


REPUBLIC OF KENYA



*Enhancing Accountability*

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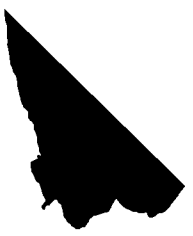
**ON**

**KENYA FORESTRY RESEARCH  
INSTITUTE**

**FOR THE YEAR ENDED  
30 JUNE, 2019**

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**KENYA FORESTRY RESEARCH INSTITUTE**  
**ANNUAL REPORT AND FINANCIAL STATEMENT FOR FY ENDED 30<sup>TH</sup> JUNE 2019**



# **KENYA FORESTRY RESEARCH INSTITUTE**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30<sup>TH</sup> JUNE 2019**

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



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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established in 1986, under the Science and Technology Act (Cap 250) of the laws of Kenya, which has since been repealed by Science, Technology and Innovation Act No. 28 of 2013.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 World Class centre of excellence in forestry and allied natural resources research for sustainable 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**

- Teamwork
- Healthy Environment
- Professionalism
- Partnership
- Innovation
- Creativity
- Customer focus

**iv. Domicile**

The Institute 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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**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 - Corporate Services
- The Deputy Director –Forestry Research 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
- Corporation Secretary & Senior Legal Officer



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**c) Fiduciary Management**

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:-

<b>NO</b>	<b>DESIGNATION</b>	<b>NAME</b>
1.	The Chief Executive Officer	Joshua K. Cheboiwo (PhD)
2.	Senior Deputy Director- Research & Development	Dr. Jane W. Njuguna
3.	The Senior Deputy Director - Corporate Services	Mr. George Otieno
4.	The Deputy Director –Forestry Research 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	Dr. Joram Kagombe
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	M/s. 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
15.	Corporation Secretary & Senior Legal Officer	Mr. Philip M. Kichana



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**d) Fiduciary Oversight Arrangements**

KEFRI Board of Directors has established three oversight committees as required by Section 9, of the State Corporations Act, 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 Corporations Advisory Committee".*

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

**e) KEFRI Board Committees**

**i. Research & Development Committee**

The 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. The purpose of this committee is to advise the Board on technical matters relating to forestry and to ensure that KEFRI programmes and scientists maintain a steady focus on the KEFRI mandate.

**ii. Finance & Administration Committee**

The committee oversees the KEFRI 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. It also oversees human resource issues and matters of administration including infrastructural development, repair and maintenance, Security & customer care, general custodian services, transport and estate management.

**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 statutory 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.



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The following are the Board Committees effective from 10<sup>th</sup> July, 2019;

Name of the Committee	Members	
<p><b>Research &amp; Development Committee</b>            This committee oversees the core business of the Institute. It coordinates, directs and controls the research and development policies of the Institute.</p>	Dr. Mohammed M. Ali Mr. Julius Kamau Ms. Margaret Maimba Ms. Naomi Apali Dr. Antony N. Getambu KEFRI Director	Chairperson Member Member Member Member Secretary
<p><b>Finance &amp; Administration Committee</b>            The Finance Committee provides financial oversight for the institute in areas such as financial planning &amp; budgeting and financial reporting. It also ensures prudent resources allocation and utilization. Administration issues include security services, transport, infrastructural development, repair and maintenance</p>	Mr. Kevin Kihara Mr. Felix Ateng Dr. Mohammed M. Ali Dr. Antony N. Getambu KEFRI Director	Chairperson Member Member Member Secretary
<p><b>Human Resource Committee</b>            The committee provides strategic inputs on Human Resources Management issues such as recruitment, human resources development, promotion, performance management and staff welfare.</p>	Ms. Naomi Apali Ms. Maureen Mwangovya Mr. Henry Obino Mr. Julius Kamau Mr. Chrislogus Makokha KEFRI Director	Chairperson Member Member Member Member Secretary
<p><b>Audit Committee</b>            The committee assists the board in fulfilling its corporate governance responsibilities and in particular to strengthen the effectiveness of the internal audit function and maintain oversight on internal control systems and risk management.</p>	Ms. Maureen Mwangovya Mr. Henry Obino Ms. Margaret Maimba Mr. Felix Ateng Chief Internal Auditor-	Chairperson Member Member Member Secretary



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**f) KEFRI Headquarters**

Off Nairobi/Nakuru Highway – Muguga  
P.O Box 20412 – 00200 Nairobi

**g) KEFRI Contacts**

Tel:+254202010651/2  
+254722157414  
+254724259781/2  
+254734251888  
Email:director@kefri.org  
Website: [www.kefri.org](http://www.kefri.org)

**h) 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

**i) Independent Auditors**

The Auditor General  
Office of the Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084 – 00100, Nairobi

**j) 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 SIZE PHOTO	DIRECTOR'S DETAILS
<p>1. <b>Dr. Sammy C. Letema-</b>  <i>Non-Executive Chairman</i></p> <p>Professional/Academic qualification:            Ph.D. Environmental Infrastructure</p>		<p><b>Date of Birth:</b> 1<sup>st</sup> January, 1971  <b>Key qualification:</b> Consultant and Chairman of the Department of Environmental Planning and Management at Kenyatta University; 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  <b>Work experience:</b> Over 20 years in lecturing, research and consultancy.</p>
<p>2. <b>Mr. Julius Kamau</b>  <i>Non-Executive Director</i></p> <p>Professional/Academic qualification:            Masters of Arts in Environmental Planning and Management</p>		<p><b>Date of birth:</b> 20th October, 1975  <b>Key Qualification</b> A professional forester and conservationist  <b>Work experience</b> over 17 years'            Currently, The Chief Conservator of Forests (CCF) in the Republic of Kenya. He also serves as the Deputy Director of the Rhino Ark Kenya Charitable Trust. 2015-2019 Executive Director of the East Africa Wildlife Society (EAWLS 2012- 2014, he served as the Regional Program Manager at the Embassy of Sweden 2008-2012 Forest Specialist at the Embassy of Finland from. 2002-2008, Environment &amp; Forest Coordinator at Sotik Tea Companies.</p>
<p>3. <b>Mr. Kevin Kihara -</b>  <i>Non-Executive Director</i>  <b>Professional/Academic qualification:</b>            Master of International Public Policy</p>		<p><b>Date of Birth:</b> 24th August 1975</p> <p><b>Key qualification:</b> Finance &amp; International Development            Chairman: Finance Committee  <b>Work experience: 23 years</b>            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><b>4. Ms. Maureen Mwangovya</b> - <i>Non-Executive Director</i></p> <p><b>Professional/Academic qualification:</b> Masters in Project Planning &amp; Management (U.O.N)</p>		<p><b>Date of Birth:</b> 10th October 1964</p> <p><b>Key qualification:</b> Project planning and management/ Community development, Gender, administration, advocacy, resource mobilization &amp; strategic planning Chairperson: Audit Committee</p> <p><b>Work experience:</b> 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><b>5. Mr. Henry Obino</b>—</p> <p>Representing Principal Secretary, Ministry of Environment and Forestry.</p> <p><b>Professional/Academic qualification:</b></p> <p>MBA Strategic Management</p>		<p><b>Date of Birth:</b> 29<sup>th</sup> March 1964</p> <p><b>Key qualification:</b> Director of Administration, Ministry of Environment &amp; Forestry</p> <p><b>Work experience:</b> 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><b>6. Dr. Ali M. Mohamud Mohamed-</b> <i>Non-Executive Director</i></p> <p><b>Professional/Academic qualification;</b> MBA in Healthcare Management Concordia University, Doctor of Pharmacy (PharmD-USA) Degree.</p>		<p>Date of birth: 15<sup>th</sup> June, 1973</p> <p><b>Key Qualification:</b> Pharmacist. Work experience: 15 years Chairman: Research &amp; Development Committee 2013-To date, President and Chief Executive Officer (CEO) Jambostar Properties Ltd <b>2010- 2012</b>, International Customer Relations Director (Middle Eastern &amp; Other Asia) Allina Health Care, MN-USA. <b>2006-2010</b>, Clinical Pharmacist and Mentor's Coordinator -Allina Healthcare, MN-USA. <b>2004-2005</b>, Teaching Associate University of Minnesota</p>
<p><b>7. Naomi Apali-</b> <i>Non-Executive Director</i></p> <p><b>Professional/Academic qualification:</b> Master of Arts in Planning, Urban &amp; Regional Planning</p>		<p><b>Date of birth:</b> 2<sup>nd</sup> February, 1969</p> <p><b>Key Qualification:</b> Professional land use planner, environmentalist, gender consultant, trainer and researcher. Chairperson: Human Resource &amp; Administration Committee</p> <p><b>Work experience:</b> 21 years Currently, Lecturer at Jaramogi Oginga Odinga University of Science and Technology (JOOUST) <b>2015 -2018</b> Board Member of the Kenya Forest Service (KFS) <b>1998-2011</b> Chief Physical Planning Officer. A member of Kenya Institute of Planners (KIP), Environmental Institute of Kenya (EIK), the Organization for Social Research in Eastern and Southern Africa (OSSREA) and Soroptimist International (SI).</p>





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<p><b>8. Dr. Anthony Njagi Getambu - Non-Executive Director</b></p> <p><b>Professional/Academic qualification;</b></p> <p>PhD Entrepreneurship Education- University of Illinois</p>		<p><b>Date of Birth:</b> 22<sup>nd</sup> March 1951</p> <p><b>Key Qualification.</b> He is a Business Development Services (BDS) Consultant in entrepreneurship and small business development.</p> <p><b>Work Experience</b> Over 20 years</p> <p><b>2005- 2012;</b> - Team Leader of the World Bank (WB) funded Value Chain Matching Grant Fund under the Ministry of Industrialization.</p> <p>Technical Adviser to the Tanzania Income Generating Skills Project- United Nations Development Programme (UNDP) funded.</p> <p>Served as a Member of the Board of Kenya Tourist Development Corporation (KTDC), the Kenya Safari Lodges and Hotels (KSLH) and Kenya Utalii College.</p> <p><b>2014 -2015,</b> served as a Member of the Agriculture Fisheries &amp; Food Authority (AFFA) Taskforce.</p>
<p><b>9. Mrs. Margaret Maimba</b></p> <p>Representing Director General – NACOSTI</p> <p><b>Professional/Academic qualification:</b></p> <p>M.sc in Geochemistry</p>		<p><b>Date of Birth:</b> 1960</p> <p><b>Key qualification:</b> Chief Science Secretary</p> <p><b>Work experience:</b> 34 years</p> <p>2003-to date: Head of Earth and Space at NACOSTI</p> <p>Worked previously in the Ministry of Energy and Ministry of Environment and Natural Resources</p> <p>Founding and member of African Association of Women Geoscientists, (MAAWG), Member Geological Society of Kenya, Geological Society of Africa, EIA and Environmental Audit Expert</p> <p>She is a Fellow of the Geological Society of Kenya (2011)</p>
<p><b>10. Mr. Felix Ateng'</b></p> <p><b>Professional/Academic qualification:</b></p> <p>Representing PS National Treasury</p> <p>MBA - Strategic Management</p> <p>Bachelor of Commerce, Marketing and Financial Management</p>		<p><b>Date of Birth:</b> 21 July 1959</p> <p><b>Work experience:</b> 30 years</p> <p><b>Key qualification:</b> Procurement and Logistics</p> <p>2014-to date: Director, Government Clearing Agency, Ministry of Transport, Infrastructure, Housing &amp; Urban Development.</p> <p>2011-2014: Deputy Director, Government Clearing Agency, Ministry of Finance</p> <p>2010-2011: Assistant Director, Government Clearing and Forwarding Agency, Ministry of Finance</p> <p>2007-2010: Senior Assistant, Government Clearing Agency, Ministry of Finance</p> <p>2004-2007: Assistant Clearing Government Clearing Agent. Ministry of Finance</p>



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<p><b>11. Dr. Joshua Kiplongei Cheboiwo</b></p> <p><b>Director/ Chief Executive Officer KEFRI</b></p>		<p><b>Date of Birth:</b>20<sup>th</sup> August 1958</p> <p><b>Key Qualification:</b> PhD. Environmental Economics.</p> <p><b>Work experience:</b> 34 years in socioeconomics, policy and governance research</p>
<p><b>12.Mr. Philip M. Kichana</b> Corporation Secretary</p> <p>Professional/Academic qualification:</p> <p>Diploma -Kenya School of Law</p> <p>Membership: ICPSK &amp; LSK</p>		<p><b>Date of Birth:</b> 26th July 1971</p> <p><b>Key qualification:</b> Master of Laws degree LL.M</p> <p><b>Work Experience:</b> 22 years in program management, legal &amp; secretarial work</p>



