

REPUBLIC OF KENYA



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OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA VETERINARY VACCINES
PRODUCTION INSTITUTE

FOR THE YEAR ENDED
30 JUNE 2016





KENYA NATIONAL AUDIT OFFICE
P.O. Box 30084 - 00100,
NAIROBI.

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2016

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
 FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

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- **KEY ENTITY INFORMATION AND MANAGEMENT**

- **Background information**

The Kenya Veterinary Vaccines Production Institute (KEVEVAPI) was established under Cap 446 of the laws of Kenya on 5th March 1990 through legal notice No. 223 of 4th June, 1990. The Institute was subsequently put under KARI management in July 2003 through Presidential Circular No. 3/2003 until July 2008 when it reverted back to its original status. It falls under the Ministry of Agriculture, Livestock and Fisheries, State Department of Livestock.

- **Principal Activities**

The vision of the Institute is to be an Institution of excellence and the preferred provider of high quality, affordable veterinary vaccines and services contributing to an improved quality of life for all Kenyans. Its mission is to develop safe, efficacious and affordable veterinary vaccines for the improvement of the livestock industry. It further strives to contribute complementary products and services in control of livestock diseases.

- **Key Management**

The management is composed of the Managing Director, who is the Chief Executive of the Institute and Secretary to the Board, two Deputy Directors responsible for Technical services and Finance, Human Resource and Administration departments and Heads of Divisions.

- **Fiduciary Management**

The key management personnel who held office during the financial year ended 30th June 2015 and who had direct fiduciary responsibility were as per the table of management team on pages 10-13.

- **Fiduciary Oversight Arrangements**

- Audit and finance committee activities-This are board meetings held on Quarterly basis and help to monitor the activities of the institute.
- Technical Committee- This is a technical committee of the board holding its meetings quarterly and any other time need arises and monitors the production and marketing activities of the institute.
- Full board meetings- These are meetings of the board to give direction and monitor management activities in every quarter of a financial year.
- Ministry of Agriculture, Livestock and Fisheries- Supervises operation of the Institute through the office of the PS and Director of Veterinary Services.

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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- **Headquarters**

Kenya Veterinary Vaccine Production Institute
Road 'A', Off Enterprise Road, Industrial Area
P.O.Box 53260-00200
Nairobi. Kenya

- **Contacts**

Tel.No.536043/3540071;Fax No. 537744
E-mail: vaccines@kevevapi.org
Website: www.kevevapi.org

- **Bankers**

Kenya Commercial Bank
KICC Branch
P.O.Box 46950-00100
Nairobi.
Tel.020214778, Fax 337650
Account No. 1109016492 Kshs 840,281.31 and
Account No 1102301108 Equivalent Kshs. 78,715,404.56

Kenya Commercial Bank
Moi Avenue Branch
P.O.Box 30081-00100
Nairobi.
Tel: 20244939, Fax.20244939
Account No.1107172764 Kshs 95,880,632.68

- **Independent Auditors**

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

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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- **Principal Legal Adviser**

P.K.Mbabu & Company Advocates
Cannon House, 2nd Floor
P.O.Box 6728-0100
Nairobi.

The Attorney General
State law office
Harambee Avenue
P.O. Box 40112 - 00200
Nairobi, Kenya

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• THE BOARD OF DIRECTORS



Prof. James K. Wabacha
Chairman Board of Directors

Key Qualification:




Ph.D. and a Bachelor of Veterinary Medicine degree from the University of Nairobi, Kenya, and a Master of Science degree from Free University of Brussels.

Date of Birth: - 15th November 1961

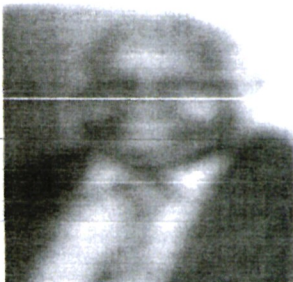

Work Experience:

- 2009 to-date Technical Livestock Advisor at African Union Interafrican Bureau for Animal Resources (AU-IBAR) with a leave of absence from University of Nairobi
- A veterinarian by profession with vast experience in research, teaching and public administration and management.
- Previously he has held the position of the Chairman of the Department of Clinical Studies, Faculty of Veterinary Medicine, University of Nairobi.
- Has served in many committees and Boards at the University of Nairobi.
- James is also a Board member in several secondary schools.
- Has both local and international experience in livestock development having worked in Kenya for many years in livestock development and at African Union Interafrican Bureau for animal Resources (AU-IBAR), a technical office of the African Union Commission in charge of livestock development in Africa for over seven years.
- He has vast knowledge, skills and experience in management and coordination of large livestock development projects and programmes




**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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	<p>Prof. Isaac M. Mbeche Board Director Key Qualification Ph.D., Department of Management Science, Management School, University of Lancaster,U.K, Master of Arts from the University of Nairobi (UON), Bachelor of Education(Science) UON Kenya</p>	<p>Date of Birth: -22ND AUGUST, 1952.</p> <p>Work Experience: Feb.2011-Date Deputy Vice-Chancellor (Student Affairs) University of Nairobi 2002-Jan.2011 Principal, College of Humanities and Social Sciences, University of Nairobi. Chairman and Member of Various Committees within and outside UON</p>
	<p>Mr. Robert M. Mburu Key Qualification-Egerton University BSC. Agriculture education and Extension</p>	<p>Date of Birth: - 22 July 1965</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • April 2010 to Date Operations Manager-Gicheha farm. • July 2007 to March 2010 Group Manager in charge of several estates managers at Tropical farm Management. • Mar.2002- Jun. 2007: Operations director in charge of all operations at Robert Flowers. • April 1997- May. 2002: Production Manager at Willam K. Ltd • 1990 to March 1997: Estate Manager at Tropical Farm Management.
	<p>Mr. Abdi Adan Suleiman Key Qualification:- University of Nairobi B.ED (Sc.) Honours</p>	<p>Date of Birth: - 30th June 1953</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • July 2012 appointed KEVEVAPI board member. • Mar. 2009- Mar. 2012 Chairman Kenya Meat Commission.

