

REPUBLIC OF KENYA



Paper laid
By Hon Katoo Ok Maitia
Majority Whip on
Wed 19/8/2015
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KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA FORESTRY RESEARCH INSTITUTE

FOR THE YEAR ENDED
30 JUNE 2014





KENYA FORESTRY RESEARCH INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

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



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

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KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

I. KEY INSTITUTE INFORMATION AND MANAGEMENT

a) Background Information

i) Incorporation

Kenya Forestry Research Institute, (KEFRI) hereby referred to as the Institute is a State Corporation established in 1986 under the Science and Technology Act (Cap 250) of the Laws of Kenya, which has since been repealed by the Science, Technology and Innovation Act No. 28 of 2013.

ii) Our Vision

A centre of excellence in forestry research for development.

iii) Our Mission

To conduct research and provide information and technologies for sustainable development of forestry and allied natural resources for socio-economic development.

iv) Our Core Values

- Creativity and Innovation
- Professionalism
- Integrity
- Teamwork
- Clean and Healthy Environment
- Partnership

v) Domicile

It is domiciled in Kenya.

b) Principal Activities

The principal activities of the Institute are to conduct research in Forestry and to disseminate research findings so as to contribute to Sound management, conservation and development of forest resources in Kenya.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

c) **Key Management**

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

- The Chief Executive Officer (The Director)
- The Senior Deputy Director- Research & Development
- The Senior Deputy Director – Finance & Administration
- The Deputy Director - Technical Support Services
- The Deputy Director - Forest Biodiversity and Environment Management
- The Deputy Director - Forest 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
- Head of Accounts
- Head of Supplies Chain



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

d) Fiduciary Managements

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:-

No.	Designation	Name
1	The Chief Executive Officer (The Director)	Dr. Ben Chikamai
2	The Senior Deputy Director- Research & Development	Dr. Bernard N. Kigomo
3	The Senior Deputy Director - Finance & Administration	Mr. Patrick N. Omesa
4	The Deputy Director - Technical Support Services	Dr. Ebby Chagala - Odera
5	The Deputy Director - Forest Biodiversity and Environment Management	Dr. Gabriel M. Muturi
6	The Deputy Director -Forest Product Development Research	Dr. Joseph Githiomi
7	The Deputy Director - Social Economic Policy & Governance	Dr. Joshua Cheboiwo
8	The Deputy Director - Forest Productivity & Improvement	Dr. Jane W. Njuguna
9	The Deputy Director -Corporate Affairs & Quality Assurance	Dr. Jackson M. Mulatya
10	The Deputy Director - Human Resource	Mrs. Evelyn I. Oroni
11	The Deputy Director - Administration	Mr. John M. Gisemba
12	Head of Accounts	Mr. Shem A. Ogao
13	Head of Supplies Chain	Mr. Julius M. Mwilu



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

e) **Fiduciary Oversight Arrangements**

KEFRI Board of Management has established three oversight committees as required by the State Corporations Act. 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.

KEFRI Board Committees

- i) **Research & Development Committee**
KEFRI Mandate and core business is to conduct research and provide information and technologies for sustainable development of forestry and allied natural resources for socio-economic development. So this being the case the above committee is to oversee that this is achieved.
- ii) **Finance & Administration Committee**
The committee oversees the budgeting, reviews progress reports on expenditures of the Institute including capital expenditure from time to time and makes recommendations to the Board of Management on issues relating to procurement. The committee ensures overall sound financial reporting before approval of the board. The Committee also oversees human resource management including recruitment and other employee's related issues.
- iii) **Audit Committee**
The committee has a charter setting out its responsibilities. Some of the duties include oversight over financial statements and financial reporting; compliance generally with set standards, internal control and risk management. The role of the committee is advisory. The committee meets at least once quarterly. The Chief Executive Officer is not a member of this committee as per common practice.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Consequently the State Corporations Advisory Committee (SCAC) issued guidelines for the formation of the Committees of which the Finance and Audit Committees are mandatory.

