

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



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THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR
ENDED 30 JUNE 2018**



KENYA FORESTRY RESEARCH INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2018**

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

KENYA FORESTRY RESEARCH INSTITUTE



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I. KEY INSTITUTE INFORMATION AND MANAGEMENT

a) Background Information

Kenya Forestry Research Institute (KEFRI) is a state Institute established in 1986, under the Science and Technology Act (Cap 250) of the laws of Kenya, which has since been repealed by Science, Technology and Innovation Act No. 28 of 2013. The Institute's mandate is to carry out Research in forestry and allied natural resources. It is under Environmental Protection, Water and Natural Resources Budgetary Sector. It has an obligation to generate and promote improved technologies for sustainable management, conservation and development of forests. KEFRI is ISO 14001:2004 certified thus operates in conformity with international standards on Environmental Management Standards (EMS) and relevant national legislations.

- i. Our Vision
A Centre of excellence in forestry research for development
- ii. Our Mission
To conduct research and provide information and technologies for sustainable development of forestry and allied natural resources for Socio-economic development
- iii. Our Core Values
 - Creativity and Innovation
 - Professionalism
 - Integrity
 - Teamwork
 - Clean and Healthy Environment
 - Partnership
- iv. Domicile
It is domiciled in Kenya.

b) Principal Activities

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

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c) Key Management

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

- The Chief Executive Officer (The Director)
- The Senior Deputy Director- Research & Development
- The Senior Deputy Director - Finance & Administration
- The Deputy Director - Technical Support Services
- The Deputy Director - Forest Biodiversity and Environment Management
- The Deputy Director - Forest Products Development Research
- The Deputy Director - Social Economics Policy & Governance
- The Deputy Director - Forest Productivity & Improvement
- The Deputy Director - Corporate Affairs & Quality Assurance
- The Deputy Director - Human Resource Management
- The Deputy Director - Administration
- The Deputy Director - Finance
- The Deputy Director – Supply Chain Management
- Chief Internal Auditor

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d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:-

NO	DESIGNATION	NAME
1.	The Chief Executive Officer	Joshua K. Cheboiwo (PhD)
2.	Ag Senior Deputy Director- Research & Development	Dr. Jane W. Njuguna
3.	The Senior Deputy Director - Finance & Administration	Mr. George Otieno
4.	The Deputy Director - Technical Support Services	Dr. Ebby Chagala - Odera
5.	The Deputy Director - Forest Biodiversity and Environment Management	Dr. Gabriel M. Muturi
6.	The Deputy Director -Forest Product Development Research	Dr. Joseph Githiomi
7.	The Deputy Director - Social Economic Policy & Governance	
8.	The Deputy Director - Forest Productivity & Improvement	Dr. James Kimondo
9.	The Deputy Director - Corporate Affairs & Quality Assurance	Dr. Jackson M. Mulatya
10.	The Deputy Director - Human Resource	Mrs. Evelyn I. Oroni
11.	The Deputy Director – Administration	Mr. John M. Gisemba
12.	The Deputy Director – Finance	M/s Rose B. Osoro
13.	The Deputy Director – Supply Chain Management	Mr. Hudson Barasa
14.	Chief Internal Auditor	M/s Karen N. Muka

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e) Fiduciary Oversight Arrangements

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

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

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

f) KEFRI Board Committees

i. Research & Development Committee

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

ii. Finance & Administration Committee

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

iii. Audit Committee

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

The following are the Board Committees;

Name of the Committee	Members
Audit Committee	1. Ms. Maureen Mwangovya - Chairperson 2. Mr. Hewson Kabugi - Member
Finance & Administration Committee	1. Mr. Kevin Kihara - Chairman 2. Mr. Robinson Ng'ethe - Member 3. Mr. Hewson Kabugi - Member
Research & Development Committee	1. Mr. Robinson Ngethe - Member 2. Mrs. Margaret Maimba - Member

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- g) **KEFRI Headquarters**
Off Nairobi/Nakuru Highway – Muguga
P.O Box 20412 – 00200 Nairobi
- h) **KEFRI Contacts**
Tel: +254202010651/2
+254722157414
+254724259781/2
+254734251888
Email: director@kefri.org
Website: www.kefri.org
- i) **KEFRI Bankers**
Kenya Commercial Bank Ltd
Sarit Centre Branch
P.O. Box 14959 – 00800, Nairobi

Co-operative Bank Ltd
Westlands Branch
P.O. Box 66589– 00800, Nairobi

Commercial Bank of Africa Ltd
P.O. Box 30437- 00100, Nairobi
- j) **Independent Auditors**
The Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084 – 00100, Nairobi
- k) **Principal Legal Adviser**
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200, Nairobi

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II. THE BOARD OF DIRECTORS

DIRECTOR'S NAME	PASSPORT PHOTO	SIZE	DIRECTOR'S DETAILS
<p>1. Dr. Sammy C. Letema Chairman</p> <p>Professional/Academic qualification: Ph.D. Environmental Infrastructure</p>			<p>Date of Birth: 1st January, 1971</p> <p>Key qualification: Consultant and Chairman of the Department of Environmental Planning and Management; Member of Kenya Institute of Planners (KIP), Environmental Institute of Kenya (EIK) and a lead expert in Environmental impact Assessment (EIA). Dr Letema is widely published in his area of specialization</p> <p>Work experience: Over 20 years</p>
<p>2. Mr. Kevin Kihara - Director</p> <p>Professional/Academic qualification: Master of International Public Policy</p>			<p>Date of Birth: 24th August 1975</p> <p>Key qualification: Finance & International Development</p> <p>Work experience: 23 years 2015-to date: Head of Strategy, Performance and market development at Habitat and Housing in Africa (Shelter-Afrique) 2011-2015: General Manager, Business Development at Housing Finance Company of Kenya Ltd 2010-2011: Senior Manager, Innovation and Strategic partnerships at Family Bank Ltd 2009-2010: Relationships Manager at Family Bank Ltd</p>

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<p>3. Ms. Maureen Mwangovya - Director</p> <p>Professional/Academic qualification: Masters in Project Planning & Management (U.O.N)</p>		<p>Date of Birth: 10th October 1964</p> <p>Key qualification: Project planning and management/ Community development, Gender, administration, advocacy, resource mobilization & strategic planning</p> <p>Work experience: 17 years Current: Part-time lecturer at Technical University of Mombasa 2013-2015: Assistant Consultant for Kenya Ferry Services 2009-2012: Chief Executive Officer at Solidarity with Women in Distress (K) 2000-2007: Senior Programme Officer with Plan International</p>
<p>4. Mr. Henry Obino–</p> <p>Representing Principal Secretary, State Department of Environment and Forestry.</p> <p>Professional/Academic qualification: MBA Strategic Management</p>		<p>Date of Birth: 29TH March 1964</p> <p>Key qualification: Director of Administration</p> <p>Work experience: 32 years October 2015-to date: Director of Administration November 2012- October 2015- Senior Deputy Secretary June 2002-October 2012- Senior District Commissioner January 1988-June 2002- District Officer</p>
<p>5. Mrs. Margaret Maimba</p> <p>Representing Director General – NACOSTI</p> <p>Professional/Academic qualification: M.sc in Geochemistry</p>		<p>Date of Birth: 1960</p> <p>Key qualification: Chief Science Secretary</p> <p>Work experience: 34 years 2003-to date: Head of Earth and Space at NACOSTI Worked previously in the Ministry of Energy and Ministry of Environment and Natural Resources</p>

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<p>6. Mr. Felix Ateng' Professional/Academic qualification:</p> <p>MBA - Strategic Management Bachelor of Commerce, Marketing and Financial Management</p>		<p>Date of Birth: 21 July 1959</p> <p>Key qualification: Senior Assistant Director, Government Clearing and Forwarding Agency</p> <p>Work experience: 30 years 2014-to date: Senior Assistant Director, Government Clearing and Forwarding Agency, Ministry of Finance/Transport 2011-2014: Deputy Director, Government Clearing and Forwarding Agency, Ministry of Finance 2010-2011: Assistant Director, Government Clearing and Forwarding Agency, Ministry of Finance 2007-2010: Senior Assistant, Government Clearing Agency, Ministry of Finance 2004-2007: Assistant Clearing Government Clearing Agent, Ministry of Finance</p>
<p>7. Mr. Josephat Inganji Yakhama, Forester Professional/Academic Qualification:</p> <p>Master's in Public Policy & Administration – KU. B.Sc in Forestry – Moi University</p>		<p>Date of Birth: 19th December 1963</p> <p>Key qualification: Senior Assistant Director for Planning & Monitoring, Principal Forest Officer for Partnership among others</p> <p>Work experience: 30 years 2018 to date: Ag. Deputy Chief Conservator of Forests, Corporate Affairs, KFS</p>
<p>8. Dr. Joshua Kiplongi Cheboiwo</p> <p>Director/Chief Executive Officer KEFRI</p>		<p>Date of Birth 20th August 1958</p> <p>Key Qualification: PhD. Environmental Economics. Expertise in socioeconomics, policy and governance research.</p> <p>Work experience: 34 years Acting Senior Deputy Director Research & Development KEFRI 2019- Director KEFRI</p>

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III. THE KEFRI MANAGEMENT TEAM

<p>1. Dr. Joshua K. Cheboiwo</p> <p>Director/ Chief Executive Officer KEFRI</p>		<p>Date of Birth 20th August 1958</p> <p>Key Qualification: PhD. Environmental Economics. Expertise in socioeconomics, policy and governance research.</p> <p>Work experience: 34 years Acting Senior Deputy Director Research & Development KEFRI</p> <p>2019- Director KEFRI</p>
<p>2. Dr. Jane W. Njuguna</p> <p>Professional/Academic qualification:</p> <p>PhD – Forest Science</p>		<p>Date of Birth: 20th October 1962</p> <p>Key qualification: Forest Science, Ag. Chief Executive Officer (CEO)/ Director Kenya Forestry Research Institute (KEFRI) and the Secretary to the Board.</p> <p>Work experience: 31 years</p>
<p>3. Mr. George Otieno</p> <p>Professional/Academic qualification:</p> <p>MBA – Finance – KU BBM – Accounting - Moi University CPA (K) Member of ICPAK and The Institute of Internal Auditors</p>		<p>Senior Deputy Director – Finance & Administration</p>
<p>4. Dr. Ebby Chagala-Odera</p> <p>Professional/Academic qualification:</p> <p>PhD – Forest Genetics and Tree Breeding</p>		<p>Deputy Director – Technical Support Services</p>

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<p>5. Dr. Gabriel M. Muturi</p> <p>Professional/Academic qualification:</p> <p>PhD – Invasion Ecology</p>		<p>Deputy Director – Forest Biodiversity and Environment Management</p>
<p>6. Dr. Joseph Githiomi</p> <p>Professional/Academic qualification:</p> <p>PhD – Forestry</p>		<p>Deputy Director – Forest Products Development</p>
<p>7. Dr. Jackson M. Mulatya</p> <p>Professional/Academic qualification:</p> <p>PhD – Tree Ecology and Agroforestry system interactions and management</p>		<p>Deputy Director – Corporate Affairs and Quality Assurance</p>
<p>8. Mrs. Evelyn I. Oroni</p> <p>Professional/Academic qualification:</p> <p>MBA – HRM HND – Human Resource Management</p>		<p>Deputy Director – Human Resource Management</p>

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<p>9. Mr. John M. Gisemba</p> <p>Professional/Academic qualification: MA – Organizational Leadership CPS (K)</p>		<p>Deputy Director- Administration</p>
<p>10. Commissioner. Rose B. Osoro</p> <p>Professional/Academic qualification: –MBA Strategic Management BA –Sociology CPS (CS) CPA (K)</p>		<p>Deputy Director- Finance</p>
<p>11. Mr. Hudson Barasa</p> <p>Professional/Academic qualification: MSc – Procurement and Logistics Management Final Diploma in Supplies Management Licensed practitioner in Supply Chain Management by KISM</p>		<p>Deputy Director - Supply Chain Management</p>
<p>12. Mrs Karen N. Muka</p> <p>Professional/Academic qualification: MBA Finance, Bcom Accounting, CPA(K), CPS (K), CISA Membership: ICPAK, ISACA & IIA</p>		<p>Chief Internal Auditor</p>

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IV CHAIRMAN'S STATEMENT



I am delighted to report the Institute's performance during the financial year and share the achievements we have made to firmly place KEFRI on the path to success.

The 9th KEFRI Board of Directors was appointed on 31st May 2016 for a period of three years up to 30th May 2019. The Board was inaugurated on 12th July 2016. The Board has ensured systems, work plans, and programmes have been put in place to enable the Institute implement its mandate.

During this period the Board through its constituted committees deliberated on requisite policy matters and performance contracting of Institute's targets for the year under review. The Board Committees include: - Research and Development Committee which mainly deals with forestry research issues; the Finance and Administration Committee which deals with finance, human resource and administration issues; and the Audit Committee which deals with audit and risk management issues and oversight role of the Institute.

The Institute has engrained corporate governance as the pivotal institutional framework, through which strategic objectives of the Institute are set, attained and its performance monitored. The board has wholly embraced corporate governance to direct, control and be held to account by the stakeholders. Governance dictates the *modus operandi* of engagement and interaction between the board, management and regulators for the sustainable benefits to stakeholders. In addition the Institute has complied with the Mwongozo Code of Governance that promotes efficient deployment and accountability in the management of public resources.