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	<ul style="list-style-type: none"> • Mar.2005- 30th Jun. 2008: General Manager Universal Postal Union Affairs. • Jul. 2004- Mar. 2005: General Manager/ Regional Coordination (Eight regions) Postal Corporation of Kenya. • Jul. 2003- Jul. 2004: General Manager Nairobi Region – Postal Corporation Of Kenya • Jul. 1999- Jul. 2003: General Manager/Operations - Postal Corporation Of Kenya
	<p>Date of Birth: 29th December 1959</p> <p>Work Experience: 2015 – To date Appointed KEVEVAPI board member. 2010 to date – Dean Faculty of Animal health –Baraton College 2009- Sub-county Veterinary Officer (SCVO)</p>
<p>Dr. Lagat Kiprono David Key Qualification: BVM (UON), Diploma in Animal Science (Egerton University)</p>	<p>2005-Deputy district Veterinary Officer (DDVO). 2000-Veterinary Officer (VO)</p>
 <p>Dr. Boreya Lekenit Key Qualification: BVM (UON),</p>	<p>Date of Birth: 1975</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • 2015-: Appointed as Board Member KEVEVAPI • July 2004-March 2005 Project Officer, VSF Germany • April 2005-September 2009; Head of Animal Health Department,Loita Development Foundation • Oct. 2009-June 2010-Field Veterinarian, VSF Germany. • July 2010-July 2012- Site Manager vsf Germany ICRD project • Aug. 2012-April 2013 Manager VETAID • May 2013 to Date Livestock productivity and Animal Health Specialist ACDI/VOCA's in Isiolo County

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 <p>Dr. Leonard Wachira Wamae Key Qualification: PhD University of Edinburgh, M.V.Sc University of Liverpool, B.V.M (UoN)</p>	<p>Date of Birth: 18 August 1954 Work Experience:</p> <ul style="list-style-type: none"> • 2012 : Appointed as Board Member KEVEVAPI • 2001 To Date: Assistant Director, Animal Health and Production. • 1998-2001: Principal Research Officer/KARI. • 1996-1998:Senior Research Officer/KARI • 1983-1996: Research Officer I/KARI • 1979-1983: Research Officer II KARI
 <p>Mr. Elijah Kabiru Key Qualification:</p>	<p>Work Experience: July 2015: Appointed to KEVEVAPI Board as alternate to PS Treasury.</p>
 <p>Prof. Philip Nyaga Key Qualification: American language(Columbia University, PHD & MPVM (University of California, BVM (UON)</p>	<p>Date of Birth: 1948 Work Experience:</p> <ul style="list-style-type: none"> • 2015 to date -appointed KEVEVAPI board member. • 1989-to Date Professor of Virology • 26 April 1985-Associate Professor • 26th April 1985- Senior Lecturer • 1/02/1976-Lecturer • 21/12/1975- Temporary Lecturer • March –September 1973-Clinician • March-June 1979-Junior Animal Health assistant
	<p>Date Of Birth: 18 April 1949 Work Experience:</p>

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Prof. Lily Bebora

Key Qualification: PHD (veterinary microbiologist, immunologist, specialist in poultry diseases, MSC, BVM

- 2015 to date -appointed KEVEVAPI board member.
- Present-Professor (Veterinary Microbiology and Immunology), UoN
- May 2002-May 2013-Associate Professor
- 16th 12/88-May 2002- Senior Lecturer
- 29/11/79-16/12/88-Lecturer
- 29/11/79-Assistant Lecturer



Dr. Kisa Toroitich

Key Qualification: MSc (UoN),BVM

Date Of Birth:15 September 1959
Work Experience: 2011 to date: Kenya Camel Association (KCA) Veterinarian based in Nairobi Hqs/ Assistant Director Veterinary Service (ADVS) in the State Department of Livestock, Ministry of Agriculture, Livestock and Fisheries

2004 to 2010:District Veterinary Officer / Assistant Director Veterinary Services (ADVS) in West Pokot County
1991 to 2003: Deputy District Veterinary Officer Trans-Nzoia County/ Veterinary Officer One (VO I)
1987 to 1990: Veterinary Officer II (VO II) in charge of Saboti division Trans-Nzoia County




M/S Joan Naigerua Letoyia

Key Qualification: Bachelor of Science in Animal Production (Egerton University), Higher






Date of Birth: 09th June 1982
Work Experience:
2015 – To date: KEVEVAPI board member.
2013 to date – Operations Manager Nkapune Ranch/Farmer
2011-2012-Research Assistant at Vigdis Company
2008-2010-HR Assistant –I.ewa wildlife Conservancy
2007-2008 Intern I.ewa wildlife Conservancy

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<p>Diploma in Human Resource Management(Institute of Human Resource Mgt)</p>	<p>2006-Attachee at Nomotio Livestock Improvement Centre 2005-Deputy Presiding Officer during Referendum 2002-Registration Clerk during General Election</p>
<div style="text-align: center;">  </div> <p>Dr. Jane Wanjugu Wachira Chief Executive Officer (CEO) and Secretary to the Board, Key Qualification: MSC UK, BVM(UON), A, level</p>	<p>Date Of Birth:15 May 1961 Work Experience: 2015 to date: Ag. Chief Executive Officer-KEVEVAPI 2004-2015-Deputy Director Technical services 2003-2004-Acting MD KEVEVAPI 1993-2003-Production Manager Kabete 1992-1993-Assistant Quality Assurance Manager KEVEVAPI setting up quality assurance labs Kabete and Muguga</p>

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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• **MANAGEMENT TEAM**

• KEY MANAGER'S PASSPORT-SIZE PHOTO, NAME AND MAIN AREA OF RESPONSIBILITY	KEY PROFESSION/ACADEMIC QUALIFICATION
 Dr. Jane Wanjugu Wachira Chief Executive Officer (CEO).	MSC UK, BVM(UON), A, level
 Dr. Richard Odek Arina Marketing Manager	Pursuing MBA BVM KACE 3Ps KCE DIV II
 Mr. Peter Macharia Gitau Chief Accountant	MBA-Finance ((UoN) BCOMM-Finance option, CPA,K KCSE B- KCPE
 Mr. Geoffrey Simwa Human Resources and Administration Manager	CPS II Dip. HRM(TZ) Dip. HRD (KU) KACE 2Ps, 2Subs KCE DIV II
 Mr. Nahshon Kinyaka Kyangu Production Manager-Kabete	Dip.(Medical Lab) EAACE EACE

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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 <p>• Mr. Stephen Gitonga Njeu Quality Assurance Manager</p>	<p>Pursuing MSc. Infectious Dis Higher Dip. Applied Biology Dip. Applied Biology KACE IP, 1Sub KCE DIV II</p>
 <p>M/S Jael Misoi Procurement Officer</p>	<p>Bachelor's degree 2nd class upper in Supplies and Procurement Advanced Diploma (CIPS UK) O' Level</p>
 <p>• Mr. Peter Kagera Gitigi Engineering Technician II</p>	<p>Final Level Certificate of Apprenticeship(Pipefitter/Welder) EACE DIV III</p>
 <p>• Dr. Benson Kibore Research and Development Manager</p>	<p>MSc. (UoN)- Veterinary Surgeon BVM KCSE KCPE</p>
 <p>Mr. Mathew Itumo Nzioka Production Manager- Embakasi</p>	<p>Higher Diploma Applied Biology Diploma Applied Biology KCSE KCPE</p>

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• **CHAIRMAN'S STATEMENT**

The State Corporations Act (Cap.446) requires the Board of Management to prepare financial statements for each financial year, which include a statement of financial position showing in detail the assets and liabilities of the Institute, a statement of comprehensive income, and such other statements that the Board may deem necessary. It also requires the Board to ensure the Institute keeps proper books of account and other books and records in relation to the Institute and to all the undertakings, funds, activities, investments and property of the Institute. They are also responsible for safeguarding the assets of the Institute.

