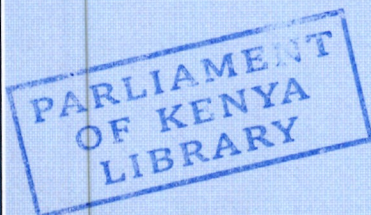


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

Volume 15-



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS  
OF KENYA FOREST SERVICE

FOR THE YEAR ENDED  
30 JUNE 2013

*Paper laid*  
*By Hon Aden Duale*  
*Majority Leader*  
*Thurs 17/7*  
*[Signature]*







**ANNUAL  
FINANCIAL STATEMENTS  
  
OF THE  
  
KENYA FOREST SERVICE  
  
FOR YEAR ENDED  
30<sup>TH</sup> JUNE 2013**

"Character is like a tree and reputation like a shadow. The shadow is what we think of it; the tree is the real thing." ~ *Abraham Lincoln*

Kenya Forest Service  
Financial Statements for the Year Ended 30<sup>th</sup> June 2013

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"A society grows great when old men plant trees whose shade they know they shall never sit in." - *Greek Proverb*

## WHO WE ARE

### Institutional details

The Kenya Forest Service is a State Corporation established in February 2007 under the Forests Act No. 7 of 2005 following the operationalisation of the Act vide Kenya Gazette Supplement No 7, legal notice number 19 on 1<sup>st</sup> February 2007.

The Service's predecessor was the Forest Department which ceased to exist when the Forests Act Cap. 385 was repealed by the Forests Act No. 7 of 2005 which also provided for the creation of the Kenya Forest Service.

A journey of a thousand miles begins with one step, ours begun one hundred and thirteen (113) years ago. The Kenya Forest Service's history dates back to the year nineteen hundred (1900) when forests at the Coast and two (2) miles either side of the railway-line and five (5) miles around the court-house in Nairobi were reserved as protected forests and the subsequent establishment of the colonial forest department with the appointment of the first conservator of forests Mr. C. F. Elliott.

The mandate of the Service is to conserve, develop and sustainably manage forests and allied resources for environmental stability and socio-economic development. The Service is classified as a service State Corporation under PC 3A.

It is run by a fifteen (15) member Board of Directors, comprising of seven (7) Government representatives, eight (8) independent members appointed by name and the Director who is the Secretary to the Board and Chief Executive Officer of the Service. The Board is assisted by a management team headed by the Director with three (3) Senior Deputy Directors backed by nine (9) Deputy Directors, the Principal Kenya Forest College, the Head of Internal Audit, Head of Supply Chain Management and the Corporation Secretary.

KFS has a national spread with ten (10) forest conservancy areas that are ecologically demarcated, seventy one (71) Zonal Forest Offices, one hundred and fifty (150) forest Stations, and two hundred and fifty (250) divisional forest extension offices located countrywide. These offices are critical in the coordination of forest conservation, management and surveillance.

### Head Office

Karura Forest,  
Karura, off Kiambu Road,  
P.O BOX 30513 – 00100,  
General Post Office, Nairobi - Kenya.

*Forestry is the work of nation builders.  
~ William Bulfin, Rambles in Erin, 1907*



## PRINCIPAL BANKERS

Co-operative Bank of Kenya P.O. Box 48231-00100, Tel: +254-20-3276000 Fax: +254-20-219821 E-mail: <a href="mailto:customerservice@co-pbank.co.ke">customerservice@co-pbank.co.ke</a> Website: <a href="http://www.co-opbank.co.ke">www.co-opbank.co.ke</a>	Kenya Commercial Bank P.O. Box 14959 Tel: +254-20-3747576 Fax: +254-20-3747576 E-mail: <a href="mailto:info@kcb.co.ke">info@kcb.co.ke</a> Website: <a href="http://www.kcb.co.ke">www.kcb.co.ke</a>
National Industrial Credit Bank P.O. Box 44599-00100 GPO-Nairobi Tel: + 254-20-28888000/4948000 Fax: + 254-20-2888505 E-mail: <a href="mailto:customercare@nic-bank.com">customercare@nic-bank.com</a> Website: <a href="http://www.nic-bank.com">www.nic-bank.com</a>	Equity Bank P.O. Box 75102-00200-Nairobi Tel: +254-20-2262000 Fax: +254-20-2737276 E-mail: <a href="mailto:info@equitybank.co.ke">info@equitybank.co.ke</a> Website: <a href="http://www.equitybank.co.ke">www.equitybank.co.ke</a>
Commercial Bank of Africa P.O. Box 30347-00100 GPO-Nairobi Tel: +254-20-2884000 Fax: +254-20-2734616 E-mail: <a href="mailto:contact@cba.co.ke">contact@cba.co.ke</a> Website: <a href="http://www.cbagroup.com">www.cbagroup.com</a>	

## INDEPENDENT AUDITOR

Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084 – 00100,  
General Post Office, Nairobi.  
Tel: +254-20-2227383  
Fax: +254-20-311482  
E-mail: [cag@kenao.go.ke](mailto:cag@kenao.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)

¶ A tree is known by its fruit-Zulu saying

## **OUR VISION**

To be the leading organization of excellence in sustainable forest management and conservation.

## **OUR MISSION**

To enhance conservation and sustainable management of forests and allied resources, or environmental stability and socio-economic development.

## **OUR MANDATE**

To provide for establishment, development and sustainable management, including conservation and rational utilisation of forest resources for environmental protection and socio-economic development of the country.

## **CORE VALUES**

We shall be guided by the following core values, which provide an integrated focus towards enhancing provision of acceptable quality service.

- Adherence to scientific principles and professionalism
- Integrity and Ethics
- Promote partnerships
- Promote teamwork
- Prudent management of resources
- Promote gender and equity
- Pursue meritocracy, creativity and innovation

## **CORE ACTIVITIES**

- Sustainably manage forests for social economic and environmental benefits
- Increase productivity of industrial forest plantations and enhance efficiency in wood utilisation
- Create awareness in forest value and products
- Promote farm forestry, dry lands forestry and commercial tree farming
- Promote efficient utilisation and marketing of tree of forest products
- Protection of forestry resources and KFS properties.
- Develop and maintain essential infrastructure for effective forest management and protection.

Kenya Forest Service  
Financial Statements for the Year Ended 30<sup>th</sup> June 2013

**BOARD OF DIRECTORS**

- |   |  |
|---|--|
| 1. Chairman   | Prof. Richard S. Musangi<br>(Replaced by Mr. Peter Kirigua<br>HSC. in March 2013)<br>Mrs. Margaret Gitonga |
| 2. Vice Chair   |  |
| 3. PS – the National Treasury (formerly Ministry<br>of Finance) (Rep)   | Mr. John Olinga Lingole  |
| 4. PS - Ministry of Environment, Water and natural<br>resources (formerly ministry of Forestry and<br>Wildlife) (Rep) | Mr. M.A.M. Wamwachai<br>Mr. Mugambi Nyaga<br>Eng P.L. Ombogo   |
| 5. PS - Ministry of Local Government (Rep)  | Dr. Ayub Macharia  |
| 6. PS - Ministry of Water and Irrigation (Rep)  | Dr Ben Chikamai  |
| 7. Director General – National Environmental<br>Management Authority  | Mr. Eddin Kalla  |
| 8. Director - Kenya Forest Research Institute   | Justice Fatuma Sichale   |
| 9. Director - Kenya Wildlife Service (Rep)  | Dr. Joseph Leboo Nakurro   |
| 10. Private Sector Representative   |  |
| 11. Private Sector Representative   |  |
| 12. Private Sector Representative   | Mr. E.A. Ochieng   |
| 13. Private Sector Representative   | Mr. Jaswant S. Rai.  |
| 14. Private Sector Representative   | Mr. Joseph Mang'ira  |
| 15. Private Sector Representative   | Maj.(Rtd)Daniel I. Nawose  |
| 16. Director KFS (Secretary to the Board)   | Mr. David K. Mbugua  |

The board of management is responsible for formulating the Service's vision, realisation of its mission and achievement of strategic objectives in an effective manner as well providing strategic oversight.