The Board of Kenya Forestry Research Institute has therefore met its legal and regulatory requirements as far as fiduciary oversight arrangements are concerned

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

h) **KEFRI Bankers**

- i) Kenya Commercial Bank
Sarit Centre Branch
P.O. Box 14959 – 00800
Nairobi
- ii) Co-operative Bank
Westlands Branch
P.O. Box 66589– 00800
Nairobi
- iii) Commercial Bank of Africa
P.O. Box 30437- 00100
Nairobi

i) **Independent Auditors**

The Auditor General
Kenya National Audit Office
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



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

II. THE BOARD OF DIRECTORS

No	Director's Name	Passport size Photo	Director's Details
1	<p>Prof. Daniel Mugendi Chairman</p> <p>Professional/Academic qualification Post-Doctoral Fellowship - African Career Award PhD in Agroforestry</p>		<p>Date of Birth: 8th June 1961</p> <p>Key qualification: Principal Embu University College. Has extensive experience in Administration and Research work</p> <p>Work experience: 28 years</p>
2	<p>Prof. Kingiri Senelwa Director</p> <p>Professional/Academic qualification: PhD, Agricultural Engineering</p>		<p>Date of Birth: 11th October 1964</p> <p>Key qualification: Professor of Forest Biomass, Sustainable Energy & Climate Change – Eldoret University</p> <p>Work experience: 26 years</p>
3	<p>Prof. Agnes Mwang'ombe Director</p> <p>Professional/Academic qualification: PhD in Plant Pathology, DIC</p>		<p>Date of Birth: 11th April 1953</p> <p>Key qualification: Principal College of Agricultural & Veterinary Science. Agricultural Scientist, Academician and Administrator at University of Nairobi</p> <p>Work experience: 37 years</p>






KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

No	Director's Name	Passport size Photo	Director's Details
4	<p>Ms. Caroline Oduor Director</p> <p>Deputy Director – Administration</p> <p>LLB (Law) Diploma in Law</p>		<p>Date of Birth: 21st June 1981</p> <p>Key qualification: Advocate</p> <p>Work experience: 10 years</p>
5	<p>Dr. Supinder Soin Director</p> <p>Professional/Academic qualification: Doctor of Veterinary Medicine</p>		<p>Date of Birth: 30th October 1954</p> <p>Key qualification: Veterinary Doctor</p> <p>Work experience: 40 years</p>
6	<p>Mr. Robert Masibho - Director</p> <p>Professional/Academic qualification: M.Sc. in Environmental Science</p>		<p>Date of Birth: 16th June 1957</p> <p>Key qualification: Consultant in Environmental Science</p> <p>Work experience: 30 years</p>
7	<p>Mr. Robinson Ng'ethe Director</p> <p>Professional/Academic qualification: MSc in Resource Management</p>		<p>Date of Birth: 15th March 1959</p> <p>Key qualification: Consultant in Natural Resource Management</p> <p>Work experience: 31 years</p>





KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

No	Director's Name	Passport size Photo	Director's Details
8	<p>Mr. Emilio Mugo Representing Director, KFS</p> <p>Professional/Academic qualifications: MSc Forestry</p>		<p>Date of Birth:</p> <p>Key qualifications: Senior Deputy Director KFS</p> <p>Work experience: 28 years</p>
9	<p>Mr. Hewson Kabugi Representing Principal Secretary, MEWNR</p> <p>Professional/Academic qualification:</p> <p>M.Sc – Watershed Management BSc - Forestry</p>		<p>Date of Birth: 8th November 1957</p> <p>Key qualification: Director Forest Conservation</p> <p>Work experience: 31 years</p>
10	<p>Mrs. Margaret Maimba</p> <p>Representing NACOSTI Secretary/CEO</p> <p>Professional/Academic qualification:</p> <p>M.Sc. in Geochemistry</p>		<p>Date of Birth: 1960</p> <p>Key qualification: Chief Science Secretary</p> <p>Work experience: 30 years</p>



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

No	Director's Name	Passport size Photo	Director's Details
11	Mr. Onderi Ontweka Representing Principal Secretary, the National Treasury Professional/Academic qualification: Bachelor of Arts; Diploma in Financial Management		Date of Birth: 1957 Key qualification: Public Finance Work experience: 31 years
12	Dr. Ben Chikamai Director/CEO Professional/Academic qualification: PhD in Forestry Utilization		Date of Birth: 27 th October 1957 Key qualification: Director Work experience: 31 years







KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

III. THE KEFRI MANAGEMENT TEAM

No	Director's Name	Passport size Photo	Director's Details
1	Dr. Ben Chikamai Director/CEO Professional/Academic qualification: PhD in Forestry Utilization		Chief Executive Officer (CEO)/ Director Kenya Forestry Research Institute (KEFRI)
2	Dr. Bernard N. Kigomo Professional/Academic qualification: PhD, Forest Ecology, Regeneration and Management,		Senior Deputy Director – Research & Development
4	Mr. Patrick N. Omesa Professional/Academic qualification: MA – Economics and Management CPS (K)		Senior Deputy Director – Finance & Administration