The Board of Management accepts responsibility for the annual financial statements which have been prepared using appropriate accounting procedures supported by reasonable and prudent judgments and estimates in conformity within generally accepted accounting practice and in the manner required by the State Corporations Act Cap 446 and National Treasury circulars released from time to time. The Board of Management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Institute and of its operating results. The Board of Management further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements as well as adequate systems of internal control.

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

Chairman: Prof. James K. Wabacha

Sign _____



Date _____

18/9/2017

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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• **REPORT OF THE CHIEF EXECUTIVE OFFICER**

Kenya's livestock sector contributes about 12% of the country's Gross Domestic Product (GDP) and accounts for nearly 50% of the agricultural sector's GDP. It is the main source of livelihood to the people in the ASALs accounting for 90% employment and more than 95% of family incomes for the people in these areas. In the high potential areas, the sector provides employment and incomes through dairy production.

The rural-based nature of livestock activities makes livestock keeping a suitable enterprise to improve household incomes and contribute to sustainable livelihoods for many people in the rural areas. The sector therefore contributes significantly to poverty reduction in the country.

The 2009 population and housing census revealed that Kenya has a massive livestock resource comprising of 3.4 million exotic cattle, 14.1 million indigenous cattle, 17.1 million sheep, 27.7 million goats, 2.9 million camels 25.8 indigenous chicken and 6.1 million exotic chicken. This is an important resource that if tapped could create more wealth and employment in the country thereby contributing significantly to poverty reduction.

The Kenya Veterinary Vaccine Production Institute (KEVEVAPI) is mandated to protect this important resource. As the country gears up towards the realization of the goals of the Kenya Vision 2030, many challenges are bound to arise, key among them being the outbreak of livestock diseases.

Kenya Veterinary Vaccines Production Institute (KEVEVAPI) was established by Government of Kenya as a parastatals Institution on 5th March 1990 by Legal Notice No.223 under Cap 446 of the Laws of Kenya. The Institute operates under the auspices of the Ministry of Agriculture, Livestock and Fisheries.

The Institute operated independently until 2003, when it was merged into the Kenya Agricultural Research Institute under the Ministry of Agriculture following implementation of Presidential Circular No.3/2003 of 31st July 2003. In July 2008, through the effort of the Ministry of Livestock Development, the Institute reverted to operations as an independent public state

The institute has the expertise and facilities to produce fifteen livestock vaccines that are considered to be important in the region. Currently we are producing 14 vaccines. Rinderpest vaccine is no longer produced because the disease has been eradicated. Our Laboratories at Embakasi in Industrial area produces the Foot and Mouth Disease vaccine. All our other vaccines are produced at our Kabete vaccine production Laboratory.

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In order to meet emerging demands, the institute has embarked on production of three new products. These are an oil based Foot and Mouth disease vaccine, a thermostable Newcastle disease vaccine and Peste Petits des Ruminants (PPR) vaccine. Other approaches include signing of Memoranda of Understanding with relevant sister institutions. This has a two-pronged expectation: for technology exchanges and dual access to each other's products. Production of major vaccines has increased steadily over time due to increased demand by the County Governments and access to new markets particularly in Uganda, Tanzania, Rwanda, Burundi, UAE, Northern and Southern Sudan. Significant production increases have been for foot and mouth disease, contagious caprine pleuropneumonia, fowl typhoid and Newcastle disease. A rapid response enabled us to produce over 4 million doses of Rift Valley fever vaccine for the Kenyan and Tanzanian livestock industry. The institute now is in full capacity.

The mandate of KEVEVAPI

- To coordinate and undertake production of veterinary vaccines in the country
- To market and distribute veterinary vaccines locally and abroad
- To undertake research with respect to vaccine development and production alone or in collaboration with other institutions
- To develop and produce chemicals, media and laboratory materials for use in the production of vaccines and other veterinary products
- To provide information in the field on the suitability and effectiveness of veterinary vaccines.

BOARD OF DIRECTORS.

The first Board of Management was appointed on 8th may, 2009 by the Minister for Livestock Development through gazette notice No.4791. It was duly inaugurated by the Minster of Livestock Development on 21st June, 2010

KEVEVAPI is managed by a Board of Management, answerable to the Kenya Government, through the Minister for Agriculture, Livestock and Fisheries. The functions and responsibilities of the Board are provided in Legal Notice No. 223 and the State Corporations Act, Cap. 446, Revised 1987. Members of the Board include a non- executive chairman and eight other members appointed by the Minister responsible for Livestock.

The members include:

- Non – executive Chairman appointed by the President
- Managing Director
- The Permanent Secretary, State Department of livestock.
- The Permanent Secretary, National Treasury.

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- Director, Kenya Agricultural Research Institute
- Not more than four other members not being employees of the Institute of whom not more than two shall be public officers appointed by the Minister.

COMMITTEES OF THE BOARD.

According to the State Corporation Act (Section 9), KEVEVAPI Board of Directors has three Committees namely:-

- Finance, Human Resource and Administration;
- Technical and Marketing Committee; and
- Audit Committee for the purposes of preliminarily discussing the business of the Board and preparing working minutes for the full Board meetings.

Current Members of the Board of Directors:

- Prof. James K. Wabacha-*Chairman Board of Directors*
- Principal Secretary National Treasury;
- Principal Secretary, State Department of Livestock.
- Director, Kenya Agricultural Research Institute – K.A.L.R.O ;
- Prof. Isaac M. Mbeche - Board Director
- Mr. Robert M. Mburu- Board Director
- Dr. Kiprono Lagat David- Board Director
- Prof. Philip Nyaga- Board Director
- Mr. Abdi Aden Suleiman, HSC- Board Director
- Dr. Boreya Lekenit- Board Director
- Prof. Lily Bebora- Board Director
- M/S Joan Naigerua Letoyia- Board Director
- Dr. Jane W. Wachira—CEO, KEVEVAPI (*Secretary BOD*)

VACCINES PRODUCED BY KEVEVAPI:

The Institute commercially produces vaccines against the following livestock diseases for country and the regional market. Our Laboratories at Embakasi located at Industrial area produces the Foot and Mouth Disease vaccine. All our other vaccines are produced at our Kabete vaccines production Laboratory.

