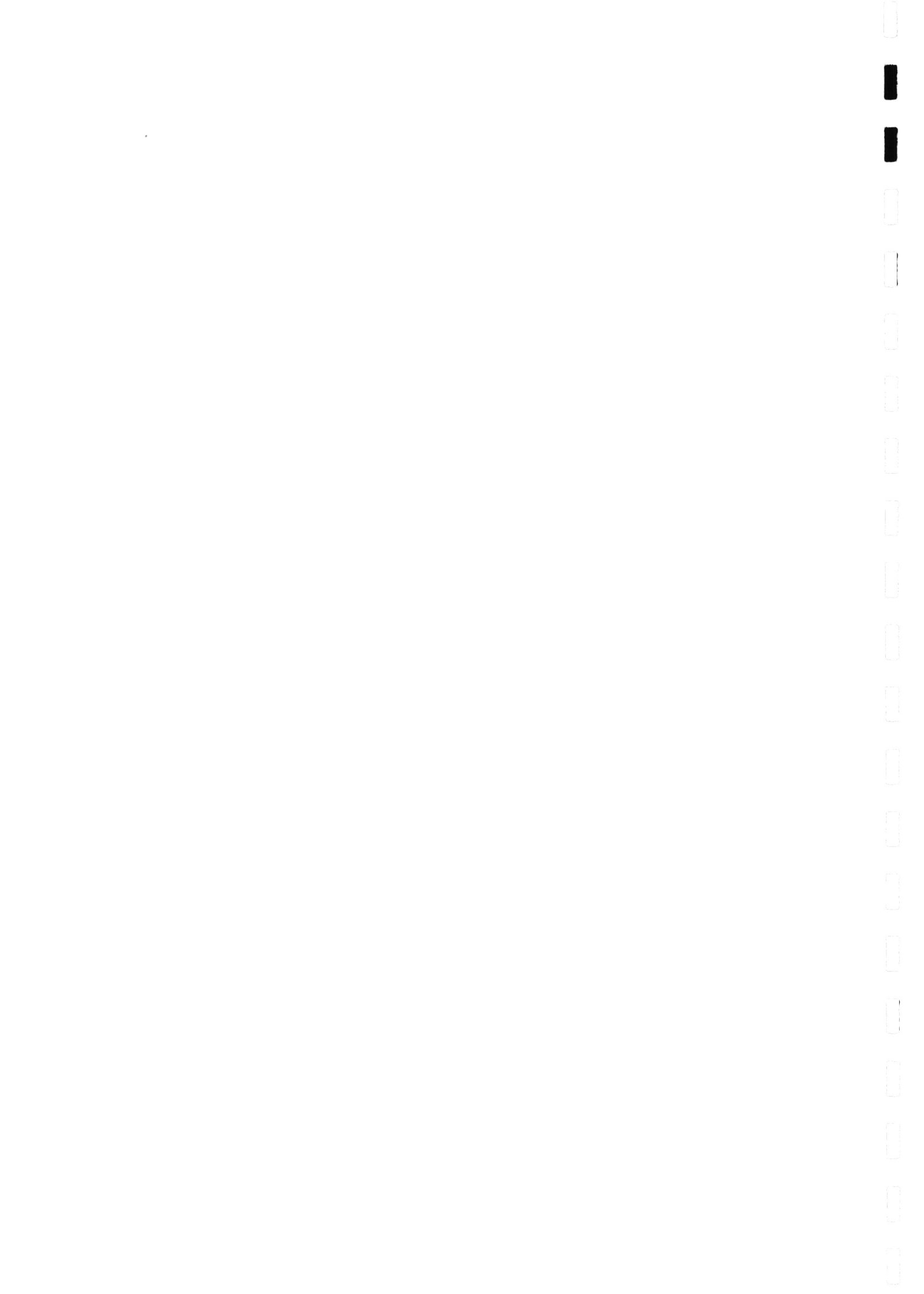
My opinion is not qualified in respect of this matter.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 June 2017