## SENIOR MANAGEMENT TEAM

1. Mr. David. K. Mbugua	Director
2. Mr. Emilio. N. Mugo	Senior Deputy Director - Field Operations
3. Ms Monica Kalenda	Senior Deputy Director - Support Services
4. Mr. Patrick Nyaga	Senior Deputy Director - Finance and Administration
5. Ms Lucy Kiboi	Deputy Director Corporate Services
6. Mr. Boniface Simiyu Wasike	Deputy Director Plantation and Enterprises
7. Mr. Patrick M. Kariuki	Deputy Director Extension Services
8. Mr. Esau Omollo	Deputy Director Forest Conservation and Management
9. Ms Annastasia Muasya	Deputy Director Finance and Accounting
10. Mr. Julius Olayo (replaced by Mrs. Juliana Ochieng)	Deputy Director Human Resource and Administration
11. Colonel. (Rtd) John. N. Kimani	Deputy Director Enforcement and Compliance
12. Professor. Donald Ogweno	Principal Kenya Forestry College - Londiani.
13. Ms Esther Keige	Corporation Secretary
14. Mr. Samuel Obonyo	Ag. Head of Internal Audit
15. Mr. Alex Musungu	Head of Supply of Chain

When the last tree has been cut down,  
the last fish caught, the last river  
poisoned, only then will we realize that  
one cannot eat money. ~ Native  
American saying

## CHAIRMAN'S REPORT

I present the fifth (5<sup>th</sup>) edition of the Service's financial statements for the year ended 30<sup>th</sup> June 2013.

Overall, the performance of the Service was in line with our strategic focus. The state of the service is in many ways very strong despite the challenges to its field operations – fires, illegal logging, encroachments, changing weather patterns – that continue to make forestry unique in Kenya. Our financial strategy is well-aligned with three dominant, long-term financial trends: sustainability, organic growth and returns on investments.

Politically, we've just lived through a year of elections and transition under the new constitution. This has affected returns from commercial plantations due to the slow down by clients in purchases and harvesting of round wood. This hampered revenue generation impacting the rate of organic growth of the Service. Despite this, we remain focused on getting the best out of the mix of revenue streams that we have.

The Gross Domestic Product grew in the year under review driven largely by strong performances of the Agriculture and Forestry; wholesale and retail; transport and communication sectors, a contribution of which the Service is proud of. The average inflation rate over the period was four point nine percentum (4.9%) over the period which assisted in ensuring operating costs did not rise exponentially. The exchange rates and interest rates were stable over the year with the dollar trading at a mean low of eighty four dollars (USD 84/-) to a mean high of eighty eight dollars (USD 88/-), shielding the Service from foreign exchange losses while the commercial weighted average lending rate was between twenty percentum (20%) and seventeen percentum (17%).

Digitization is not just about websites and apps and other customer-facing elements — though these are very important. Digitization will continue to revolutionize the forest sector, front office to back, and transform the way clients — from individuals to corporate — interact with us and utilize our offerings. That is why the Service has rolled out its Integrated Financial management system to its field offices. The system is expected to minimise revenue leakages, increase efficiency fivefold while reducing expenditure by a minimum of two million shillings annually (Kshs 2,000,000/-).

This year, the net total assets of the Service have grown by thirty five percentum (35%) year on year, and the accounts show a significantly improved picture of financial performance. The bottom line improved with the deficit reducing by forty eight percentum (48%) due to the work that has already been put in place in place by an incredibly hard working team leading to results that would be the envy of many a competitor.

The Service has consolidated and aligned behind its mission and will going forward engage deeper with its stakeholders – both within and without – the National Government, County Governments and the public. While the core strategy is not changing, the vigour with which we approach and execute the tasks at hand and operational efficiency will increase. The organisation structure and management hierarchy will keep evolving to respond to emerging challenges and take advantage of unidentified opportunities while ensuring refined authority is delegated to the appropriate levels as per our mandate.

Success depends on prudent investments at the right time. Our *modus operandi* is simple and straightforward: to enhance conservation and sustainable management of forests and allied resources, for environmental stability and socio-economic development through leveraging our expertise as the nation's expert and foremost authority on forestry.

As the third Chairman of the board, I would like to state that to create today what we already have would be, quite probably, impossible. In many ways, an organisation with a legacy as checkered as ours is a rarity in today's world, one that I intend to make the most of and improve upon. As such I would like to laud the efforts of my fellow board members; the hard work put in by the management as well as the valiant efforts of staff and exhort to do more.

The future outlook cannot be envisaged with great clarity given the transition due to the devolution of specific forestry functions, amendments to the State corporations act, carbon credit policy, the proposed Value Added Tax laws, the proposed amendments to the forestry Act. That notwithstanding the Service will forge ahead into the future with conviction and confidence to consolidate as well as improve on gains made since formation

  
Mr. Peter Kirigua HSC  
Chairman, Board of Directors

*"Knowing trees, I understand the meaning of patience. Knowing grass, I can appreciate persistence." - Hal Borland, Countryman: A Summary of Belief*

## DIRECTOR'S REPORT

I am pleased to announce the financial results of the Service for the financial period ended on 30<sup>th</sup> June 2013. Over the period we have delivered a compound annual growth rate of 28% in income of which 41% is organically generated. Our total assets and liabilities have also grown by 38% during this period from Kshs 3,259,457,816/- to 4,498,162,485/-. Our cash position is still positive with an improvement of 7%. We have been able to achieve this by sticking to our strategy, focusing on what we do well, with stakeholders with whom we have deep and long standing relationships.

There's much more to do, but we feel good about where we are today. The management team understands what's at stake. I'm often asked how I would judge my tenure as Chief Executive Officer a success — what do I want the Service to look like down the road?

First, I want the Service to endure and be self sustaining. This will be accomplished by understanding; where we have come from as an entity all the way from 1902 when the first conservator of forests was appointed, who we are as an entity and what the various stakeholders expect from us. It will require sticking to basics and doing what we do best efficiently and effectively.

Second, I want the Service to consistently generate returns on assets and quality earnings to finance its recurrent operations, development objectives and grow its reserves. This will be achieved by being fiscally disciplined, utilising resources prudently, diversifying and growing our revenue streams while effectively managing expenditure lines. Given this, we will as a service entrench a culture of innovation, accountability and judge ourselves on our performance or lack of it.

Third, I won't rest until the Service is a world class organisation employing best practices in forestry, premised on quality management systems backed by state of the art information communication technology and the best people for the job. This has already begun with the Edward Saouma award, rolling out of the Enterprise Resource Planning System and ISO accreditation. My goal is for the Service to be seen around the world, and by all our stakeholders, as a leader in forest conservation and management.

Fourth, I would want an enabling environment that supports innovation and rewards creativity while ensuring ethical forest conservation and management practices.

To this the Service will need to engage policy makers to ensure the Forest bill amendments incorporate and encourage provisions for sustainable timber, poles, firewood, peelings, pulp and paper trade that is sustainable while profitable to the Service, commercial enterprises and communities along the forests or contributing towards forest resources.

The rich legacy left to us by our predecessors — both pre-colonial and postcolonial — has without a doubt established the Service as a unique organisation synonymous with the history, growth and development of the our country while at the same time it presents us with a tremendous opportunity — one that I intend to make the most of — to improve upon and move to the next level.

In conclusion, I appreciate the support and guidance of our board during the delinking transition. I am grateful for the continued confidence of my management team as well as my fellow staff members and hope the same will hold as the Service grows.

Mr. David Mbugua  
Director



"Good timber does not grow with ease;  
the stronger the wind, the stronger the  
trees."  
~J. Willard Marriott

## CORPORATE GOVERNANCE STATEMENT

Corporate governance is about how organizations are directed, controlled and held to account. It may also be described as the proper stewardship of an organization's assets and resources so as to increase and sustain their value as well as satisfying the needs and interests of stakeholders.

The scope of corporate governance covers the *"license to operate"* and that of external and internal supervision and control. It is important in ensuring that organization's meet society's expectations. It is especially important for state owned bodies such as the Kenya forest Service (KFS). This is because the Government of Kenya, acting on behalf of the people of Kenya, needs to be reassured that:

- ↓ Corporate leadership meets high standards of efficiency and probity
- ↓ The Service is responsible, responsive, accountable, transparent, fair, competitive and sustainable.
- ↓ In meeting final targets, there is no loss of focus on wider social and environmental objectives

We believe good corporate governance is about creating the right corporate culture that ensures ethical practices protects whistleblowers and rewards best practice. The Board provides leadership through oversight, review and guidance whilst setting the strategic direction. It is the primary decision-making body for all matters considered as material to the Service. The Board has the appropriate mix of skills, knowledge and experience to perform its role effectively.

The Board is composed of eight (8) independent members appointed by name and seven (7) government representatives. The Board comprise of directors who contribute expertise and judgment, based on their professional qualifications and business experience. It reflects a diversity of backgrounds and experience.