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**III. THE KEFRI MANAGEMENT TEAM**

<p><b>1. Dr. Joshua K. Cheboiwo</b></p> <p>Professional/Academic qualification:</p> <p>Ph.D. Environmental Economics.</p>		<p>Director KEFRI</p>
<p><b>2. Dr. Jane W. Njuguna</b></p> <p>Professional/Academic qualification:</p> <p>Ph.D – Forest Science</p>		<p>Senior Deputy Director-Research &amp; Development</p>
<p><b>3. Mr. George Otieno</b></p> <p>Professional/Academic qualification:</p> <p>MBA – Finance CPA (K) Member of ICPAK and The Institute of Internal Auditors</p>		<p>Senior Deputy Director – Corporate Services</p>
<p><b>4. Dr. Ebby Chagala-Odera</b></p> <p>Professional/Academic qualification:</p> <p>Ph.D – Forest Genetics and Tree Breeding</p>		<p>Deputy Director – Forestry Research Support Services (FRSS).</p>
<p><b>5. Dr. Gabriel M. Muturi</b></p> <p>Professional/Academic qualification:</p> <p>Ph.D – Invasion Ecology</p>		<p>Deputy Director – Forest Biodiversity and Environment Management</p>







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<p><b>6. Dr. Joseph Githiomi</b></p> <p>Professional/Academic qualification:</p> <p>Ph.D – Forestry</p>		<p>Deputy Director – Forest Products Development</p>
<p><b>7. Dr. Joram Kagombe</b></p> <p>Professional/Academic qualification:</p> <p>Ph.D – Environmental Studies</p>		<p>Deputy Director – Socio-economics, Policy and Governance</p>
<p><b>8. Dr. Jackson M. Mulatya</b></p> <p>Professional/Academic qualification:</p> <p>Ph.D – Tree Ecology and Agroforestry system interactions and management</p>		<p>Deputy Director – Corporate Affairs and Quality Assurance</p>
<p><b>9. Mrs. Evelyn I. Oroni</b></p> <p>Professional/Academic qualification:</p> <p>MBA – HRM HND – Human Resource Management</p>		<p>Deputy Director – Human Resource Management</p>
<p><b>10. Mr. John M. Gisemba</b></p> <p>Professional/Academic qualification:</p> <p>MA – Organizational Leadership CPS (K)</p>		<p>Deputy Director- Administration</p>



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<p><b>11. Commissioner. Rose B. Osoro</b></p> <p>Professional/Academic qualification:</p> <p>MBA Strategic Management CPS (CS), CPA (K) Member of ICPAK</p>		Deputy Director- Finance
<p><b>12. Mr. Hudson Barasa</b></p> <p>Professional/Academic qualification:</p> <p>MSc – Procurement and Logistics Management Licensed practitioner in Supply Chain Management by KISM</p>		Deputy Director - Supply Chain Management
<p><b>13. Mrs Karen N. Muka</b></p> <p>Professional/Academic qualification:</p> <p>MBA Finance, CPA (K), CPS (K), CISA. Membership: ICPAK, ISACA &amp; IIA</p>		Chief Internal Auditor
<p><b>14. Mr. Philip M. Kichana</b></p> <p><b>Professional/Academic qualification:</b></p> <p>CPS, Advocate of High Court of Kenya Master of Laws degree LL.M (Public International Law) Bachelor of Laws degree LL.B Diploma (Kenya School of Law) Membership: ICPSK &amp; LSK</p>		Corporation Secretary & Senior Legal Officer



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**IV CHAIRMAN'S STATEMENT**

I am pleased to report the Institute's performance during the financial year and share the achievements made to firmly place KEFRI on the path to success after being appointed as the Chairman of the Board by the Cabinet Secretary, Ministry of Environment & Forestry, Hon. Keriako Tobiko, SC, CBS, on 3<sup>rd</sup> May 2019 through Kenya Gazette Notice No. 4373. My appointment was followed by that of the appointment of 5 other members on 1<sup>st</sup> June 2019 for a period of three years up to 30<sup>th</sup> June 2022. We joined 5 members who represent the interests of various state institutions to make the new Board. The Minister inaugurated the Board on 10<sup>th</sup> July 2019 as the 10<sup>th</sup> KEFRI Board.

I wish to thank the 9<sup>th</sup> KEFRI Board of Directors for having steered the Institute towards the achievement of its mandate. The Board ensured systems; work plans and programmes were in place for the achievement of performance targets as outlined in the Institute's Performance Contract and Strategic Plan.

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 includes: - Research and Development Committee which mainly deals with forestry research issues; the Finance Committee which deals with finance matters, Human Resource and Administration Committee which deals with human resource and administrative issues; and the Audit Committee which deals with audit and risk management issues.

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 shall continue with the implementation of the 6<sup>th</sup> Strategic plan (2018-2022) which is aligned to National Government Big Four Agenda, Vision 2030 Flagship Projects and the accelerated achievement of 10% tree cover by 2022 through doubling efforts in tree seed collection & distribution and establishment & maintenance of high quality seed sources. The Strategic Plan aims at diversifying and increasing stakeholders' access to high quality forest products and services including food, feed & fibre and providing quality raw materials for cottage industries, pharmaceuticals and nutraceuticals industries, manufacturing and housing sector and consequently improving livelihood.

The Board established 44.8 ha of seed stands, raised planting materials for species that are difficult to propagate and sensitized KEFRI partners and communities for adoption and upscaling of forestry technologies for environmental conservation and livelihood improvement.

The Board disseminated Forestry Technologies to the public through exhibitions, print and electronic media and also by organizing field days. 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 over the years with the National Government financing over 90% of the Institute's annual budget. Internally generated funds and resources mobilized from



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Development partners/Donors, accounts for only 10%. The Board intends to enhance establishment of strategic linkages and partnership to increase its resource mobilization capacity.

In conclusion, I take this opportunity to most sincerely thank the Board of Directors for their steadfast support and for always offering guidance and providing leadership to the Institute.

Lastly, I commend the management and staff for their dedicated support that has driven the performance that we celebrate today. 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 C. Letema**  
CHAIRMAN- KEFRI BOARD OF DIRECTORS

Date:.....



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## V. REPORT OF CHIEF EXECUTIVE OFFICER



The Kenya Forestry Research Institute (KEFRI) is a State Corporation 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.

The Forestry sector plays a key role in Kenya's social and economic development and forestry research is a major driver in the whole process. In order to continue fulfilling its mandate the Institute launched its 6th Strategic Plan during the year under reference. The 5-year Strategic Plan (2018 to 2022) will guide the Institute in its mission to conduct research and provide information and technologies for sustainable development of forestry and allied natural resources for socio-economic development. The Plan is supported by five technical strategic themes: namely Forest Productivity and Improvement (FPI), Socio-economics, Policy and Governance (SPG), Forest Biodiversity and Environment Management (FBEM), Forest Products Development (FPD) Forest Research Support Services (FRSS), supported by Corporate Services (CS), and Corporate Affairs and Quality Assurance (CA&QA).

The Strategic Plan will facilitate the institute to achieve its two main goals: to effectively contribute to the national minimum target of 10 percent tree cover; improve livelihoods for communities and households through sustainable forest management. The plan is also the framework to the Government Big Four Agenda.

### **Financial Performance**

During the financial year 2018/19, the Institute received **Kshs.1,433,623,377** as recurrent grants and development grant of **Kshs. 187,000,000**. The funds were transferred to the Institute and were fully utilized for the approved projects and activities. The Institute collected **Kshs.126,177,683** as Internally Generated Revenue and Donor grants amounted to **Kshs. 94,916,928**. The Institute's funding has remained stagnant and this has affected the implementation of research activities. The Institute continues to expand its linkages and partnerships to improve resource mobilization and technical capacity.

### **Technical Performance**

KEFRI has aligned its strategic focus to include the Big Four Agenda Initiative, Vision 2030 Flagship Project and Sustainable Development Goals through;

- Rehabilitation of water towers by establishment of 3 demonstrations plots in Nandi, Taita Hills & Kakamega.
- Production of tree seed species (20,000kgs of quality seeds) for increased tree cover, food security, health and creation of green jobs
- Bamboo conservation and development for industrial use, housing and food security through sensitization of stakeholders by commercialization, management and processing



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- Increased tree seed source acreage to achieve at least 10% tree cover by 2022 as per the Presidential directive by establishing 44.8 ha of seed stands and orchards.
- Raising planting materials for difficult to propagate indigenous tree species for afforestation to a tune of 61,665 propagates
- Dissemination of forestry technology and information for adoption and up scaling forestry development through dissemination activities including ASK shows, radio talks, Newsletters, Annual Reports, 29 publications were developed including peer review journals, technical notes, guidelines and policy briefs.
- Capacity building for KEFRI partners and communities for adoption and upscaling of forestry technologies for environmental conservation and livelihood improvement. 5 MOUs were signed.
- 33 forestry technologies were developed;
- 4 new forest products were developed and 4 refined forest products for quality assurance and linked to SMEs/ Communities for wealth creation

### **Human Capital**

As an Institute we realized that strategic intent cannot be converted into tangible results without a dedicated staff complement. The human capital is the most valuable factor of production remained core to the operation of the Institute. We sought to build staff morale, enthusiasm and commitment. We strove to entrench progressive and professional human capital management strategies in recruitment, development and retention of talents and skills. We understood that it is important that the Institute's employees completely own and enthusiastically commit to implement the Institute objectives. The Institute continually invested in its employees through performance management, succession planning and development programs.

### **Infrastructural development**

The Institute is focused on increasing its impact to areas previously uncovered by forestry research. The institute intends to expand its presence and impact to Laikipia, Narok, Garissa & Wajir Counties. During the year the Institute constructed three new green houses at Rift Valley, Lake Victoria and Central Highlands Eco-regions programmes. Four green houses were refurbished at the headquarters and four seed processing and drying units at Kakamega, Migori, Nyeri and Muguga were constructed. Fencing to secure the Institute's properties was undertaken at Lamu, Rumuruti and Tiva. Improvement of facilities was also done at Migori, Taita Taveta, Marigat and Turkana.

### **Development partners**

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

### **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.
- Extended ban on logging that has affected research in experimental plots.



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- Ban on use of plastic potting tubes hindering the raising of seedlings.
- Changes in weather patterns which affected the raising and planting of seedlings as many regions of the country were hit by drought.

We are committed to the implementation of the Strategic Plan (2018-2022) but are alive to the fact that to overcome some of the challenges mentioned above we may have to carry out a midterm review. Nevertheless, the strategic objectives will ensure that we continue engaging in improving our service delivery, providing new and innovative forest products, enhancing our processes and operations and building strategic relationships with our stakeholders.

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 Forestry, Development Partners and all other stakeholders for their cooperation and support in accomplishing the Institute's mandate.

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

Date: 7/8/2020



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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 eleven directors out of which 6 (six) are independent non-executive directors. The members are of diverse 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	Status
1	Dr. Sammy Letema	Chairman	7	7	Independent
2	Robinson Ngethe	Member	69	69	Retired
3	Maureen Mwangovya	Chairperson-Audit Committee	42	43	Independent
4	Hewson Kabugi	Member- Audit R & D and Finance Committee	15	15	Retired
5	Dr. Abdullahi Jillo	Member- R &D Committee	1	1	Retired
6	Margaret Maimba	Member- Audit R & D and Finance Committee	43	43	Alternate
7	Kevin Kihara	Chairperson-Finance & Admin. Committee	34	43	Independent
8	Inganji Yakhama	Member- R & D	21	21	Alternate
9	Felix Ateng	Member-Audit and Finance Committee	36	43	Alternate
10	Henry Obino	Member	42	43	Alternate



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11	Chrisologus Makokha	Member	16	16	Alternate
12	Peter Mwangi	Member-R &D Committee	8	8	Alternate
13	Ali M. Mohammed	Member	3	3	Independent
14	Christine Minyasi	Member	2	2	Alternate
15	Christopher Ombega	Member	2	2	Alternate
16	Daniel Nyaga	Member	3	3	Alternate
17	Florence Kiawa	Member	1	1	Alternate
18	Monicah Kalenda	Member	4	4	Alternate
19	Cyrus Mugambi	Member	3	3	Alternate
20	Timothy Mburu	Member	3	3	Alternate
21	Philip Kichana	Corporate Secretary			Secretary

**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 and ensures availability of adequate resources for the achievement of the organization's objectives. The committee also provides oversight on infrastructural development, repair and maintenance, security services and transport

**iii. Human Resource Committee**

The committee provides strategic inputs on human resources management issues such as recruitment, human resources development and training, promotion, performance management, succession planning and staff welfare

**iv. 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.



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**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, annual procurement plan and specific proposals for capital expenditure.