IX. REPORT OF THE INDEPENDENT AUDITOR

STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30th June 2016

	Notes	2015-16 Kshs '000	2014-15 Kshs '000
Revenue from Non-Exchange Transactions			
Public Contributions and Donations	3	80,371	77,903
Transfers from Other Governments—gifts and services-in-kind	4	300,393	286,435
		380,764	364,338
Revenue from exchange Transactions			
Rendering of Services	5(a)	575,043	581,089
Hire of Facilities	5(b)	4,687	5,299
Finance Income-External Investments	5(c)	1,863	4,879
Other Income	6	2,252	2,250
		583,845	593,516
Total revenue		964,609	957,854
Expenses			
Employee Costs	7	504,900	468,968
Board Expenses	8	9,181	2,287
Depreciation and Amortization Expense	9	79,452	74,261
Repairs and Maintenance	10	61,088	55,229
Grants and Subsidies	11(a)	73,309	74,986
General Expenses	12	381,197	316,225
Total		1,109,127	991,957
Other gains/(Losses)			
Gain on sale of assets		-	73
Gain/Loss on foreign exchange transactions		1,119	4,413
Increase/Decrease in Provision for Doubtful Debts		(14,984)	(2,903)
		(13,865)	1,582
Surplus/ (Deficit) for the period		(158,383)	(32,520)
Attributable to:			
Surplus/(Deficit) Attributable to Government of Kenya		(158,383)	(32,520)

The notes set out on pages 28 to 47 form an integral part of the Financial Statements

Kenya Plant Health Inspectorate Service
 for the year ended 30th June, 2016

	Notes	2015-16 Kshs '000	2014-15 Kshs '000
Assets			
Current assets			
Cash and Cash Equivalents	13	69,742	142,198
Receivables from Exchange Transactions	14	55,069	86,026
Receivables from Non-exchange Transactions	15	2,789	2,401
Inventories	16	29,683	12,519
Prepayments	17	37,009	34,246
		194,292	277,390
Non-current assets			
Property, Plant and Equipment	18	1,091,194	1,140,905
Investments	19	60,000	60,000
		1,151,194	1,200,905
Total assets		1,345,486	1,478,295
Liabilities			
Current liabilities			
Trade & other Payables from Exchange Transactions	20	45,390	22,660
Provisions	21	961	788
Deferred Income	22	32,192	42,392
Payments Received in advance		5,738	4,600
Other Payables	23	25,926	14,192
		110,207	84,633
Total Liabilities		110,207	84,633
Net Assets		1,235,279	1,393,662
Reserves		451,194	451,194
Accumulated Surplus		784,085	942,468
Total Net Assets and Liabilities		1,235,279	1,393,662

The Financial Statements set out on pages 1 to 25 were signed on behalf of the Board of Directors by:


 Chairman

Date: 18th April 2017


 Managing Director

Date: 12th APRIL 2017

XLII. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30th June, 2016

	Revaluation Reserve Kshs '000	Accumulated surplus Kshs '000	Total Kshs '000
Balance as at 30 June 2014	451,194	970,563	1,421,757
Surplus/(deficit) for the period	-	(32,520)	(32,520)
Transfers to/from accumulated surplus	-	4,425	4,425
Currency translation differences			
Balance as at 30 June 2015	451,194	942,468	1,393,663
Surplus/(deficit) for the period	-	(158,383)	(158,383)
Balance as at 30 June 2016	451,194	784,085	1,235,280

For the year ended 30th June 2016

	Notes	2015-16 Kshs '000	2014-15 Kshs '000
Cashflows from operating activities			
Receipts			
Public contributions and donations	3	70,170	100,401
Government grants and subsidies	4	300,393	286,435
Rendering of services	24	602,849	572,507
Finance income	5(c)	1,864	4,879
Other income, rentals and agency fees		(6,926)	9,057
		968,350	973,279
Payments			
Compensation of employees		504,901	468,968
Goods and services	25	502,466	461,426
Rent paid		3,700	3,039
		1,011,066	933,432
		(42,716)	39,846
Net cashflows from operating activities			
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(29,740)	(56,350)
Proceeds from sale of property, plant and equipment		-	181
		(29,740)	(56,169)
Net cashflows used in investing activities			
Net cashflows used in financing activities			
		-	-
Net increase/(decrease) in cash and cash equivalents			
		(72,456)	(16,323)
Cash and cash equivalent at 1 st July 2015		142,198	158,521
Cash and cash equivalents at 30th June 2016	13	69,742	142,198