Board meetings are held quarterly. The Board has a formal schedule of matters specifically reserved for deliberation. The Service ensures that it provides the necessary resources and expertise to the Board of directors to assist them in their decision-making and as such, they are regularly consulted on key policy matters.

### General Responsibilities

The Board has a duty to the people of Kenya to ensure that the KFS achieves its objectives efficiently and effectively and in compliance with the Act. Statutory powers of the KFS Board include:

- » Approve and ratify the policies of the Service.
- » Manage, control and administer the assets of the Service in such manner and for such purposes as are best to promote the purposes for which the Service is established.
- » Receive any gifts, grants, donations or endowments made to the Service.
- » Determine the provisions to be made for capital and recurrent expenditure and for the reserves of the Service.
- » Open a banking account or banking accounts for the funds of the Service.
- » Invest any moneys of the Service not immediately required for the purposes of this Act.
- » Determine and issue the terms and conditions for the appointment and enlistment of personnel to the Service.
- » Co-operate with other organizations undertaking functions similar to its own, whether within Kenya or otherwise.

In working to meet its obligations, the Board shall focus on matters of corporate governance, ensure that personal and private interest are put aside for the good of the Service, and delegate matters of management to staff.

### **Specific Responsibilities**

Given the powers afforded above and taking into consideration matters of corporate governance, the KFS Board will execute the following specific responsibilities;

- Determine a clear statement of KFS's vision, mission, purpose and values.
- Make recommendations for appointment of the Director
- Monitor and appraise the performance of the Director
- Appoint and appraise other senior managers
- Ensure accountability through quality management systems
- Ensure adequate strategic planning
- Ensure adequate business and operational planning
- Ensure KFS has adequate financial resources
- Ensure adequate financial reporting
- Ensure adequate standards of internal controls
- Approve staff employment policies and practices
- Assess corporate performance through external evaluations
- Manage, protect and enhance KFS's reputation
- Ensure an efficient and effective functioning Board

Except for direction and guidance on general policy, the Board has delegated the authority for the conduct of day-to-day business to the Director and the Management.

### **Directors' remuneration**

The remuneration of all directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate as provided for by law. The directors are paid a sitting allowance for meetings attended.

The Service practices affirmative action and equal opportunity recruitment of qualified persons. It has in place a disability policy and a gender policy to guide its actions and decisions. As part of its staff development programme, the Service endeavors to empower all staff regardless of their calibre through various measures whose effectiveness is monitored on a regular basis.

The Service recognizes its human capital to be strategic to the achievement of its business objectives and has implemented as part of its policy, a comprehensive medical scheme for all its staff and dependants that also caters for pre-existing conditions and HIV/AIDS to assist all who may be infected or affected. It also ensures staff carry out their duties in an ethical manner and has an anti-corruption policy that is implemented to the letter. It also has embedded into the medical scheme a component of employee assistance for staff that are affected or addicted to Alcohol and/or abusing drugs.

### **Risk Management and Internal Controls**

The Board of Directors has overall responsibility for the establishment and oversight of the Service's risk management frameworks. The Service's Risk Management Policies are established to identify and analyse the risks faced by the Service, to set appropriate risk limits and controls, and to monitor adherence limits. Risk Management policies and systems are reviewed regularly to reflect changes in operating conditions, legislation and services offered. Subsequently, the Service identifies and manages risk through in-house risk review enhanced by compliance, internal and external audits. The Service has in place a system of internal controls with defined procedures, financial and operational controls to ensure that resources are safeguarded; transactions authorised, validated and reported in line with International Financial Reporting Standards.

### **Corporate Social Sustainability**

The Service has put in place a corporate social responsibility strategy to better address its corporate social sustainability initiatives. Consequently, it has adopted a structured approach to social sustainability issues as part of its corporate plan. The

Services' initiatives for the focal period are outlined in the corporate social responsibility statement.

### Board Committees

The Board has five Committees with specific delegated authorities. These are the Board Audit and governance Committee, the Board human resources and administration committee, the finance and general purposes committee as well as the technical, planning and development committee. The respective Chairpersons present their reports to the Board at each scheduled meeting. The composition of each committee is set out overleaf/below;

### HUMAN RESOURCES AND ADMINISTRATION COMMITTEE

1. Chair Person	Justice Fatuma Sichale (Mrs.)
2. Member	Mr. E.A. Ochieng
3. Member	Mr. Joseph Mangira
4. Member	Maj. (Rtd) Daniel I. Nawose
5. Director - Kenya Wildlife Service (Rep)	Mr. Edin Kalla
6. PS - Ministry of Forestry and Wildlife (Rep)	Mr. M.A.M. Wamwachai
7. PS - Ministry of Local Government (Rep)	Mr. Mugambi Nyaga

The main function of the Human Resources and Administration Committee is policy oversight and effective management of Human resources and administrative functions.

### AUDIT COMMITTEE

1. Chairperson	Dr. Joseph Leboo Nakurro
2. Member	Mrs. Margaret Gitonga
3. Member	Maj. (Rtd) Daniel I. Nawose
4. PS - Ministry of Finance (Rep)	Mr. John Olinga Lingole
5. Director - Kenya Forest Research Institute	Dr. Ben Chikamai
6. PS - Ministry of Water and Irrigation (Rep)	Eng. P.L. Ombogo (Late)

The Audit Committee evaluates and recommends policies on the Service's internal controls and financial propriety as well as risk management, review matters connected with audits and the provision of assurance regarding internal controls.

## TECHNICAL, PLANNING AND DEVELOPMENT COMMITTEE

- |   |                      |
|---|----------------------|
| 1. Chairperson  | Mr. E.A. Ochieng     |
| 2. Member   | Mr. Jaswant Rai      |
| 3. Member   | Mr. Joseph Mangira   |
| 4. PS - Ministry Of Forestry and Wildlife (Rep)                   | Mr. M.A.M. Wamwachai |
| 5. Director - Kenya Forest Research Institute                     | Dr. Ben Chikamai     |
| 6. Director General - National Environmental Management Authority | Dr. Ayub Macharia    |
| 7. Director - Kenya Wildlife Service (Rep)                        | Mr. Edin Kalla       |
| 8. PS - Ministry Of Water and Irrigation (Rep)                    | Eng. P.L. Ombogo     |

The technical, planning and development committee is responsible for ensuring; policy oversight, operational and legal compliance, advising the board on proposed subsidiary legislation, effective management of forests, effective organisational structures for forest conservancy areas as well as approvals of technical policies, strategies and systems.

## FINANCE COMMITTEE

- |   |                               |
|---|-------------------------------|
| 1. Chairperson                                  | Mr. Jaswant S. Rai            |
| 2. Member                                       | Justice Fatuma Sichale (Mrs.) |
| 3. Member                                       | Mrs. Margaret Gitonga         |
| 4. PS - Ministry Of Forestry and Wildlife (Rep) | Mr. M.A.M. Wamwachai          |
| 5. PS - Ministry Of Finance (Rep)               | Mr. John Olinga Lingole       |

The Finance Committee evaluates and recommends policies to ensure the financial stability, corporate well being and effective management of the Service's resources as well as recommend financial plans, actively monitor fiscal performance and advise on appropriate standards for assessing business risk.

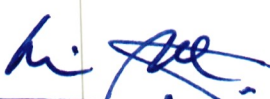
All directors are subject to a three year term renewable once (for independent members appointed by name) in accordance with the Forest Act. On first appointment, the directors go through an induction program covering the organisation's operations and an appreciation of the key risk areas. The directors are advised of the legal, regulatory and other obligations of a director of a listed company on an ongoing basis. The directors also receive both internal and external training on corporate governance through a comprehensive training by the Centre for corporate governance.

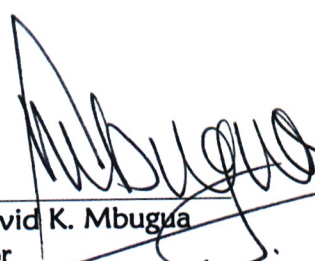
## STATEMENT OF BOARD OF DIRECTORS RESPONSIBILITIES

It's the responsibility of the Board of Directors to prepare financial statements that give a true and fair view of the state of affairs of Kenya Forest Service as at the end of the financial year and of its surplus or deficit for that year. The Board ensures that KFS maintains proper accounting records which disclose, with reasonable accuracy the financial position and performance of KFS. The Board is also responsible for safeguarding the assets of KFS. The Board of management responsibility is derived from the Forest Act 2005.