The current Board continued with the implementation of the 5th Strategic Plan (2013-2018) and development of the 6th Strategic plan (2018-2023) with a focus on enhanced performance and research results that demonstrate outcomes and impact based on economic, social and environmental aspects. This is by setting model demos for rehabilitation in Mt. Elgon (2) and Cherangany (2). The Institute established income generating activities for both youth and women in Mt. Elgon and Cherangany. The Board ensured Production of quality seeds from various commercial tree species from all the regional centres.

The Board Established 17 ha of seed stands, raised planting materials for species that are difficult to propagate and sensitized stakeholders on commercialization of bamboo.

The Board disseminated Forestry Technologies by organizing field days, capacity building for KEFRI partners on importance of enhancing climate change strategies in Kajiado County among other counties was achieved.

New tree products were developed including; *Jatropha glycerine*, *Armarula* jam, Animal feed from baobab seed cake and Cape chestnut seed oil.

Funding has been increasing steadily over the years with the National Government financing over 90%. Internally generated funds and resources mobilized from Development partners/Donors accounts for the 10%.

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I have worked closely with Management and other stakeholders to ensure development and implementation of Institute mandate.

I take this opportunity to thank my colleagues in the Board for supporting me in providing leadership over the past year. Their commitment contributed immensely to our performance in the year just ended. I commend management and staff for working tirelessly to achieve the level of growth that we witnessed during the year. I am confident that they shall spare no effort to attain and surpass the targets we have set for the new financial year.

Dr Sammy Letema 
CHAIRMAN- KEFRI BOARD OF DIRECTORS

Date: 26/06/2018

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V. REPORT OF CHIEF EXECUTIVE OFFICER



The Forest sector plays a key role in Kenya's social and economic development and forestry research is a major driver in the whole process. KEFRI is a State Institute which was established in 1986 under the Science and Technology Act (Cap 250), which has since been repealed by the Science, Technology and Innovation Act No.28 of 2013, as a lead agency in carrying out research in forestry for development.

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

During the year under review, KEFRI continued to implement the 5th Strategic Plan 2013-2018 given the Performance Contracting target of 2017/2018 Financial Year. The Strategic Plan is aligned to Medium Term Plan II (MTP II) priority activities and the Research Themes in line with the National Forest Programme as follows: Forest Productivity and Improvement; Forest Biodiversity and Environment Management; Forest Products Development; Forest Economics, Policy and Governance; Technical Support Services; and Corporate Affairs & Quality Assurance Unit.

Notable achievements during the 2017/2018 FY include;

Research and development:

Undertook studies, developed and refined various technologies in our eco-regions including:

Forest Productivity and Improvement (FPI)

- Established 9 ha of Seed Orchard *Pinus patula* (4), *Cupressus lusitanica* (2), *Grevillea robusta* (1), *Gmelina arborea* (1) and 1 ha of *Melia volkensii*(1)
- Establishment of 18 ha of Seed Stands
- 4000 bamboo seedlings and 5500 *Osyris lanceolata* (sandalwood) seedlings were raised
- 40 seedlings of *Euphorbia tanaensis* is a threatened species with only 3 wild trees were raised and 17 planted in Witu forest reserve at the Coast
- *Pinus elliottii* and *P. taeda* hybrids trials introduced at Coast and Western Kenya
- A total of 12,180 kg of 70 different tree species were collected from different regions

Forest biodiversity and Environment Management (FBEM)

- 400 Kgs of improved *Melia volkensii* seeds were produced from seed orchards with capacity of producing 4,000 seeds per kilograms that can translate to 1,500 Ha.
- Completed editing of the Proceedings of International Conference on the Development of Drought Tolerant Trees for Adaptation to Climate Change in Drylands of Kenya.
- Developed two proposals on capacity building of PFM activities in Kirisia, Laipkipa County and restoration of ASALs through bio-enterprise approaches which has been funded by GEF/FAO

Forest Products Development (FPD)

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The following studies were completed and reports done:

- Resource assessment and estimation of potential production levels of gums and resins was done in Marsabit county
- Baobab value chain analysis was done for in Makueni County
- Charcoal quality from various carbonization technologies determined
- 2 bio pesticides developed, *Melia volkensii* (1) and *Commiphora africana* (1)
- 3 new tree products namely *Jatropha glycerine*, Amarula jam and animal feed from Baobab seed cake were formulated
- Demonstration and training on framed chainsaw technology operations was done for 15 operators and 5 fabricators in Kibwezi, Makueni County.

Socio-economics, Policy and Governance (SPG)

- One report on market chain analysis for Prosopis products in Garissa County done
- Draft PES Strategy for Transboundary Riverine Forest Ecosystems: The case of River Lumi, Taita Taveta Kenya done
- 4 journal papers published by scientists
- One report on national monitoring of tree products flows, prices, opportunities and challenges in that covered major urban markets in the country

Technical Support Services (TSS)

- 31 publications were developed including peer review journals (16), technical notes (2), guidelines (10) and policy briefs (3) surpassing the annual target of 23 publications.
- 26 dissemination activities were carried out including ASK shows (11), radio talks (8), Newsletters (3), Annual Reports (1) Newspaper articles (1) and choir presentation (3) surpassing the target of 17.
- Held KEFRI Scientific Conference on 17th to 19th April 2018.

Infrastructural development:

- Construction of three new green houses at Eco-region centers and four refurbished green houses at the headquarters
- Purchase of tree climbing gears to enhance seed collection
- Expansion of three cold rooms for seed storage at the seed center
- Construction of 6 water pads at Loitokitok Sub County is ongoing.
- Fencing of 5 km Tiva forest in Kitui

Staff capacity building

- Components of the Strategic Plan touching on staff succession were implemented including recruitment of 10 staff in key positions.
- Emphasis on staff capacity development to enhance skills for service delivery
- Management enhanced member benefits in the existing staff medical insurance scheme.
- Organized training of regional courses for technologists
- 8 Accountants attended IPSAS Training at KSG organized by the National Treasury.

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- 5 Accountants attended Annual Conference organized by ICPAK at Mombasa
- Deputy director, Human resource attended a seminar organized by IHRM

Development partners

In the year under review, the Institute received donor funds from the European Union – WaTER Tower Project, KEFRI JICA-Capacity Development Project for Sustainable Forest Management in Kenya (CADEP), National Research Fund (NRF) and Climate Adaptation Change Fund boosted the Institute's financial and research activities.

Financial Stewardship

The main sources of Institute's fund for research, operations and maintenance are:-

- The Government of Kenya through the Exchequer,
- Internally Generated Revenue (AIA) and
- Donor funding
- During the financial year 2017/18, the Institute received **Kshs. 1,487,512,496** as recurrent grants and development grant of **Kshs. 143,231,199**. The funds were transferred to the Institute and were fully utilized for the approved projects and activities. The Institute collected **Kshs.121,827,564** as Internally Generated Revenue and Donor grants amounted to **Kshs. 206,315,381**.

Challenges

In the year under review, the Institute was faced with the following challenges:

- Budget cuts and delays in disbursement of funds from the National Treasury
- Inadequate policy on institutional and legal framework on forestry research access to gazzeted forest land, experimental plots and seed sources
- Changes in weather pattern affected the raising and planting of seedlings as many regions were hit by drought

In conclusion, I would like to thank the Board of Directors, our clients, dedicated and talented staff, our service providers for their continued support and loyalty, without which our objectives could not have been achieved. I also extend our gratitude to the Government of Kenya, The National Treasury, the Ministry of Environment and Natural Resources, Development Partners and all other stakeholders for their cooperation and support in accomplishing the Institutes mandate.


Joshua K. Cheboiwo (PhD)
DIRECTOR, KEFRI

Date: 26/6/19

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VI CORPORATE GOVERNANCE STATEMENT

The Institute Board operates under the Science and Technology Act (Cap 250), Laws of Kenya and embraces the principles of good governance that is engraved in the culture of integrity, accountability and transparency. The Institute is managed under the direction of the Board of Directors whose responsibility is to supervise the operations of management and ensure that the interest of the organization and all its stakeholders are promoted and protected. The Board which is guided by State Institutes Advisory Committee (Cap 446), Mwongozo and Government circulars through its Committees oversee the corporate governance, advises management in developing financial plans, and determines the strategic direction, goals and objectives as well as evaluating management's performance in pursuing and achieving those goals.

a) The Board Size, Composition and Independence

The Board of Directors consists of nine (9) directors out of who five (5) are independent non-executive directors. The members are of varied intellectual capacity, skills and competencies which are quite essential for efficient and effective decision making.

The non-executive Directors are independent of Management. Their role is to advise, constructively challenge and monitor the success of Management in delivering the agreed strategy within the risk appetite and control framework set by the board.

b) Board Meetings Held in the Year

The board normally meets at least once every quarter or more in accordance to the requirement of the business. Furthermore, the board work plan and calendar of meetings is prepared in advance. Adequate notice is given for each board meeting; the agenda and board papers are circulated in good time.

The table below details board membership and attendance as per scheduled board meetings during the year;

No	Board Member	Designation	Meetings attended	Meetings held
1	Robinson Ngethe	Ag. Chairman	15	15
2	Maureen Mwangovya	Chairperson-Audit Committee	7	7
3	Hewson Kabugi	Member- Audit R & D and Finance Committee	10	10
4	Dr. Abdullahi Jillo	Member- R & D Committee	2	2
5	Margaret Maimba	Member- Audit R & D and	10	10

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		Finance Committee		
6	Kevin Kihara	Chairperson-Finance & Admin. Committee	9	9
7	Peter Mwangi	Member- R &D Committee	7	7
8	Inganji Yakhama	Member- R & D	7	7
9	Felix Ateng	Member-Audit and Finance Committee	10	10

c) Board Structure

The Board operates under a comprehensive structure made up of committees established to assist in discharging its responsibilities and obligations. These committees assist the board in carrying out its functions and ensuring that there is independent oversight of internal controls and risk management.

The Board Committees include: -

i. Research and Development

This committee offers policy guidelines and strategic direction in forestry research and technologies for sustainable development of forestry and allied natural resources for socio-economic development.

ii. Finance and Administration

The committee ensures prudent financial management through reviews of the annual budget and financial reports; offers advice and recommendations on Human Resource strategies, initiatives and policies; monitors the organization's performance and ensure sustainability and ensures availability of adequate resources for the achievement of the organization's objectives

iii. Audit Committee

The committee assist in enhancing internal controls and risk management in order to improve efficiency, transparency and accountability; ensures compliance with regulatory framework and ethical guidelines; reviews audit issues raised by Internal and External Auditors; resolve unsettled and outstanding/unimplemented audit issues; enhance communication between management internal and external audit and fostering effective internal audit function.

d) Roles and Functions of the Board

The Board offers strategic guidance, leadership and control of the Institute by defining the strategic intent of the Institute, its objectives and values; reviews this strategic direction and adopts work plans proposed by Management. With retention of full and effective control over the Institute, the Board monitors Management's implementation of the plans and strategies, ensures ethical behaviour and compliance with relevant laws & regulations, audit and accounting principles, corporate policies & procedures and the Code of Ethics.

The Board evaluates performance of Management against targets and objectives and benchmarks performance of the Institute against best international practices. The Board considers and approves the Institute's overall budget and specific proposals for capital expenditure.

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It reviews succession planning for the management team and approves senior executive appointments, organisational changes and remuneration.

The Board constitutes and reviews composition of Board Committees and approves reports and performance of each Board Committee. It further approves the quarterly and annual financial statements.

e. Induction

Upon appointment to the Board, new Directors embark on a detailed programme to familiarize themselves with the Institute's research activities and operating environment. Corporate literature is provided and meetings arranged with senior management team. Visits to Eco Regions are also organized.

f. Continuous Professional Development

During the year, the Directors undertook various training and development programmes to ensure they update their skills and knowledge, as well as keep abreast of the developments in corporate governance.

g. Board Evaluation

The Board conducts an annual evaluation of its Committees and individual members to gauge performance. This is done by the State Institutes Advisory Committee (SCAC).

h. Conflict of Interest

The Directors are obligated to disclose to the Board real or potential conflict of interest, which comes to his/her attention, whether direct or indirect. The statutory duty to avoid situations in which they have or may have interests that conflict with those of the Institute has been observed by the Board. All business transactions with all parties, directors or related parties are carried out at an arms' length.

An acknowledgement that should it come to the attention of a Director that a matter concerning the Institute may result in a conflict of interest, it obligates the Director to declare the same and exclude himself/herself from any discussion or decision over the matter in question.

i. Board Remuneration

The non-executive Board members are paid taxable sitting allowances as approved by the Chief of Staff and Head of the Public Service following guidelines from the State Advisory Committee (SCAC) and SRC. The Chairman is paid honoraria at the approved rate. Transport expenses are reimbursed on travel for board business at the prevailing AA rates. The members are also entitled to medical cover.

j. Code of Conduct & Ethics

The institute has fully adopted the Code of Ethics that is enshrined in the Mwongozo which is the Code of Governance for State Institutes. The code of ethics entails among other things declaration of Conflict of Interest which must be embraced by both the Board and the employees of the organization. The Board has put in place Anti-Corruption Policy and a Code of Conduct & Ethics that binds both the board and the employees.

KENYA FORESTRY RESEARCH INSTITUTE



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k. Succession Planning

The appointing authority ensures that the tenures of the board members are staggered to ensure a phased transition.

l. Appointment and Removal of Directors

Board appointments shall be made in line with Article 27 of the Constitution of Kenya. The Board should be appointed through a transparent and formal process governed by the overriding principle of merit. The appointing authority shall ensure that any person appointed to the board fits and satisfies the proper requirements.