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget 2015-16 Kshs '000	Adjustments 2015-16 Kshs '000	Final budget 2015-16 Kshs '000	Actual on comparable basis 2015-16 Kshs '000	Performance difference 2015-16 Kshs '000
Revenue					
Public contributions and donations	53,000	28,928	81,928	80,371	(1,557)
Government grants and subsidies	625,000	(347,714)	300,393	300,393	-
Rendering of services(Note 26a)	571,068	100,000	671,068	575,043	(96,025)
Finance Income	1,470	-	1,470	1,864	394
Rental income and Hire of Facilities	5,000	-	5,000	4,687	(313)
Other income	2,906	-	2,906	2,252	(654)
Surplus b/forward	-	190,000	190,000	144,518	(45,482)
Total income	1,258,444	(28,786)	1,252,765	1,109,128	(143,637)
Expenses					
Employee costs	639,652	2,989	636,663	504,901	131,762
Board Expenses(Note 26b)	4,184	2,000	6,184	9,181	(2,997)
Depreciation and amortization expense	132,926	(101,070)	31,856	79,452	(47,596)
Repairs and maintenance (Note 26b)	56,275	3,193	59,468	61,088	(1,620)
Grants and subsidies	53,000	28,932	81,932	73,309	8,623
General expenses	371,877	63,090	435,767	381,197	54,570
Total expenditure	1,257,914	(866)	1,251,870	1,109,128	142,742
Surplus for the period	530	(27,920)	895	0	(895)

1. Statement of compliance and basis of preparation – IPSAS 1

The Corporation's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Corporation and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies

The Corporation which has hitherto been preparing its financial statements based on IFRS, has in these statements adopted IPSAS. This follows guidelines issued by the Public Sector Accounting Standards Board (PASB). PASB was established on 28th February, 2014 through Gazette Notice No. 1199 issued by the Cabinet Secretary National Treasury. The Board in its 4th Board meeting approved adoption of the IFRS, IPSAS and IPPF. The Board subsequently developed templates for financial reporting on the basis of the aforementioned standards.

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Fees

The Corporation recognizes revenues from fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Corporation and the fair value of the asset can be measured reliably.

Transfers from other government entities

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 Corporation and can be measured reliably.

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

The Corporation recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Corporation.

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.

b) 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 Corporation. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Corporation 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.

c) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-

exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

The depreciable amounts of assets (cost or valuation amount less residual value) are allocated over the estimated useful life of the assets. Depreciation is calculated on the straight-line method. Depreciation is applied on pro rata basis for assets acquired i.e. from month of acquisition. Assets disposed of during the year are not depreciated.

The Corporation applies the following rates of depreciation:

- Freehold land - nil
- 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 33.33%

The following residual values have been adopted:

- Plant and Machinery 10%
- Motor Vehicles 10%
- Furniture and Fixtures 5%
- Laboratory Equipment 5%
- Computers and Accessories 5%

d) Leases – IPSAS 13

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Corporation. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

h) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Corporation determines the classification of its financial assets at initial recognition.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Corporation has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition

and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized as surplus or deficit.

Impairment of financial assets

The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or a Corporation of financial assets is impaired. A financial asset or a Corporation of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cashflows of the financial asset or the Corporation of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Corporation of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

i) Inventories – IPSAS 12

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.

Costs incurred in bringing each product to its present location and condition is accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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 Corporation.

j) Provisions – IPSAS 19

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Corporation expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Corporation 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.