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. There is also a Board induction that is carried out by the corporate section involving all Board members and the KEFRI senior Management team.

**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 Board itself in accordance with guidelines provided by the State Corporations 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. The directors sign a declaration of interest register during every meeting to maintain a written record of their interest or lack of interest as the case may be.

The directors acknowledge 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 oneself from any discussion or decision over the matter in question.



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**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. Other expenses such as transport & accommodation expenses while on Institute business are reimbursed on approved 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.

**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.



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## **VII. MANAGEMENT DISCUSSION AND ANALYSIS**

### **a) OPERATIONAL AND FINANCIAL PERFORMANCE**

#### **i. Operational Performance**

During Financial Year 2018/2019, the Institute implemented various projects and programmes that focused on development of forest technologies, dissemination of research findings to the stakeholders and improved infrastructural facilities. 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 20,000 kilograms 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 twenty one (21) ha, of seed orchards and twenty three (23) ha of seed stands of various species

35,000 bamboo seedlings and 5,000 *Osyris lanceolata* (sandalwood) seedlings were raised.

2,000 seedlings of *E. excelsa*, 2000 grafted seedlings of *C. lusitanica*

29 forest technologies were developed in new sites including on preferred charcoal species, integrated pest management technologies, establishment of standard procedures and determination of physical and energy properties of bamboo, and determination of viability and refining propagation protocol through tissue culture of *melia volenskii*.

- **Dissemination of Forestry Technologies**

The research eco-regions held 84 activities including 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 29 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. They also

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 in Muguga, Londiani & Maseno
- Construction and equipping of Farmers Resource Centres in Migori and TaitaTaveta
- Establishment of demo plots and fencing of Tiva, Lamu and Rumuruti.



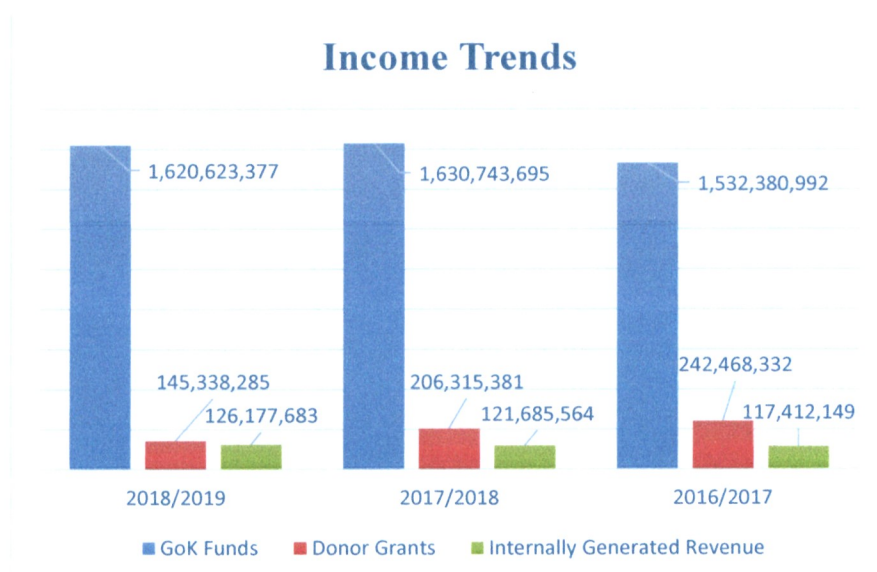
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**b) Financial performance**

**i. Income Trends**

Over the years the Institute financial performance has remained relatively unchanged. The following is a summary of the income the Institute has received in the last three financial years:

Source of Funds	2018/2019	2017/2018	2016/2017
GoK Funds	1,620,623,377	1,630,743,695	1,532,380,992
Donor Grants	145,338,285	206,315,381	242,468,332
Internally Generated Revenue	126,177,683	121,685,564	117,412,149



**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**

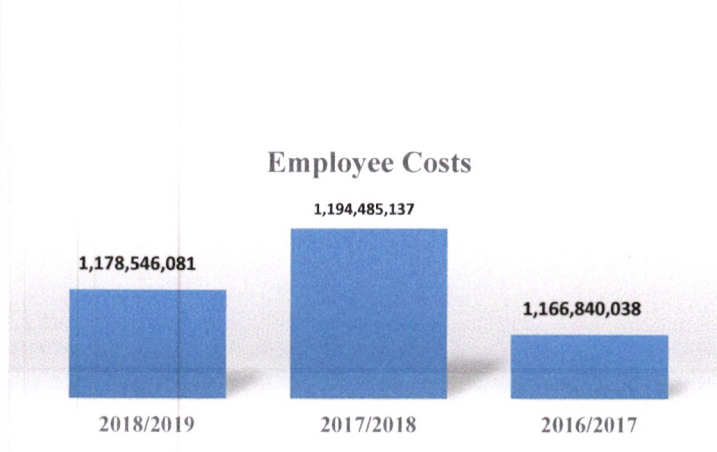
The Institute's management strategy focuses on driving a culture of performance and creating a productive workforce by developing a strong, skilled and proactive team to sustain the organization. As at 30<sup>th</sup> June 2019 the institute had 910 employees compared to 956 in the previous year. The employee costs decreased marginally during the year from Kshs 1,194,485,137 to Kshs 1,178,546,081. The decrease was due to increased employees' retirement.



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The trend is as shown below:

Particulars	2018/2019	2017/2018	2016/2017
No. of Permanent Employees	910	956	999
Costs	1,178,546,081	1,194,485,137	1,166,840,038



**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 decreased from Kshs.583,905,815 to Kshs. 521,214,660 as a result of reduced funding of the exchequer.

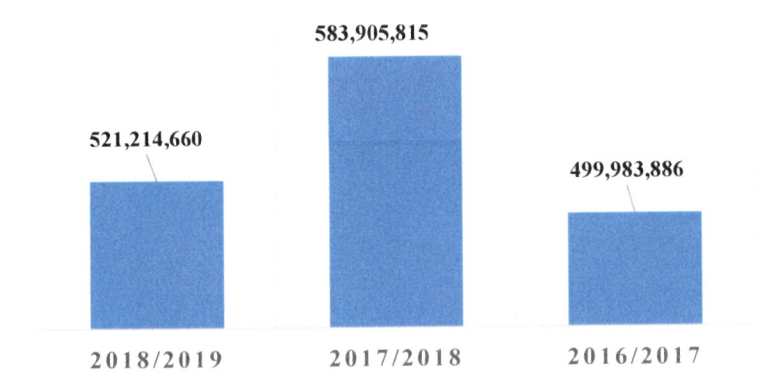
The trend is as shown below:

Particulars	2018/2019	2017/2018	2016/2017
Operating and Maintenance Costs	521,214,660	583,905,815	499,983,886



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**Operating and maintenance costs**



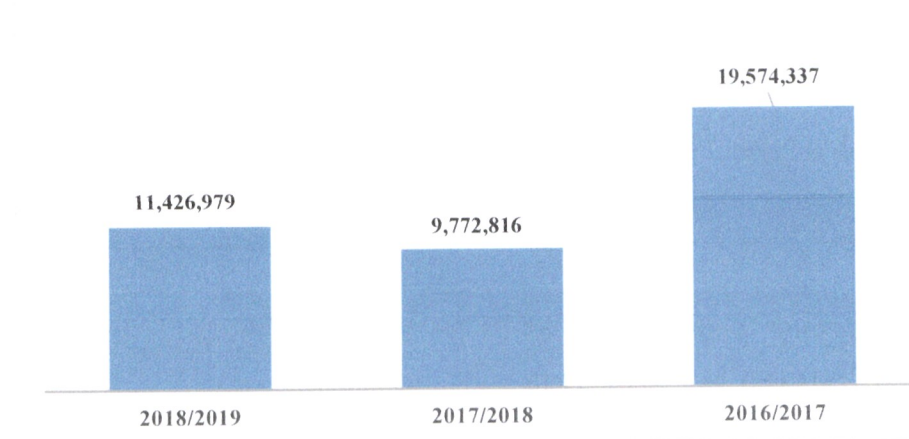
**v. Board of management expenses**

The expenses cater for allowances, meetings expenses and medical insurance. The increase was as a result of increased board activities.

The trend is as shown below:

Board of Directors Cost	2018/2019	2017/2018	2016/2017
Costs	11,426,979	9,772,816	19,574,337

**Board of Directors' Costs**



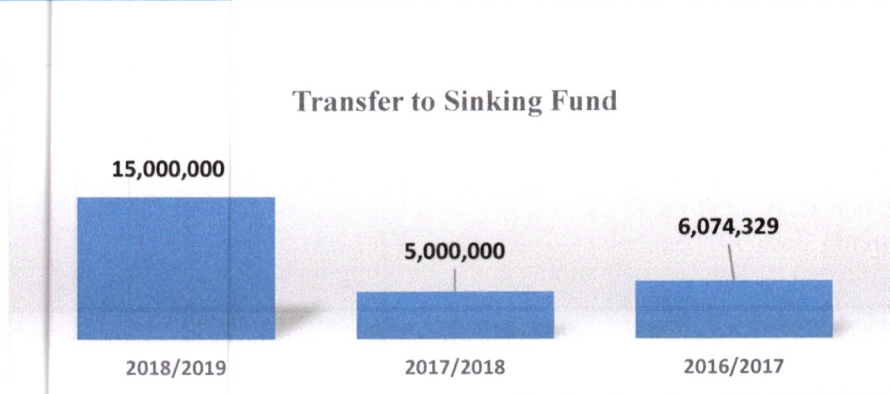


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**vi. Sinking Fund**

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 transferred amount increased from Kshs. 5 Million in the previous year to Kshs. 15 Million in the year under review.

Period	2018/2019	2017/2018	2016/2017
Sinking Fund	15,000,000	5,000,000	6,074,329

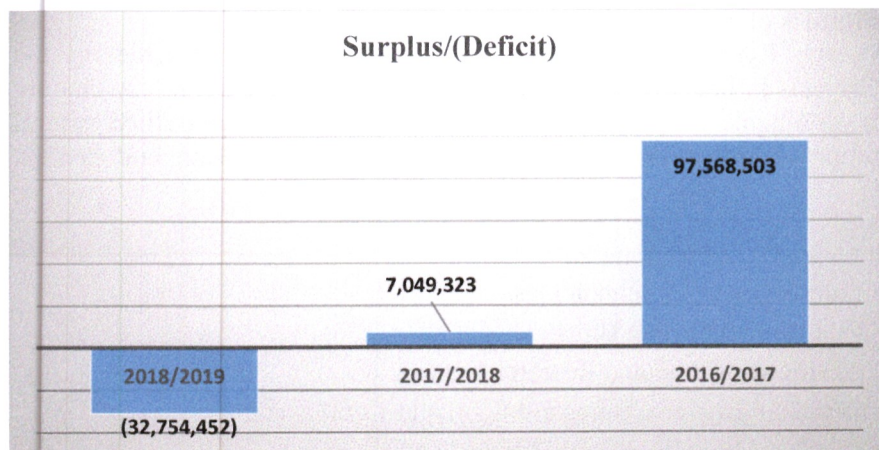


**vii. Surplus/ (Deficit)**

During the year, the Institute had a deficit of Kshs. 32,754,452. However there was a reduction from the previous year's surplus of Kshs 7,049,323. This was as a result of reduced funding to the tune of Kshs. 54 Million on recurrent budget.

The trend is as shown below:

Period	2018/2019	2017/2018	2016/2017
Surplus/(Deficit)	(32,754,452)	7,049,323	97,568,503



**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



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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 2019, our asset book value was around Kshs. 5.77 billion

**ii. Repairs & maintenance**

Activities geared towards restoring assets, equipment and tools to usable condition after damage or wear has been expedited. These activities include service contracts for specialized lab equipment, motor vehicles and minor alterations of buildings and stations

**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**

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 III 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 TaitaTaveta;
- Installation of water/firehydrant in Muguga, Marigat and Kitui;
- Development of Tivaon station forest in Kitui ;
- Securing land for forest research in Rumuruti, Narok and Wajir; and
- KEFRI/JICA-Capacity Development Project for Sustainable Management (CADEP) in Kenya for Tree breeding and social forestry management (Counterpart funding)



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**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
- 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 bees wax 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 by developing strategies and systems to minimize risks.