The board may recommend the removal of a member based on non-performance, non-attendance of meetings, unethical conduct or as set out in any constitutive documents or applicable law.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

a) OPERATIONAL AND FINANCIAL PERFORMANCE

i. Operational Performance

During Financial Year 2017/2018, the Institute implemented various projects and programmes that were mostly focused on development of forest technologies and dissemination of research findings to the stakeholders. The programmes and projects were mainly funded through government grants, development partners and internally generated funds. Funds from the Government were mostly used for personnel emoluments, capital projects and maintenance services. Donor funds were used for development of research technologies as per partnership agreements. Internally generated funds were used to cater for utility bills within the Institute.

During the year the institute undertook the following key activities:

- **Forest Conservation and Management**

High quality tree seeds amounting to 12,580 kg were collected and distributed to stakeholders. The institute built capacity of partners and stakeholders on seed and seedling production; bamboo propagation and management; participatory forest management and Regional training course Established Nine (9) ha, of seed orchards and eighteen (18) ha of seed stands of various species 4000 bamboo seedlings and 5500 *Osyris lanceolata* (sandalwood) seedlings were raised. 40 seedlings of *Euphorbia tanaensis* is a threatened species with only 3 wild trees were raised and 17 planted in Witu forest reserve at the Coast

Developed two proposals on capacity building of PFM activities in Kirisia, Laipkipa County and restoration of ASALs through bio-enterprise approaches which has been funded by GEF/FAO Draft PES Strategy for Transboundary Riverine Forest Ecosystems: The case of River Lumi, Taita Taveta Kenya done

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• Dissemination of Forestry Technologies

The research eco-regions held field days, open days and participated in ASK Shows in most counties (Nairobi International Show, Mombasa, Nakuru, Kisumu, Kakamega, Kisii, Eldoret, Machakos, Nyeri, Baringo and Kitale) to show case forestry research technologies developed.

Produced over 62 publications which include guidelines, technical notes, information and policy briefs as well as peer reviewed journal papers

Scientists participated in various national and international fora to share research findings. The Institute held a successful Scientific Conference on 17th to 19th April 2018

Provided advisory services on tree pests and diseases countrywide

• Staff capacity and competence development

The Institute undertook skill gap analysis and executed interventions by recruitment, outsourcing of non-core functions and capacity building/training of various staff cadres

• Infrastructural development

- Construction and refurbishment of glass houses at the Regional Research Centres
- Construction and equipping of Farmers Resource Centres in Migori and Taita Taveta
- Installation of water/fire hydrant in Kitui
- Establishment of demo plots and fencing of 5 km at Tiva research station

b) Financial performance

i. Income Trends

Over the years the institute has recorded financial growth in its performance.

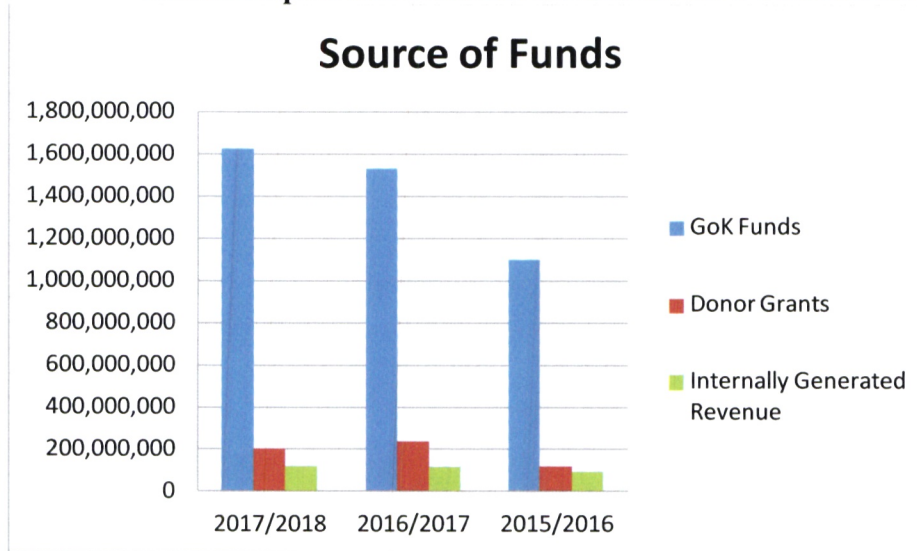
The following is a summary of the income the Institute has received/recognized in the last three financial years:

Source of Funds	2017/2018	2016/2017	2015/2016
GoK Funds	1,630,743,695	1,532,380,992	1,104,084,049
Donor Grants	206,315,381	242,468,332	125,415,089
Internally Generated Revenue	121,685,564	117,412,149	98,034,271

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ii. Absorption rate

During the year, the Institute absorbed the budgeted and received funds from government grant, donor grant and internally generated revenue at the rate of 95%.

iii. Employee costs

The Institute's management strategy focuses on driving a culture of performance and creating a productive workforce by developing a strong, skilled and proactive team to sustain the organization. As at 30th June 2018 the institute had 956 employees compared to 999 in the previous year. The decrease was as a result of natural attrition. The employees' costs increased during the year from Kshs. 1,166,840,038 to Kshs 1,194,485,137 due to annual salary increment and promotions.

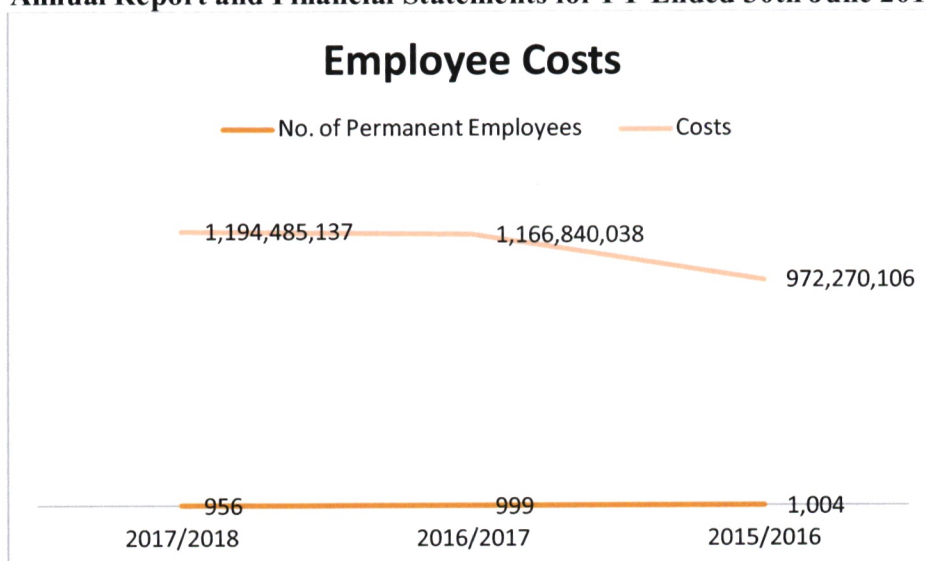
The trend is as shown below:

Particulars	2017/2018	2016/2017	2015/2016
No. of Permanent Employees	956	999	1,004
Costs	1,194,485,137	1,166,840,038	972,270,106

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iv. Operating and Maintenance costs

Operating costs cater for purchase of research materials including supplies for production, chemicals and laboratory materials, electricity, water and conservation, telephone, telex and mobile communication expenses, traveling and accommodation, advertising & publicity, training expenses, Insurance of motor vehicles, cost of conference and seminars, clinic drugs and dressings, library expenses, stationery, computers, sanitary and cleaning materials and fuel and lubricants.

Repairs and Maintenance caters for maintenance of laboratory equipment, vehicles, plant and machinery, furniture, offices, roads, minor alterations, computer software, water supplies and sewerage.

These expenses increased from kshs.499,983,886 to Kshs. 583,905,815 as a result of increased research activities.

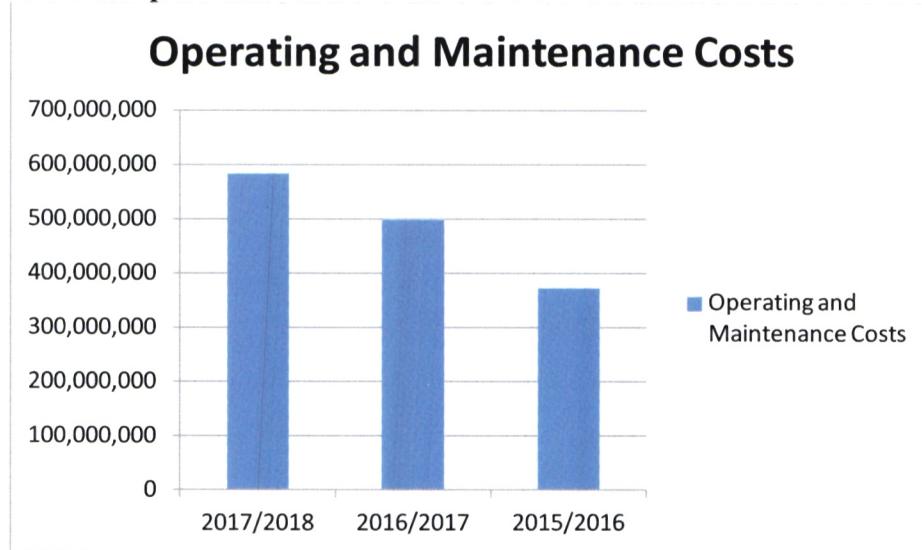
The trend is as shown below:

Particulars	2017/2018	2016/2017	2015/2016
Operating and Maintenance Costs	583,905,815	499,983,886	373,201,088

KENYA FORESTRY RESEARCH INSTITUTE



Annual Report and Financial Statements for FY Ended 30th June 2018



v. Board of management expenses

The expenses cater for allowances, meetings expenses, medical insurance and KEFRI Director's remuneration.

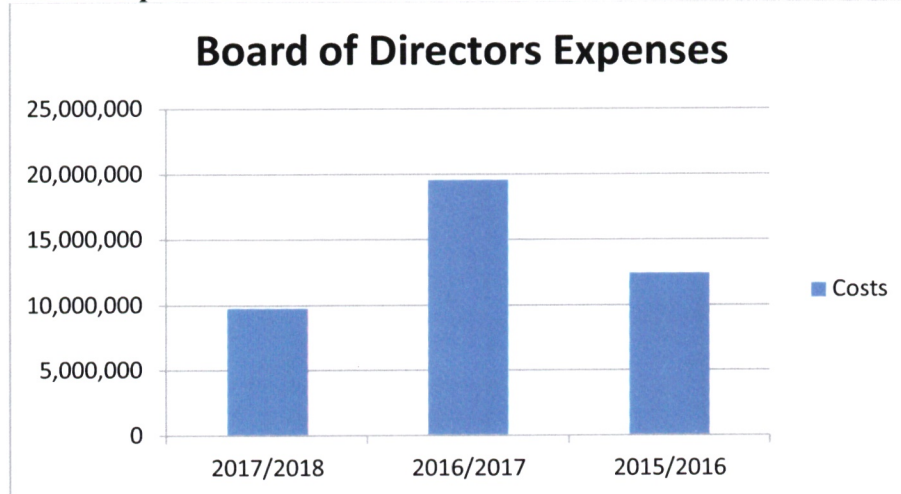
The trend is as shown below:

Board of Directors Cost	2017/2018	2016/2017	2015/2016
Costs	9,772,816	19,574,337	12,437,303

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vi. Surplus/ (Deficit)

During the year, the Institute realized a surplus of Kshs. 7,049,323. However there was as a reduction in surplus from the previous year 2016/2017 of Kshs 90,519,180 .This was as a result of increased operational costs which was brought by increased research activities.

The trend is as shown below:

Period	2017/2018	2016/2017	2015/2016
Surplus/(Deficit)	7,049,323	97,568,503	(154,292,883)

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c).Supply Chain Management

Supply Chain facilitates the acquisition of goods and services required to meet the needs of achieving corporate and strategic objectives through the procurement process. The supply chain management targets have been attained using a legal framework and industry best practices. This makes supply chain management a significant cost and value driver in the delivery of the best prices, highest quality, and the best availability of requirements through the development of an agile supply base. The strategic focus is on procurement planning, procurement processing, inventory and asset management, logistics management, disposal, contract management and supplier relationship development.

d).Asset Management

The Institute has continued to make the best use of equipment, machinery, tools, and buildings to maximize value. This has been done through:

i. Inventory Management:

The Institute has an automated system for maintaining and controlling its inventory. As at 30 June 2018, our asset book value was around Kshs. 5.8 billion

ii. Repairs

Activities geared towards restoring assets, equipment and tools to usable condition after damage or wear has been expedited.

iii. Disposal of Assets

Disposal at the Institute is done in full conformity with the Public Procurement and Asset Disposal Act 2015 and Environmental Management Act.

e). Institute's compliance with statutory requirements

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The Board has continued to make timely remittance of statutory deductions including; Pay As You Earn, National Hospital Insurance Fund, National Social Security Fund, Higher Education Loans Board and Pension scheme in order to protect the welfare of its staff in retirement and hospital Insurance and, fully complied with statutory requirements during the year under review.

In addition, the Institute has adhered to the Public Finance Management Act, 2012 (PFM) and related regulations as well as Treasury Circulars issued from time to time.

f). Key projects the Institute is planning/ implementing

The goal of Kenya Forestry Research Institute (KEFRI) is to contribute to achieving the Vision 2030 Flagship Projects in line with MTP II and the Big Four Agenda by developing forest technologies for sustainable development and utilization of forest and allied natural resources to enhance/improve livelihood of communities and provide clean and healthy environment.