The Board accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with the International Financial Reporting Standards (IFRS's)

The Board is of the opinion that this financial statement gives a true and fair view of the state of the financial affairs of KFS as at 30th June 2012. The Board further confirms the completeness of the accounting records maintained by KFS, which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the internal financial controls system. It is the Board's opinion that KFS will continue operating as a going concern in the foreseeable future. The Board regularly meets to monitor KFS's financial Performance. Specific reviews of management performance, operational issues and future planning are undertaken through Board Committees which make suitable recommendations to the Main Board.

  
Mr. Peter Kirigua HSC  
Chairman, Board of Management

  
Mr. David K. Mbugua  
Director

Forests precede civilizations and  
deserts follow them. ~ Chateaubriand,  
French diplomat, 1768-1848

### Conflicts of interest

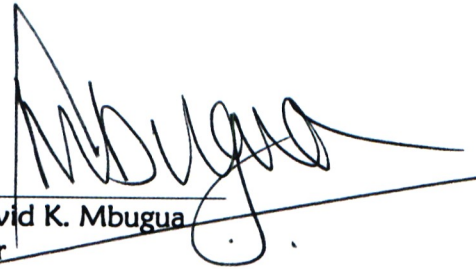
All directors are under a duty to avoid conflicts of interest. This entails not engaging, directly or indirectly in any business that competes or conflicts with the Service's business. The Service has established a robust process requiring directors to disclose outside business interests before they are entered into. Any potential or actual conflicts of interest are reported to the Corporation Secretary. The Service has a comprehensive policy on Conflicts of Interest and staff are required to comply with it.

### Compliance

The Board confirms that it is satisfied that the Service has adequate resources to continue in operating for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements. The Board is satisfied that the Service has to the best of their knowledge complied with all relevant laws and conducted its business affairs in accordance with the law in particular to the State Corporations Act and the Forest Act. Further disclosures on compliance are set out in the Directors statement of responsibilities and notes to the financial statements.



Mr. Peter Kirigua HSC  
Chair, Board of Directors



Mr. David K. Mbugua  
Director

"A society grows great when old men  
plant trees whose shade they know  
they shall never sit in." ~ *Greek Proverb*

# REPUBLIC OF KENYA

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NAIROBI



## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON KENYA FOREST SERVICE FOR THE YEAR ENDED 30 JUNE 2013

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Forest Service set out on pages 19 to 40, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

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

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

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

### **Basis for Qualified Opinion**

#### **1. Property, Plants and Equipment**

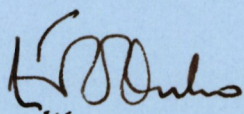
As noted in previous years' reports, the property, plant and equipment balance of Kshs.2,180,433,129 excludes one hundred and eighty eight (188) parcels of land without title deeds and whose value have not been determined. It was therefore, not possible to confirm ownership of these parcels of land. Further, it was not possible to confirm whether the figure stated in the financial statements reflects the fair value of property, plant and equipment as at 30 June 2013.

#### **2. Trade and Other Receivables**

The trade and other receivables balance of Kshs.341,137,804 includes debts totalling Kshs.72,752,912 or (21%) owed by Government agencies and media houses that have been outstanding for over one year. It has not been possible to confirm whether and if so, when the Kenya Forest Service will be able to recover these debts. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in the financial statements.

### **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in the all material respects, the financial position of the Service as at 30 June 2013 and of its financial performance and its cash flow for the year then ended, in accordance with International Financial Reporting Standards and comply with the Forest Act, 2005.



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

**NAIROBI**

**16 May 2014**



Kenya Forest Service  
Financial Statements for the Year Ended 30<sup>th</sup> June 2013

"A tree does not move unless there is  
wind." ~ Afghan Proverb

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2013

INCOME	Notes	2012/2013 Kshs	2011/2012 Kshs
Revenue	11	2,023,114,208	1,686,903,212
Government subventions	12	1,847,040,710	1,347,594,535
Grants & Financial Assistance-Donors	13	1,091,651,001	838,457,410
Donations	14	3,122,871	9,857,899
Interest income	15	<u>131,188,151</u>	<u>109,589,245</u>
<b><i>Total income</i></b>		<b>5,096,116,940</b>	<b>3,992,402,301</b>
EXPENDITURE			
Personnel expenses	16	3,011,067,305	2,457,857,892
Board expenses	17	21,308,776	37,462,737
Bank charges	18	1,884,550	4,269,800
Other administrative expenses	19	1,958,604,075	1,541,172,742
Depreciation	20	<u>216,784,860</u>	<u>132,785,093</u>
<b><i>Total expenditure</i></b>		<b>5,209,649,565</b>	<b>4,173,548,262</b>
<b>Total Deficit</b>		<b><u>(113,532,625)</u></b>	<b><u>(181,145,961)</u></b>



Wisdom is like a baobab tree;  
no one individual can embrace it ~  
*Akan and Ewe African proverb*

Kenya Forest Service  
Financial Statements for the Year Ended 30<sup>th</sup> June 2013  
**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
30<sup>TH</sup> JUNE, 2013**

	Notes	2012/2013 Kshs	2011/2012 Kshs
<b>Cashflows from operating activities</b>			
Deficit for the year	9 (c)	(113,532,625)	(181,145,961)
<b>Adjustments For</b>			
Amortisation of intangible assets	20(a)	11,073,181	-
Depreciation of Plant, Property and Equipment	20(b)	205,711,679	132,785,093
		<b>103,252,234</b>	<b>48,360,869</b>
<b>Operating cashflow before working capital changes</b>			
Increase in Trade and other receivables	7	(89,764,308)	414,791,951
Increase in Trade and other payables	10	119,801,982	(167,900,224)
<b>Net inflows from operating activities</b>		<b>133,289,909</b>	<b>198,530,858</b>
<b>Cashflows from Financing Activities</b>			
Sale of investments	8	6,850,848	5,524,483
Purchase of Plant, Property and Equipment	4	(1,120,733,780)	(425,919,968)
<b>Net outflow from investing activities</b>		<b>(1,113,882,931)</b>	<b>(420,395,486)</b>
<b>Cashflows from Financing Activities</b>			
Grants	4	1,120,733,780	425,919,967
<b>Net inflows from Financing activities</b>		<b>1,120,733,780</b>	<b>425,919,967</b>
Increase in Cash and Cash Equivalents		140,140,757	204,055,340
Cash and Cash Equivalents at beginning of the Period		1,672,560,661	1,468,505,322
<b>Cash and Cash Equivalents at the end of the Period</b>		<b>1,812,701,418</b>	<b>1,672,560,661</b>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2012

	Notes	Capital Funds Kshs	Revaluation Reserves Kshs	Revenue reserves Kshs	TOTAL Kshs
At 1 <sup>st</sup> July 2011 as previously reported adjustments		575,031,364	569,521,522	1,801,076,759	2,945,629,645
recognized directly in equity		425,919,968	-	-	425,919,968
As restated	1,000,951,333	1,000,951,333	569,521,522	1,801,076,759	3,371,549,613
Net deficit for the year		-	-	(181,145,961)	(181,145,961)
<b>As at 30<sup>th</sup> June 2012</b>		<b>1,000,951,333</b>	<b>569,521,222</b>	<b>1,619,930,798</b>	<b>3,190,403,652</b>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013

	Notes	Capital Funds Kshs	Revaluation Reserves Kshs	Revenue reserves Kshs	TOTAL Kshs
At 1 <sup>st</sup> July 2012 as previously reported adjustments	9	1,000,951,333	569,521,522	1,619,930,798	3,190,403,652
recognized directly in equity	21	569,521,523	(569,521,522)	-	-
<b>As restated</b>		<b>1,570,472,855</b>	<b>-</b>	<b>1,619,930,798</b>	<b>3,190,403,652</b>
Additions		61,946,213,809	-	-	61,946,213,809
Net Surplus for the year	9	-	-	(113,532,625)	(113,532,625)
<b>As at 30<sup>th</sup> June 2013</b>		<b>60,976,744,131</b>	<b>-</b>	<b>1,506,398,172</b>	<b>65,023,084,836</b>

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### NOTE 1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### a) Basis of Preparation

The financial statements are prepared under the Historical Cost basis of measurement as modified by fair value adjustments where necessary and in accordance with International Financial Reporting Standards (IFRS) International Accounting Standards (IAS), as well as the accrual basis.

The Service is a going concern with there being no intention to liquidate or curtail its operations materially. The preparation of these financial statements conforms to Generally Accepted Accounting Principles (GAAP) which requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting amounts of revenues and expenses during the reporting period.