Contingent assets

The Corporation 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 Corporation 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.

k) Nature and purpose of reserves

The Corporation creates and maintains reserves in terms of specific requirements. Reserves of 451,194,344 reflected in the financial statements arose out of revaluation of corporation assets.

l) Changes in accounting policies and estimates – IPSAS 3

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

m) Employee benefits – IPSAS 25

Retirement benefit plans

The Corporation provides defined contribution plan under which it pays fixed contributions into a separate Corporation (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

n) Foreign currency transactions – IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. The US Dollar closing rate as at 30 June was KShs. 101.1. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

p) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.⁴

q) Significant judgments and sources of estimation uncertainty – IPSAS 1

The preparation of the Corporation's financial statements in conformity with IPSAS 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.

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 Corporation based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Corporation
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions

Provisions were determined on consideration of relevant factors affecting receivables and in line with the organizational policies and procedures. Full specific provision for debts over one year was made for debt outstanding over one year and whose recovery may be doubtful. In addition a general provision has been retained at 7.5%.

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

v) Related Parties –IPSAS 20.4

The Corporation regards a related party as a person or an entity with the ability to exert control individually or jointly or exercise significant influence over it, or vice versa. Members of the Board or Directors are regarded as parties.

w) Taxation

Government grant is not subject to tax. The Corporation just like the Ministries of Government, operates on non-commercial basis. Surpluses are necessarily already utilized on purchase of assets. In addition surplus relates to GOK grant.

x) Financial Risk Management

The Corporation is exposed to financial risks relating to changing environmental factors such legal, economic and industry/ business conditions. The risks include credit risk, foreign currency exchange rate risk and liquidity risk. The Board provides direction in terms of policies and advice on risk management. Risk management assessments are undertaken periodically and risk mitigation measures are developed. Implemented measures form part of the internal controls which are subsequently evaluated through an internal audit mechanism.

Fair Values

The following is the fair value assessment of carrying amounts versus fair value amounts:

Financial Assets

2016	Carrying Amount KShs 000	Fair Value KShs 000
Investments	60,000	60,000
Receivables from Exchange Transactions	55,070	71,251
Cash and Cash Equivalents	69,742	69,742
	184,812	184,812

2015	KShs 000	KShs 000
Investments	60,000	60,000
Receivables from Exchange Transactions	86,026	86,026
Cash and Cash Equivalents	142,198	142,198
	288,224	288,224

Financial Liabilities

	Carrying Amount	Fair Value
2016	KShs 000	KShs 000
Trade Payables from Exchange Transactions	45,390	45,390
	45,390	45,390

2015	KShs 000	KShs 000
Trade Payables from Exchange Transactions	22,660	22,660
	22,660	22,660

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties.

The following methods and assumptions are used to estimate the fair values:

- Cash, trade payables and trade receivables have short term maturities and are assessed as such.
- Investments are held to maturity.

Credit Risk

This is risk of loss from defaulting clients. The carrying amount in the financial statements represents the maximum credit exposure.

	2015-16	2014-15
	KShs 000	KShs 000
Receivables from Exchange Transactions	71,251	86,026
Maximum Exposure to Credit Risk	71,251	86,026

The credit quality of the balance of receivables is as follows:

	KShs 000	KShs 000
High	8,263	7,433
Medium	15,472	51,547
Low	31,335	27,046
	55,070	86,026

Investments

The investment has no significant exposure to credit risk.

Receivables

Receivables are amounts owed by clients, and are presented net of impairment losses. The Corporation has credit policy in place, and exposure to credit risk is monitored. The Corporation is mandated by law to provide services to farmers whose creditworthiness may not be fully assessable.

Cash and Cash Equivalents

The Corporation's cash and cash equivalents are domiciled in reputable financial institutions that meet stringent Central Bank of Kenya requirements.

Liquidity Risk

This is the risk of not being able to meet obligations as they fall due. The Corporation endeavours to maintain sufficient liquidity to meet its liabilities when due. This is achieved by ensuring conversion into cash of amount equivalent to 100% of annual total invoiced value credit sales.