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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 is cognizant of the inherent risks associated with strategy execution.

**Key risks the organization is exposed to;**

**i. Financial risk**

The Institute's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Institute'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 environment and seek to minimize the potential adverse effects of such risks on the Institute's performance by setting acceptable levels of risk. The Institute 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.



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### 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, schools and other Government Institutions, 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.



*CS, Environment and Forestry Hon. Keriako Tobiko (holding a seedling) is engaged in a discussion with Dr. Jane Njuguna – KEFRI and Senior Prison Officers prior to tree planting launch at Ruiru Prisons*



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**ii. Training on new farming technologies to neighboring communities**

KEFRI disseminates information to the community on farming methods to increase food security and sustainability.



*A multiple bag with vegetables growing in wormery compost done by the community in Turkana*

**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. The Institute's health officers also participate in National Government health campaigns



*Ms. Catherine Gitonga, KEFRI nurse, administering polio vaccines at Gichuru Dispensary during the five-day polio vaccination campaign in Kiambu County*



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**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.



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

**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.





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*KEFRI Director Dr. Joshua Cheboiwo kicking off the cleaning event at Zambezi.*



*KEFRI staff and local community members in the cleanup exercise to a healthy environment*

**VI. Donations to communities**

The Institute donated to the less fortunate in society by providing umbrellas and T-shirts to school going children.



*KEFRI staff members donating umbrellas to pupils.*

**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 audits across all functions.

Areas of focus are:

- Quality Management ISO 9001:2015
- Environment Management ISO 14001:2004



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- 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.



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**IX. REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Institute's affairs.

**Principal activities**

The principal activities of the Institute are statutory and they 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, 2019 are set out on page 1-28.

**Directors**

The members of the Board of Directors who served during the year are shown on page ix to xii. During the year, three directors retired and five were appointed from 1<sup>st</sup> June 2019.

**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, 2019. The audit for the year ended 30<sup>th</sup> June 2019 has not been carried out.

By order of the Board

A handwritten signature in blue ink, appearing to read 'Phillip M. Kichana', is written over a dotted line.

**PHILLIP M. KICHANA**  
**CORPORATION SECRETARY**

Date: 7/8/2020



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**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 the 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 the 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 30<sup>th</sup> 2019. 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 30<sup>th</sup> 2019, 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.

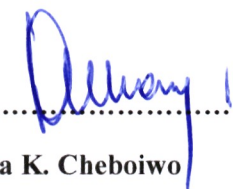
**Approval of the Financial Statements**

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

  
.....

.....  
**Dr. Sammy C. Letema**  
**(PhD)**  
**CHAIRMAN- KEFRI BOARD OF DIRECTORS**

Date.....**7/8/2020**.....

  
.....

**Joshua K. Cheboiwo**  
**DIRECTOR - KEFRI**

Date.....**7/8/2020**.....

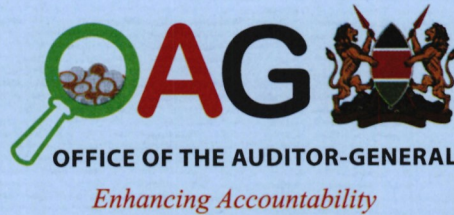


**KENYA FORESTRY RESEARCH INSTITUTE**  
**ANNUAL REPORT AND FINANCIAL STATEMENT FOR FY ENDED 30<sup>TH</sup> JUNE 2019**

**XI. REPORT OF THE INDEPENDENT AUDITORS ON KENYA FORESTRY RESEARCH INSTITUTE**

# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON KENYA FORESTRY RESEARCH INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2019**

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### **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 37 which comprise statement of financial position as at 30 June, 2019 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution 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 the Kenya Forestry Research Institute as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Science, Technology and Innovation Act, 2013 and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **Exclusion of Property, Plant and Equipment**

As previously reported, the property, plant and equipment balance of Kshs.5,752,762,412 excludes value of buildings and properties on various parcels of land totalling 2,735 hectares across the country on which the Institute has put up developments. These include parcels of land owned by Kenya Forest Service, Maseno University, Ministry of Agriculture, Kitui, Lamu and Migori County Governments. The balance also excludes the value of its Headquarters which is built on land under the name of the Ministry for Environment and Natural Resources.

In addition, log books for twenty-one (21) motor vehicles and heavy vehicles with a net book value of Kshs.5,864,698 and included in the property, plant and equipment balance were not provided for audit review.

In the circumstances, it was not possible to confirm the accuracy, completeness, ownership and valuation of property, plant and equipment balance of Kshs.5,752,762,412 as at 30 June, 2019.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Forestry Research Institute Management in accordance with ISSAI 130 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 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. There are no other key matters to communicate in my report.

## **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 described in the Basis for Conclusion on Lawfulness and effectiveness in use of public resources 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**

#### **1. Remuneration of the Chief Executive Officer**

During the year under review, the recruitment process of the Chief Executive Officer, CEO was conducted competitively and an appointment letter dated 18 March, 2019 was issued. In a special Board meeting held on 29 March, 2019, the appointment and salary of the CEO were discussed and approved. However, the CEO had not received the contract document from the Ministry of Environment and Forestry. The CEO continued to earn his previous salary despite the Board approving his gross salary to be Kshs.555,000. The Ministry was yet to concur with or decline the Board's resolution for the remuneration package which is at variance with the prescribed ceiling indicated in the circular Ref: OP/CAB/21PA/L11/43 dated 23 November, 2004 from the Permanent Secretary to the Cabinet and Head of Public Service, Office of the President.

Consequently, the Management is in breach of the law.

#### **2. Appointment Letters for the Board Members**

The Cabinet Secretary for Ministry of Environment and Forestry through the Kenya Gazette Notice No.4373 appointed the Non-Executive Chairperson to the Board with effect from 03 May, 2019. The Cabinet Secretary further appointed five (5) members to the Board of the Institute vide Gazette Notice No.4374 with effect from 01 June, 2019.

Section 1.1(8e)3 and 1.1(8e)5 of Mwongozo, the Code of Governance for State Corporations, issued through the Executive Order No.7 dated 25 March, 2015 stipulates that each Board member shall be formally appointed to the Board through a Gazette Notice and thereafter an appointment letter, and shall signify their acceptance of the appointment in writing. Further, Office of the President Circular Ref. No. OP/SCAC.9/73A/(48) dated 4 May, 2015 requires the Board Members to be issued with appointment letters by the respective Cabinet Secretaries.

However, the Board members are yet to receive appointment letters from the Ministry and consequently could not append their signatures to their acceptance letters contrary to Mwongozo Code of Governance for State Corporations. The Institute through the legal officer has previously communicated to the Ministry to issue the appointment letters to the Chair Person and the five Board Members but the matter remained outstanding.

Consequently, the Management is in breach of the law.

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 described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

#### 1. Absconding 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 the money from the concerned officers. Efforts to recover the money through the Ministry of Foreign Affairs have not yielded any results.

In the circumstances, I am not able to determine whether the Institute have an effective recovery mechanism to ensure that public resources are safeguarded.

#### 2. Non-Functional Electronic System

The Institute procured an Enterprise Resource Planning, ERP system several years back. The system has not been integrated with different modules such as vote book and

payments to enable optimal performance. Further, the ledger and trial balance provided for audit review were manually generated.

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

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 the Board of Directors**

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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Institute's ability to continue to sustain its services, disclosing, as applicable, matters related to the sustainability of service and using the applicable basis of accounting unless Management is aware of the intention to terminate the Institute or to cease operations.

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.

The Board of Directors is 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 the 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 service 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.

  
Nancy Gathungu  
**AUDITOR-GENERAL**

**Nairobi**

**15 October, 2021**



**KENYA FORESTRY RESEARCH INSTITUTE**  
**ANNUAL REPORT AND FINANCIAL STATEMENT FOR FY ENDED 30<sup>TH</sup> JUNE 2019**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2019**


	Note	2018-2019 Kshs.	2017-2018 Kshs.
<b>REVENUE</b>			
<b>Revenue from non-exchange transactions:</b>			
Government Grants	3	1,480,753,334	1,536,359,277
External Grant for Research	4	145,338,285	206,315,381
Deferred Income from Donors	5(b)	26,831,046	30,279,269
<b>Revenue from exchange transactions:</b>			
Other Income	6	<u>126,177,683</u>	<u>121,685,564</u>
<b>TOTAL REVENUE</b>		<b><u>1,779,100,348</u></b>	<b><u>1,894,639,491</u></b>
<b>EXPENSES</b>			
Employee Costs	7	(1,178,546,081)	(1,194,485,137)
Operating Expenses	8	(521,214,660)	(583,905,815)
Board of Directors Expenses	9	(11,426,979)	(9,772,816)
Transfer to Sinking Fund	10(a)	(15,000,000)	(5,000,000)
Depreciation	5(a)	(81,574,755)	(88,610,913)
Amortization of Intangible Asset	11	<u>(3,488,958)</u>	<u>(4,144,506)</u>
<b>TOTAL EXPENSES</b>		<b><u>(1,811,251,434)</u></b>	<b><u>(1,885,919,186)</u></b>
<b>OTHER GAINS/(LOSSES)</b>			
Gain on Sale of Fixed Assets	12(a)	491,351	1,060,747
Exchange Gain/(Loss)	12(b)	<u>(1,094,717)</u>	<u>(2,731,729)</u>
		<b><u>(603,366)</u></b>	<b><u>(1,670,982)</u></b>
<b>Surplus/(Deficit) for the Year</b>		<b><u>(32,754,452)</u></b>	<b><u>7,049,323</u></b>



**KENYA FORESTRY RESEARCH INSTITUTE**  
**ANNUAL REPORT AND FINANCIAL STATEMENT FOR FY ENDED 30<sup>TH</sup> JUNE 2019**  
**STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2019**

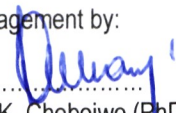
		2018-2019 Kshs.	2017-2018 Kshs.
<b>ASSETS</b>	<b>Notes</b>		
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	13	381,133,474	298,878,846
Receivables from exchange transactions	14(a)	18,268,486	15,067,566
Receivables from non-exchange transactions	14(b)	56,139	1,283,774
Inventories	15	58,466,839	64,410,175
		<b>457,924,938</b>	<b>379,640,361</b>
<b>NON-CURRENT ASSETS</b>			
Property, Plant & Equipment	5(a)	5,752,762,412	5,796,221,100
Intangible Assets	11	13,955,832	16,578,022
		<b>5,766,718,244</b>	<b>5,812,799,122</b>
<b>TOTAL ASSETS</b>		<b>6,224,643,182</b>	<b>6,192,439,483</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Payables from exchange transactions	16	2,477,771	12,458,567
Auditor General- accrued audit fee	16(b)	1,320,000	1,980,000
Payables from non-exchange transactions	16(c)	8,124,400	8,124,400
Unexpended External Donor Grants	4	139,998,262	192,174,312
Medical Scheme Funds	17	742,883	742,883
		<b>152,663,317</b>	<b>215,480,162</b>
<b>NET ASSETS</b>			
Government Grants for capital assets	18(a)	1,130,750,947	990,880,904
Deferred Income on Donated Assets	5(b)	559,968,157	586,799,202
Sinking Fund	10(b)	20,496,321	5,498,436
Revaluation Reserves	18(b)	4,467,199,488	4,467,199,488
Revenue Reserves	18(e)	(106,435,046)	(73,418,709)
		<b>6,071,979,866</b>	<b>5,976,959,322</b>
<b>TOTAL NET ASSETS &amp; LIABILITIES</b>		<b>6,224,643,182</b>	<b>6,192,439,483</b>

The Financial Statement set out on Pages 1-37 are signed on behalf of the Board of Management by:

  
.....  
Dr. Sammy C. 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: 7/8/2020

Date: 7/8/2020

Date: 7/8/2020



**KENYA FORESTRY RESEARCH INSTITUTE**  
**ANNUAL REPORT AND FINANCIAL STATEMENT FOR FY ENDED 30<sup>TH</sup> JUNE 2019**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2019**