In the process of applying the Service's accounting policies, its Directors make certain judgments, estimates and assumptions that are continuously evaluated and assessed for adjustments based on prior experience and other determinants, including expectations of future events that are believed to be reasonable under the prevailing circumstances. Although these estimates are based on the Directors' best knowledge of current events and actions, in practice actual results may differ from these estimates. Such estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made and are described in these notes to the Financial Statements.

#### b) REVENUE RECOGNITION

Revenue is recognised when it is probable that future economic benefits will flow to the Service and the amount of revenue can be measured reliably. Interest income is recognised on an accruals basis in the Statement of Comprehensive Income. When financial assets become impaired, any inherent income/revenue is thereafter recognised at rates used to discount future cash flows for the purpose of measuring the recoverable amount. Fees income is generally recognised on an accrual basis.

**c) COMPARATIVES**

KFS is preparing these financial statements for the fifth year with comparative values provided. Where necessary, comparatives have been adjusted to conform to changes in presentation in the current period.

**d) STAFF OBLIGATIONS**

The Service runs a defined contribution pension scheme for its permanent and pensionable staff, the assets of which are held in a separate trustee administered scheme managed by independent scheme administrators, fund managers and custodians engaged at arm's length as well as a gratuity scheme for its contracted employees which is fully funded by the Service. Where employees are entitled to annual leave, gratuity and awards, these are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave, gratuity and awards as a result of services rendered by the employees up to the end of the reporting period.

The Service also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF) a national retirement benefit scheme. It also contributes to a statutory defined health insurance scheme, the National Hospital Insurance Fund (NHIF). Both of these contributions are defined by local statutes.

The Fund's contributions to the above schemes are charged to the Statement of Comprehensive Income in the year to which they relate.

Following the de-linking of staff of the defunct forest department and subsequent transfer of service, staff of the Service are entitled to pension benefits from the Department of pensions under the Widows and Children pensions defined benefit scheme upon attaining the statutory retirement age. The same is not provided for / recognised in the financial statements as it is not controlled by the Service nor do the result of past events and from which future economic benefits (inflows of cash or other assets) accrue or are expected to accrue to the Service.

**e) PROVISIONS**

Provisions are recognized when the Service has a present legal or constructive obligation as a result of past events, for which it is highly probable that an outflow of economic embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The increase in provisions is attributable to provision for doubtful debtors due to passage of time using a rate that reflects current market assessments of the time value of money and the risks specific to the debtor.

## f) PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to acquisition of the assets. Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under revaluation surplus.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of property and equipment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains or losses on disposal of property and equipment are determined by reference to the carrying amount and are taken into account in determining the surplus. Tools and other minor office equipments are fully (100%) depreciated in the year of acquisition.

Depreciation is calculated on a pro-rata straight-line basis to the date of acquisition to write down the cost of each asset to its residual value (at 5% of the historical cost) over its estimated useful life using the following annual rates.

a.	Buildings	-	5%
b.	Plants, Machinery and Tractors	-	10%
c.	Office/ residential Furniture	-	20%
d.	Office / residential Equipment	-	20%
e.	Motor Vehicles	-	25%
f.	Roads	-	12½%
g.	Fences	-	12½%
h.	Computers	-	33 ⅓%
i.	Aircraft	-	7½%

## g) NEW AND REVISED STANDARDS

### (i) Adoption of new and revised standards

The following new and revised standards have become effective for the first time in the financial year and have been adopted by the Service where relevant to its operations;

#### *Standard Title*

International Accounting Standards one (IAS 1) Presentation of financial statements  
International Accounting Standards twenty four (IAS 24) Related party disclosures  
International Financial Reporting Standard thirteen (IFRS 13) Fair value measurement.

- The amendment to IAS 1, 'Presentation of financial statements' (effective 1 July 2012). The

Kenya Forest Service  
Financial Statements for the Year Ended 30<sup>th</sup> June 2013

amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. It however does not change the existing option to present profit or loss and other comprehensive income in two statements but changes the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. The Service will apply this amendment prospectively. The Directors do not anticipate any material impact to the consolidated financial statements. The Service will continue to disclose such items in the statement of comprehensive income and statement of changes in equity.

- The amendment to IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government related entities. The Related party disclosures in these financial statements have reduced following adoption of this amendment.
- IFRS 13 (effective 1 January 2013) replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

There are other amendments and interpretations to standards which became mandatory for years beginning on or after 1<sup>st</sup> July 2012 but had no significant effect on the Service's financial statements.

**(ii) Standards, amendments and interpretations to existing standards that are not yet effective or have not been adopted**

Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Service for the year beginning 1<sup>st</sup> July 2013.

***Standard Title***

- International Financial Reporting Standard seven (IFRS 7) 'Disclosures – Offsetting Financial Assets and Liabilities' (effective 1 January 2013).
- International Financial Reporting Standard nine (IFRS 9) Financial instruments (effective 1 January 2013).
- International Financial Reporting Standard ten (IFRS 10) 'Consolidated Financial Statements' (effective 1 January 2013).

- International Financial Reporting Standard eleven (IFRS 11) – ‘Joint arrangement (effective 1 January 2013).
- International Financial Reporting Standard twelve (IFRS 12) – ‘Disclosure of interests in other entities’ (effective 1 January 2013).
- International Accounting Standards nineteen (IAS 19) ‘Employee Benefits’ (effective January 2013).

None of the amendments or interpretations has been adopted in preparing these financial statements. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Service .

The Board of management has assessed the potential impact of the above and expects that they will not have a significant impact on the financial statements for the year ending 30<sup>th</sup> June 2013 of the Service.

#### **h) TRANSLATION OF FOREIGN CURRENCIES**

The financial statements are presented in functional currency of Kenya shillings (Kshs). Which is the prevailing currency within the primary economic environment, rounded to the nearest shilling and prepared in accordance with the measurement bases prescribed by International Financial Reporting Standards. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

#### **NOTE 2. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Service’s activities expose it to a variety of financial risks including credit, liquidity and market risks. The Service’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 operating environment and seek to minimise the potential adverse effects of such risks on the Service’s performance by setting acceptable levels of risk for credit risk, liquidity risk, market risk, foreign exchange risk and currency risk.

#### **Note 3. Land**

As per the Forest Act all assets of the former forest department vested in the Kenya Forest Service vide Legal Notice number 151 of 2008 published in the Kenya Gazette Supplement number 82 of 28<sup>th</sup> November 2008, with effect from 1<sup>st</sup> February 2007. Currently there are two hundred and sixty five (265) gazetted forest blocks. Out of the two hundred and sixty five (265) gazetted forest blocks, the service holds title deeds for seventy seven (77) forest blocks. All the Seventy seven (77) gazetted forests with title deeds are still in the process of being valued hence have not been recognised as part of property, plant and equipment.