Foreign Currency Risk

The Corporation is exposed to currency fluctuation risk in relation to amounts held in dollars. The exposure is relatively small due to the amounts involved. The risk is managed by use of the dollars to pay dollar invoices and converting surplus into KShs. only when the exchange rate is favourable.

3. Public contributions and donations

	2015-16 Shs 000	2014-15 Shs 000
CIP-PQS project grant-Tissue Culture	443	-
COPE	8,346	6,799
IITA GCDT Project	1,050	-
ASSIP Kenya - Netherlands Embassy	4,379	10,193
Potato Seed training - Netherlands	200	597
IITA COMPRO II	1,726	1,960
KARI KAPAP	111	-
EU SMAP	30,533	61,377
COMESA/RIIP	18,074	18,865
SASHA II Sweet potato	3,206	608
STDF/Comesa	2,102	-
Total transfers and sponsorships	70,170	100,401

Reconciliation of public contributions and donations

	2015-16	2014-15
	Shs 000	Shs 000
Balance un-spent at beginning of year	42,392	24,320
Current year receipts	70,170	100,401
Adjustment	-	(4,426)
Conditions met – transferred to revenue	(80,371)	(77,903)
Conditions to be met-remain liabilities (see note 22)	32,192	42,392

4. Transfers from other governments—gifts and services-in-kind

	2015-16	2014-15
	Shs 000	Shs 000
4.1 Unconditional grants		
Operational grant from the Ministry of Agriculture	300,393	286,435
Other	-	-
	300,393	286,435
4.2 Conditional grants		
Development Grant from the Ministry of Agriculture	-	-
Total government grants and subsidies	300,393	286,435

4.3 Reconciliation of conditional grants

Balance unspent at the beginning of the year	-	-
Current year receipts	300,393	286,435
Conditions met-transferred to revenue	(300,393)	(286,435)
Conditions to be met-liabilities	-	-

5. Revenue**a. Rendering of services**

	2015-16	2014-15
	Shs 000	Shs 000
Phytosanitary Services	348,384	298,694
Seed Certification	165,184	223,403
Plant Variety Services	35,902	40,168
Analytical Laboratory Services	22,809	16,379
Other	2,764	2,445
Total revenue from the rendering of services	575,043	581,089

b. Hire of Facilities

	2015-16	2014-15
	Shs 000	Shs 000
Hire of Facilities	4,687	5,299

This is revenue internally generated from hire of accommodation and conference facilities.

c. Finance Income

	2015-16	2014-15
	Shs 000	Shs 000
Finance Income	1,864	4,879

This is revenue from staff mortgage fund and negotiated current account interest.

6. Other income

	2015-16	2014-15
	Shs 000	Shs 000
Other income- miscellaneous receipts	2,252	2,250
Total other income	2,252	2,250

7. Employee costs

	2015-16	2014-15
	Shs 000	Shs 000
Salaries and wages	252,779	244,371
Contributions to pensions and medical aid	84,759	76,827
Other personal allowances	64,682	64,080
Housing benefits	93,128	73,704
Overtime payments	3,779	3,650
Staff Training	5,774	6,336
Employee costs	504,900	468,968

8. Related Party and Related Party Transactions

Board Expenses

	2015-16	2014-15
	Shs 000	Shs 000
Allowances and Subsistence	9,093	1,992
Medical Premium	88	122
Honoraria	-	174
Total Board Remuneration	9,181	2,287

NB: 2014-15 expenditure was low because the Corporation did not have a Board for most part of the year.

9. Depreciation and amortization expense

	2015-16	2014-15
	Shs 000	Shs 000
Property, plant and equipment	79,452	74,261
Total depreciation and amortization	79,452	74,261

10. Repairs and maintenance

	2015-16	2014-15
	Shs 000	Shs 000
Property	15,637	10,232
Equipment	13,271	23,169
Vehicles	27,300	21,828
Minor Alterations and repairs	4,879	-
Total repairs and maintenance	61,088	55,229