- Foot and Mouth Disease
- Contagious Bovine Pleuropneumonia
- Rift Valley Fever
- Lumpy Skin Disease
- Contagious Caprine Pleuropneumonia
- Sheep and Goat Pox
- Bluetongue

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- Orf (Contagious echhyma)
- Peste Petits des Ruminants (PPR)
- Newcastle disease
- Fowl typhoid
- Fowl pox
- Turkey pox

CONSTRAINTS OF VACCINES PRODUCTION.

Poor State of Plant and Equipment

The main constraint arises from the use of old production systems. The process of upgrading of the old production system is ongoing in phases to uplift the standards of the laboratories. Upgrading of the plant require Kshs 5.6 Billion. For the Financial year 2016/17 budget period, we have requested Kshs. 504.6 Million grant from Government to enable the institute attain GMP/ISO standards which will enable the institute access outside market. We sincerely hope that this will be availed in 2016/2017.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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• **CORPORATE GOVERNANCE STATEMENT**

Corporate governance refers to the principles, processes and practices by which an organization is operated, regulated and controlled so as to fulfill its goals and objectives in a manner that adds value and benefits to all its stakeholders.

The Kenya Veterinary Vaccines Production Institute's (KEVEVAPI) corporate governance statement shall contribute to clarify the roles between the stakeholders, the board of management and the management of KEVEVAPI.

Good and transparent management of and control over the business will provide the basis for creating long-term value for the institute, employees, other stakeholders and society in general and, thereby, sustainable and permanent value creation. The roles shall build trust among the stakeholders through predictability and credibility. Open and accessible communication will ensure that the institute maintains a good relationship with society in general and the stakeholders affected by the institute's activities in particular.

The institute's value base is described in KEVEVAPI's code of conduct, and the guidelines for ethics and corporate responsibility have been designed on the basis of the code. KEVEVAPI adheres to the State's principles for sound corporate governance as described in the State Corporation act cap 446, The Constitution of Kenya 2010 and The Code of Governance for State Corporations (Mwongozo), and is subject to the reporting requirements relating to corporate governance pursuant to Public Finance Management Act.

• **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

KEVEVAPI will be a good corporate citizen in all its activities. In brief, this means that the institute will produce and market veterinary vaccines based on environment-friendly sources of energy, use sustainable, safe and efficient production methods and behave in a responsible and ethical manner in the production, supply and marketing of veterinary vaccines.

KEVEVAPI shall be a safe place to work. All work shall be planned and executed so that the zero injuries objective is achieved. KEVEVAPI's safety culture shall be characterized by transparency and a desire to learn, both from own mistakes and from successful improvement measures. Biosafety and biosecurity will be a priority of the institute through an elaborate bio-risk management system.

As a veterinary vaccine producer, KEVEVAPI is involved in several corporate social responsibility activities in different parts of the country. These are mostly rural-based livestock activities geared to making livestock keeping a suitable enterprise to improve household incomes and contribute to sustainable livelihoods for many people in the rural areas.

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• **REPORT OF THE DIRECTORS**

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

Principal activities

The principal activities of the entity continue to be preferred provider of high quality, affordable veterinary vaccines and services contributing to an improved quality of life for all Kenyans

Results

The results of the entity for the year ended June 30, 2016 are set out on page 1-5.

Directors

The members of the Board of Directors who served during the year are shown on page vi-xii & xvi

Auditors

The Auditor General is responsible for the statutory audit of the *entity* in accordance with the Section 68(k) of the Public Finance Management (PFM) Act, 2012.

By Order of the Board

Chief Executive Officer

Sign *F.C.*

Date 18/4/2017

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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• STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the institute, which give a true and fair view of the state of affairs of the institute at the end of the financial year/period and the operating results of the institute for that year/period. The Directors are also required to ensure that the institute keeps proper accounting records which disclose with reasonable accuracy the financial position of the institute. The Directors are also responsible for safeguarding the assets of the institute.


The Directors are responsible for the preparation and presentation of the institute's financial statements, which give a true and fair view of the state of affairs of the institute for and as at the end of the financial year (period) ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the institute; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the institute; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the institute's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the institute's financial statements give a true and fair view of the state of institute's transactions during the financial year ended June 30, 2016, and of the institute's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the institute, which have been relied upon in the preparation of the institute's financial statements as well as the adequacy of the systems of internal financial control.


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

Approval of the financial statements

The institute's financial statements were approved by the Board on 15/07/2016 and signed on its behalf by:



Director



Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.oagkenya.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA VETERINARY VACCINES PRODUCTION INSTITUTE FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Veterinary Vaccines Production Institute set out on pages 1 to 24, 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, 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 International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 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

Report of the Auditor-General on the Financial Statements of Kenya Veterinary Vaccines Production Institute for the year ended 30 June 2016

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1 Land

(a) As previously reported, the Government allocated the Institute 98.3 hectares of land registration L.R. No.209/11969 on which the Institute's headquarters is located. In December 1994, the management applied to the Commissioner of Lands for consent to sub-divide the land into nine (9) separate parcels, without the approval of the Treasury and the Parent Ministry as required by Section 13(c) of the State Corporations Act (Cap 446). Information available indicates that the irregularly sub-divided parcels were separately disposed off to private developers without the approval of the Treasury and the Parent Ministry. A review of the position during the year under review indicated that the irregularly disposed parcels had not been recovered as at 30 June 2016.

(b) As similarly reported in previous years, the property, plant and equipment balance of Kshs.627,207,000 as at 30 June 2016 excludes an undetermined value of land at the Kibiko holding ground measuring 500 acres and in respect of which no title deed has been issued. In addition, the Institute has not obtained a title deed for the land in Kabete, on which its production plant valued at Kshs.500 million stands. Therefore, it has not been possible to verify the ownership of these properties.

(c) In 1990, the Parent Ministry allowed the Institute to use land Ref. L.R. No.27628 measuring approximately 151.2 hectares, situated in Limuru. At the time of allocation, the management of the Institute was under Kenya Agricultural Research Institute (KARI). Consequently, the title deed for the land was processed and issued in the name of KARI. The Institute was subsequently separated from KARI and became a legally independent organization. Although the Institute has continued to use the land as initially allocated, the title deed still remains in the name of KARI.