**Note 4 MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT**

	Buildings Kshs.	Plant and Machinery Kshs.	Work in Progress Kshs.	Motor Vehicles & Cycles Kshs.	Computers & ICT Eq Kshs.	Office Furniture Kshs.	Office & HouseHolds Kshs.	Tools & Minor Eq Kshs.	Roads, Boreholes & Aircraft & Hoppers Kshs.	Totals Kshs.
Cost As at 01-07-2011	549,045,596	3,449,486	245,332,967	195,674,651	63,337,911	16,390,357	19,056,189	1,333,022	8,644,798	1,102,264,976
Adjustment										
Total as at 01-07-2011	549,045,596	3,449,486	245,332,967	195,674,651	63,337,911	16,390,357	19,056,189	1,333,022	8,644,798	1,102,264,976
Additions (cost)	329,872,646	13,821,049	(216,056,532)	187,807,766	52,106,990	34,021,604	12,563,781	460,055	7,915,756	422,511,115
Revaluation										
Cost Adjustment										
Disposal										
Total Cost as at 30-06-2012	878,918,242	17,270,535	29,274,435	383,482,417	115,444,900	50,411,961	31,619,970	1,793,077	16,560,554	1,524,776,091
Accumulated Depreciation										
Acc Dep Adjustment	27,954,605	234,019	-	60,108,368	17,279,260	2,859,190	3,444,097	1,195,861	-	113,075,400
Total as at 30-06-2011	27,954,605	234,019	-	60,108,368	17,279,260	2,859,190	3,444,097	1,195,861	-	113,075,400
Charge for the year	26,178,759	754,112		60,141,419	23,028,789	5,403,804	4,199,712	148,236	25,852	119,890,683
As at 30th June 2012	54,133,363	988,131		120,249,787	40,308,049	8,262,994	7,643,810	1,344,097	25,852	232,956,083
NBV 30th June 2012	824,784,879	16,282,404	29,274,435	263,232,630	75,136,851	42,148,967	23,976,161	448,980	16,534,702	1,291,820,008
NBV 30th June 2011	521,090,992	3,215,467	245,332,967	135,566,283	46,098,690	13,531,166	19,612,092	137,161	8,644,798	989,189,576
Cost As at 01-07-2012	878,918,242	17,270,535	29,274,435	383,482,417	115,444,900	50,411,961	31,619,970	1,793,077	16,560,554	1,524,776,091
Adjustment										
Total as at 01-07-2012	878,918,242	17,270,535	29,274,435	383,482,417	115,444,900	50,411,961	31,619,970	1,793,077	16,560,554	1,524,776,091
Additions (cost)	60,896,319	164,727,543	146,547,458	297,814,683	46,897,539	65,872,771	26,225,061	841,500	47,729,860	296,772,045
Revaluation										
Cost Adjustment										
Disposal										
Total Cost as at 30-06-2013	939,814,562	181,998,078	175,821,893	681,297,100	162,342,439	116,284,732	57,845,031	2,634,577	64,290,434	2,619,100,891
Accumulated Depreciation										
Acc Dep Adjustment	54,133,363	988,131	-	120,249,787	40,308,049	8,262,994	7,643,810	1,344,097	25,852	232,956,083
Total as at 30-06-2012	54,133,363	988,131	-	120,249,787	40,308,049	8,262,994	7,643,810	1,344,097	25,852	232,956,083
Charge for the year	34,774,638	7,428,439		102,044,631	38,665,348	13,745,093	7,157,360	463,023	1,391,609	205,711,679
As at 30th June 2013	88,908,201	8,414,570		222,294,418	78,973,397	22,008,087	14,801,169	1,807,120	1,417,862	438,667,762
NBV 30th June 2013	850,906,360	173,583,508	175,821,893	459,002,682	83,369,043	94,276,645	43,043,862	627,457	62,872,773	2,180,433,129
NBV 30th June 2012	824,784,879	16,282,404	29,274,435	263,232,630	75,136,851	42,148,967	23,976,161	448,980	16,534,702	1,291,820,008

## NOTE 5 COMMERCIAL PLANTATIONS

Kenya Forest Service is recognizing commercial plantations for the first time in the financial year 2012/2013. This is a culmination of a long process that started in the year 2008 when the field instructions for the Forest plantation inventory in Kenya of the state owned forest plantations that was funded by the World Bank credit to the Government of Kenya through Natural Resource Management Project (NRMP) were established. This was done in conjunction with DFS Deutsche Forstservice GmbH. A mission report No. 2 Forest Plantation Inventory Quality Control Kenya established the inventory quality Controls that were to guide in plantation inventory management. This was done by DFS Deutsche Forstservice GmbH in September 2008.

The process continued with DFS Deutsche Forstservice GmbH follow up training and retraining of teams that were to carry out the eventual forest inventory. This was concluded with a mission report No. 3 Forest Plantation Inventory Quality Control Kenya in March 2009.

In June 2009, Miti Mingi Maisha Bora programme in Kenya Forest service funded by the Government of Finland in collaboration with Kenya National Bureau of Statistics carried out preliminary forest resources account. This was towards establishing a baseline that would inform the inventory management. This was part of the Kenya Forestry Mainstreaming Initiative launched by the Government of Kenya in April 2009.

In December 2011, Kenya Forest Service received a report by Wanley Services that help to set the pricing of seedlings and roundwoods from state forests. This was to help in valuation of the plantation after the forest inventory was done.

A national plantation forest management inventory report was completed in March 2012. It enumerated the plantation inventory as at 30<sup>th</sup> June 2010 which forms the basis of Kshs **60,825,480,029 that has been recognized in the statement as shown;**

	Kshs
Balance b/f as at 30 <sup>th</sup> June 2010	49,829,527,021
Add new stands	<u>130,028,776</u>
	49,959,555,797
Less sales	(678,562,010)
	49,280,993,787
Add increase in value due to growth	<u>1,764,298,243</u>
	51,045,292,030
Less impairment	-
Balance c/f as at 30 <sup>th</sup> June 2011	<u><b>51,045,292,030</b></u>

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	Kshs
Balance b/f as at 1 <sup>st</sup> July 2011	51,045,292,030
Add new stands	<u>184,167,984</u>
	51,229,460,014
Less sales	<u>(1,108,125,739)</u>
	50,121,334,275
Add increase in value due to growth	<u>3,071,790,630</u>
	53,193,124,905
Less impairment	-
Balance c/f as at 30 <sup>th</sup> June 2012	<u><b>53,193,124,905</b></u>
Balance c/f as at 1 <sup>st</sup> July 2012	53,193,124,905
Add; new stands	<u>204,298,900</u>
	53,397,423,805
Less sales	<u>(1,429,679,808)</u>
	51,967,743,997
Add increase in value due to growth	<u>8,857,736,032</u>
	60,825,480,029
Less impairment	-
<b>Amount Recognized as at 30<sup>th</sup> June 2013</b>	<u><b>60,825,480,029</b></u>

## NOTE 6 INTANGIBLE ASSETS

- a. Software license costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortization and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the Service are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each license or item of software to its residual value over its estimated useful life and have a net book value of Kshs 24,924,662. These include Oracle Financial management software, security softwares and ID card production software.

	30/06/2013	30/06/2012
	Kshs	Kshs
Opening Total Cost	44,049,719	40,640,865
Add: Additions during the year	26,408,980	3,408,854
Less: Accumulated Depreciation	(34,460,855)	(21,556,445)
Less: Amortization for the Year	<u>(11,073,182)</u>	<u>(12,904,410)</u>
<b>NBV at the end of the year</b>	<u><b>24,924,662</b></u>	<u><b>9,588,864</b></u>

- b. Kenya Forest service has separately disclosed intangible assets from Property plant and equipment in the current year.

## NOTE 7. TRADE AND OTHER RECEIVABLES

	30/06/2013	30/06/2012
	Kshs	Kshs
Other receivables	73,243,549	52,349,953
Imprests	32,786,879	57,894,463
Salary advances	2,017,224	1,902,306
Trade debtors and receivables	133,435,355	135,432,534
Supplier prepayments	<u>99,654,796</u>	<u>3,794,240</u>
Total	<u><b>341,137,802</b></u>	<u><b>251,373,495</b></u>

The past due debts are not impaired and continue to be paid. Periodically, each debt is assessed individually and provisions recalculated based on a history of debt recovery. In case of liquidation, receivership and insolvency the provision is always be a hundred percentur (100%). In the case of imprests and supplier prepayments, no provision for bad debts is mad until the imprest holder is confirmed dead or the entity is insolvent. The Services gener provision for doubtful debts was thirty eight million, nine hundred sixty two thousand, eight hundred fourteen Shillings (Kshs 38,962,814/-).

## NOTE 8. CASH AND CASH EQUIVALENTS

- a. The Long term investments held at the beginning of the year has since been liquidated and reinvested in short term investments which have a higher yield.
- b. Cash and cash equivalents comprise balances with less than ninety (90) days maturity from the date of acquisition. Short term investments made in fixed deposit accounts with Keny Commercial Bank, Co-operative Bank, Equity Bank and KCB Bank Guarantee. KCB bank guarantee amounting to Kshs. 320,000.00 forms part of Cash and Cash Equivalents.

	30/06/2013	30/06/2012
	Kshs	Kshs
Cash at Hand	746,577	250,925
Cash at Bank (8c)	504,791,909	582,136,039
Bank Guarantee	320,000	-
Fixed Deposits – KCB	461,742,513	463,365,769
Fixed Deposits – Equity bank	469,214,754	654,071,868
Fixed Deposits – Co-op bank	<u>375,885,665</u>	<u>-</u>
Total	<u><b>1,812,701,418</b></u>	<u><b>1,699,824,601</b></u>

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c. Cash at bank is held in different banks as shown below

Bank	Bank Balance
Commercial Bank of Africa	712,909
Cooperative Bank of Kenya	159,554,248
Equity Bank of Kenya	10,379,459
Kenya Commercial Bank	330,614,292
NIC	3,531,000
	<b>504,791,909</b>

## NOTE 9. ACCUMULATED FUND AND RESERVES

At the close of the financial year, the Service had an accumulated fund of sixty five billion, twenty three million, eighty four thousand, eight hundred and thirty Six (Kshs. 65,023,084,836/-). In 2011/2012 the accumulated fund was three billion, one hundred ninety million, four hundred three thousand, six hundred and fifty three shillings (Kshs. 3,190,403,652/-)

a) The capital reserves amounted to sixty three billion, five hundred sixteen million, six hundred eight six thousand, six hundred and sixty three only. This includes plantation recognized for the first time amounting to Kshs. 60,825,480,029.

b) The revenue reserves amount to one billion, five hundred six million, three hundred ninety eight thousand, one hundred and seventy two shillings (Kshs 1,506,398,172/-). In 2011/2012 the revenue reserves were one billion, six hundred nineteen million, nine hundred thirty thousand, seven hundred ninety eight shillings (Kshs 1,619,930,798/-).