The key projects funded by the Government include:

- Development of Forest Research Technologies
- Construction of Tree seed processing Units
- Construction Glass Houses at Regional Research Centres
- Construction of Farmers Resource Centres in Migori and Taita Taveta
- Installation of water/fire hydrant in Muguga and Kitui
- Development of Tiva on station forest in Kitui
- KEFRI/JICA-Capacity Development Project for Sustainable Management (CADEP) in Kenya for Tree breeding and social forestry management (Counterpart funding)

Institute contributions to the Big Four Agenda are as follows:

1. Universal Health Care

- i) Provision of clean and increased water flow for human consumption improves health and prevents disease occurrence
- ii) Recharge of water aquifers with clean water mitigates pollution and reversal filtration of salty waters in our bore holes
- iii) Contribution to the pharmaceutical industry through medicinal and herbal products
- iv) Forest mitigates climate change thus reversing the conditions for disease bearing vectors e.g. mosquitoes.
- v) Forest act as wind break thus taming down dust and air drift that would otherwise cause diseases
- vi) Forests has therapeutic effects on human beings particularly stress reducing effects

2. Food and Nutrition Security

- i) Forests assists in soil formation, soil health, protection, nutrient circulation and nitrogen fixation that improve soil fertility
- ii) Grazing areas and fodder for animal production

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Annual Report and Financial Statements for FY Ended 30th June 2018

- iii) Forest food production that include bamboo, *prosopis* and indigenous fruits with high nutritional values.
- iv) Forest increases resilience and acts as safety nets during drought and lean times and substitutes foods for vulnerable groups
- v) Habitat for bees for honey and beeswax production
- vi) Habitat for birds, insects and other food crop pollinators
- vii) Biodiversity conservation improves pest control leading to improved and sustainable farm production.
- viii) Wood energy for preparation and processing of food
- ix) Agro forestry provides varied goods and services at the farms
- x) Provision of water for domestic use

3. Affordable Housing

- i) Forests provide raw materials such as timber, poles, ropes and grass.
- ii) Provision of raw materials including ceiling boards and veneers
- iii) Forest act as a source of red soil
- iv) Mangroves act as a source of building materials
- v) Environmental education to youth and communities on tree growing as sources of raw materials for housing

4. Industrialization, manufacturing and agro-processing

- i) Provision of raw materials for furniture, tools and utensils
- ii) Provision of raw materials for cosmetics, wood processing, curing and seasoning.
- iii) Provision of employment to youth and women in Small and Medium Enterprises such as soap making, food stabilizers, briquette and Eco-stove

g) Major risks facing the Institute

The Institute is committed to risk management as an integral part of its corporate governance and operations, developing strategies and systems to minimize risks.

The Institute is committed to:

- Developing a 'risk aware' culture in which people are encouraged to identify risks and respond to them quickly and effectively
- Ensuring our key stakeholders recognize that we manage risks responsibly
- Developing consistent risk management practices
- Organizational growth and cognizant of the inherent risks associated with strategy execution.

Key risks the organization is exposed to;

i. Financial risk

The Authority's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Authority's overall risk management policies are set out by the board and implemented by the management and focus on the unpredictability of changes in the business

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environment and seek to minimize the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk. The Authority does not hedge against any risks.

- **Credit risk** refers to the risk that counter-party will default on its contractual obligations resulting in financial loss to the Institute. The Credit risk also arises from bank balances, trade receivables and amounts due from related parties.
- **Market risk** is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises two types of risk: currency risk and interest rate risk. The institute is exposed to market risk as a result of transactions in foreign exchange
- **Liquidity risk** is the risk that the Institute will not be able to meet its financial obligations when they fall due. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the Institute's reputation. The Institute ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

ii. Operational Risk

Operational risk is the risk of indirect loss arising from a wide variety of causes associated with the Institute's processes, personnel, technology and infrastructure, external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Institute's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Institute's reputation with overall cost effectiveness and to avoid any control procedures that restrict initiative and creativity in the Institute.

iii. Political/Legislation risk

This affects service delivery due to the uncertainty caused in every election cycle

Change in Government legislation and policies affects organizations in implementing strategic objectives.

h). Material arrears in statutory/financial obligations

The Institute did not have any material statutory pending obligation as at the end of the financial year.

i). The Institute financial probity and serious governance issues

The Institute did not have any serious governance issues as at the end of the financial year.

KENYA FORESTRY RESEARCH INSTITUTE



Annual Report and Financial Statements for FY Ended 30th June 2018 VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

a).CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is a concept in which the management of an organization undertakes an obligation to integrate decisions and actions that will contribute towards the community and benefit the organization. CSR reflects an organization's commitment towards improving the society's wellbeing and it also serves to enhance the organization's image.

Objectives of CSR Activities

- To enhance KEFRI's image and services to the public.
- Position KEFRI as a responsible government agency paving the way for a clean and healthy environment.
- Give back to the communities that KEFRI works with.
- To support ongoing government initiatives.

CSR Activities

In line with its vision, mission and core values the Institute will focus its CSR activities along initiatives that seek to promote a clean and healthy environment.

i. Tree Planting

In partnership with local communities and schools, KEFRI seeks to increase tree cover in the country through tree planting initiatives. The Institute donates seeds and seedlings and technical expertise towards this activity.



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Annual Report and Financial Statements for FY Ended 30th June 2018 *Community members planting seedlings donated by KEFRI*

ii. Supply of clean water to neighboring communities

KEFRI provides safe and clean water to the community and donations to public institutions.



iii. Provision of health services to staff and their extended families

The Institute has well equipped clinics manned by trained health officers who look after the wellbeing of staff and their extended families. The neighboring communities are also welcome to receive treatment at these facilities.

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Annual Report and Financial Statements for FY Ended 30th June 2018



iv. Participation in charity events

KEFRI also participates in charity events such as marathons and walks to raise funds to help the less fortunate in society.

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KEFRI staff display their medals upon completion of 21kilomteres of the Standard Chartered Nairobi Marathon

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v. Participation in environmental awareness activities

KEFRI joins the rest of the world in marking global environmental days such as World Environment Day, World Food Day and International Day of Forests amongst others.



KEFRI staff join community members in cleaning up Gacuthi forest during World Environment Day.

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Annual Report and Financial Statements for FY Ended 30th June 2018

vi. Visits and donations to children's homes and the elderly

The Institute staff gives back to the less fortunate in society by donating firewood, clothes and food stuff.



KEFRI choir members giving food donations to children from Teresiah ECD centre.

b) SUSTAINABILITY REPORTING

The Institute maintains its focus on operational excellence with an emphasis on process improvement, development of operational standards, improved service delivery and quality and quality audits across all functions.

Areas of focus are:

- Quality Management ISO 9001:2008
- Environment Management ISO 14001:2004
- Safety and Health
- Awareness and Training
- Safety Promotions and Campaigns
- Safety and Health Inspections and Audits
- Business Continuity and Disaster Preparedness Planning
- Emergency Preparedness and Response

The institute has a responsibility to harness natural resources in a sustainable manner. It has actively supported environmental programmes aimed at conserving the water towers. The institute also employs environment conservation; environmental and social Impact Assessment Studies; Strategic Environmental Assessment and Environmental rehabilitation and conservation activities.

KENYA FORESTRY RESEARCH INSTITUTE



Annual Report and Financial Statements for FY Ended 30th June 2018

IX. REPORT OF THE DIRECTORS

The Director's submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Institute's affairs.

Principal activities

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

Results

The results of the Institute for the year ended June 30, 2018 are set out on page 1-2.

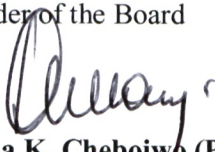
Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the Institute in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year ended June 30, 2018

By order of the Board


Joshua K. Cheboiwo (PhD)
KEFRI BOARD SECRETARY

Date: 26/6/19

KENYA FORESTRY RESEARCH INSTITUTE



Annual Report and Financial Statements for FY Ended 30th June 2018

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 and 15 of the State Corporation Act 446, require the Directors to prepare financial statements in respect of that Institute, which give a true and fair view of the state of affairs of the Institute at the end of the financial year and the operating results of the Institute for that year. 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 ended on June 30th 2018. 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 2012 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 30th 2018, and of the Institute's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained in the Institute, which have been relied upon in the preparation of the Institute's financial statements as well as the adequacy of the systems of internal financial control.

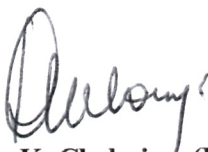
Nothing has come to the attention of the Directors to indicate that the Institute will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the Financial Statements

The Institutes financial statements were approved by the Board on 18/09/2018 and signed on its behalf by:


Dr Sammy Letema
CHAIRMAN- KEFRI BOARD OF DIRECTORS

Date... 26/06/2015


Joshua K. Cheboiwo (PhD)
DIRECTOR - KEFRI

Date... 26/6/2019

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA FORESTRY RESEARCH INSTITUTE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Forestry Research Institute set out on pages 1 to 30, which comprise the statement of financial position as at 30 June 2018, 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.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Forestry Research Institute as at 30 June 2018, 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 the Public Finance Management Act, 2012 of the Laws of Kenya.

Basis for Qualified Opinion

Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.5,796,221,100 excludes the values for various parcels of land totaling 2735 hectares across the country on which the entity has put up developments including parcels owned by Kenya Forest Service, Maseno University, Ministry of Agriculture, County Governments of Kitui, Lamu and Migori (Kamagambo). The balance also excludes the value of land where the headquarters is built which is under the name of the Ministry for Environment and Natural Resources.

In the circumstances, it has not been possible to confirm the accuracy, completeness, ownership and valuation of property, plant and equipment balance of Kshs.5,796,221,100 as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Forestry Research Institute in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I

Report of the Auditor-General on the Financial Statements of Kenya Forestry Research Institute for the year ended 30 June 2018

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Abandoning from Duty and Irregular Salary Payments

As previously reported, three officers absconded duty and were irregularly paid salaries amounting to Kshs.2,739,360 in the year 2015/2016. They had been sponsored for overseas training. To date, the Institute has not recovered that money from the concerned officers. Efforts to recover the money through the Ministry of Foreign Affairs have not yielded positive results. The recoverability of the irregularly paid salaries is therefore doubtful.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter(s) described in the Basis for Qualified Opinion section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

1. Non-Functional Electronic System

The Institute procured the Sage A Complete and Comprehensive Program for Accounting Control (ACCPAC) system several years ago but it has not been working optimally to enable integration between different modules such vote book and payments. Furthermore, the ledger and trial balance provided for audit rely on use of

manual records. Consequently, the accounting records may not be accurately and efficiently maintained and may be open to manipulation.

2. Lack of an Asset Management System

The Public Financial Management (PFM) Regulation 2015 section 139(1b) requires that the Accounting officer of a government entity, shall take full responsibility and ensure that proper control systems exist for assets and that movement for and conditions of assets can be tracked. It was however observed that the Institute's assets have not been tagged and as a result making it difficult for the management to manage its assets efficiently.

In the absence of an asset management system, it has not been easy to track assets movement. In addition, failure to tag assets may result in unauthorized disposal, write offs and unreported losses.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accruals Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going-concern, disclosing, as applicable, matters related to the going -concern and using the going-concern basis of accounting unless the government intends to cease operations of the Institute, or have no realistic alternative but to do so.

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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Institute monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance

and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution.

My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

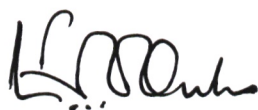
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve

collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the sustainability of services, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Institute to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

26 August 2019



KENYA FORESTRY RESEARCH INSTITUTE
**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2018**

	Note	2017-2018 Kshs.	2016-2017 Kshs.
REVENUE			
Revenue from non-exchange transactions:			
Government Grants	3	1,536,359,277	1,487,423,344
External Grant for Research	4	206,315,381	242,468,332
Deferred Income from Donors	5(b)	30,279,269	34,536,462
Revenue from exchange transactions:			
Interest on TB,FDR and Savings A/c	6	-	854,760
Other Income	7	121,685,564	116,557,389
TOTAL REVENUE		1,894,639,491	1,881,840,287
EXPENSES			
Employee Costs	8	(1,194,485,137)	(1,166,840,038)
Operating Expenses	9	(583,905,815)	(499,983,886)
Board of Directors Expenses	10	(9,772,816)	(19,574,337)
Establishment Cost(Sinking Fund)	11(a)	(5,000,000)	(6,000,000)
Depreciation	5(a)	(88,610,913)	(90,262,597)
Amortization on Intangible Asset	12	(4,144,506)	(4,826,191)
TOTAL EXPENSES		(1,885,919,186)	(1,787,487,048)
OTHER GAINS/(LOSSES)			
Gain on Sale of Fixed Assets	13	1,060,747	-
Exchange Gain/(Loss)	13(b)	(2,731,729)	3,215,264
		(1,670,982)	3,215,264
Surplus/(Deficit) for the Year		7,049,323	97,568,503



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2018

		2017-2018 Kshs.	2016-2017 Kshs.
ASSETS	Notes		
CURRENT ASSETS			
Cash and cash equivalents	14(a)	298,878,846	296,988,922
Receivables from exchange transactions	15(a)	15,067,566	7,410,472
Receivables from non- exchange	15(b)	1,283,774	2,060,451
Inventories	16	64,410,175	88,554,825
		379,640,361	395,014,670
NON-CURRENT ASSETS			
Property, Plant & Equipment	5(a)	5,796,221,100	5,783,614,743
Intangible Assets	12	16,578,022	19,304,763
		5,812,799,122	5,802,919,506
TOTAL ASSETS		6,192,439,483	6,197,934,176
LIABILITIES			
CURRENT LIABILITIES			
Payables from exchange transactions	17	12,458,567	11,231,236
Auditor General- accrued audit fee	17(c)	1,980,000	1,320,000
Payables from non-exchange transactions	17(d)	8,124,400	-
Unxpended External Donor Grants	4	192,174,312	273,715,134
Medical Scheme Funds	18	742,883	742,883
		215,480,162	287,009,253
NET ASSETS			
Government Grants for capital assets	19(a)	990,880,904	888,244,669
Deferred Income on Donated Assets	5(b)	586,799,202	617,078,471
Sinking Fund	11(b)	5,498,436	17,209,165
Revaluation Reserves	19(b)	4,467,199,488	4,467,199,488
Revenue Reserves	19(e)	(73,418,709)	(78,806,870)
		5,976,959,322	5,910,924,924
TOTAL NET ASSETS & LIABILITIES		6,192,439,483	6,197,934,176

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

Dr. Sammy Letema.....
Chairman, KEFRI Board of Directors

Mr. G.W. Otieno.....
Senior Deputy Director CS
ICPAK Member Number: 3285

Joshua K. Cheboiwo (PhD).....
DIRECTOR KEFRI

Date: 26/06/2019.....