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No	Director's Name	Passport size Photo	Director's Details
4	<p>Dr. Ebby Chagala Odera</p> <p>Professional/Academic qualification:</p> <p>PhD – Forest Genetics and Tree Breeding</p>		Deputy Director – Technical Support Services
5	<p>Dr. Gabriel M. Muturi</p> <p>Professional/Academic qualification:</p> <p>PhD – Forestry</p>		Deputy Director – Forest Biodiversity and Environment Management
6	<p>Dr. Joseph Githiomi</p> <p>Professional/Academic qualification:</p> <p>PhD – Forestry</p>		Deputy Director – Forest Products Development
7	<p>Dr. Joshua Cheboiwo</p> <p>Professional/Academic qualification:</p> <p>PhD – Environmental Economics</p>		Deputy Director – Socio-economics, Policy and Governance



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

No	Director's Name	Passport size Photo	Director's Details
8	Dr. Jane W. Njuguna Professional/Academic qualification: PhD – Forest Science		Deputy Director – Forest Productivity and Improvement
9	Dr. Jackson M. Mulatya Professional/Academic qualification: PhD – Tree Ecology and Agroforestry system interactions and management		Deputy Director – Corporate Affairs and Quality Assurance
10	Mrs. Evelyn I. Oroni Professional/Academic qualification: MBA – HRM HND – Human Resource Management		Deputy Director – Human Resource Management



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

No	Director's Name	Passport size Photo	Director's Details
11	<p>Mr. John M. Gisemba</p> <p>Professional/Academic qualification:</p> <p>MA – Organizational Leadership CPS (K)</p>		Deputy Director-Administration
12	<p>12. Mr. Shem A. Ogao</p> <p>Professional/Academic qualification:</p> <p>BCom – Accounting CPA (K)</p>		Head of Accounts
13	<p>13. Mr. Julius M. Mwilu</p> <p>Professional/Academic qualification:</p> <p>MBA (Procurement and Supply Chain Management) CIPS</p>		Ag. Head of Supplies



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

IV CHAIRMAN'S STATEMENT

The KEFRI Board of management has been in office for one and a half years now during which it has applied every effort and diligence to see the Institute implement its mandate.

During this period the Board has constituted committees to deliberate on requisite policy matters. The Board works through Research and Development Committee which mainly deals with forestry research issues; the Finance and Administration Committee dealing with crucial finance and administration issues and the Audit Committee which deals with Audit matters of the Institute. All these committees and the Full Board sit timely and provide the Board business the seriousness they deserve.

During our tenure the Board has closely worked with management and other stakeholders to ensure development, launching and implementation of the KEFRI's 5th strategic plan. This plan impresses thematic research in line with the National Forest Programme with a focus on research for impact. The 5th Strategic Plan also focuses on enhancing performance management through a robust monitoring and evaluation process.

To implement the Plan the Board approved a consultancy to carry out a Job and Workload analysis to establish appropriate skills and staffing levels required. The consultancy identified gaps in staff needs and the Board has approved a Succession Plan to mitigate the gaps.

Finally, the Board has not spared any effort to facilitate the Institute to fulfill its mandate. The Chairman and the entire Board is always available to timely approve the Institute's Annual and Supplementary Budgets, annual workplans and support management in strategic decision related to implementation of the Strategic Plan and any other relevant policies/programmes.

Prof. Daniel N. Mugendi
Chairman, KEFRI Board of Management

Date:.....



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

V. REPORT OF CHIEF EXECUTIVE OFFICER

The Forest sector plays a key role in Kenya's social and economic development and forestry research is a major driver in the whole process. KEFRI is a state corporation which was established in 1986 under the Science and Technology Act, 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.

KEFRI 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.

KEFRI is currently implementing the 5th Strategic Plan which was launched by the Cabinet Secretary, Ministry of Environment, Water and Natural Resources on 20th June 2014. The plan has been aligned to the relevant sections of the 2nd Medium term Plan under Kenya's Vision 2030.

The Strategic Plan emphasizes enhanced performance and research for impact. To address these, the Plan has been prepared using the Balance Score Card which helps to align the strategy with Institute's Mission, Vision and provides for a robust monitoring and evaluation approach which ensures that the set targets are achieved.