	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.
<b>Balance as at 1st July 2017</b>	888,244,669	617,078,471	(78,806,870)	4,467,199,488	17,209,165	5,910,926,924
<b>As restated</b>	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)
<b>Balance as at 30th June 2018</b>	<b>990,880,904</b>	<b>586,799,202</b>	<b>(73,418,709)</b>	<b>4,467,199,488</b>	<b>5,498,436</b>	<b>5,976,959,322</b>
<b>Balance as at 1st July 2018</b>	<b>990,880,904</b>	<b>586,799,202</b>	<b>(73,418,709)</b>	<b>4,467,199,488</b>	<b>5,498,436</b>	<b>5,976,959,322</b>
Prior period adjustments	-	-	(261,885)	-	-	(261,885)
<b>As restated</b>	<b>990,880,904</b>	<b>586,799,202</b>	<b>(73,680,594)</b>	<b>4,467,199,488</b>	<b>5,498,436</b>	<b>5,976,697,436</b>
Surplus/(Deficit) for the year	-	-	(32,754,452)	-	-	(32,754,452)
Adjustments	-	-	-	-	-	-
Transfers from Sinking fund	-	-	-	-	-	-
Sinking Fund expenses	-	-	-	-	(2,115)	(2,115)
Additions during the year	187,000,000	-	-	-	15,000,000	202,000,000
To Income & Expenditure	(47,129,957)	-	-	-	-	(47,129,957)
Deferred Income for the year	-	(26,831,046)	-	-	-	(26,831,046)
<b>Balance as at 30th June 2019</b>	<b>1,130,750,947</b>	<b>559,968,157</b>	<b>(106,435,046)</b>	<b>4,467,199,488</b>	<b>20,496,321</b>	<b>6,071,979,866</b>



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**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2019**

		2018-2019	2017-2018
			RESTATED
	NOTES	Kshs.	Kshs.
<b>Cash Flows from Operating Activities</b>			
<b>Surplus(Deficit) for the Year</b>		<b>(32,754,452)</b>	<b>7,049,323</b>
<b>Adjustment for:</b>			
Depreciation	5(a)	81,574,755	88,610,913
Amortization of Intangible Asset	11	3,488,958	4,144,506
Deferred Income	5(b)	(26,831,046)	(30,279,269)
KEFRI Surcharge		(244,611)	(204,738)
Commission Income		(217,827)	(220,144)
<b>Adjusted Surplus</b>		<b><u>25,015,777</u></b>	<b><u>69,100,590</u></b>
<b>Working Capital Changes:</b>			
Decrease (Increase) in Debtors	14	(1,973,285)	(6,880,417)
Decrease (Increase) in Stock	15	5,943,336	24,144,650
Increase (Decrease) in Creditors	4,16&17	<u>(62,816,845)</u>	<u>(71,529,091)</u>
<b>Net Cash from operating activities</b>		<b><u>(58,846,794)</u></b>	<b><u>(54,264,858)</u></b>
<b>Cash Flows from Investing Activities:</b>			
Purchase of Assets	5(a)	(38,134,966)	(101,254,523)
Purchase of Intangible Assets	11	(866,768)	(1,417,765)
Transfer to Sinking Fund	10(a)	(15,000,000)	(5,000,000)
Proceeds from sale of assets	12(a)	<u>510,250</u>	<u>1,098,000</u>
<b>Net Cash from Investing activities</b>		<b><u>(53,491,484)</u></b>	<b><u>(106,574,288)</u></b>
<b>Cash Flows from Financing Activities:</b>			
Development capital grants	3	139,870,043	94,384,418
Research Grants Received	4	94,916,928	130,783,168
Transfers/Adjustments		80,128,444	74,776,274
Research Grants Paid	4	<u>(145,338,285)</u>	<u>(206,315,381)</u>
<b>Net Cash from Financing activities</b>		<b><u>169,577,129</u></b>	<b><u>93,628,479</u></b>
Net Increase (Decrease) in Cash & Cash Equivalent		82,254,629	1,889,924
Opening Cash & Cash Equivalent		<u>298,878,846</u>	<u>296,988,922</u>
<b>Closing Cash &amp; Cash Equivalent</b>		<b><u>381,133,475</u></b>	<b><u>298,878,846</u></b>



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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019**

	Notes	Original budget	Adjustments	Full budget	Actual on	Performanc	Budget
		2018-2019	2018-2019	2018-2019	Comparable	e difference	Vs
Revenue		Kshs	Kshs	Kshs	Kshs	Kshs	Actual
Recurrent Grants	3	1,462,880,997	(29,257,620)	1,433,623,377	1,433,623,377	-	100
Development Grants	3	205,000,000	(18,000,000)	187,000,000	187,000,000	-	100
Research Grants	4	145,338,285	-	145,338,285	145,338,285	-	100
Deferred Income from donors	5(b)	26,831,046	-	26,831,046	26,831,046	-	100
Other Income	6	126,177,683	-	126,177,683	126,177,683	-	100
<b>Total Income</b>		<b>1,966,228,011</b>	<b>(47,257,620)</b>	<b>1,918,970,391</b>	<b>1,918,970,391</b>		
GoK Development Grants for capital assets		<u>(157,000,000)</u>	<u>17,000,000</u>	<u>(140,000,000)</u>	<u>(139,870,043)</u>	<u>(129,957)</u>	
<b>NET TOTAL INCOME</b>		<b><u>1,809,228,011</u></b>	<b><u>(30,257,620)</u></b>	<b><u>1,778,970,391</u></b>	<b><u>1,779,100,347</u></b>	<b><u>(129,957)</u></b>	
<b>Expenses</b>		<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	
Employees Costs	7	1,178,550,000		1,178,550,000	1,178,546,081	3,919	100
Operation Expenses	8	521,400,500		521,400,500	521,214,660	185,840	100
Board Expenses	9	10,500,000	1,500,000	12,000,000	11,426,979	573,021	100
Establishment							
Cost(Sinking Fund)	10(a)	15,000,000		15,000,000	15,000,000	-	100
Depreciation	5(a)	81,640,500		81,640,500	81,574,755	65,745	100
Amortization Expenses	11	<u>3,500,500</u>	-	<u>3,500,500</u>	<u>3,488,958</u>	<u>11,542</u>	100
<b>Total Expenditure</b>		<b><u>1,810,591,500</u></b>	<b><u>1,500,000</u></b>	<b><u>1,812,091,500</u></b>	<b><u>1,811,251,434</u></b>	<b><u>840,066</u></b>	
<b>Other Gains/(Losses)</b>							
Gain on Sale of Fixed Assets	12(a)	<u>492,000</u>	-	<u>492,000</u>	<u>491,351</u>	649	
Exchange Gain/(Loss)	12(b)	<u>(1,094,717)</u>	-	<u>(1,094,717)</u>	<u>(1,094,717)</u>	-	
<b>Sub-Total</b>		<b><u>(602,717)</u></b>	<b>-</b>	<b><u>(602,717)</u></b>	<b><u>(603,366)</u></b>	<b><u>649</u></b>	
<b>Surplus /(Deficit) for the period without capital assets</b>		<b><u>(1,966,206)</u></b>	<b><u>(31,757,620)</u></b>	<b><u>(33,723,826)</u></b>	<b><u>(32,754,453)</u></b>	<b><u>(969,374)</u></b>	
Capital Expenditure		45,120,000	(7,000,000)	38,120,000	(38,134,966)	-	100
<b>Notes.</b>							
<b>1. GoK Development - Grant Summary</b>						<b>Kshs</b>	
Budget Estimates						205,000,000	
Less: Not Received from Exchequer						<u>(18,000,000)</u>	
<b>Total Grants received</b>						<b><u>187,000,000</u></b>	
<b>Recognized Income:</b>							
Development Grants: Deferred income recognized						47,129,957	
Referred income Capitalized						<u>139,970,043</u>	
				<b>Total</b>		<b><u>187,000,000</u></b>	

2. Part of the Development Budget for Counterpart funding was not received in the current year
3. Capital Expenditure comprises of funds from Exchequer and other development partners funded projects



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**

**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 judgment in the process of applying the entity's accounting policies. The areas involving a higher degree of judgment 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**

<b>Standard</b> <b>IPSAS 40: Public Sector Combinations</b>	<b>Effective date and impact:</b> <b>Applicable: 1st January 2019:</b>  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.
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**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018**

<b>Standard</b> <b>IPSAS 41: Financial Instruments</b>	<b>Effective date and impact:</b> <b>Applicable: 1<sup>st</sup> January 2022</b>  The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cashflows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:
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	<ul style="list-style-type: none"><li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li><li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li><li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li></ul>
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<b>Standard:</b> <b>IPSAS 42 :Social Benefits</b>	<b>Effective date and impact:</b> <b>Applicable: 1<sup>st</sup> January 2022</b> The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess: (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows. The standard is not relevant to the Institute.
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**iii. Early adoption of standards**

The Institute did not early-adopt any new or amended standards in year 2019.

**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.



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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- ii) The Institute undertakes revaluation of its property (land, buildings and heavy machines including heavy Vehicles) after every five years per category of property, plant and equipment subject to funds availability.
- iii) Depreciation on property, plant and equipment is recognized 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:

<b>Assets</b>	<b>Rate</b>
Land	-
/8Buildings	2 ½%
Boreholes, Water Equipment & Plant	12 ½%
Loose Tools	12 ½%
Telephone Equipment, Apparatus & Instruments	12 ½%
Furniture and Fittings	12 ½%
Bicycles	12 ½%
Heavy Vehicles and Tractors	37 ½%
Motorcars and Mortocycles	25%
Computer, Photocopiers, Fax Machines, Calculators and IT Equipment	33 1/3%
Medical & Dental Equipment	12 ½%

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

**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.

<b>Assets</b>	<b>Years</b>
Buildings	40
Water Equipment & Plants	8
Loose Tools	8
Telephone Equipment	8
Lab Equipment Apparatus & Electronics	8
Furniture & Fittings	8
Bicycles	8
Heavy Vehicles and Tractors	2.67
Motorcars and Motorcycles	4
Computer, Photocopiers, Fax Machines, Calculators	3
Medical & Dental Equipment	8



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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) i) Intangible Assets - IPSAS 31**

Intangible assets including computer software 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.

i) Grants from the Kenya Government are recognized 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 recognized 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.



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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**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.



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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(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 recognized initially at fair value. A provision for impairment/Doubtful Debts is recognized 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.

**(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 in 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 authorized 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 minimize 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 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:

	2018-2019		2017-2018	
	Fully Performing	Past Due	Fully Performing	Past Due
Cash at banks	381,133,474		298,878,846	-
Receivables from exchange transactions	6,089,495	12,178,991	5,022,522	10,045,044
Receivables from non-exchange transactions	18,713	37,426	855,849	427,925
<b>Total</b>	<b>387,241,683</b>	<b>12,216,417</b>	<b>304,757,217</b>	<b>10,472,969</b>



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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 recognized 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.

**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:

At 30 June 2019	2018-2019		2017-2018	
	1-6 months	6-12 months	1-6 months	6-12 months
<b>Financial liabilities</b>				
Trade payables	825,924	1,651,847	4,152,856	8,305,711
Auditor General- accrued audit fee	660,000	660,000	-	1,980,000
Payables from non-exchange transactions	-	8,124,400	8,124,400	-
Unexpended External Donor Grants	-	139,998,262	-	192,174,312
Medical Scheme Funds	-	742,883	-	742,883
	<b>1,485,924</b>	<b>151,177,393</b>	<b>12,277,256</b>	<b>203,202,906</b>

**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 optimizing 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.



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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. 116.40	Dollar- Rate Ksh. 102.39
<b>At 30<sup>th</sup> June 2019</b>			
Financial assets - cash	3,852,768	579	36,970

The Institute manages foreign exchange risk from future commercial transactions and recognizes 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
<b>At 30<sup>th</sup> June 2018</b>			
Financial assets - cash	8,973,611	54,269	26,049

**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 endeavored 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**

	2018-2019 Kshs.	2017-2018 Kshs.
Revaluation reserve	4,467,199,488	4,467,199,488
Retained earnings	(106,435,046)	(73,418,709)
Capital reserve	1,711,215,425	1,583,178,542
<b>Total funds</b>	<b><u>6,071,979,866</u></b>	<b><u>5,976,959,322</u></b>

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:



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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**(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



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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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, 2019**.



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**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 an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated.