Date: 26.6.2019.....

Date: 26/6/19.....



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2018

	Deferred Income on Government Grants for Capital Assets Kshs	Deferred Income on Donated Assets Kshs	Revenue Reserves Kshs.	Revaluation Reserves Kshs	Sinking Fund Kshs.	Total Kshs.
Balance as at 1st July 2016	843,287,021	651,614,932	(176,375,372)	4,467,199,488	11,953,651	5,797,681,720
As restated	843,287,021	651,614,932	(176,375,372)	4,467,199,488	11,953,651	5,797,681,720
Surplus/(Deficit) for the year	-		97,568,503			97,568,503
Revaluation gain						-
Sinking Fund expenses					(818,814)	(818,814)
Additions during the year	76,500,000				6,074,329	82,574,329
To Income & Expenditure	(31,542,352)					(31,542,352)
Deferred Income for the year		(34,536,462)		-	-	(34,536,462)
Balance as at 30th June 2017	888,244,669	617,078,471	(78,806,870)	4,467,199,488	17,209,165	5,910,926,924
Balance as at 1st July 2017	888,244,669	617,078,471	(78,806,870)	4,467,199,488	17,209,165	5,910,926,924
As restated	888,244,669	617,078,471	(78,806,870)	4,467,199,488	17,209,165	5,910,926,924
Surplus/(Deficit) for the year	-		7,049,323			7,049,323
Adjustments			(1,661,162)			(1,661,162)
Transfers from Sinking fund	8,251,817					8,251,817
Sinking Fund expenses					(17,636,979)	(17,636,979)
Additions during the year	143,231,199				5,926,250	149,157,449
To Income & Expenditure	(48,846,781)					(48,846,781)
Deferred Income for the year	-	(30,279,269)	-	-	-	(30,279,269)
Balance as at 30th June 2018	990,880,904	586,799,202	(73,418,709)	4,467,199,488	5,498,436	5,976,959,322



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2018

		2017-2018	2016-2017
	NOTES	Kshs.	Kshs.
Cash Flows from Operating Activities			
Surplus(Deficit) for the Year		7,049,323	97,568,503
Adjustment for:			
Depreciation	5(a)	88,610,913	90,262,597
Amortization for Intangible Asset	12	4,144,506	4,826,191
Deferred Income	5(b)	(30,279,269)	(34,536,462)
KEFRI Surcharge		(204,738)	(251,044)
Commission Income		(220,144)	(220,823)
Adjusted Surplus		69,100,590	157,648,961
Working Capital Changes:			
Decrease (Increase) in Debtors	15	(6,880,417)	(3,476,074)
Decrease (Increase) in Stock	16	24,144,650	(5,384,372)
Increase (Decrease) in Creditors	17	(71,529,091)	6,656,979
Net Cash from operating activities		(54,264,858)	(2,203,467)
Cash Flows from Investing Activities:			
Purchase of Assets	5(a)	(101,254,523)	(100,066,129)
Purchase of Intangible	12	(1,417,765)	(5,499,304)
Establishment Cost(Sinking Fund)	11(a)	(5,000,000)	(6,000,000)
Proceeds from sale of assets		1,098,000	-
Net Cash from Investing activities		(106,574,288)	(111,565,432)
Cash Flows from Financing Activities:			
Development capital grants	3	94,384,418	44,957,648
Research Grants Received	4	130,783,168	270,296,075
Transfers/Adjustments		75,131,365	(16,100,363)
Research Grants Paid	4	(206,315,381)	(242,468,332)
Net Cash from Financing activities		93,983,570	56,685,028
Net Increase (Decrease) in Cash & Cash Equivalent		2,245,015	100,565,090
Opening Cash & Cash Equivalent		296,988,922	196,423,833
Closing Cash & Cash Equivalent		299,233,937	296,988,922
Cash & Cash Equivalent			
Bank balance	14(a)	298,878,846	296,988,922
Receivables from non- exchange transactions(staff debtors)	15(b)		
Travelling Imprest		-	972,280
Station/Special Imprest		1,219,950	633,890
Salary in Advance		11,045	-
Salary Advance		52,779	454,281
Closing Cash & Cash Equivalent		300,162,620	299,049,373



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Original budget	Adjustments	Full budget	Actual on Comparable	Performance difference	Budget Vs Actual
		2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	%
		Kshs	Kshs	Kshs	Kshs	Kshs	
Revenue							
Recurrent Grants	3	1,487,512,496	-	1,487,512,496	1,487,512,496	-	100
Development Grants	3	178,000,000	(34,744,802)	48,846,781	48,846,781	-	100
Research Grants	4	206,315,381	-	206,315,381	206,315,381	-	100
Deferred Income from donors	5b	30,279,269	-	30,279,269	30,279,269	-	100
Other Income	7	121,251,857	433,707	121,685,564	121,685,564	-	100
Total Income		2,023,359,003	(34,311,095)	1,894,639,491	1,894,639,491	-	
Expenses							
Employees Costs	8	1,195,643,964	(1,131,000)	1,194,512,964	1,194,485,137	27,827	100
Operation Expenses	9	585,200,150	(1,226,000)	583,974,150	583,905,815.00	68,335	100
Board Expenses	10	9,900,000	(100,000)	9,800,000	9,772,816	27,184	100
Establishment Cost(Sinking Fund)	11	5,000,000	-	5,000,000	5,000,000	-	100
Depreciation	5a	89,560,000	(890,000)	88,670,000	88,610,913	59,087	100
Amorization Expenses	12	4,200,000	(50,000)	4,150,000	4,144,506	5,494	100
Total Expenditure		1,889,504,114	(3,397,000)	1,886,107,114	1,885,919,187	187,927	
Other Gains/(Losses)							
Gain on Sale of Fixed Assets	13	1,060,747	-	1,060,747	1,060,747	-	
Exchange Gain/(Loss)	13b	(2,731,728)	-	(2,731,728)	(2,731,728)	-	
Sub-Total		(1,670,981)	-	(1,670,981)	(1,670,981)	-	
Suplus /(Deficit) for the period without capital assets		132,183,908	(30,914,095)	6,861,396	7,049,323	(187,927)	
Capital Expenditure		101,256,000	(1,477)	101,254,523	101,254,523	-	100

Notes.

1. GoK Development -Grant Summary

	Kshs
Budget Estimates	178,000,000
Less: Supplementary Budget	(34,744,802)
Total Grants received	143,255,198
Recognised Income:	
Development Grants: Deferred income recognised	48,822,782
Deferred income Capitalized	94,384,418
Total	143,207,200

2. Increase in sales of tree seeds and forest products is as a result of favourable weather for planting by farmers

3. Capital Expenditure comprises of funds from Exchequer and other development partners funded projects



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2018

NOTE 1: GENERAL INFORMATION

a. Incorporation

Kenya Forestry Research Institute (KEFRI) is a state Institute established in 1986, under the Science and Technology Act (Cap 250) of the laws of Kenya, which has since been repealed by Science, Technology and Innovation Act No. 28 of 2013. It is wholly owned by the Government of Kenya and is domiciled in Kenya. The Institute's principal activity is Forestry Research

b. Statement of compliance and basis of preparation - IPSAS 1

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.(r.i)&ii)

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Institute.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

c. Adoption of new and revised standards

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard

Impact

IPSAS 39:

Applicable: 1st January 2018

Employee Benefits

The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. The standard did not have any impact to the Institute during the year under review.

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Standard

Effective date and impact:

IPSAS 40:

Applicable: 1st January 2019:

Public Sector Combinations

The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii. Early adoption of standards

The Institute did not early – adopt any new or amended standards in year 2018.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(b) Property, Plant and Equipment- IPSAS 17

i) All 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 Institute 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.

ii) The Institute undertakes revaluation of its property (land, buildings and heavy machines including heavy hevciles) after every five years per category of property, plant and equipment subject to funds availability.

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

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

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



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iii) Donated Assets - IPSAS 23

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

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

(c) i) Intangible Assets - IPSAS 31

Intangible assets including computer softwares acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

Amortization is calculated on the reducing balance basis at the rate of 20% over the expected useful life of the intangible assets

ii) Research and development costs

The Institute expenses research costs as incurred.

Development costs on an individual project are recognized as intangible assets when the Institute can demonstrate:

The technical feasibility of completing the asset so that the asset will be available for use or sale

Its intention to complete and its ability to use or sell the asset

How the asset will generate future economic benefits or service potential

The availability of resources to complete the asset

The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

(d) Income Recognition - IPSAS 23

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



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

iii) Interest income

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

(e) Inventories - IPSAS 12

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

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

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

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

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

iii) Seed & Seedlings

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

(f) Employees Benefit Obligation: IPSAS 25

Retirement benefit plans

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

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

(g) Taxation

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

(h) Foreign Currency Transaction

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

(i) Receivables

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



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(k) Currency

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

(l) Cash and Cash Equivalent

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. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers which were not surrendered or accounted for at the end of the financial year.

m) Financial risk management objectives: IPSAS 30

The Institute Funds' activities expose it to a variety of financial risks including credit and liquidity risks and the effects of changes in foreign currency. The fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Institute does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Institute's financial risk management objectives and policies are detailed below:

i) Credit and market risk management

The Institute has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Institute's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Institute's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	2017-2018		2016-2017	
	Fully performing	Past due	Fully performing	Past due
Cash at banks	296,988,922	-	296,988,922	-
Receivables from exchange transactions	5,022,522	10,045,044	2,445,456	4,965,016
Receivables from non- exchange	855,849	427,925	1,373,634	686,817
Total	302,867,293	10,472,969	300,808,012	5,651,833

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Institute has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Institute has significant concentration of credit risk on amounts due from Receivables from exchange transactions

The board of directors sets the Institute's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.



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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Liquidity risk management

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

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

	2017-2018		2017-2018		
	At 30 June 2018	1-6 months	6-12 months	1-6 months	6-12 months
Financial liabilities					
Trade payables		4,152,856	8,305,711	3,743,745	7,487,491
Auditor General- accrued audit fee		-	1,980,000		1,320,000
Payables from non-exchange transactions		8,124,400	-		-
Unxpended External Donor Grants		-	192,174,312		273,715,134
Medical Scheme Funds		-	742,883	-	742,883
		12,277,256	203,202,906	3,743,745	283,265,507

iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Institute on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Institute's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Institute's Internal Audit and Finance Departments are responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Institute's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The Institute has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the Institute's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh	Euro - rate Ksh.116.85	Dollar- rate Ksh.101.05
At 30 June 2018			
Financial assets - cash	8,973,611	54,269	26,049
The Institute manages foreign exchange risk from future commercial transactions and recognises assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.			
	Ksh	Euro - rate Ksh.118.31	Dollar- rate Ksh.103.71
At 30 June 2017			
Financial assets - cash	158,288,653	1,327,614	11,750



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Interest rate risk

Interest rate risk is the risk that the Institute's financial condition may be adversely affected as a result of changes in interest rate levels. The Institute's interest rate risk arises from bank deposits. This exposes the Institute to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Institute's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Fair value of financial assets and liabilities

Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

iv) Capital Risk Management

The objective of the Institute's capital risk management is to safeguard the Board's ability to continue as a going concern. The Institute capital structure comprises of the following funds:

	2017-2018	2016-2017
	Kshs.	Kshs.
Revaluation reserve	4,467,199,488	4,467,199,488
Retained earnings	(73,418,709)	(78,806,870)
Capital reserve	1,583,178,542	1,522,532,305
Total funds	5,976,959,322	5,910,924,924

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

o) Impairment of cash-generating assets - IPSAS 26

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

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

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

(q) Budget information: IPSAS 24

The original budget for FY 2017-2018 was approved by the Board of Directors on 4th August 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The Institute's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 5 of these financial statements.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

i) Judgments

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

ii) Estimates and assumptions

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

s) Comparative figures

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

t) Provisions: IPSAS 19

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.

(i) Contingent liabilities

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

(ii) Contingent assets

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

u) Subsequent events: IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended **June 30, 2018**.

a) ULTIMATE AND HOLDING ENTITY

The Institute is a State Corporation under the Ministry of Environment and Forestry. Its ultimate parent is the Government of Kenya.



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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) 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 Institute determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently 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. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Institute 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 in surplus or deficit.