1.2. Motor Vehicles

As similarly reported in the previous year, included in the property, plant and equipment balance of Kshs.627,207,000 are four (4) motor vehicles whose log books

are registered in the name of Kenya Agricultural Research Institute. No explanation has been provided for this anomaly, a result of which, the ownership and valuation of these vehicles as reflected in the financial statements cannot be ascertained.

1.3 Depreciation and Amortization Expense

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.3,500,000 under depreciation and amortization expense for the year ended 30 June 2016. However this figure differs with the amount of Kshs.56,363,000 depreciation expense disclosed under Note 15 to the financial statements. In addition, workings provided for the depreciation and amortization expense showed an amount of Kshs.56,362,714. Consequently the accuracy of the expense cannot be confirmed.

2. Trade and Other Payables

The trade and other payables balance of Kshs.33,202,000 as at 30 June 2016 reflected in the statement of financial position, includes rate accruals totalling Kshs.13,180,000 that have remained unpaid for periods going as far back as 1998 and continued to attract interest and penalties. However, the amount of interest and penalties payable has not been determined and included in the trade and other payables balance of Kshs.33,202,000. In addition, no explanation has been provided for failure to clear the accrued rates over the years.

3. Receivables

The receivables balance of Kshs.236,753,000 as at 30 June 2016 reflected in the statement of financial position and as disclosed in Note 13 to the financial statements includes trade receivables totalling Kshs.235,403,000, out of which, an amount of Kshs.131,853,635 relates to 2014/2015 and earlier years. No provision has been made in the financial statements in respect of these old outstanding amounts whose collection appear to be doubtful.

4. Inventories

The statement of financial position reflects a balance of Kshs.333,938,000 against inventories as at 30 June 2016 which, however, differs from the balance of Kshs.333,405,000 extracted from supporting stock sheets. Consequently, the accuracy of the inventories figure cannot be ascertained.

5. Cash and Cash Equivalents

The statement of financial position reflects an amount of Kshs.482,171,000 as at 30 June 2016 against cash and cash equivalents which, as disclosed under Note 12 to the financial statements, includes a bank balance of Kshs.238,267,097 under Kenya Commercial Bank (KCB) account number 1107172764. The KCB balance, however, differs from the balance of Kshs.239,903,778 shown in the cash book, by Kshs.1,636,681. No explanation or reconciliation has been provided for the difference.

Consequently, the accuracy of the cash-and-cash equivalents balance of Kshs.482,171,000 reflected in these financial statements cannot be confirmed.

Qualified Opinion

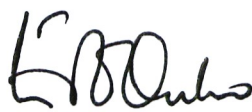
In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Veterinary Vaccines Production Institute as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Veterinary Vaccines Production Order of 1990.

Emphasis of Matter

Land under Legal Dispute

I wish to draw attention to Note 15 to the financial statements, which indicates that, included in the value of land of Kshs.343,000,000 under property, plant and equipment are three parcels of land with two civil cases in court as it is alleged that they had been grabbed. The two cases HCC ELC NO.454 and 455 of 2009 involves land measuring 1.87 and 2.023 hectares while the second case HCC ELC Civil Suit No. 945 of 2012 involves a parcel of land measuring 0.4047 hectares or thereabout.

No provision has been made in the financial statements regarding this material uncertainty as the cases have not been determined and concluded. My opinion is not qualified in respect of this matter.



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

Nairobi

10 July 2017

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016**

• **KEVEVAPI STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2016**

		2015/16	2014/15
		Kshs'000	Kshs'000
Revenue from exchange transactions			
Sale of Vaccines	2	477,396	538,289
Cost of production	3	<u>(331,157)</u>	<u>(341,609)</u>
Gross Profit		146,239	196,680
Finance income –Bank Interest earned	4	2,107	1,939
Other income-Sundry income	5	353	1,005
Total		148,699	199,624
Administrative Expenses			
Employee costs	6	39,411	34,406
Depreciation and amortization expense	7	3,500	3,359
Repairs and maintenance	8	276	1,432
General expenses	9	50,246	72,748
Provision for bad & Doubtful Debts	10	2,354	2,440
Total expenses		95,787	114,385
Other gains/(losses)			
Gain on sale of assets		-	-
Gain on foreign exchange transactions	11	2,136	5,846
Surplus before tax		55,048	91,085
Taxation		-	-
Surplus for the period		55,048	91,085

The notes set out on pages 6 to 21 form an integral part of the Financial Statements

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016


• **STATEMENT OF FINANCIAL POSITION**
As at 30 June 2016

	Note	2015-2016 Kshs 000	2014-2015 Kshs 000
Assets			
Current assets			
Cash and cash equivalents	12	482,171	186,212
Receivables	13	236,753	244,274
Inventories	14	333,938	258,270
Prepayment		16,698	24,804
		1,069,560	713,560
Non-current assets			
Property, plant and equipment	15	627,207	649,943
		1,696,767	1,363,503
Liabilities			
Current liabilities			
Trade and other payables	16	33,202	30,921
Audit fee Provision		580	580
Payments received in advance	17	88,144	29,309
		121,926	60,810
Net assets			
Capital fund		367,249	367,249
Capital grant		368,550	151,450
Revaluation reserve		272,829	272,829
Accumulated surplus		566,213	511,165
Total net assets and liabilities		1,696,767	1,363,503

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:


Chief Executive Officer

Date: 18/4/2017


Chairman of the Board

Date: 19/4/2017

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016**

• **STATEMENT OF CHANGES IN NET ASSETS**
• **For the year ended 30 June 2016**

Attributable to the owners of the controlling entity

	Capital Fund Kshs '000	Capital Grant Kshs '000	Revaluation Reserve Kshs '000	Accumulated surplus Kshs '000	Total Kshs '000
Balance as at 30 JUNE 2012	367,249	52,500	272,829	363,054	1,055,631
Surplus/(deficit) for the period	-	-	-	19,121	19,121
Additional GOK Grant	-	61,200	-	-	61,200
Balance as at 30 JUNE 2013	367,249	113,700	272,829	382,174	1,135,952
Surplus for the period	-	-	-	37,906	37,906
Additional GOK Grant	-	18,750	-	-	18,750
Balance as at 30 JUNE 2014	367,249	132,450	272,829	420,080	1,192,608
Surplus for the period	-	-	-	91,085	91,085
Additional GOK Grant	-	19,000	-	-	19,000
Balance as at 30 JUNE 2015	367,249	151,450	272,829	511,165	1,302,693
Surplus for the Period	-	-	-	55,048	55,048
Additional GOK Grant	-	217,100	-	-	217,100
Balance as at 30 June 2016	367,249	368,550	272,829	566,213	1,574,841

See note 1(i)