Implementation of the Strategic Plan hinges on a number of factors commencing with human resources. KEFRI's staff strength currently stands at 965. However, a study on Job and Workload analysis revealed that additional 235 staff of various cadres were needed to boost KEFRI's research capacity. So in the just ended FY twenty eight (28) staff in various professions were recruited.

Management has also taken measures to improve staff capacity by attending to their social welfare. To this end a medical insurance cover for all staff has been in place for two years now and during the last FY members benefits were enhanced.



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Further, the KEFRI Staff Schemes of Service which were operationalized from June 2011 are being revised to be in sync not only with the current Strategic Plan but to take cognizance of external conditions impacting on the Institute.

Other factors beyond human resources have to be taken on board if the Institute is to effectively respond to its mandate. New infrastructure and related facilities have been put up while enhancing older ones.

This is helping to devolve services to the people in line with the constitutional requirement on devolution. Management has lobbied for funds from the Exchequer and development partners to build a Resource Centre/hostel in Marigat, Baringo County, and a Resource Centre/Hostel in Lamu, Mombasa County. The remodeling of Turkana sub-centre facilities is being concluded. The grant from the Government of Japan, in the past two years has been handy in the purchase of equipment and motor vehicles.

All the above wouldn't have been feasible without GoK funding. The Government remains the main financier of KEFRI accounting for about 80% of the total Institute funds. We acknowledge the fairly substantial funds from donors and KEFRI's internal sources.

With the foregoing, KEFRI has been enabled to come up with a number of achievements. Last year in particular, the Institute inter-a-lia developed, demonstrated and documented six (6) high value farm tree species, enhanced propagation of indigenous bamboo through cuttings, established eight (8) demonstration plots for rehabilitation of water catchment, incubated six (6) new tree products, produced and distributed over 10,000 Kgs of high quality tree seed, and produced 40 publications. All these led to the Institutes Performance Contract rating of "very good" a category it has remained in since the inception of Performance Contracting.

Ben Chikamai (PhD)
Director, KEFRI

Date: 12/06/2015



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

VI. CORPORATE GOVERNANCE STATEMENT

Corporate Governance refers to the exercise of power and authority in an organization. Broadly speaking corporate governance encompasses processes by which the organization is directed, controlled and held to account.

To that end the Board is an essential organ in the governance of the Institute. KEFRI's Board of Management is the supreme organ of the Institute which determines fundamental policies and decisions. It provides oversight of the Institute and is responsible to the Cabinet Secretary, Ministry of Environment, Water and Natural Resources.

The Board of Management consists of eleven (11) Board members, seven (7) of whom are independent members. The members are of sound and varied intellectual capacity, of varied skills and competencies which is quite essential for efficient and effective decision making.

To undertake its duties the Board has three (3) committees in place namely: -

Research and Development Committee which deals with forestry research issues; Finance and Administration Committee handling crucial finance and administrative matters of the Institute and the Audit Committee which deals with important audit issues. Then there is the Full Board to which all these Board Committees report their deliberations and recommendations for collective approval and resolution.

The Board operates on a government Financial Year. The Board Committees and the Full Board meet at least four (4) times a year. For unexpected issues a Special Board is called by the Chief Executive Officer in consultation with the Board Chairperson.

The Institute draws its mandate from the Science, Technology and Innovation Act No. 28 of 2013 and implements its mandate through five-year strategic plans with the current one running from 2013-18. The strategic plan clearly defines the objectives of the Institute and the requisite structure to attain the objectives.

The strategic plan is operationalized through the Annual Workplans formulated by the Management, discussed and approved by the Board of Management. The Director is the Chief Executive of the Institute assisted by the Senior Deputy Director, Research and



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Development; and Senior Deputy Director, Finance and Administration below whom are a number of Deputy Directors.

At the Management level the Institute has a number of committees to assist in decision making, these include the Executive Committee, the Consultative Committee, the Junior Staff Advisory Committee and the requisite committees provided for in the Public Procurement and Disposal Act.

A budget is essential to undertake the Institute operations and activities. The KEFRI budgetary process is annual, regular, consultative and participatory. Once the GoK budgetary allocation is known the Consultative Committee (made of Director, Senior Deputy Directors, Deputy Directors, Heads of Divisions, and Regional Centre Directors) meet every July to discuss and allocate funds to the various Institute activities. The budget is implemented after presentation to the Board's Finance and Administration Committee for deliberation and approval by the Full Board.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Kenya Forestry Research Institute (KEFRI) is a state corporation mandated to conduct research in forestry and allied natural resources. KEFRI provides information and technologies for sustainable development of forestry and establishes partnerships and cooperate with other research organizations and institutions of higher learning in joint research and training.