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 a 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 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)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Institute determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

NOTE 3: GOVERNMENT GRANTS RECEIVED	2017-2018	2016-2017
	Kshs.	Kshs.
Recurrent Grants	1,487,512,496	1,455,880,992
Development Grants	143,231,199	76,500,000
Totals	1,630,743,695	1,532,380,992
(b) Recognised Income		
Recurrent : Income & Expenditure	1,487,512,496	1,455,880,992
Development Grants: Income Recognised	48,846,781	31,542,352
To Income & Expenditure	1,536,359,277	1,487,423,344
Deferred Income -GoK Development Grants for capital assets	94,384,418	44,957,648
Totals	1,630,743,695	1,532,380,992



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: EXTERNAL DONOR GRANTS FOR RESEARCH 2017-2018

	Various Projects	USAID/WTP PROJECT	BAMBOO PROJECT	MSB-UPP	ITK/IED-GEDE	EURO A/C	ITK/IED PROJECT A/C-HQTS	US DOLLAR	KCDP-IDA	KCDP-GEF	KEFRI/ REGIONAL TRAINING	KEFRI PALWECO PROJECT A/C	CLINTON CLIMATE INITIATIVE-SLEEK PROJECT	KEFRI CIFOR PROJECT A/C	KENYA WATER TOWERS PROJECT HQTS	ADAPTATION FUND PROJECT	KENYA WATER TOWERS PROJECT LONDIANI	NAS PEER PROJECT	GIZ PROJECT -LODWAR	KENYA WATER TOWERS PROJECT MASENO	TOTAL	
	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	
Balance b/f July 2017	4,891,055	310,657	-	920,114	1,603,672	157,070,044	455,535	1,218,608	509,946	1,289	317,220	27,740	64,711	58,566	57,803,005	36,926,851	6,404	11,519,448	3,883	6,383	273,715,134	
Adjustment	(461,902)					(3,836,010)		(3,187,768)							(4,971,900)			(4,165)				(12,461,745)
Received during the Year	37,980,186					15,674,052		5,977,144			9,818,388				54,160,053	3,441,800	1,633,907	500,000	1,597,638		130,783,168	
Refund to the Donor									(503,082)	(1,153)	(163,519)											(667,754)
Inter account transfers					392,100		(392,100)															-
Transfer from Dollar A/C	3,447,550							(1,273,409)										993,141				3,167,282
Transfer from Euro A/C	15,441,224	-	2,783,095	-	-	(163,768,758)	116,000	-	-	-	-	-	-	-	145,428,439	-	-	-	-	-	-	-
Available during the Year	61,298,113	310,657	2,783,095	920,114	1,995,772	5,139,328	179,435	2,734,575	6,864	136	9,972,089	27,740	64,711	58,566	198,259,544	91,086,904	3,448,204	14,142,331	503,883	1,604,021	394,536,085	
Spent during the Year	(39,894,153)	(303,123)	(2,754,375)	(379,109)	(1,995,398)	(2,715,579)	(38,372)	(138,324)	(6,864)	(136)	(9,890,249)	(5,373)	(4,070)	(5,257)	(75,520,769)	(57,106,870)	(19,746)	(13,678,700)	(500,000)	(1,358,914)	(206,315,381)	
Adjustment-Exchange gain	-	-	-	-	-	3,917,588	-	36,020	-	-	-	-	-	-	-	-	-	-	-	-	-	3,953,608
Balance c/f	21,403,960	7,534	28,720	541,005	374	6,341,337	141,063	2,632,271	0	(0)	81,840	22,367	60,641	53,309	122,738,775	33,980,034	3,428,458	463,631	3,883	245,107	192,174,312	



KENYA FORESTRY RESEARCH INSTITUTE

NOTE 5(a): FIXED ASSETS SCHEDULE AS AT 30TH JUNE 2017

ACCOUNT	3130101	3110201	3110502	3111113	3110004	3111107	3110901	3110704	3110705	3110701	1310	3111101	3110209	TOTAL
COST/VALUATION	LAND	BUILDINGS	WATER EQUIP & PLANTS	LOOSE TOOLS	TELEPHONE EQUIP	LAB. EQUIP APPARATUS & ELECT. EQUIP.	FURNITURE AND FITTINGS	BICYCLES	HEAVY VEHICLE AND TRACTORS	MOTOR CARS & CYCLES	COMPUTERS OFFICE AND ICT EQUIPMENT	MEDICAL & DENTAL EQUIP.	PROGRESS WORK-IN- PROGRESS	TOTAL
	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)
As at 1st July 2016	4,123,385,000	1,834,882,931	57,206,384	4,528,691	8,798,548	320,672,973	102,168,908	177,430	39,401,147	247,334,615	187,414,501	36,317	29,443,135	6,955,450,580
Acquisition during the Year	-	53,831,996	325,802	-	31,250	2,435,939	1,826,561	-	-	30,530,839	6,499,288	-	4,584,454	100,066,129
Donated Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Elimination on revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to completed buildings	-	17,500,240	-	-	-	-	-	-	-	-	-	-	(17,500,240)	-
Revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal during the Year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 30th June 2017	4,123,385,000	1,906,215,166	57,532,186	4,528,691	8,829,798	323,108,912	103,995,469	177,430	39,401,147	277,865,454	193,913,789	36,317	16,527,349	7,055,516,709
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 1st July 2016	-	457,991,603	35,167,339	3,292,770	5,814,140	206,868,459	83,641,495	165,726	38,881,752	191,407,228	158,383,219	25,638	-	1,181,639,369
Disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Elimination on revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charge for the Year	-	36,205,589	2,795,606	154,490	376,957	14,530,057	2,544,247	1,463	194,773	21,614,556	11,843,523	1,335	-	90,262,597
As at 30th June 2017	-	494,197,192	37,962,945	3,447,260	6,191,097	221,398,515	86,185,742	167,189	39,076,525	213,021,785	170,226,743	26,973	-	1,271,901,965
Net Book Value	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 30th June 2017	4,123,385,000	1,412,017,974	19,569,241	1,081,431	2,638,701	101,710,396	17,809,727	10,241	324,622	64,843,669	23,687,047	9,344	16,527,349	5,783,614,743
As at 30th June 2016	4,123,385,000	1,376,891,328	22,039,044	1,235,921	2,984,409	113,804,514	18,527,413	11,704	519,395	55,927,387	29,031,282	10,679	29,443,135	5,773,811,211
5(b): Deferred Income Schedule on Donated Assets (See Note 32 (a) (ii))	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 1st July 2016	-	518,613,224	6,967,265	33,623	79,378	83,038,027	3,310,723	12,004	3,048	39,552,218	5,422	-	-	651,614,932
Additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income	-	518,613,224	6,967,265	33,623	79,378	83,038,027	3,310,723	12,004	3,048	39,552,218	5,422	-	-	651,614,932
To Income & expenditure for the year	-	12,965,331	870,908	4,203	9,922	10,379,753	413,840	1,500	1,142	9,888,054	1,807	-	-	34,536,462
As at 30th June 2017	-	505,647,894	6,096,357	29,420	69,456	72,658,273	2,896,883	10,503	1,906	29,664,163	3,615	-	-	617,078,471



NOTE 5(a): FIXED ASSETS SCHEDULE AS AT 30TH JUNE 2018

KENYA FORESTRY RESEARCH INSTITUTE

(a) Depreciation

ACCOUNT	3130101	3110201	3110502	3111113	3111004	3111107	3110901	3110704	3110705	3110701	1310	3111101	3110209	TOTAL
COST/VALUATION	LAND	BUILDINGS	WATER EQUIP & PLANTS	LOOSE TOOLS	TELEPHONE EQUIP	LAB. EQUIP APPARATUS & ELECT. EQUIP.	FURNITURE AND FITTINGS	BICYCLES	HEAVY VEHICLE AND TRACTORS	MOTOR CARS & CYCLES	COMPUTERS OFFICE AND ICT EQUIPMENT	MEDICAL & DENTAL EQUIP.	PROGRESS WORK-IN-PROGRESS	
	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)
As at 1st July 2017	4,123,385,000	1,906,215,166	57,532,186	4,528,691	8,829,798	323,108,912	103,995,469	177,430	39,401,147	277,865,454	193,913,789	36,317	16,527,349	7,055,516,709
Acquisition during the Year	-	9,277,848	7,443,336	-	57,500	11,430,939	2,838,923	-	-	15,638,949	17,577,788	-	36,989,241	101,254,523
Donated Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Elimination on revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to completed buildings	-	28,854,960	-	-	-	-	-	-	-	-	-	-	(28,854,960)	-
Revaluation	-	-	-	-	-	-	-	-	-	(4,448,950)	-	-	-	(4,448,950)
Disposal during the Year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 30th June 2018	4,123,385,000	1,944,347,974	64,975,522	4,528,691	8,887,298	334,539,850	106,834,392	177,430	39,401,147	289,055,453	211,491,577	36,317	24,661,630	7,152,322,282
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 1st July 2017	-	494,197,192	37,962,945	3,447,260	6,191,097	221,398,515	86,185,742	167,189	39,076,525	213,021,785	170,226,743	26,973	-	1,271,901,965
Disposal	-	-	-	-	-	-	-	-	-	(4,411,697)	-	-	-	(4,411,697)
Elimination on revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charge for the Year	-	36,253,770	3,376,572	135,179	337,025	14,142,667	2,581,081	1,280	121,733	17,905,493	13,754,945	1,168	-	88,610,913
As at 30th June 2018	-	530,450,962	41,339,517	3,582,439	6,528,122	235,541,182	88,766,823	168,469	39,198,258	226,515,580	183,981,687	28,141	-	1,356,101,181
Net Book Value	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 30th June 2018	4,123,385,000	1,413,897,012	23,636,005	946,252	2,359,176	98,998,668	18,067,569	8,961	202,889	62,539,873	27,509,890	8,176	24,661,630	5,796,221,100
As at 30th June 2017	4,123,385,000	1,412,017,974	19,569,241	1,061,431	2,638,701	101,710,396	17,809,727	10,241	324,622	64,843,669	23,667,047	9,344	16,527,349	5,783,614,743

5(b): Deferred Income Schedule on Donated Assets (See Note 32 (a) (ii))

Donated Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 1st July 2017	-	505,647,894	6,096,357	29,420	69,456	72,658,273	2,896,883	10,503	1,906	29,664,163	3,615	-	-	617,078,471
Additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income	-	505,647,894	6,096,357	29,420	69,456	72,658,273	2,896,883	10,503	1,906	29,664,163	3,615	-	-	617,078,471
To Income & expenditure for the year	-	12,641,197	762,045	3,678	8,662	9,082,284	362,110	1,313	714	7,416,041	1,205	-	-	30,279,269
As at 30th June 2018	-	493,006,696	5,334,313	25,743	60,774	63,575,989	2,534,772	9,190	1,192	22,248,122	2,410	-	-	586,799,202

	2017-2018	2016-2017
	Kshs.	Kshs.
Work-in-Progress		
Balance b/fwd	16,527,349	29,443,135
Add: additions within the year-		
Transfer to finished buildings	(28,854,960)	(17,500,240)
Work-in-Progress Tiva Management Plan -	8,600,691	-
Work-in-Progress-Lamu	2,922,711	4,584,454
Marigat	19,319	-
Garissa perimeter wall	574,351	-
Maseno glass houses	2,499,999	-
Taita Taveta	16,485,426	-
Work-in-Progress- Green Houses	-	-
Work-in-Progress-Migori	5,886,744	-
Total for the year	8,134,281	4,584,454
Balance c/fwd	24,661,630	16,527,349



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Notes	2017-2018 Kshs.	2016-2017 Kshs.
NOTE 6: INTEREST ON FDR & SAVINGS A/C		
Interest Income from FDR	-	831,781
Interest from Savings Bank A/c	-	22,980
Totals	-	854,760
NOTE 7(a): OTHER INCOME		
Sale of Forestry Produce	7(b) 68,876,013	62,608,310
Nominal Income (Rent, Water & Electricity)	5,480,536	5,548,445
Surcharges	204,738	251,044
Commission Income	220,144	220,823
Bus Charges (Income)	835,490	1,181,900
Other Income/Tenders and Hire of Grounds	1,688,258	706,500
Hire of KEFRI Facilities	7(c) 39,003,550	41,467,749
Lab Analysis	7(d) 2,768,720	2,308,780
Clinic Revenue	1,389,806	1,052,525
Sale of Stores	54,120	1,000
Insurance Compensation	1,164,189	161,714
Project Administration Fees	-	1,048,598
Totals	121,685,564	116,557,389
NOTE 7(b): ANALYSIS OF FOREST PRODUCE INCOME		
Sale of Forestry Produce	4,406,903	6,067,547
Sale of Seeds	16,151,897	8,813,750
Karura Revenue	16,731,405	13,494,964
Londiani Income	3,141,600	5,420,472
Gede Income	933,195	953,672
Turbo Income	655,133	4,705,459
Kibwezi Income	431,402	929,690
Kakamega Revenue	417,615	259,749
Nyeri Income	2,419,532	2,177,993
Lodwar Revenue	13,098,160	12,347,222
Marigat Revenue	8,293,437	7,054,522
Kuja River Revenue	1,500	11,000
Ramogi Revenue	17,700	21,000
Garissa Revenue	21,020	2,000
Migori Revenue	440,850	304,950
Lamu Revenue	1,714,665	44,320
Total	68,876,013	62,608,310
NOTE 7(c): HIRE OF TRAINING FACILITIES		
Hire of Training Facilities - Training[Muguga]	6,095,340	3,786,750
Kitui Revenue	21,690,510	29,020,210
KEFRI House Income	11,217,700	8,660,789
Total	39,003,550	41,467,749
NOTE 7(d): LAB ANALYSIS		
Muguga Laboratory Revenue	488,440	85,380
Maseno Revenue	2,280,280	2,223,400
Total	2,768,720	2,308,780