At the close of the financial year, the Service had incurred a deficit of one hundred thirteen million, five hundred thirty two thousand, six hundred twenty five shillings (Kshs 113,532,625/-) an improvement from one hundred eighty one million, one hundred forty five thousand, nine hundred sixty one shillings (kshs. 181,145,961/-).

## NOTE 10. TRADE AND OTHER PAYABLES

	30/06/2013 Kshs	30/06/2012 Kshs
Withholding tax	(194,805)	-
Salary Clearance Accounts	3,658,465	-
Refundable deposits	8,245,000	4,745,000
Trade creditors	107,445,273	29,435,120
Staff pension contributions	199,819	125,913

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Staff gratuity	19,640	4,984,191
Provision for audit fees	3,000,000	2,500,000
Provision for Doubtful Debts	<u>38,962,814</u>	<u>-</u>
<b>Total</b>	<b><u>161,592,206</u></b>	<b><u>41,790,224</u></b>

## NOTE 11. APPROPRIATION IN AID

This comprises of particular classes of revenue streams which the accounting officer has been authorised to raise and use in addition to the amounts issued by the exchequer. For purposes of the financial statements this comprises of internally generated revenues as set out below:

Details	2012-2013	2011-2012
Timber	-	15,995,557
Plantations	1,429,679,808	1,108,125,739
Transmission Poles	824,668	4,577,894
Mangrove Poles	3,410,880	2,385,624
Small Poles	25,000	-
Bamboo Stems	245,210	37,260
Professional fees	747,544	194,379
Tuition Fees	8,985,645	11,300,112
Treatment of Poles	120,000	60,000
Water charges-Water easements	5,971,560	8,998,157
Movement Permits	191,838,722	196,972,933
Monthly Fuel Licenses	25,074,429	-
Saw millers Licenses	11,005,400	7,270,500
Poles	7,473,886	23,348,884
Fuel wood	31,064,087	41,180,488
Quarrying, Soil, Sand	5,892,159	4,491,591
Resin	1,347,480	1,285,912
Ecotourism sites	542,333	2,589,827
Grazing Fees	34,831,902	27,621,345
Other Forest Incomes	4,551,236	10,806,909
Recreation	5,743,665	5,304,385
Grass	1,606,364	712,308
Withies	1,805,774	724,182
Assessment Fees	818,023	686,614
Application Fees	-	19,500
Accommodation	179,400	25,900
Fallen tree Materials	42,125,115	93,359,424
Staff Quarters	3,330,915	6,284,540

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Way leaves	150,348,652	59,116,512
Land Rent	-	5,450,340
PELIS/Shamba Rent/Land Rent	31,489,584	11,205,443
Ground Rent	4,024,589	4,575,512
Bonded Items	1,826,936	2,277,272
Seedlings and Cuttings	6,543,121	6,912,985
Third Party Commissions	212,964	840,849
Training Levy	-	388,863
Fines and Surcharges	1,467,919	1,462,966
Unapplied Receipts	5,664,239	6,000
Proceeds from Disposal of Assets	106,000	15,380,905
Other Miscellaneous Receipts	-	2,029,000
Sale of Tender Documents	2,189,000	2,896,600
<b>Total</b>	<b>2,023,114,208</b>	<b>1,686,903,212</b>

## NOTE 12. GOVERNMENT SUBVENTIONS

These are funds from the exchequer to finance the Services recurrent and development activities in the following core programmes: Natural Forest conservation and management, Farm and Dry land Forests Conservation and Management, Plantation and Enterprise Development. This amounted to one billion, eight hundred ninety seven million, forty thousand, seven hundred and ten shillings(1,847,040,710/-) while in 2011/2012 it was one billion, three hundred forty seven million, five hundred ninety four thousand, five hundred thirty five shillings (Kshs 1,347,594,535/-) .

## NOTE 13. DONOR GRANTS AND FINANCIAL ASSISTANCE

Donor grants are accounted for under the Income Approach where they are recognized as income over the periods necessary to match them with the related assets which they are intended to compensate on a systematic basis while capital grants and non-monetary grants, such as property, plant and equipment or other resources, are usually accounted for at fair value, in accordance with IAS 20 Accounting for Government Grants and Financial Assistance. During the year the Service received grants as set out below:

- *International Development Association (IDA) Grants*

These were grants for the Natural Resource Management project funded by the Government of Kenya through a World Bank credit facility. The project is designed to support forest and water resources institutions to build the necessary capacity to implement new legislations in both sectors.

- *African Development Bank (ADB)*

These were grants for the Green Zones Development Support Project (GZDSP) financed through a loan from the African Development Fund (ADF) of the African Development Bank (ADB). The project objectives are to promote forest regeneration and conservation for environmental protection as well as to improve rural livelihoods and incomes of communities living adjacent to forests.

- *Government of Finland*

These were grants for the Miti Mingi Maisha Bora (MMMB) project financed by the Government of Kenya and Government of Finland. It is a five (5) year bilateral programme to support forest sector reform in Kenya and reduction of poverty by ensuring the forest sector contributes effectively and sustainably to improving lives of the poor, restoring the environment, and aiding the economic recovery and growth of Kenya, within the context of vision 2030.

- *GEF – MERECP*

These were grants for The Mt Elgon Regional Ecosystem Conservation Programme (MERECP) is trans-boundary ecosystem approach to the management of Mt Elgon identified by the East African Community (EAC), through a regional programme of conservation and sustainable development. MERECP was designed by IUCN for a four year period with a total co-financed budget commitment of by the Governments of Norway and Sweden. The project aims at; Establishment of community revolving funds, Establishment of zonation by National Parks and Forest Reserve authorities, Promotion of fuel wood strips, livelihood plantations, and carbon sequestration in designated zones, Promotion of cash and non-cash based forest protection incentives and deforestation avoidance scheme as well as Initiative harmonization of policies, laws and regulations dealing with trans-boundary issues.

- *FAO-NFPF*

These were grants for the National Forest Programme Facility. The facility is to kick start the process of forest sector development with attention on poverty alleviation and ecological restoration. It will be used to strengthen and complement ongoing initiatives, identify emerging issues, develop, test and refine joint forest management models for ecologically sensitive forests, involving local communities.

- *UNEP*

These were grants for the Innovative Approaches Towards the restoration of the Mau (IARME) project. It is a three (3) year intervention to rehabilitate the Northern Mau complex for the restoration of vital water catchments and establishment of payments for environmental services; to improving the livelihoods of local communities and monitoring carbon storage in the Mau. It is funded by the European Union and implemented by the Government of Kenya and the United Nations Environmental Program

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- **NATURE KENYA**

This is a GEF Project executed by UNDP and implemented by the Government of Kenya. This project addresses the need to improve PA representation in the Eastern Afromontane Hotspot, complementing efforts to strengthen the management of Montane Forests as part of a national strategy to improve the coverage of the PA system. The project is designed to conserve biodiversity, including unprotected forest lands and reserve forests being managed for production. The systemic interventions planned will indirectly improve the status of the entire western forest estate. This will be achieved by improving accountability for decision making, monitoring and adaptive management.

- **GOVERNMENT FINLAND - ICFRA (Metla)**

These were grants from Government of Finland for the development of forest resource Accounts (FRA) with the Finish Forest Research Institute (Metla) as part of component I of the Miti Mingi Maisha Bora project.