11. Grants and subsidies

	2015-16	2014-15
	Shs. 000	Shs. 000
(a) Statement of financial performance		
EAAPP - World Bank	6	385
COPE	10,186	8,347
CIP - PQS	377	-
ASSIP Kenya - Netherlands Embassy	5,660	15,558
SASHA II	3,736	-
IITA BGMF	-	879
Potato Project - Netherlands	-	985
IITA COMPRO II	916	2,362
KARI KAPAP	148	1,794
EU SMAP	36,641	40,327
COMESA/RIIP	15,638	4,350
	73,309	74,986

(b) Statement of financial position

Assets – EU SMAP	5,057	-
Assets – COMESA/RIIP	2,005	-
	7,062	-
Total grants and subsidies	80,371	74,986

12. General expenses

The following are included in general expenses:

	2015-16 Shs 000	2014-15 Shs 000
Advertising	2,668	4,665
Audit fees	961	961
Consumables	18,832	17,157
Electricity	18,802	17,849
Fuel and oil	23,047	24,629
Insurance - Assets	6,524	6,160
Chemicals	34,642	30,308
Watercost	597	352
Postage	3,392	4,012
Printing of Security Documents and Other Materials	61,333	70,976
Hire charges	1,333	1,722
Rental	3,700	3,039
Security and cleaning costs	19,738	19,250
Telecommunication	22,647	17,171
Training farmers and other stakeholders	5,006	1,421
Trade Shows and Exhibitions	12,356	9,982
Traveling and Accommodation -Local	101,718	58,723
Traveling and Accommodation -External	15,429	9,949
Contracted Services	4,274	6,963
Other	24,199	10,938
Total general expenses	381,197	316,225

13. Cash and cash equivalents

	2015-16 Shs 000	2014-15 Shs 000
Bank	65,551	142,076
Cash-on-hand and in transit	4,191	122
Total cash and cash equivalents	69,742	142,198

14. Receivables from exchange transactions

	2015-16 Shs 000	2014-15 Shs 000
Current receivables		
Service debtors	77,028	93,001
Less: impairment allowance	(21,958)	(6,975)
Total current receivables	55,070	86,026

15. Receivables from non-exchange transactions

Current receivables	2015-16	2014-15
	Shs 000	Shs 000
Staff pension and group life	149	-
Staff advances	390	697
Interest receivable	2,250	1,704
Total current receivables	2,789	2,401

16. Inventories

	2015-16	2014-15
	Shs 000	Shs 000
Inventories	29,683	12,519

17. Prepayments

	2015-16	2014-15
	Shs 000	Shs 000
Prepayments - Supplies	19,915	25,224
Travel Imprests	11,262	5,190
Deposits -Suppliers	5,832	3,832
	37,009	34,246

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18. Property plant and equipment

COST OR VALUATION	LAND	BUILDINGS	W.I.P	PLANT AND MACHINERY	MOTOR VEHICLES	COMPUTERS AND ACCESSORIES	OFFICE EQUIPMENT	FURNITURE AND FITTINGS	LABORATORY EQUIPMENTS	TOTALS
cost:Shs.'000'										
July 1st 2014	264,666	639,699	6,525	68,753	175,905	46,002	17,103	11,893	193,505	1,424,051
Additions	-	-	86	2,455	16,768	12,676	2,234	534	21,598	56,350
Disposal	-	-	-	-	-	(129)	-	-	-	(129)
At 30th June 2015	264,666	639,699	6,611	71,208	192,673	58,549	19,337	12,427	215,103	1,480,272
July 1st 2015	264,666	639,699	6,611	71,208	192,673	58,549	19,337	12,427	215,103	1,480,272
Additions	-	-	-	4,353	-	15,371	2,032	935	7,050	29,741
Transfer	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-	-	-	-
At 30th June 2016	264,666	639,699	6,611	75,561	192,673	73,920	21,369	13,362	222,153	1,510,013
DEPRECIATION										
July 1st 2014	-	35,402	-	11,666	117,514	31,676	6,389	4,897	57,583	265,127
Charge for the year	-	12,794	-	8,222	17,925	7,096	2,141	1,448	24,636	74,261
Disposal	-	-	-	-	-	20	-	-	-	(20)
Accumulated at 30th June 2015	-	48,196	-	19,888	135,439	38,752	8,530	6,345	82,219	339,368
July 1st 2015	-	48,196	-	19,888	135,439	38,752	8,530	6,345	82,219	339,368
Charge for the year	-	12,794	-	8,765	18,182	9,873	2,453	1,524	25,861	79,452
Disposal	-	-	-	-	-	-	-	-	-	-
Accumulated at 30th June 2016	-	60,990	-	28,652	153,621	48,625	10,982	7,869	108,080	418,819
Net Book Value at 30th June 2016	264,666	578,709	6,611	46,908	39,053	25,295	10,387	5,492	114,074	1,091,194
Net Book Value at 30th June 2015	264,666	591,503	6,611	51,320	57,235	19,797	10,807	6,082	132,885	1,140,905