Evidence of impairment may include the following indicators:

- The debtors 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.



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**NOTES TO THE FINANCIAL STATEMENTS**

<b>NOTE 3: GOVERNMENT GRANTS RECEIVED</b>	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Recurrent Grants	1,433,623,377	1,487,512,496
Development Grants	<u>187,000,000</u>	<u>143,231,199</u>
<b>Totals</b>	<b><u>1,620,623,377</u></b>	<b><u>1,630,743,695</u></b>
<b>(b) Recognized Income</b>		
Recurrent : Income & Expenditure	1,433,623,377	1,487,512,496
Development Grants: Income Recognized	<u>47,129,957</u>	<u>48,846,781</u>
<b>To Income &amp; Expenditure</b>	<b><u>1,480,753,334</u></b>	<b><u>1,536,359,277</u></b>
Deferred Income -GoK Development Grants for capital assets	<u>139,870,043</u>	<u>94,384,418</u>
<b>Totals</b>	<b><u>1,620,623,377</u></b>	<b><u>1,630,743,695</u></b>





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NOTE 5(a): FIXED ASSETS SCHEDULE AS AT 30<sup>TH</sup> JUNE 2018

(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.	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	1,986,215,166	57,532,188	4,528,691	8,829,798	323,108,912	103,995,489	177,430	39,401,147	271,865,454	493,913,789	36,317	16,527,349	7,059,516,709
Acquisition during the Year	-	9,277,848	7,443,336	-	57,500	11,430,939	2,638,923	-	-	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal during the Year	-	-	-	-	-	-	-	-	-	(4,448,950)	-	-	-	(4,448,950)
As at 30th June 2018	4,123,385,000	1,944,347,914	64,975,522	4,528,691	8,887,298	334,539,850	106,634,392	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	37,952,945	3,447,280	6,191,097	221,398,515	86,185,742	167,189	39,076,525	213,021,785	170,226,743	26,973	-	1,271,901,955
Disposal	-	-	-	-	-	-	-	-	-	(4,411,697)	-	-	-	(4,411,697)
Elimination on revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charge for the Year	-	36,253,770	3,376,572	135,179	337,025	14,142,567	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	1,081,431	2,638,701	101,710,396	17,909,727	10,241	324,622	64,843,669	23,687,047	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	-	505,647,694	6,086,357	29,420	69,456	72,658,273	2,898,883	10,503	1,906	29,664,163	3,615	-	-	617,078,471
Additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income	-	505,647,694	6,086,357	29,420	69,456	72,658,273	2,898,883	10,503	1,906	29,664,163	3,615	-	-	617,078,471
To Income & expenditure for the year	-	12,841,197	762,045	3,678	8,682	9,082,284	362,110	1,313	714	7,416,041	1,205	-	-	30,279,289
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	-	-	386,799,202



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(a) Depreciation		ACCOUNT													TOTAL	
COST VALUATION		3130101	3110201	3110302	3111113	3111004	3111107	3110801	3110704	3110705	3110701	1310	3111101	3110209		
		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	WORK-IN-PROGRESS		
		(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	
As at 1st July 2018	4,123,385,000	1,944,347,974	64,975,522	4,528,631	8,887,298	33,529,450	106,624,332	177,430	39,401,142	288,055,453	211,491,572	36,312	24,661,630	7,158,322,482		
Adjustment						65,000	(65,000)			101,940						
Acquisition during the year		2,040,388	1,772,916			13,919,504	1,550,086							13,695,645		
Elimination on revaluation																
Transfer to completed buildings																
Revaluation																
Disposal during the year	4,123,385,000	1,946,398,932	66,748,438	4,528,631	8,887,298	348,544,354	108,299,438	177,430	39,401,142	(1,182,869)	287,994,424	216,516,094	36,312	38,347,275		
As at 30th June 2019														7,189,294,278		
Depreciation														1,358,101,481		
As at 1st July 2018														(1,144,070)		
Disposal																
Adjustment																
Elimination on revaluation																
Charge for the year																
As at 30th June 2019														81,574,755		
Net Book Value														1,439,531,667		
As at 30th June 2019	4,123,385,000	1,360,538,965	22,232,806	827,971	2,084,179	98,867,151	17,101,680	7,840	128,805	47,539,220	21,716,264	7,154	24,661,630	5,752,782,412		
As at 30th June 2018	4,123,385,000	1,413,897,012	23,636,005	946,252	2,339,176	98,939,668	18,065,589	8,961	202,889	62,539,973	27,509,890	8,176		5,796,221,100		
5(b): Deferred Income Schedule on Donated Assets ( See Note 22 (a) (ii) )																
Donated Assets			493,006,695	3,334,313	25,745	60,774	63,975,989	2,534,772	9,180	1,192	22,248,122	2,410		586,739,202		
As at 1st July 2018																
Additions																
Disposal																
Deferred Income			493,006,695	3,334,313	25,745	60,774	63,975,989	2,534,772	9,180	1,192	22,248,122	2,410		586,739,202		
To income & expenditure for the year			17,323,162	660,038	3,018	7,697	7,956,989	316,642	1,149	447	5,592,031	603		26,631,046		
As at 30th June 2019			480,683,529	4,000,324	22,523	53,177	53,028,999	2,217,938	8,042	748	16,656,092	1,607		559,959,156		
Work-in-Progress		2018-2019	2017-2018													
Balance b/w/d		Kshs	Kshs													
Add: additions within the year:																
Transfer to finished buildings																
Work-in-Progress (In Management)		273,981														
Work-in-Progress-Lamu		778,360														
Maitani																
Genies perimeter wall		1,509,461														
Maseno glass houses		4,050,330														
Talia Towers		7,073,613														
Work-in-Progress- Green Houses Mugi																
Rumuti																
Work-in-Progress-Mgori																
Total for the year		13,695,645	5,886,744													
Balance c/w/d		38,347,275	24,661,630													



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	Notes	2018-2019 Kshs.	2017-2018 Kshs.
<b>NOTE 6: OTHER INCOME</b>			
Sale of Forestry Produce	6(a)	63,370,929	68,876,013
Other Income/Tenders and Hire of Grounds		771,021	1,688,258
Nominal Income (Rent, Water & Electricity)		4,941,637	5,480,536
Surcharges		244,611	204,738
Commission Income		217,827	220,144
Bus Charges (Income)		784,358	835,490
Hire of KEFRI Facilities	6(b)	43,751,722	39,003,550
Lab Analysis	6(c)	2,782,655	2,768,720
Clinic Revenue		1,292,750	1,389,806
Sale of Stores		45,869	54,120
Insurance Compensation		82,150	1,164,189
Pension Refund		7,892,154	-
<b>Totals</b>		<b><u>126,177,683</u></b>	<b><u>121,685,564</u></b>
<b>NOTE 6(a): ANALYSIS OF FOREST PRODUCE INCOME</b>			
Sale of Forestry Produce		2,988,885	4,406,903
Sale of Seeds		21,240,233	16,151,897
Karura Revenue		4,996,984	16,731,405
Londiani Income		747,855	3,141,600
Gede Income		1,061,432	933,195
Turbo Income		1,000,080	655,133
Kibwezi Income		810,350	431,402
Kakamega Revenue		224,480	417,615
Nyeri Income		826,639	2,419,532
Lodwar Revenue		11,075,900	13,098,160
Marigat Revenue		12,173,760	8,293,437
Kuja River Revenue		101,190	1,500
Ramogi Revenue		56,230	17,700
Garissa Revenue		23,700	21,020
Migori Revenue		462,320	440,850
Lamu Revenue		5,484,131	1,714,665
Taita Taveta Revenue		96,760	-
<b>Total</b>		<b><u>63,370,929</u></b>	<b><u>68,876,013</u></b>
<b>NOTE 6(b): HIRE OF TRAINING FACILITIES</b>			
Hire of Training Facilities - Training[Muguga]		1,925,200	6,095,340
Kitui Revenue		20,645,107	21,690,510
KEFRI House Income		21,181,415	11,217,700
<b>Total</b>		<b><u>43,751,722</u></b>	<b><u>39,003,550</u></b>
<b>NOTE 6(c): LAB ANALYSIS</b>			
Muguga Laboratory Revenue		173,730	488,440
Maseno Revenue		2,608,925	2,280,280
<b>Total</b>		<b><u>2,782,655</u></b>	<b><u>2,768,720</u></b>



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2018-2019	2017-2018
	Notes	Kshs.	Kshs.
<b>NOTE 7: EMPLOYEE COSTS</b>			
Salaries and Wages	7(a)	734,585,106	736,783,098
Gratuity Costs		10,512,764	20,551,817
Staff Pension	7(b)	131,448,791	130,121,605
Cost/Administration Costs			
House Allowances		136,874,838	140,359,918
Medical Allowance N/A		34,014	154,740
Other Personal Allowances	7(c)	91,494,923	98,271,999
Staff Medical Costs (In-Patient)		1,386,796	880,905
Leave & Passage Expenses		5,222,000	5,409,547
Transfer Expenses		5,026,899	1,763,366
Group Life Insurance Premium		2,300,117	2,687,358
Group Personal Accident Premium- Casuals		1,387,359	123,944
Group Personal Accident Premium- Casuals		500,274	126,285
Medical Insurance Cover for Staff		<u>57,772,200</u>	<u>57,250,554</u>
<b>Total</b>		<b><u>1,178,546,081</u></b>	<b><u>1,194,485,137</u></b>
<b>NOTE 7(a): SALARIES &amp; WAGES</b>		<b>Kshs.</b>	<b>Kshs.</b>
Basic Salaries		682,739,219	686,748,222
Contractual Employee		5,370,258	6,045,353
Casual Labour		46,475,629	43,989,523
<b>Total</b>		<b><u>734,585,106</u></b>	<b><u>736,783,098</u></b>
The number of employees as at the end of the year		<b>910</b>	<b>956</b>
<b>NOTE 7(b): STAFF PENSION COST</b>			
Pension Employer Cost		130,845,891	129,435,606
Pension Element 27.5%		-	54,014
NSSF Employer		<u>602,900</u>	<u>631,985</u>
<b>Total</b>		<b><u>131,448,791</u></b>	<b><u>130,121,605</u></b>
<b>NOTE 7(c): OTHER ALLOWANCES</b>		<b>Kshs.</b>	<b>Kshs.</b>
Honoraria		780,800	2,156,750
Acting Allowance		1,198,713	558,522
Hardship Allowance		6,705,741	6,656,104
Special Duty Allowance		557,182	1,144,847
Incentive Allowance		6,668,339	8,649,166
Entertainment Allowance		5,207,658	4,561,326
Responsibility Allowance		8,924,819	9,042,069
Other Allowances		7,129,420	9,144,045
Risk Allowances		2,656,985	2,649,607
Commuter Allowance		<u>51,665,266</u>	<u>53,709,564</u>
<b>Total</b>		<b><u>91,494,923</u></b>	<b><u>98,271,999</u></b>



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 8: OPERATING EXPENSES	Notes	2018-2019 Kshs.	2017-2018 Kshs.
Electricity Expenses		20,077,782	21,520,032
Water & Conservancy		2,936,645	2,393,487
Telephone, Telex & Mobile Phone		2,435,766	2,683,428
Internet Costs		11,762,026	9,780,923
Postal Courier & Telegrams		983,769	821,623
Travelling & Accommodation Expenses		155,269,157	181,527,566
External Travelling Costs		6,476,050	8,839,439
Printing & Publishing		5,209,449	5,980,566
Subscription, Newspapers & Periodicals		1,185,128	1,131,887
Advertising & Publicity		9,128,731	8,943,384
Trade Show and Exhibitions		3,339,180	4,051,079
Training Expenses and Attachment fee		8,723,046	7,488,114
Cost of Conference & Seminars		101,440	488,820
Purchase of Coffin		96,500	442,500
Insurance of Buildings & Equipment		719,778	1,001,393
Insurance of Motor Vehicles		2,651,628	5,431,087
Supplies of medical Drugs		2,137,789	1,559,154
Supplies of Dressings		331,495	99,222
Fungicides & Insecticides		177,550	355,015
Purchase of Utensils and Cutlery		329,389	696,192
Purchase of Research Materials	8(a)	5,051,060	10,327,251
Library Expenses		-	67,585
Food & Ration		41,675,781	35,955,404
Staff Uniform Expenses		1,113,041	1,851,118
Purchase of Supplies for Production		95,374,054	108,821,582
Stationery Expenses		6,371,588	7,496,711
Computer Expenses		5,943,742	7,953,457
Sanitary & Cleaning Material		2,421,179	2,139,025
Fuel & Lubricants Expenses	8(b)	27,321,994	27,778,792
Bank Charges	8(c)	650,554	796,708
Membership Fees to Statutory Organization		1,281,490	1,152,005
Legal Dues, Arbitration and Compensation Payments		36,600	898,000
Contracted Professional Services	8(d)	33,612,367	43,353,740