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

• **STATEMENT OF CASH FLOWS**
For the year ended 30 June 2016

	Note	2015-2016 Kshs 000	2014-2015 Kshs 000
<u>Cash flows from operating activities</u>			
Profit for the period		55,048	91,085
Add Depreciation		56,363	49,772
Operating Profit		111,411	140,857
<u>Working Capital Changes</u>			
Increase in stocks		(75,668)	(32,919)
Decrease in Receivables		7,521	(28,318)
Increase in Payables		61,116	(5,877)
Decrease in prepayment		8,106	(23,251)
Net cash outflow from operating activities		112,486	209,322
<u>Financing Activities</u>			
GOK Capital Grant		217,100	19,000
<u>Investing Activities</u>			
Purchase of Fixed Assets and net cash used in investing activities		(33,627)	(68,355)
Net decrease in cash & cash equivalents		295,959	1,136
Cash & cash equivalents at 01.07.2015		186,212	185,076
Cash & cash equivalents at 30.06.2016		482,056	186,213

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016**

• **STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	REF
	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016	
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	
Revenue						
Government grants and subsidies	17,100	200,000	217,100	217,100	-	1
Sale of vaccines	500,000	-	500,000	477,396	22,604	2.
Other Income	2,500	0	2,500	2,460	40	
Gain on foreign Exchange	(200)	0	(200)	2,136	(2,336)	
Total income	502,300	(0)	502,300	481,992	20,308	
Expenses						
Compensation of employees	50,100	-	50,100	39,411	10,689	3
Goods and services	303,500	0	303,500	331,157	(27,657)	4.
Provision for Bad Debts & Depreciation	5,500	0	5,500	5,854	(354)	
Other payments	98,800	-	98,800	50,522	48,278	5.
Total expenditure	457,900	(0)	457,900	426,944	30,956	
Surplus for the period	44,400	0	44,400	55,048	10,648	
Capital Expenditure	17,100	200,000	217,100	33,627	183,473	6

References:-

1. Government grant-The institute had expected a government grant of Kshs 217,100 which was received. But because of the capital nature of the work to be done (building, renovations and machines) the amount was fully spent in the subsequent years.
2. Sale of vaccines- This is market driven therefore if there is less demand from our customers we experience less sales.
3. Compensation of employees- The institute had planned to recruit some technical staff on permanent basis but due to a freeze on employment by the government, this was not possible hence the less spending in compensation to employees.
4. Goods and Services- This cost was high because of the production of the first batch of purified oil based vaccine.
5. Other payments-This was less because of the cost cutting measures the institute had put in place.
6. Capital expenditure-The Institute spend much on equipments that will enable it produce purified oil based vaccine in order to attain GMP standards.

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

• **NOTES TO THE FINANCIAL STATEMENTS**

1. Statement of compliance and basis of preparation

The entity'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 entity and all values are rounded to the nearest thousand (K.sh000). 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 indirect method. The financial statements are prepared on accrual basis.

• **Summary of significant accounting policies**

a) Revenue recognition

• **Revenue from non-exchange transactions**

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 entity and can be measured reliably.

• **Revenue from exchange transactions**

Rendering of services

The entity 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 entity.

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

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.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

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

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Value Added Tax (VAT)

Expenses and assets are recognized net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation institute is included as part of receivables or payables in the statement of financial position.

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

d) Property, plant and equipment

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 entity 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.

e) Leases

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

f) Financial instruments

Financial assets

Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current.

Such assets are carried at amortized cost using the effective interest method. Changes in the carrying amount are recognized in the profit or loss.

Impairment of financial assets

The institute assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or an entity 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 cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or entity 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

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016**

- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)
- ***Financial liabilities***
Trade payables

Trade payables are current and are stated at their nominal value.

g) Inventories

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 are 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 labor 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 Entity.

h) Provisions

Provisions are recognized when the institute 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 institute 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.

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

Contingent liabilities

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

i) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. The reserves are:-

- i) Capital fund-This is the initial capital the government used to set up the institute.
- ii) Capital grants- This is accumulated government development grant given to the institute yearly.
- iii) Accumulated Profits- This figure denotes the institute profits since inception
- IV) Revaluation Surplus-This denotes amount arising from the revaluation of institute assets.

j) Changes in accounting policies and estimates

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

k) Employee benefits

Retirement benefit plans

The institute provides retirement benefits for its employees and councilors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (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.

l) Foreign currency transactions

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. 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.

m) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the councilors, the executive mayor, mayoral committee members, the city manager, deputy city manager and senior managers.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016**

n) 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 various commercial banks at the end of the financial year.

o) Comparative figures

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

p) Significant judgments and sources of estimation uncertainty

The preparation of the institute'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.

- **Critical accounting judgments in applying the entity's accounting policies**

- Impairment losses on trade and other receivables

- The institute reviews its trade and other receivables to assess impairment regularly. In determining whether an impairment loss should be recognised through profit or loss, the company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables, before a decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Estimates and assumptions

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

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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• **Key sources of estimation uncertainty**

Impairment of assets

At the end of each reporting period, the institute reviews the carrying amount of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any).

Plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. 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 institute
- 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

Depreciation on fixed assets is provided on a straight line basis and is calculated on cost or valuation at the following rates which are consistent with prior years:-

Land	nil
Buildings	2%
Laboratory Equipment	12.5%
Plant and Machinery	12.5%
Furniture and Fittings	12.5%
Motor Vehicles	25.0%

Fair value estimation – financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required in establishing fair values. Judgment includes the consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016**

q) Subsequent events

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, 2016.

2. Sales of vaccines(Exchange revenue)

Particulars	Ksh '000	2016		2015	
		US \$ '000	Kshs'000	US \$'000	
Sales on Account	274,628	422.277	300,125	1,436.936	
Cash Sales	103,400	560.591	77,077	196.149	
		982.867	377,202	1,633.085	
		101.1		98.64	
Total Kshs	378,028	99,368	377,202	161,087	
Rate					
Kshs Total					
Grand Total		477,396		538,289	

3. Cost of Sales

	30.6.16	30.06.15
	Shs	Shs
	000	000
Materials used	32,206	61,432
Direct Labour	69,536	57,518
Other staff benefits	18,179	16,891
General Expenses attributable to production	111,005	105,347
Power & lighting attributable to production	23,328	29,462
Maintenance& Repairs attributable to production	24,040	24,546
Depreciation attributable to production	52,863	46,413
Total production and Manufacturing Expenses	<u>331,157</u>	<u>341,609</u>