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2017-2018	2016-2017
		Kshs.	Kshs.
NOTE 8: EMPLOYEE COSTS	Notes		
Salaries and Wages	8(b)	736,783,098	736,051,789
Gratuity Costs		20,551,817	9,807,049
Staff Pension Cost/Administration Costs	8(c)	130,121,605	127,579,870
House Allowances		140,359,918	129,027,047
Medical Allowance N/A		154,740	162,611
Other Personal Allowances	8(d)	98,271,999	104,437,196
Staff Medical Costs (In-Patient)		880,905	460,826
Compensation & Ex-gratia		-	165,000
Leave & Passage Expenses		5,409,547	5,560,000
Transfer Expenses		1,763,366	3,561,503
Group Life Insurance Premium		2,687,358	2,102,233
Group Personal Accident		123,944	907,996
Group Personal Accident Premium- Casuals		126,285	163,076
Medical Insurance Cover for Staff		57,250,554	46,853,842
Total		1,194,485,137	1,166,840,038
NOTE 8(b): SALARIES & WAGES			
		Kshs.	Kshs.
Basic Salaries		686,748,222	687,581,805
Contractual Employee		6,045,353	4,070,860
Casual Labour		43,989,523	44,399,123
Total		736,783,098	736,051,789
The number of employees as at the end of the year		956	999
NOTE 8(c): STAFF PENSION COST			
Pension Employer Cost		129,435,606	125,994,330
Pension Element 27.5%		54,014	1,109,740
NSSF Employer		631,985	475,800
Total		130,121,605	127,579,870
NOTE 8(d): OTHER ALLOWANCES			
		Kshs.	Kshs.
Honoraria		2,156,750	3,094,068
Acting Allowance		558,522	110,721
Hardship Allowance		6,656,104	5,601,228
Special Duty Allowance		1,144,847	638,166
Incentive Allowance		8,649,166	19,096,797
Entertainment Allowance		4,561,326	4,448,328
Responsibility Allowance		9,042,069	7,395,626
Other Allowances		9,144,045	9,850,703
Risk Allowances		2,649,607	-
Commuter Allowance		53,709,564	54,201,560
Total		98,271,999	104,437,196



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: OPERATING EXPENSES	Notes	2017-2018 Kshs.	2016-2017 Kshs.
Electricity Expenses		21,520,032	16,176,523
Water & Conservancy		2,393,487	2,571,666
Telephone, Telex & Mobile Phone		2,683,428	4,169,624
Internet Costs		9,780,923	4,494,608
Postal Courier & Telegrams		821,623	886,007
Travelling & Accommodation Expenses		181,527,566	176,903,861
External Travelling Costs		8,839,439	9,541,134
Printing & Publishing		5,980,566	2,745,339
Subscription, Newspapers & Periodicals		1,131,887	963,610
Advertising & Publicity		8,943,384	13,025,649
Trade Show and Exhibitions		4,051,079	1,814,976
Training Expenses and Attachment fee		7,488,114	6,579,088
Cost of Conference & Seminars		488,820	414,000
Purchase of Coffin		442,500	437,751
Insurance of Buildings & Equipment		1,001,393	7,026,216
Insurance of Motor Vehicles		5,431,087	1,949,526
Supplies of medical Drugs		1,559,154	1,527,074
Supplies of Dressings		99,222	-
Fungicides & Insecticides		355,015	208,369
Purchase of Utensils and Cutlery		696,192	582,797
Purchase of Research Materials	9(b)	10,327,251	3,796,564
Library Expenses		67,585	116,911
Food & Ration		35,955,404	35,036,855
Staff Uniform Expenses		1,851,118	1,513,467
Purchase of Supplies for Production		108,821,582	84,378,180
Stationery Expenses		7,496,711	7,748,229
Computer Expenses		7,953,457	4,275,037
Sanitary & Cleaning Material		2,139,025	1,485,894
Fuel & Lubricants Expenses	9(c)	27,778,792	30,826,024
Bank Charges	9(d)	796,708	813,572
Membership Fees to Statutory Organization		1,152,005	3,735,916
Legal Dues, Arbitration and Compensation Payments		898,000	522,000
Contracted Professional Services	9(e)	43,353,740	18,753,997



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2017-2018 Kshs.	2016-2017 Kshs.
NOTE 9: OPERATING EXPENSES (Continued)	Notes		
Audit Fees		1,466,031	1,737,746
Security Operations		16,052,503	9,954,981
Write Offs/Bad Debts Expenses		-	190,600
Maintenance Expenses	9(f)	52,074,197	42,058,179
Land Rent & Rates		-	724,000
Withholding Tax on Interest Accounts		-	128,214
Import Duty (Kenya Revenue Authority)		180,714	-
Donations		-	50,000
HELB Penalty		11,148	-
Team Building Activities/Station Launching/Re-branding		95,775	119,700
Choir and Sports exp		199,160	-
Total Operating Expenses		583,905,815	499,983,886
NOTE 9(b): PURCHASE OF RESEARCH MATERIALS			
Chemicals & Industrial Gases		3,061,994	1,396,360
Workshop Materials		133,150	705,843
Laboratory Materials		6,875,708	1,482,105
Photographic & Audio Visual Material		256,400	212,256
Total		10,327,251	3,796,564
NOTE 9(c): FUEL EXPENSES			
		Kshs.	Kshs.
Fuel & Lubricants Expenses		26,692,255	29,889,379
Other Fuels (wood, charcoal, gas etc.)		364,500	330,745
Fuel for Generators		722,037	605,900
Total		27,778,792	30,826,024
NOTE 9(d): BANK CHARGES			
Recurrent		553,707	448,339
Development		24,475	36,781
Various Projects		21,071	22,803
Sinking Fund		6,125	4,965
Gold Plus Savings		5,025	3,646
Gold Plus Revenue		44,407	41,774
KEFRI US Dollar Account		2,061	15,364
EURO A/C		2,514	3,355
KCDP-IDA		4,070	22,384
KCDP-GEF		136	15,180
KEFRI-MSB/UPP PROJECT -Millenium Seed for Life		4,109	5,291
KEFRI ITK/IIED PROJECT A/C-GEDE		7,593	14,047
KEFRI ITK/IIED PROJECT A/C-HQTS		5,651	14,856
Bamboo Project		4,881	-
GIZ Project Lodwar			11,788
KEFRI/REGIONAL TRAINING		7,663	7,835
KEFRI PALWECO PROJECT A/C		5,372	8,020
CLINTON CLIMATE INITIATIVE-SLEEK PROJECT		4,070	4,807
KEFRI CIFOR PROJECT A/C		5,256	5,516
KENYA WaTER TOWERS PROJECT HQTS		24,567	33,511
ADAPTATION FUND PROJECT		16,285	13,112
KENYA WaTER TOWERS PROJECT LONDIANI		6,486	35,782
NAS PEER PROJECT		30,368	11,016
KENYA WaTER TOWERS PROJECT MASENO		9,407	30,986
USAID/WTP Project		1,411	2,417
Totals		796,708	813,572



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: OPERATING EXPENSES (Continued)	2017-2018	2016-2017
	Kshs.	Kshs.
NOTE 9(e): CONTRACTED PROFESSIONAL SERVICES		
Contracted Prof. Services- Others	13,638,683	8,635,254
Contracted Prof. Services- Consultancy	29,610,507	9,803,731
Contracted Professional Services - EMS surveillance Audit	93,750	-
Technical Services	10,800	315,013
Total	43,353,740	18,753,997
NOTE 9(f): MAINTENANCE EXPENSES		
Vehicle Maintenance Expenses	18,788,357	16,632,256
Maintenance of Plant & Machinery	3,857,560	2,751,986
Maintenance of Furniture	1,213,898	493,645
Maintenance of Buildings - Residential	1,564,541	1,642,015
Maintenance of Buildings and Stations	11,087,459	7,065,000
Maintenance of Roads	346,712	769,491
Minor Alterations	981,489	1,435,679
Maintenance of Computer Software	13,954,951	10,982,646
Maintenance of Water Supplies & Sewage	279,230	285,463
Total	52,074,197	42,058,179
NOTE 10: BOARD OF DIRECTORS EXPENSES		
Board Costs	9,006,898	9,165,040
Conferences	417,946	1,084,777
KEFRI Chief Executive Officer's Remuneration	-	9,008,000
Medical Insurance Cover for Board Members	347,972	316,520
Total	9,772,816	19,574,337

NB: The institute has accrued remuneration for the CEO who was not paid during the quarter an amount of Ksh. 8,124,400 see note

NOTE: 11(a) ESTABLISHMENT COST	2017-2018	2016-2017
	Kshs.	Kshs.
Sinking Fund	5,000,000	6,000,000

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

NOTE 11(b): SINKING FUND

Balance b/f	17,209,165	11,953,651
Received during the Year	5,926,250	6,074,329
Available during the Year	23,135,415	18,027,979
Spent during the Year	(17,636,979)	(818,814)
Balance c/f	5,498,436	17,209,165

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

NOTE 12: INTANGIBLE ASSETS - COMPUTER SOFTWARE

Cost	2017-2018	2016-2017
	Kshs.	Kshs.
At the beginning of the year-Net	19,304,763	18,631,650
Additions for the year	1,417,765	5,499,304
	20,722,528	24,130,953
Amortization on Intangible Assets - Software	(4,144,506)	(4,826,191)
At the end of the year	16,578,022	19,304,763

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



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

			2017-2018	2016-2017
			Kshs.	Kshs.
NOTE 13: GAIN ON SALE OF FIXED ASSETS				
Sale Proceeds			1,098,000	-
Value at Cost			4,448,950	
Less: Accumulated Depreciation			(4,411,697)	
Net Book Value			37,253	-
Gain on Disposal			1,060,747	-
NOTE 13(b): EXCHANGE GAIN/(LOSS)				
Exchange Gain			117,597	3,855,390
Exchange Loss			(2,849,326)	(640,126)
Total			(2,731,729)	3,215,264
NOTE 14(a): CASH AND CASH EQUIVALENT -CASH AT BANK				
Name of Bank Account	ccount Numbr	Bank	Kshs.	Kshs.
Recurrent	1106971361	KCB	43,093,771	9,393,587
Development	1106749944	KCB	39,360,996	260,775
Various Projects	1106750012	KCB	20,453,960	3,329,405
Sinking Fund	1106972643	KCB	3,498,436	15,209,165
Gold Plus Savings	1107063272	KCB	502,315	507,010
Gold Plus Revenue	1107063558	KCB	21,102,483	240,435
KEFRI US Dollar Account	1107182867	KCB	2,632,272	1,218,609
EURO A/C	1107064929	KCB	6,341,340	157,070,044
KCDP-IDA	01020048528(Standard	-	509,946
KCDP-GEF	01020048528(Standard	-	1,288
KEFRI-MSB/UPP PROJECT -Millenium Seed	01136151733	Co-op	541,006	920,114
KEFRI ITK/IIED PROJECT A/C-GEDE	01136151733	Co-op	374	1,603,672
KEFRI ITK/IIED PROJECT A/C-HQTS	01136151733	Co-op	141,065	455,535
BAMBOO PROJECT	1208326104	KCB	28,721	-
GIZ Project Lodwar	1183017367	KCB	3,883	3,883
KEFRI/REGIONAL TRAINING	6433340016	CBA	81,838	317,219
KEFRI PALWECO PROJECT A/C	1144980720	KCB	22,368	27,740
CLINTON CLIMATE INITIATIVE-SLEEK	11361517331(Co-op	60,641	64,711
KEFRI CIFOR PROJECT A/C	1142007049	KCB	53,310	58,566
KEFRI WATER TOWER PROJECT-HQTS	1176894080	KCB	122,835,303	57,494,005
KEFRI ADATATION FUND	1178886956	KCB	33,980,036	36,926,852
KEFRI WATER TOWER PROJECT-	1178145298	KCB	3,428,458	6,404
KEFRI/NAS PEER PROJECT	11361517331	Co-op	463,631	11,190,427
KEFRI WATER TOWER PROJECT-MASENO	1178145298	KCB	245,108	6,383
KEFRI USAID/WTP PROJECT	1198759054	KCB	7,535	173,147
Totals			298,878,846	296,988,922
NOTE 14(b): Investment in Fixed deposit account				
The Institute had no short term Investments by 30/6/2018				



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 15: DEBTORS SCHEDULE (RECEIVABLES)