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Notes	2018-2019 Kshs.	2017-2018 Kshs.
<b>NOTE 8: OPERATING EXPENSES (Continued)</b>			
Audit Fees		660,000	1,466,031
Security Operations		17,347,242	16,052,503
Maintenance Expenses	8(e)	47,020,004	52,074,197
Land Rent & Rates		275,000	-
Import Duty (Kenya Revenue Authority)		-	180,714
HELB Penalty		-	11,148
Team Building Activities/Station Launching/Re-branding		-	95,775
Choir and Sports exp		986,668	199,160
<b>Total Operating Expenses</b>		<b><u>521,214,660</u></b>	<b><u>583,905,815</u></b>
<b>Note 8(a): Purchase of Research Materials</b>			
Chemicals & Industrial Gases		3,921,438	3,061,994
Workshop Materials		69,600	133,150
Laboratory Materials		986,158	6,875,708
Photographic & Audio Visual Material		73,864	256,400
<b>Total</b>		<b><u>5,051,060</u></b>	<b><u>10,327,251</u></b>
<b>NOTE 8(b): FUEL EXPENSES</b>			Kshs.
Fuel & Lubricants Expenses		27,236,994	26,692,255
Other Fuels (wood, charcoal, gas etc.)		85,000	364,500
Fuel for Generators		-	722,037
<b>Total</b>		<b><u>27,321,994</u></b>	<b><u>27,778,792</u></b>
<b>NOTE 8(c): BANK CHARGES</b>			
Recurrent		519,157	553,707
Development		10,067	24,475
Various Projects		10,233	21,071
Sinking Fund		2,115	6,125
Gold Plus Savings		2,415	5,025
Gold Plus Revenue		42,939	44,407
KEFRI US Dollar Account		1,428	2,061
EURO A/C		1,792	2,514
KCDP-IDA		-	4,070
KCDP-GEF		-	136
KEFRI-MSB/UPP PROJECT - Millenium Seed for Life		5,953	4,109
KEFRI ITK/IIED PROJECT A/C-GEDE		4,469	7,593
KEFRI ITK/IIED PROJECT A/C-HQTS		4,746	5,651
Bamboo Project		1,785	4,881
GIZ Project Lodwar		4,009	-
KEFRI/REGIONAL TRAINING		5,315	7,663
KEFRI PALWECO PROJECT A/C		1,923	5,372
CLINTON CLIMATE INITIATIVE-SLEEK PROJECT		10,641	4,070
KEFRI CIFOR PROJECT A/C		1,924	5,256
KENYA WaTER TOWERS PROJECT HQTS		4,990	24,567
ADAPTATION FUND PROJECT		3,215	16,285
KENYA WaTER TOWERS PROJECT LONDIANI		3,102	6,486
NAS PEER PROJECT		4,894	30,368
KENYA WaTER TOWERS PROJECT MASENO		1,418	9,407
USAID/WTP Project		2,025	1,411
<b>Totals</b>		<b><u>650,554</u></b>	<b><u>796,708</u></b>



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### NOTE 8: OPERATING EXPENSES (Continued)

##### NOTE 8(d): CONTRACTED PROFESSIONAL SERVICES

	2018-2019 Kshs.	2017-2018 Kshs.
Contracted Professional Services - Valuation	643,811	-
Contracted Prof. Services- Others	13,920,440	13,638,683
Contracted Prof. Services- Consultancy	17,402,655	29,610,507
Contracted Professional Services - EMS surveillance Audit	-	93,750
Technical Services	1,645,461	10,800
<b>Total</b>	<b>33,612,367</b>	<b>43,353,740</b>

##### NOTE 8(e): MAINTENANCE EXPENSES

Vehicle Maintenance Expenses	22,334,588	18,788,357
Maintenance of Plant & Machinery	2,792,413	3,857,560
Maintenance of Furniture	427,055	1,213,898
Maintenance of medical equipment	31,767	-
Maintenance of Buildings - Residential	744,404	1,564,541
Maintenance of Buildings and Stations	14,886,937	11,087,459
Maintenance of Roads	808,199	346,712
Minor Alterations	284,866	981,489
Maintenance of Computer Software	4,046,805	13,954,951
Maintenance of Water Supplies & Sewage	662,970	279,230
<b>Total</b>	<b>47,020,004</b>	<b>52,074,197</b>

##### NOTE 9: BOARD OF DIRECTORS EXPENSES

Board Costs	10,474,904	9,006,898
Conferences	604,103	417,946
KEFRI Chief Executive Officer's Remuneration	-	-
Medical Insurance Cover for Board Members	347,972	347,972
<b>Total</b>	<b>11,426,979</b>	<b>9,772,816</b>

**NB:** The institute has accrued remuneration for the CEO who was not paid during the period an amount of Ksh. 8,124,400 see note 16(c)



**KENYA FORESTRY RESEARCH INSTITUTE**

**Annual Report and Financial Statements for FY Ended 30th June 2019**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2018-2019 Kshs.	2017-2018 Kshs.
<b>NOTE: 10(a)</b>		
<b>TRANSFER TO SINKING FUND</b>		
<b>Sinking Fund</b>	<u>15,000,000</u>	<u>5,000,000</u>

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

**NOTE 10(b): SINKING FUND**

<b>Balance b/f</b>	5,498,436	17,209,165
Received during the Year	<u>15,000,000</u>	<u>5,926,250</u>
Available during the Year	<u>20,498,436</u>	<u>23,135,415</u>
Spent during the Year	<u>(2,115)</u>	<u>(17,636,979)</u>
<b>Balance c/f</b>	<u>20,496,321</u>	<u>5,498,436</u>

**NB:** See Note 18(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 11: INTANGIBLE ASSETS - COMPUTER SOFTWARE**

	Kshs.	Kshs.
<b>Cost</b>		
At the beginning of the year-		
Net	<u>16,578,022</u>	<u>19,304,763</u>
Additions for the year	<u>866,768</u>	<u>1,417,765</u>
	<u>17,444,790</u>	<u>20,722,528</u>
Amortization of Intangible Assets - Software	<u>(3,488,958)</u>	<u>(4,144,506)</u>
<b>At the end of the year</b>	<u>13,955,832</u>	<u>16,578,022</u>

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.

**NOTE 12(a): GAIN ON SALE OF FIXED ASSETS**

	Kshs.	Kshs.
Sale Proceeds	510,250	1,098,000
Value at Cost	1,162,969	4,448,950
Less: Accumulated		
Depreciation	<u>(1,144,070)</u>	<u>(4,411,697)</u>
Net Book Value	<u>18,899</u>	<u>37,253</u>
<b>Gain on Disposal</b>	<u>491,351</u>	<u>1,060,747</u>

**NOTE 12(b): EXCHANGE GAIN/(LOSS)**

Exchange Gain	16,733	117,597
Exchange Loss	<u>(1,111,451)</u>	<u>(2,849,326)</u>
<b>Total</b>	<u>(1,094,717)</u>	<u>(2,731,729)</u>



**KENYA FORESTRY RESEARCH INSTITUTE**

**Annual Report and Financial Statements for FY Ended 30th June 2019**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 13: CASH AND CASH EQUIVALENT -CASH AT BANK**

Name of Bank Account	Acct. Number	Bank	2018-2019	2017-2018
			Kshs.	Kshs.
Recurrent	1106971361	KCB	24,885,473	43,093,771
Development	1106749944	KCB	156,240,256	39,360,996
Various Projects	1106750012	KCB	24,581,950	20,453,960
Sinking Fund	1106972643	KCB	18,496,321	3,498,436
Gold Plus Savings	1107063272	KCB	499,899	502,315
Gold Plus Revenue	1107063558	KCB	39,012,515	21,102,483
KEFRI US Dollar Account	1107182867	KCB	3,785,375	2,632,272
EURO A/C	1107064929	KCB	67,391	6,341,340
KEFRI-MSB/UPP PROJECT - Millenium Seed for Life	01136151733101	Co-op	535,053	541,006
KEFRI ITK/IIED PROJECT A/C- GEDE	01136151733103	Co-op	4,390	374
KEFRI ITK/IIED PROJECT A/C- HQTS	01136151733102	Co-op	169,279	141,065
BAMBOO PROJECT	1208326104	KCB	20,967	28,721
GIZ Project Lodwar	1183017367	KCB	5,581	3,883
KEFRI/REGIONAL TRAINING	6433340016	CBA	101,004	81,838
KEFRI PALWECO PROJECT A/C	1144980720	KCB	-	22,368
CLINTON CLIMATE INITIATIVE- SLEEK PROJECT	1136151733104	Co-op	-	60,641
KEFRI CIFOR PROJECT A/C	1142007049	KCB	-	53,310
KEFRI WATER TOWER PROJECT- HQTS	1176894080	KCB	86,203,434	122,835,303
KEFRI ADATATION FUND	1178886956	KCB	24,777,241	33,980,036
KEFRI WATER TOWER PROJECT- LONDIANI	1178145298	KCB	1,739,292	3,428,458
KEFRI/NAS PEER PROJECT	1136151733105	Co-op	5,574	463,631
KEFRI WATER TOWER PROJECT- MASENO	1178145298	KCB	2,481	245,108
KEFRI USAID/WTP PROJECT	1198759054	KCB	-	7,535
<b>Totals</b>			<b>381,133,474</b>	<b>298,878,846</b>

**NOTE 14: DEBTORS SCHEDULE (RECEIVABLES)**

**14(a) RECEIVABLES FROM EXCHANGE TRANSACTIONS**

	Kshs.	Kshs.
Water and Electricity Debtors	1,792,849	1,815,485
Kenya Forest Service	4,231,900	4,478,150
Plan International	77,250	18,250
ICRAF	60,000	155,000
World Vision	194,750	379,250
NHIF-Kitui	74,100	74,100
Sundry Debtors	2,750	9,650
Kitui County Government	1,065,750	685,500
NEMA	11,000	11,000
Child Fund	10,350	277,050



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 14(a) RECEIVABLES FROM EXCHANGE TRANSACTIONS(Continued)

	2018-2019 Kshs.	2017-2018 Kshs.
Ministry of Energy, Turkana Agricultural Development. Support Program.	681,437	681,437
Tanathi	579,800	-
Kitui County Assembly	-	19,500
Pastoral Resilience	-	100,300
Baringo County Government	117,500	173,500
Safaricom Ltd	638,400	53,500
Southern Eastern Kenyan University	14,400	14,400
Turkwel CIP	-	79,800
Ministry of Water-Turkana	30,200	30,200
GIZ SIF Programme	-	900,000
ILRI	172,700	29,000
Kiwash	33,900	205,900
IEBC	-	8,000
Groots Kenya	150,500	96,500
CDF Baringo	-	41,700
Kenya Red Cross	18,900	18,900
Marie Loreto	455,500	275,500
Friends of Lake Turkana-FOLT	50,920	50,920
Save the Children	257,500	47,000
Afya Uzazi	288,000	-
Transnational Bank	2,500	92,750
IRC (International Rescue Committee)	-	10,000
Homestay Safari Group Ltd	100,000	413,000
State House (Nairobi)	10,000	10,000
KCB Kitui	-	247,500
Kenya Revenue Authority (KRA)	4,000	4,000
Potters House	-	180,600
African Population Health Research Centre	-	23,100
United Nations Office for Project Services	115,000	81,344
Mastermind Tobacco	-	946,750
German Development Corporation	15,500	246,500
Eastern Produce of Kenya	-	690,000
Northlands (Gicheha Farm)	53,480	12,680
One Acre Fund Nairobi	-	10,000
Creco Nairobi	-	313,250
Afya Timiza	-	61,000
Davis & Shirtliff	-	880,800
Nature Kenya	-	30,500
NDMA	-	84,300
Turkana County Assembly	39,000	-
	145,000	-