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	30.6.16	30.6.15
	Kshs'000	Kshs' 000
4. Finance Income.		
Fixed Deposit(closed NIC)	336	547
Interest Earned from KCB KICC Kshs account (1109016492)	30	66
Interest earned from KCB KICC Dollar account(1102301108)	1,741	1,326
Total	<u>2,107</u>	<u>1,939</u>
5. Other Income		
Limuru Farm	(188)	743
sundry income	541	262
Total	<u>353</u>	<u>1,005</u>
The Kshs 188,000 is a deficit since the expenses incurred in running our Limuru farm were more than the income generated.		
6. Employee Costs		
Salaries	28,225	26,076
Pensions&nssf	4,358	3,799
Medical	3,919	3,267
Recruitment	-	-
Training	2,909	1,264
Club Exps	-	-
Grand Total Employee Costs	<u>39,411</u>	<u>34,406</u>
7. Depreciation	2016	2015
	KShs' 000	KShs' 000
Motor Vehicles	1,148	1,510
Office Equipment	1,203	915
Furniture& Fittings	1,149	934
Total	<u>3,500</u>	<u>3,359</u>
8. Repairs and Maintenance		
	2016	2015
	Kshs	Kshs
Office equipment	276	1,013
Furniture	-	419
	<u>276</u>	<u>1,432</u>
9. General Expenses	2016	2015
	KShs 000	KShs 000
Advertising	7,411	13,712
Printing& stationcry	3,375	4,405

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Audit fees	580	580
Other professional charges	4,699	11,544
Subscriptions	96	169
Donations	400	200
Penalties	0	2,159
Bank charges	85	206
Sundry off. Exps	1542	2,819
Staff welfare	120	2,268
Administration expenses	14,782	12,046
Telecommunication	4,777	7,562
Local travel	10,510	8,807
Overseas travel	800	4,843
Motor vehicles	<u>1,039</u>	<u>1,428</u>
Grand Total	<u>50,246</u>	<u>72,748</u>

10. Provision for Bad Debts

Trading debtors as at year end	235,403	244,046
Impairment at 1%	2,354	2,440

11. Gain on Foreign Exchange Transactions

On sales to MTK Uganda	(135)	737
On sales to Doctors Co.	(389)	1,502
On sales to Agrotech Rwanda	(82)	2,060
On sales to Other clients	(56)	686
On Cash held in the Bank	2,798	861
Totals	<u>2,136</u>	<u>5,846</u>

12. Cash and cash equivalents

	2016	2015
	KShs 000	KShs 000
Bank	482,024	174,596
Cash-on-hand and in transit	147	242
Short-term deposits(NIC Bank)	-	11,374
Guarantees		
Total cash and cash equivalents	482,171	186,212

NB:Bank Figure Breakdown

KCB Account No. 1109016492 Kshs	1,209,138.86
KCB Account No 1102301108 Kshs.	242,547,997.44
KCB Account No.1107172764 Kshs	<u>238,267,096.89</u>
Total	<u>482,024,233.20</u>

13. Receivables

	2016	2015
	KShs 000	KShs 000
Current receivables(Exchange transactions)		
Ministry of Livestock	98,644	105
MTK Uganda	64,023	107,044
Ministry of Agriculture Rwanda	26,029	23,868

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Others	46,707	111,615
Total current receivables	235,403	242,632

Receivables from non-exchange contracts

	2016 KShs 000	2015 KShs 000
Staff advances and Imprest (non-exchange transactions)	410	1,414
Deposits	1,553	1,552
Total Non-Trade receivables	1,963	2,966
Total Receivables	237,366	245,598
Less Impairment Allowance	(2,354)	(2,440)
	235,012	243,158
	1,741	1,116
Interest Receivable	236,753	244,274

14. Inventories

	2016 KShs 000	2015 KShs 000
Bulky and Filled vaccines	249,989	173,491
Chemicals, Glassware & Filtration	67,163	74,824
Engineering, livestock and lab Equip equipment	3,771	2,461
Fuel Oil	542	1,496
Others	12,473	5,998
Total inventories at the lower of cost and net realizable value	333,938	258,270

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**15.
Property,
plant and
equipment**

	Land	Buildings	WIP	Plant & Machinery	Office Equipment	Furniture & Fittings	Motor Vehicles	Total
	Shs 000	Shs 000		Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Cost								
At 30 June 2015	343,000	144,485	Nil	345,711	7,323	7,474	7,276	855,269
Additions	-	750		9,128	2,302	1,720	19,727	33,627
At June 2016	343,000	145,235	Nil	354,839	9,625	9,194	27,003	888,896
Depreciation and impairment								
At 30 June 2015	Nil	(20,225)	Nil	(169,465)	(4,670)	(3,708)	(7,258)	(205,326)
Depreciation	Nil	(2,905)	Nil	(44,355)	(1,203)	(1,149)	(6,751)	(56,363)
Disposals	Nil	-	Nil					-
At 30 June 2016	-	(23,129)	Nil	(213,820)	(5,873)	(4,857)	(14,009)	(261,689)
Net book values								
At 30 June 2016	343,000	122,106	Nil	141,019	3,752	4,337	12,994	627,207
At June 2015	343,000	124,260	Nil	97,600	2,653	3,766	18	649,943

Note

Included in the value of land of Kshs 343,000,000 above on Property, Plant and Equipment is two parcels of land with civil cases in court that had been grabbed in prior years. The cases in court are as follows:-

- i) HCC ELC No. 454 and 455 of 2009 Tuguta Enterprises Limited and TRUSTLAND developers' Limited vs KARI, KEVEVAPI, the land registrar and commissioner of lands. Land measuring 1.87 and 2.023 hectares or thereabout respectively
- ii) HCCC ELC Civil Suit No. 945 of 2012 Jasper Singh Birdi vs KEVEVAPI. Land measuring 0.4047 hectares or thereabout.

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16. Trade and other payables from exchange transactions

	2016	2015
	KShs 000	KShs 000
Trade payables	11,565	17,741
Accruals rates	13,180	13,180
Accruals production costs	7,439	-
Accruals-Electricity bill	815	-
Accruals-Water bill	203	-
Audit fee	580	-
Total Trade payables	33,782	30,921

17. Payment received in Advance

Payments received in advance by counties	86,703	27,301
Galvmed Project	1,127	1,694
Kasal project	114	114
Asal project	200	200
Total payment in advance	88,144	29,309
Total payables	121,926	60,810

18. Related Party Transactions

The Government of Kenya is the principal shareholder of the entity, holding 100% of the entity's equity interest.

The remuneration of key management during the year was as follows:

	2016	2015
	KShs 000	KShs 000
Director's emoluments/Administration	14,782	12,173
Expenses in General expenses		
Payment received in advance from counties	86,703	27,301
Key management compensation		
CEO's salary and benefits(Among staff costs)	3,487	1,327
Total	18,269	13,500

16. Events after the reporting period

There are no material non-adjusting events after the reporting date.