19. Investments

	Carrying Amount Shs 000	Fair value Shs 000
Held-to-maturity financial instruments		
Fixed Deposits		
Opening balance at 1 st July 2015	60,000	60,000
Additional investments made	-	-
Interest capitalized	-	-
At 30 June 2016	60,000	60,000
Additional investments made	-	-
Interest capitalized	-	-
At 30 June 2016	60,000	60,000

20. Trade and other payables from exchange transactions

	2015-16 Shs 000	2014-15 Shs 000
Trade and other payables	45,390	22,660

21. Current provisions

Statement of Financial Position:	2015-16 Shs 000	2014-15 Shs 000
Balance at the beginning of the year	788	500
Additional provisions raised	173	288
Provision utilized	-	-
Change in provision due to change in	-	-
Discount factor and time value of money	-	-
Transferred from non-current provisions	-	-
Balance as at 30 June 2016	961	788

23. Other Payables

	2015-16	2014-15
	Shs 000	Shs 000
Tax	8,271	246
Sundry Payables	17,655	13,946
Total deposits	25,926	14,192

Statement of Financial Performance:

	Debtors	
	Shs 000	Shs.000
Balance at the beginning of the year	6,975	4,072
Additional provisions raised	14,983	2,903
Provision utilized	-	-
Change in provision due to change in Discount factor and time value of money	-	-
Transferred from non-current provisions	-	-
	21,958	6,975

24. Receipts from rendering of services

	2015-16
	Shs 000
Receivables at July 1, 2015	122,673
Revenue for the year	575,043
Receivables at June 30, 2016	(94,867)
Receipts for the year	602,849

25. Payment for goods and services

	2015-16
	Shs 000
Decrease/(Increase) in payables	(35,774)
Expenditure for the year excluding rent	521,076
Increase/(decrease) in inventory	17,164
Payments for the year	502,466

26. Statement of Comparison of Budget and Actual Amounts

a) Revenue-Rendering of Services

Difference of Kshs.96,025,000 is caused by reduction on the cost of labels from Ksh. 15 to Ksh. 8 leading to a decline in realised revenue.

b) Expenses

Board Expenses Ksh. 2,997,000

There was a new board constituted in October 2015. During budgeting there was an underestimation as a result of uncertainty on dates and number to be appointed.

Repairs and Maintenance Ksh.1,620,000

This resulted from unforeseen repairs of the roof and Analytical Chemistry Laboratory gas chamber.

SUMMARY OF 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.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2014/15	Lack of ownership titles for parcels of land in Muguga, Nakuru and Kitale. Large part of land in Kitale is in the hands of grabbers	Muguga and Nakuru land titles which are under KARI are being pursued administratively. The Corporation having obtained letters of no objection from KARI, has appointed surveyors to facilitate the process of sub-division and title. Muguga land title is at advanced stage and title is expected in 2016/17. In regard to Kitale land, the Government under National Titling Programme, surveyed part of the land measuring approximately 136 acres for which we expect to receive tile deed once the process is completed. In regard to the balance, the Corporation has continued to seek the assistance of the Parent Ministry and Ministry of Lands.	Dr. Esther Kimani Managing Director	Not resolved	June 2017



f Managing Director

Date.....12th APRIL 2017