	2012-13	2011-12
<i>International Development Association</i>	575,849,381	174,383,800
African Development Bank (ADB)	272,942,221	314,775,025
Government of Finland - MMMB	216,792,000	344,192,530
GEF-MERCEP	-	4,676,055
FAO-NFPF	-	430,000
UNEP	19,580,871	-
Nature Kenya	3,531,000	-
Government of Finland-ICFRA/METLA	<u>2,955,528</u>	<u>-</u>
	<b>1,091,651,001</b>	<b>838,457,410</b>

## NOTE 14. DONATIONS

These are monetary donations from various corporate institutions for tree planting and forest conservation. In the year under review the donations amounted to three million, one hundred twenty two thousand eight hundred seventy one shillings (Kshs 3,122,871/-) while in 2011/2012 the donations were (Kshs 9,857,899/-).

## NOTE 15. INTEREST INCOME

The service invests surplus funds on short term deposits. The interests earned are as shown below

	<b>2012-13</b>	<b>2011-12</b>
	Kshs.	Kshs.
Fixed Deposit-KCB	65,448,722	53,420,131
Fixed Deposit-Gratuity	7,577,242	-
Fixed Deposit-Equity	57,041,739	56,169,114
Fixed Deposit-Coop Bank	<u>1,120,448</u>	<u>109,589,245</u>
	<b>131,188,151</b>	<b>109,589,245</b>

## NOTE 16. PERSONNEL EXPENSES

These are costs incurred by the Service on its employees and employee related activities during the reporting period while on official duties as set out below;

	<b>2012/2013</b>	<b>2011/2012</b>
	Kshs.	Kshs.
Basic Salaries	1,898,728,291	1,406,491,519
Temporary Employees	147,961	-
Casual Labour	167,350,519	273,442,829
Acting Allowance	597,352	57,240
Overtime	46,333	11,302
Transfer Allowance	6,468,728	6,219,379
Commuting Allowance	238,443,329	237,248,624
Hardship Allowance	11,882,811	13,161,338
Medical Allowance	6,448,890	28,689,796
Special Duty Allowance	812,112	632,652
Leave Allowance	29,739,480	22,507,720
Extraneous Allowance	22,415,161	82,997,398
Telephone Allowance	5,139,918	4,864,193
Staff Medical expenses	185,502,960	82,371,955
House Allowance	249,606,781	222,810,873
Non Practice Allowance	568,080	60,000
Entertainment Allowance	340,000	209,354
Instructor's Allowance	1,910,674	1,595,081
Arrears Pay	40,000	-
Uniform Allowance	4,414,224	8,314,400
Contributions to National	11,246,400	5,082,200

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Social Security Fund		
Staff Pension- KFS Contributions	165,477,903	57,401,858
Staff Gratuity	3,701,400	3,688,180
Risk Allowance	38,000	-
<b>Total</b>	<b><u>3,011,067,305</u></b>	<b><u>2,457,857,892</u></b>

## NOTE 17. BOARD EXPENSES

The Board of Directors meet on a regular basis as prescribed. The board members are as set out on page eleven. The attendant board expenses incurred are;

	2012/2013 Kshs.	2011/2012 Kshs.
Boards, Committees, Conferences and	16,508,776	32,662,737
Basic Salary (Board Secretary)	3,240,000	3,240,000
Extraneous Allowance (Board Secretary)	360,000	360,000
Telephone Allowance (Board Secretary)	240,000	240,000
House Allowance (Board Secretary)	960,000	960,000
	<b><u>21,308,776</u></b>	<b><u>37,462,737</u></b>

## NOTE 18. BANK CHARGES

The Service operates various bank accounts which are offered at fee. The bank charges for the year were one million, eight hundred eighty four thousand, five hundred and fifty shillings (Kshs 1,884,550/-) while in 2011/2012 it was four million, two hundred sixty nine thousand, eight hundred shillings (Kshs 4,269,800/-).

## NOTE 19. OTHER ADMINISTRATIVE COSTS.

This comprises of administrative costs as set out below;	2012-13	2011-12
Staff Welfare Costs	7,395,625	8,557,842
Electricity	12,551,099	10,800,100
Water and Sewerage Charges	5,927,232	6,857,488
Telephone, Telex, Facsimile, Computers	11,326,977	10,690,119
Courier and Postal Services	13,405,583	14,765,887
Leased Communication Lines	2,088,480	283,386
Supplies of Accessories for Computers	35,273,011	24,077,040
Travel Costs(airlines, bus, railways	8,068,397	3,711,549
Accommodation - Domestic Travel	25,413,859	6,069,494
Daily Subsistence Allowance	191,879,528	155,349,676

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Field Operational Allowance	6,384,490	4,217,239
Travel Cost-International (Overseas travel)	12,858,633	15,529,613
Publishing and Printing Services	57,502,710	55,769,046
Newspapers, Magazines and Periodic	2,143,834	2,385,859
Advertising, Awareness and Publications	51,402,941	32,189,239
Travel, Accommodation, Tuition Fee	117,347,543	67,700,390
Production and Printing of Training	3,681,822	753,503
Hire of Training Facilities and Equipment	8,783,640	4,133,797
Training Accommodation Allowance	10,000	-
Group Personal Insurance	10,351,296	3,238,952
Buildings Insurance	1,058,342	-
Motor Vehicle Insurance	35,786,478	28,949,634
Fungicides, Insecticides and Spray	14,941,727	12,447,467
Workshop Tools, Spares and Small Equipments	-	9,100
Forest Agricultural Materials, Supplies	8,354,546	656,662
Education and library Supplies	2,000	599,215
Paramilitary Small Equipment and Supplies	6,360,656	14,394,046
Production of Audio & Photographic Materials	212,800	-
Laboratory Materials, Supplies and equipment	3,845	6,070
General Office Supplies	31,148,162	26,107,412
Cleaning Materials, Supplies and	4,585,788	5,400,757
Catering services	12,818,033	12,915,130
Fines & Interest-NHIF, NSSF	2,141,087	-
Refined Fuels and Lubricants for T	121,856,014	112,816,076
Contracted Guards and Cleaning Ser	452,320	1,337,818
Membership Fees, Dues and Subscriptions	599,544	720,840
Forest Conservation Committees Ex	8,877,000	12,039,460
Legal dues, Arbitration and Compensation	19,092,555	13,454,488
Management fees	3,067,560	-
Contracted Professional Services	121,188,483	66,514,782
Contracted Technical Services	98,223,757	54,830,341
Security Operations	50,739,704	47,966,496
Provision for Bad debts	38,962,814	-
Food and Rations	33,218,666	29,057,720
Events and Celebrations	29,169,336	18,267,106
Tree seeds and seedlings.	296,360,490	207,665,761
Supplies for production	95,620,644	91,290,151
Tree Planting	15,328,264	43,328,583
Land Levies	-	396,494
Maintenance Plant, Property & Equipment	213,428,108	268,395,100
Staff Uniforms and Clothing	7,168,883	4,191,388

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Trainees Uniforms and Clothing -	7,120,196	12,826,422
Audit Fee	3,400,000	2,500,000
Capital Grants and Transfers	82,982,054	23,537,928
Capital Transfers	10,537,520	1,470,068
	<u>1,958,604,075</u>	<u>1,541,172,742</u>

## NOTE 20. DEPRECIATION

Depreciation/ Amortization is calculated on a pro-rata straight-line basis to the date of acquisition to write down the cost of each asset to its residual value over its estimated useful life using the rates set out in Note 1 (g).

- a. The Amortization charge for the year was eleven million, seventy three thousand one hundred and eighty one (Kshs.11,073,181).
- b. Depreciation charge for the year was Two hundred five million, seven hundred eleven thousand six hundred seventy nine (Kshs 205,711,679) while in 2011/2012 it was one hundred thirty two million, seven hundred eighty five thousand and ninety three shillings (Kshs 132,785,093/-).

## NOTE 21. NET ADJUSTMENTS RECOGNIZED DIRECTLY IN EQUITY

The revaluation reserve was reclassified to the accumulated fund as per IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* amounting to five hundred sixty nine million, five hundred twenty one thousand five hundred twenty two shillings (Kshs 569,521,522/-). The Service received capital grants worth one billion, one hundred twenty million, seven hundred thirty three thousand, seven hundred and eighty shillings (Kshs 1,120,733,780/-) which were accounted for in line with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. The Service also recognised the value for commercial plantations at sixty billion, eighty hundred twenty five million, four hundred and eighty thousand, twenty nine shillings (Kshs 60,825,480,029/-).

## NOTE 22. BOARD OF DIRECTORS

The term of the board of management expired in March 2013. Currently, the chairman of the board who was appointed on February 2013 runs the organization with the senior management.

*you do not reach the paths of the forest  
to an old gentle Congolese proverb*