Financial Risk Management

Exposure to currency, commodity, interest rate, liquidity and credit risk arises in the normal course of the institute's operations. This note presents information about the institute's exposure to each of the above risks, policies and processes for measuring and managing risk, and the institute's management of capital. Further quantitative disclosures are included throughout these financial statements.

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Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the institute's financial instruments.

Financial Assets At 30 June 2016	Carrying amount KShs,000	Fair value KShs,000
Receivables from non-exchange transactions	3,703	3,703
Receivables exchange transactions	235,403	233,049
Cash and cash equivalents	482,056	482,056
	721,162	718,808
	721,162	718,808

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, other than in a forced sale or liquidation.

Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Credit risk

Credit risk is the risk of financial loss to the institute if customers or counterparties to financial instruments fail to meet their contractual obligations. The institute's credit risk is primarily attributable to its receivables and cash and cash equivalents. The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors before extending credit. The carrying amount of financial assets represents the maximum credit exposure. The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings. The maximum exposure to credit risk as at 30 Jun 2016 was:

	Fully performing KShs,000	Past due Kshs,000	Impaired Kshs	Total Ksh,000
GOK grants receivable	-	-	-	-
Trade receivables	98,803	136,600	(2,354)	233,049
Cash and cash equivalents	482,171	-	-	482,171
	580,974	136,600	(2,354)	715,220
Maximum exposure to credit risk	580,974	136,600	(2,354)	715,220

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The average credit period on services rendered is 90 days from date of invoice. Debts above 90 days old are classified as past due. The customers under the fully performing category are paying their debts as they continue dealing with the institute. The default rate is low. The debt that is overdue is not impaired and continues to be paid.

Credit quality

Credit quality is assessed risk of default attached to counterparties to which the institute extends credit and also those parties with whom the institute invests. As such, the credit quality assessed extends to the customers, donors and banks of the institute. For financial statement purposes, the investments and balances with banks are limited to the receivable and cash and cash equivalents line items in the statement of financial position. The institute determines credit quality of the banks from past dealings with them and from information readily available from the regulatory authority, the Central Bank of Kenya.

The client base of the institute is diverse and consists mainly of counties and east African countries. For the purpose of determining the credit quality of clients, the institute applies its past experience with them in determining the risk of default they pose.

Receivables

Receivable amounts are owed by clients and the government of Kenya and are presented net of any impairment losses. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The institute's exposure to credit risk is monitored on an ongoing basis. The institute's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance.

Cash and cash equivalents

The institute limits its exposure to credit risk by investing cash and cash equivalents with only reputable financial institutions that have a sound credit rating. Consequently, the institute does not consider there to be any significant exposure to credit risk.

Liquidity risk

Liquidity risk is the risk of the institute not being able to meet its obligations as they fall due. The institute's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the institute's reputation. Prudent liquidity risk management includes maintaining sufficient cash to meet the institute's obligations.

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

	Less than 1 month KShs 000	Between 1-3 months KShs 000	Over 3 months KShs 000	Total KShs 000
At 30 June 2016				
Trade payables from exchange transactions	11,565	95,740		107,305

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Trade payables from Non exchange transactions		14,621	14,621
	11,565	95,740	14,621
	121,926		

Market risk

Market risk is the risk of changes in market prices, such as foreign-exchange rates and interest rates, affecting the institute's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the risk.

- (i) **Price risk**
The institute does not hold investments that would be subject to price risk; hence this risk is not relevant.
- (ii) **Interest rate risk**
The institute does not hold any interest bearing liabilities or assets; hence this risk is not relevant.
- (iii) **Foreign currency risk**
The institute is exposed to foreign-currency risk through foreign currency denominated bank balances. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the end of the reporting period are shown below.

	2016 USD	2015 USD	2016 Total in KShs	2015 Total in KShs
Description				
Assets	-	-	-	-
Bank and cash balances	2,399,037.78	798,006.94	242,547,997.44	78,715,404.56
Receivables	257,452.61	517,417	26,029,025.64	51,038,012.88
	2,656,490.39	1,315,423.94	268,577,023.08	129,753,417.44

At 30 June 2016 an increase/decrease of 10% on the US dollar exchange rates would have resulted in an increase/decrease in surplus of Sh. 26,857,702.3 (Shs295, 434,725.30 – Shs 268,577,023.08).

Capital risk management policies

The primary objective of managing the institute's capital is to ensure that there is sufficient cash available to support the institute's funding requirements, including capital expenditure, to ensure that the institute remains financially sound. The institute monitors capital using a gearing ratio, which is net debt, divided by total capital, plus net debt. As at the end of the year, the institute had no debt.

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The capital structure of the institute consists only of a general fund. The gearing ratio of the institute is therefore 0%.

• **PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name & designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2015/1(a,b,c)	Property, Plant and Equipment-Land	-The Land at Kibiko does not exist in our books. -We have a case in court concerning the illegal allocation of the Institute land awaiting judgment by the court -The land AT Limuru still has a court case. The case started when KEVEVAPI	Chief Executive Officer(CEO)	Ongoing	Awaiting Court decision.
		was under KARI and therefore the reason for delayed transfer. As at 30/06/2016, the institute had instructed the legal counsel to initiate transfer process.			
2015/1(ii)	Property, Plant and Equipment-Motor Vehicles	The vehicles in question were given to the Institute for use when the Institute was given independent status from KARI. The	Chief Executive Officer(CEO)	Ongoing	By end of 2015.

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		<p>Institute has continued to use the vehicles, maintaining them and insuring them.</p> <p>Correspondences have been going on between the two Institutions to identify all the assets that belong to KARI in order to facilitate formal transfer or other appropriate action. However, the assimilation of KARI into Kenya Agricultural Livestock Research Organizations (KALRO) in 2014 posed a new challenge since it deprived KARI of its legal autonomy</p>			
2015/2	Unpaid Rates amounting to Kshs 13,180,000 dating back to F/Y 1998	The rates related to land that has a court case and therefore management had deemed fit to stop paying for the rates until the issue was resolved.	CEO	Resolved	Resolved
2015/3	Kshs 111,615,000 worth of receivables were long outstanding	Management had formed committee to oversee the collection of these debts and there were positives in collection	CEO	Resolved	Resolved
2015/4	Mpesa account Totaling to	The amount was accounted for in the revenue and bank balances of audited	CEO	Resolved	Resolved

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	Kshs. 6,360,058.00	accounts of year 2014/15. No revenue or bank balances were understated.			
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