(a) RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2017-2018 Kshs.	2016-2017 Kshs.
Water and Electricity Debtors	1,815,485	1,653,155
Kenya Forest Service	4,478,150	-
Plan International	18,250	-
FAO Kenya	-	179,100
ICRAF	155,000	-
World Vision	379,250	422,000
NHIF-Kitui	74,100	-
Sundry Debtors	9,650	34,000
Kitui County Government	685,500	792,600
NEMA	11,000	11,000
Child Fund	277,050	-
Teachers Service Commission	-	418,500
Ministry of Energy, Turkana	681,437	681,437
Kenya Water Institute	-	56,400
Tanathi	19,500	110,000
Kitui County Assembly	100,300	38,800
Pastoral Resilience	173,500	-
Baringo County Government	53,500	-
GAIN KENYA	-	98,000
National Land Commission	-	122,500
Kenya National Highway Authority	-	16,000
Safaricom Ltd	14,400	14,400
Southern Eastern Kenyan University	79,800	-
Turkwel CIP	30,200	30,200
Ministry of Water-Turkana	900,000	900,000
GIZ SIF Programme	29,000	69,600
ILRI	205,900	-
Ministry of Lands	-	240,500
Kiwash	8,000	55,900
IEBC	96,500	93,500
Groots Kenya	41,700	22,800
CDF Baringo	18,900	18,900
Kenya Red Cross	275,500	337,500
Marie Loreto	50,920	18,720
Friends of Lake Turkana-FOLT	47,000	48,000
Save the Children	-	860,000
Lopuu E Ltd	-	66,960
Afya Uzazi	92,750	-
Transnational Bank	10,000	-
IRC (International Rescue Committee)	413,000	-
Homestay Safari Group Ltd	10,000	-
State House (Nairobi)	247,500	-
KCB Kitui	4,000	-
Kenya Revenue Authority (KRA)	180,600	-
Potters House	23,100	-
African Population Health Research Centre	81,344	-
United Nations Office for Project Services	946,750	-
Mastermind Tobacco	246,500	-
German Development Corporation	690,000	-
Eastern Produce of Kenya	12,680	-
Northlands (Gicheha Farm)	10,000	-
One Acre Fund Nairobi	313,250	-
Creco Nairobi	61,000	-
Afya Timiza	880,800	-
Davis & Shirtliff	30,500	-
Nature Kenya	84,300	-
Total	15,067,566	7,410,472
(b) RECEIVABLES FROM NON- EXCHANGE TRANSACTIONS		
Travelling Imprest	-	972,280
Station/Special Imprest	1,219,950	633,890
Salary in Advance	11,045	-
Salary Advance	52,779	454,281
Total	1,283,774	2,060,451
Total Debtors	16,351,340	9,470,923



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 16: INVENTORIES	Kshs.	Kshs.
Stationery/Computer Accessories	1,303,009	1,105,914
Motor Vehicle Spare Parts & Fuel	131,190	158,183
Food Stuff	87,467	64,841
Hardware, Electricals & Cleaning Materials	4,308,735	2,955,535
Seeds & Seedlings	36,738,758	53,956,929
Forest Plantations 1. (e)(ii)	21,197,054	29,848,199
Drugs & Dressings	643,962	422,785
Fungicides & Sprays/Chemicals	-	42,437
Utensils and cutlery	-	-
Total	64,410,175	88,554,825

NB: Note 1. (e) ii) The Institute's Forests Plantations are for research purposes (experiments) and not for commercial use.

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

NOTE 17: CREDITORS SCHEDULE (PAYABLES)	2017-2018	2016-2017
	Kshs.	Kshs.
Sundry Creditors - Merchants	9,307,071	9,027,687
Accruals - (KPLC)	1,784,400	1,725,695
Insurance Compensation	339,585	6,750
Miscellaneous Recovery (Unpaid June BTLs) 17(b)	1,027,511	471,104
Totals	12,458,567	11,231,236

NOTE 17(b): MISCELLANEOUS RECOVERIES

Maseno Staff Welfare	36,429	-
Family Remittance	27,797	21,650
Pioneer Insurance	35,608	35,608
Cooperative Ins (C.I.C.)	-	14,053
Corporate insurance	-	12,253
ICEA INSURANCE	30,735	33,486
Saham Assurance	-	81,235
Britam Insurance	-	94,624
Old Mutual Insurance	45,081	-
S.A.Y.E.	-	-
Turbo Welfare	96,321	-
PS Min.of Roads & Pub. Works- Rent	5,300	-
Kitui Welfare Staff	439,461	-



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 17(b): MISCELLANEOUS RECOVERIES (Continued)	2017-2018	2016-2017
	Kshs.	Kshs.
Attachment fees	62,500	62,500
COTU	582	-
African Capital Ltd.	3,142	-
Mhasibu Sacco		28,900
Lomu Welfare	57,191	-
KANASA	5,200	-
Marigat Welfare Society		53,795
Mazingira Welfare	73,810	-
Admin Staff Welfare	33,000	33,000
Nairobi Water Co.	75,354	-
Total	1,027,511	471,104
NOTE 17(c): Auditor General- accrued audit fee		
Auditor General- accrued audit fee	1,980,000	1,320,000
NOTE 17(d): Accrued Remuneration for CEO(Dr B. Chikamai)	8,124,400	-
NOTE 18: KEFRI MEDICAL SCHEME FUND ACCOUNT A/C	2017-2018	2016-2017
	Kshs.	Kshs.
Items contributing to Fund balance:		
Income: Interest from FDR	-	180,822
Contribution to the Fund	-	180,822
Items Reducing Fund balance:		
Bank charges	4,805	5,070
Withholding Tax on Interest Accounts	-	27,123
Reduction to the Fund	4,805	32,193
Fund Surplus/(Deficit)	(4,805)	148,629
Current Assets:		
Cash at Bank	29,173,032	29,177,837
Debtors: GoldPlus Savings Account	345,205	345,205
Recurrent	397,678	397,678
Fund Net Assets	29,915,915	29,920,720
Fund Balance as at 01.07.2017	29,920,720	29,920,720
Surplus /(Deficit) for the year	(4,805)	148,629
Fund Balance as at 30.06.2018	29,915,915	29,920,720



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

NOTE 19: Nature and Purpose of Reserves

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

a) CAPITAL GRANTS/DEFERRED INCOME & RESERVES

(i) Deferred Income from Government Grants for Capital Government Grants for Capital Assets /Donations	2017-2018 Kshs.	2016-2017 Kshs.
Note		
Balance b/fwd	888,244,670	843,287,022
Transfers from Sinking fund	8,251,817	-
Additions	94,384,418	44,957,648
Balance C/d	990,880,905	888,244,670
(a) (ii) Deferred Income from External Donors on Donated Assets		
Balance b/fwd	617,078,471	651,614,933
Deffered Income	(30,279,269)	(34,536,462)
Balance C/d	586,799,202	617,078,471

(b) Revaluation Reserves

The Revaluation Reserves cater for the revalued amount in the cost of Property, Plant and Equipment. The amount in the Reserve

REVALUATION SURPLUS RESERVE

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

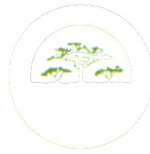
(b) Revaluation Reserves (Continued)

The institute has the following title deeds:

Location	L.R. No.	Hectares
North West of Kikuyu Township	23879 IR	122.90
North West of Kikuyu Township	23883 IR	46.66
North West of Kikuyu Township	23877	134.60
Kyangwithya/Misewani-Kitui	1414	0.20
Kitui Municipality-Kitui	Leasehold	6.06
Kitui-Tiva	Leasehold	1,150.90
Total		1,461.32

The institute does not have ownership documents for the land amounting to 2735 hectares where the institute has put up developments through persuing through KFS to the National Land Commision as tabulated below:

Region	Size in Hectares
Rift Valley	954.00
Central Highlands	752.00
Coastal Region	900.00
Lake Basin	101.00
Drylands	28.00
Grand Total	2,735.00



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19: Nature and Purpose of Reserves (Continued)

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

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

Sinking Fund	2017-2018 Kshs.	2016-2017 Kshs.
Balance b/f	17,209,165	17,209,165
Received during the Year	5,926,250	6,074,329
Available during the Year	23,135,415	18,027,979
Spent during the Year	(17,636,979)	(818,814)
Balance c/f	5,498,436	17,209,165

(d) External Grants Reserve

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

(e) Accumulated Surplus / (Deficit)

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

Accumulated Surplus / (Deficit)	2017-2018 Kshs.	2016-2017 Kshs.
Balance b/f	(78,806,870)	(176,375,372)
Adjustments	(1,661,162)	
Surplus/(Deficit) for the Year	7,049,323	97,568,503
Balance c/f	(73,418,709)	(78,806,870)

NOTE 20: IPSAS 20 Related Party Disclosures

Nature of related party relationships

Entities and other parties related to the Institute include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the Institute, holding 100% of the Institute's equity interest. . Other related parties include:

- i) The National Government;
- ii) The Ministry of Environment and Forestry
- iii) The National Treasury
- iv) The office of the Auditor General
- v) The National Assembly
- vi) Our Development Partners
- vii) Key managemnet
- viii) Board of Directors
- ix) Commercial Banks

RELATED PARTY TRANSACTIONS	Note	2017-2018 Kshs.	2016-2017 Kshs.
Remuneration and other costs of Board of Management	10	(3,832,856)	10,566,337
Remuneration to CEO	10	13,605,672	9,008,000
Transfers from GoK- Ministry of Environment and Forestry	3	1,630,743,695	1,532,380,992
Salaries and other staff employment benefits of Senior Staff receivables	8 15	64,770,780 1,283,774	56,201,388 2,060,451
Total		1,706,571,065	1,610,217,168



KENYA FORESTRY RESEARCH INSTITUTE

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

a) Reference No. on the external audit report b) Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status - Resolved/ Not Resolved	Remarks/Time frame
2016/2017 Report. a) Property, Plant and Equipment	A joint task force committee was established by the two institutions (KEFRI&KFS) on Asset sharing. The committee is at an advanced stage of completing the exercise. A letter, dated 25th April 2019 was written to KFS Board Chairman as to engage the National Land Commission for Title Deeds processing	The joint task force committee	Not yet resolved	Until the National Land Commission issues KEFRI with these title deeds

Dr. Sammy Letema.....
 Chairman, KEFRI Board of Directors
 Date..... 26/06/2019

Joshua K. Cheboiwo(PhD).....
 Director KEFRI
 Date..... 26/06/19



KENYA FORESTRY RESEARCH INSTITUTE

XVIII Appendix II: PROJECTS IMPLEMENTED BY KEFRI IN THE FINANCIAL YEAR 2017-2018

No	Project title	Donor	Period/ duration	Donor Commitment	Separate donor reporting(yes/no)	Designated Bank Account(yes/no)
1	VARIOUS PROJECTS	ICRAF/ BAT/ APC /PCPB ORBIT	3 YEARS	10,990,531	Yes	No
2	TRUE PROJECT	EUROPEAN UNION	3 YEARS	10,504,560	Yes	No
3	DIVERSITY PROJECT	EUROPEAN UNION	3 YEARS	5,000,000	Yes	No
4	INBAR BAMBOO	EUROPEAN UNION	3 YEARS	20,000,000	Yes	Yes
5	SUNRISE PROJECT	EUROPEAN UNION	3 YEARS	1,365,658	Yes	No
6	FAO PROJECT	FOOD & AGRICULTURE ORGANISATION	2 YEARS	1,500,000	Yes	No
7	SANDAL WOOD PROJECT	NATIONAL RESEARCH FUND - GOK	3 YEARS	7,788,775	Yes	No
8	EUCALYPTUS WOODPOLES	NATIONAL RESEARCH FUND - GOK	3 YEARS	9,260,000	Yes	No
9	TERMINALIA BROWNII PROJECT	NATIONAL RESEARCH FUND - GOK	3 YEARS	7,739,500	Yes	No
10	TREE BREEDING PROJECT	NATIONAL RESEARCH FUND - GOK	3 YEARS	3,350,000	Yes	No
11	REGIONAL TRAINING-JICA	JICA	6 YEARS	6,934,884	Yes	Yes
12	KENYA CLIMATE CHANGE ADAPTATION PROGRAMME	WORLD BANK - GLOBAL FUND	6 YEARS	54,160,053	Yes	Yes
13	KENYA WATER TOWERS PROJECT	EUROPEAN UNION	5 YEARS	145,428,439	Yes	Yes
14	NAS PEER PROJECT	USAID	2 YEARS	2,622,883	Yes	Yes
15	GIZ PROJECT	GERMANY TECHNICAL COOPERATION	3 YEARS	500,000	Yes	Yes



KENYA FORESTRY RESEARCH INSTITUTE

Appendix III: TRANSFER FROM MINISTRY OF ENVIRONMENT & FORESTRY IN THE FINANCIAL YEAR 2017-2018

NAME: KENYA FORESTRY RESEARCH INSTITUTE			
Break down of Transfers from the Ministry of Environment & Forestry			
FY 17/18			
a. Recurrent Grants			
Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate	
04-09-17	371,470,249	2017/2018	
30/11/201	371,470,249	2017/2018	
14-02-18	371,470,249	2017/2018	
15-05-18	371,470,249	2017/2018	
11-06-18	1,631,500		
Inw	1,487,512,496		
b. Development Grants			
Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate	
18-09-17	44,500,000	2017/2018	
18-10-17	34,500,000	2017/2018	
25-01-18	28,750,000	2017/2018	
24-05-18	14,731,199	2017/2018	
25-05-18	20,750,000	2017/2018	
Total	143,231,199		

The above amounts have been communicated to and reconciled with the parent Ministry

Head of Accounts
KEFRI

Sign

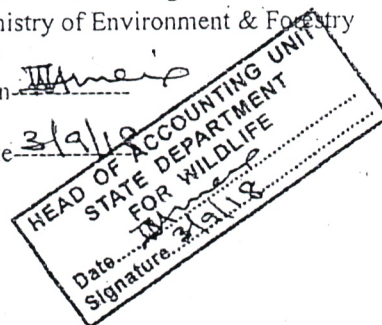
Date

30th AUGUST 2018

Head of Accounting Unit
Ministry of Environment & Forestry

Sign

Date



For:- Director,
Kenya Forestry Research Institute
P. O. Box 20412 - 00203
Nairobi

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