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

##### 14(a) RECEIVABLES FROM EXCHANGE TRANSACTIONS(Continued)

	2018-2019 Kshs.	2017-2018 Kshs.
KYEOP	888,000	-
Reg Rosilience	95,000	-
COFET	8,000	-
Hand In Hand Eastern Africa Commissioner of General Prisons	19,200	-
Kenya Wild Life Services- Marsabit	765,000	-
Kitui Law Courts	285,000	-
Nairobi Water Co.- Kitui	76,250	-
Strathmore University	351,000	-
Feed the Children	150,000	-
ICIPE	62,500	-
Pure African Delights	600,000	-
Sapcome	14,000	-
Concern World International	100,000	-
ADS North Rift	991,000	-
Centre for Enhancing Democracy	66,000	-
Washington State University	43,200	-
Ngambo High School	67,000	-
Christian Aid	11,500	-
KNCHR	123,000	-
Turkana Veterinaries	48,000	-
Kenya National Police	35,000	-
GSU	1,170,000	-
Tharaka Nithi County	745,000	-
<b>Total</b>	<b>18,268,486</b>	<b>15,067,566</b>

##### 14(b) RECEIVABLES FROM NON- EXCHANGE TRANSACTIONS

	Kshs.	Kshs.
Travelling Imprest	-	-
Station/Special Imprest	30,000	1,219,950
Salary in Advance	-	11,045
Salary Advance	26,139	52,779
<b>Total</b>	<b>56,139</b>	<b>1,283,774</b>
<b>Total Debtors</b>	<b>18,324,625</b>	<b>16,351,340</b>

##### NOTE 15: INVENTORIES

	Kshs.	Kshs.
Stationery/Computer Accessories	1,388,193	1,303,009
Motor Vehicle Spare Parts & Fuel	133,160	131,190
Food Stuff	85,321	87,467
Hardware, Electricals & Cleaning Materials	4,245,270	4,308,735
Seeds & Seedlings	32,275,192	36,738,758
Forest Plantations 1. (e)(ii)	20,228,835	21,197,054
Drugs & Dressings	110,868	643,962
<b>Total</b>	<b>58,466,839</b>	<b>64,410,175</b>

**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.



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

##### NOTE 16: CREDITORS SCHEDULE (PAYABLES)

	2018-2019 Kshs.	2017-2018 Kshs.
Sundry Creditors - Merchants	726,185	9,307,071
Accruals - (KPLC)	1,164,113	1,784,400
Insurance Compensation	121,258	339,585
Miscellaneous Recovery		
(Unpaid June BTLs)	466,215	1,027,511
16(a)		
<b>Totals</b>	<b><u>2,477,771</u></b>	<b><u>12,458,567</u></b>

##### NOTE 16 (a): MISCELLANEOUS RECOVERIES

	Kshs.	Kshs.
Maseno Staff Welfare	-	36,429
Family Remittance	-	27,797
Sheria Coop	47,167	-
Pioneer Insurance	35,608	35,608
ICEA INSURANCE	30,741	30,735
Prudential Assurance	8,730	-
Saham Assurance	37,980	-
Old Mutual Insurance	-	45,081
Turbo Welfare	96,321	96,321
PS Min.of Roads & Pub.		
Works- Rent	-	5,300
Union of civil servants	53,677	-
Kitui Welfare Staff	-	439,461
Transport Welfare	39,992	-
Attachment fees	-	62,500
COTU	-	582
African Capital ltd.	-	3,142
Information Section Welfare	49,500	-
Lomu Welfare	-	57,191
Kenya Professional		
Association of Women in		
Agriculture	1,200	-
KANASA	-	5,200
Mazingira Welfare	-	73,810
Wahasibu Welfare Group	27,550	-
Kuja River Self Help Group	37,749	-
Admin Staff Welfare	-	33,000
Nairobi Water Co.	-	75,354
<b>Total</b>	<b><u>466,215</u></b>	<b><u>1,027,511</u></b>

##### NOTE 16(b): Auditor General- accrued audit fee

Auditor General- accrued audit fee	<b><u>1,320,000</u></b>	<b><u>1,980,000</u></b>
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##### NOTE 16(c): Accrued Remuneration for CEO (Dr B. Chikamai)

	<b><u>8,124,400</u></b>	<b><u>8,124,400</u></b>
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## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### NOTE 17: KEFRI MEDICAL SCHEME FUND ACCOUNT A/C

	2018-2019	2017-2018
	Kshs.	Kshs.
Items contributing to Fund balance:		
Contribution to the Fund		
		-
Items Reducing Fund balance:		
Bank Charges	2,345	4,805
Reduction to the Fund		
	2,345	4,805
Fund Surplus/(Deficit)	(2,345)	(4,805)
Current Assets:		
Cash at Bank	29,170,687	29,173,032
Debtors:		
Gold Plus Savings & Recurrent Accounts	742,883	742,883
Fund Net Assets	<u>29,913,570</u>	<u>29,915,915</u>
Fund Balance as at 01.07.2018	29,915,915	29,920,720
Surplus/(Deficit) for the year	(2,345)	(4,805)
Fund Balance as at 30.06.2019	<u>29,913,570</u>	<u>29,915,915</u>



**KENYA FORESTRY RESEARCH INSTITUTE**

**Annual Report and Financial Statements for FY Ended 30th June 2019**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 18: 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 Assets**

**Government Grants for Capital Assets /Donations**

		2018-2019	2017-2018
	Note	Kshs.	Kshs.
<b>Balance b/fwd</b>		<b>990,880,904</b>	<b>888,244,669</b>
Transfers from Sinking fund		-	8,251,817
Additions	3	<u>139,870,043</u>	<u>94,384,418</u>
<b>Balance C/d</b>		<b><u>1,130,750,947</u></b>	<b><u>990,880,904</u></b>

**(ii) Deferred Income from**

**External Donors on**

**Donated Assets**

**Balance b/fwd**

Differed Income

**Balance C/d**

**(b) Revaluation Reserves**

The Revaluation Reserves cater for the revalued amount in the cost of Property, Plant and equipment. The amount in the Reserve Account includes revalued amount of the Institute's land and buildings as indicated below:

**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
<b>TOTAL</b>			<b><u>110,842,800</u></b>
<b>BUILDINGS ON LAND PARCEL NO.</b>			
23877		29/03/1999	6,867,630
23879		29/03/1999	7,076,500
23883		29/03/1999	6,656,000
<b>TOTAL</b>			<b><u>20,600,130</u></b>
<b>Total Gain on revaluation</b>			<b><u>131,442,930</u></b>
Revaluation on heavy vehicles		30/6/2013	2,967,483
<b>Balance b/f 1/7/2013</b>			<b><u>134,410,413</u></b>
<b>Revaluation gain on Land</b>			
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
			<b><u>3,974,217,200</u></b>
<b>Revaluation gain on Buildings</b>			
Muguga Hqts/Seed Centre		30/6/2014	318,324,237
Kitui-Hqts/Kitui-Tiva		30/6/2014	40,247,638
			<b><u>358,571,875</u></b>
Revaluation gain for the year 2014			<b><u>4,332,789,075</u></b>
<b>Balance c/f 30/6/2014</b>			<b><u>4,467,199,488</u></b>



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### NOTE 18: Nature and Purpose of Reserves (Continued)

##### (b) Revaluation Reserves (Continued)

The institute has the following title deeds:

Location	L.R. No.	Hectares
North West of Kikuyu Township	23879 IR 77468	122.90
North West of Kikuyu Township	23883 IR 79467	46.66
North West of Kikuyu Township	23877 IR79471	134.60
Kyangwithya/Misewani-Kitui	1414	0.20
Kitui Municipality-Kitui	Leasehold land ref 127,Block 11/127	6.06
Kitui-Tiva	Leasehold land ref 24600 IR 86318	<u>1,150.90</u>
<b>Total</b>		<b><u>1,461.32</u></b>

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

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

##### (c) Sinking Fund (See Note 10(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	2018-2019	2017-2018
Balance b/f	5,498,436	17,209,165
Received during the Year	15,000,000	<u>5,926,250</u>
Available during the Year	20,498,436	23,135,415
Spent during the Year	(2,115)	<u>(17,636,979)</u>
<b>Balance c/f</b>	<b><u>20,496,321</u></b>	<b><u>5,498,436</u></b>



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### NOTE 18: Nature and Purpose of Reserves (Continued)

##### 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 recognizes 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 realized within the year reduces this deficit.

Accumulated Surplus / (Deficit)	2018-2019 Kshs.	2017-2018 Kshs.
Balance b/f	(73,418,709)	(78,806,870)
Adjustments	(261,835)	(1,661,162)
Surplus/(Deficit) for the	(32,754,452)	7,049,323
Balance c/f	<u>(106,435,046)</u>	<u>(73,418,709)</u>

#### NOTE 19: 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) Kenya Forest Service
- vii) Our Development Partners
- viii) Key management
- ix) Board of Directors
- x) Commercial Banks

RELATED PARTY TRANSACTIONS	Note	2018-2019 Kshs.	2017-2018 Kshs.
Remuneration and other costs of Board of Management-Restated	9	11,426,979	9,772,816
Remuneration of CEO	9	-	13,605,675
Transfers from GoK- Ministry of Environment and Forestry	3	1,620,623,377	1,630,743,695
Salaries and other staff employment benefits of Senior Management -Restated	7	11,785,461	11,944,851
Staff receivables	14b	56,139	1,283,774
<b>Total</b>		<u>1,643,891,956</u>	<u>1,706,571,065</u>



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

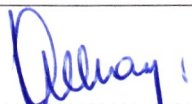
#### Appendix 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATION

The following is the summary of issues raised by the external auditor, and management comments 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
<b>2017/2018 Report.</b>				
a) Property, Plant and Equipment	The value of the land equivalent to 2,735 ha was not recorded in the fixed assets register nor reported in the Financial Statements. This is due to lack of Title deeds (ownership documents). As explained in previous responses, the Institute have been pursuing the issue of land with KFS. With the new conservation and Management Act 2016 part 1, which defines KEFRI Mandate, we expect 10% of KFS land to be set aside for forestry research in future	Director KEFRI	Not yet resolved	Until the National Land Commission issues KEFRI with these title deeds
b.) Abscondment from duty and Irregular Salary Payments	These matters are still in court and we are awaiting court's determination.	Deputy Director, Human Resource	Not yet resolved	Until Court determination

  
 .....  
 Dr. Sammy C. Letema  
**Chairman: KEFRI Board of Directors**

Date: 7/8/2020 .....

  
 .....  
 Joshua K. Cheboiwo (PhD)  
**Director KEFRI**

Date: 7/8/2020 .....



## KENYA FORESTRY RESEARCH INSTITUTE

### Annual Report and Financial Statements for FY Ended 30th June 2019

#### Appendix II: PROJECTS IMPLEMENTED BY KEFRI IN THE FINANCIAL YEAR 2018-2019

##### Projects

Projects implemented by the Institute Funded by development partners

No	Project title	Donor	Period/ duration	Donor Commitment	Separate donor reporting yes/no	Designated Bank Account yes/no
1	CONSULTANCY	AGRICHEM/CH EMWORLD	1 YEAR	615,312	No	No
2	FAO	FAO	2 YEARS	4,002,808	No	No
3	CABI INTERNATIONAL PROSOPIS	SWITZERLAND	6 YEARS	3,006,810	No	No
4	NATIONAL RESEARCH FUND PROJECTS	G.O.K	3 YEARS	75,427,750	No	No
5	ICRAF	ICRAF	5 YEARS	131,400	No	No
6	NEWTON PROJECT	U.ON	1 YEAR	1,894,270	No	No
7	BIOFUEL FOR KENYA	GOVERNMENT OF NORWAY	2 YEARS	23,364,352	No	No
8	GEF SLM MIGORI	UNEP	3 YEARS	950,000	No	No
9	GATSBY	GATSBY INTERNATION AL	1 YEAR	6,185,000	No	No
10	REGIONAL TRAINING-JICA	JICA	5 YEARS	8,659,388	Yes	Yes
11	GIZ PROJECT	GERMANY TECHNICALCO PERATION	3 YEARS	3,490,597	Yes	Yes
12	E.A BAMBOO PROJECT	EUROPEAN UNION	3 YEARS	14,235,146	Yes	Yes
13	KENYA CLIMATE CHANGE ADAPTATION PROGRAMME	ADAPTATION FUND	3 YEARS	131,747,502	Yes	Yes
14	KENYA WATER TOWERS PROGRAMME	EUROPEAN UNION	5 YEARS	348,857,246	Yes	Yes