KEFRI through corporate social responsibility is committed to improving the quality of life of its workforce, their families as well as of the local community and society at large, thus contributing to socio-economic development and national growth.

The Institute actively encourages staff to recognize those responsibilities and behave in a responsible manner towards the society in which KEFRI functions. Below are some of the CSR activities.

1. Provision of Clean Water

KEFRI provides safe and clean water to the community adjacent the head office. This has brought good working relations with the community.



Community member carrying water on a donkey cart from a KEFRI supply point



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

2. Advocacy for Environment

KEFRI advocates for a clean and healthy environment by providing tree seeds and seedlings for public institutions and for the National Tree Planting exercises. In the last Financial Year, the institute participated in tree planting at Kiambu County in collaboration with the Muguga Environment Research Community Forest Association (MERCFA), the University of Nairobi, College of Agriculture and Veterinary Science (CAVs) Kabete and National Tree Planting at Ngong, Kibiko Primary School in Kajiado County.



KEFRI Staff participating in National Tree Planting at Ngong Kibiko Primary School in Kajiado County

KEFRI provide seeds and seedlings at subsidized prices to neighboring schools, supports community and public institutions activities such as sports, helps in building classes and provides land for the school. This has helped create good relationship with the community.

KEFRI also provides free advisory services and information on tree establishment and management and other appropriate technologies to farmers/stakeholders when requested.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

The Institute's choir performed a variety of songs in various fora during the year in review.



KEFRI Choir performing in one of the national events

3. Attachments for students

KEFRI offers internship and attachment for students from universities and tertiary colleges. Many students have benefited and gained experience that has helped them get acquainted with the working environment.

4. Facilities

KEFRI provides facilities for learning and excursions to stakeholders and the general public. These include training facilities, grounds for video and photo shooting.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

VIII. REPORT OF THE DIRECTORS

The Director's submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the Institute's affairs.

Principal activities

The principal activities of the Institute are to conduct research in forestry and allied natural resources, disseminate research findings and establish partnerships and cooperate 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, 2014 are set out on page 1-2.

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the Institute in accordance with the Section 13 of the Public Audit Act 2003.

By order of the Board

Ben E. N. Chimamai (PhD)

Board Secretary

Date: 12/06/2015



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

IX STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 15 of the State Corporations Act, require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the *entity* for that year/period. The Directors are also required to ensure that the *entity* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The Directors are also responsible for safeguarding the assets of the *entity*.

The Directors are responsible for the preparation and presentation of the *Institute's* financial statements, which give a true and fair view of the state of affairs of the *Institute* for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Institute; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Institute*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Institute's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *Institute's* financial statements give a true and fair view of the state of *Institute's* transactions during the financial year ended June 30, 2014, and of the *Institute's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Institute*, which have been relied upon in the preparation of the *Institute's* financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the Financial Statements

The Institutes financial statements were approved by the Board on 12th June 2015 and signed on its behalf by:

Chairman

Prof. Daniel Mugendi

Director KEFRI:

Ben E. N. Chikamai (PhD)

Date.....12/06/2015.....

Date.....12/06/2015.....

REPUBLIC OF KENYA

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Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA FORESTRY RESEARCH INSTITUTE FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Forest Research Institute set out on pages 1 to 29 which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows for the year then ended, and statement of comparative budget and actual amounts together with a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement

of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

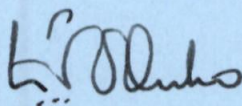
Basis for Qualified Opinion

Property, Plant and Equipment

As reported in 2012/2013 and previous years, the property, plant and equipment balance of Kshs.5,685,673,462 as at 30 June 2014 includes an amount of Kshs.46,000,000 in respect of Maseno station building situated on a land belonging to Maseno University. Further, the balance excludes value of various parcels of land across the country on which the Institute has put up developments including buildings that are owned by Kenya Forest Service, Maseno University, Ministry of Agriculture and Kitui and Lamu County Governments. In addition, the balance excludes value of land on which the Institute Headquarters is built but still under the defunct Ministry of Environment and Natural Resources. In view of the foregoing and in the absence of independent valuations, I am unable to confirm whether the carrying values of Kshs.5,685,673,462 as stated in the financial statements reflect the fair values of the Institute's property, plant and equipment as at 30 June 2014.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Institute as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Science and Technology Act, Cap 250 of the Laws of Kenya.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

8 July 2015



**KENYA FORESTRY RESEARCH INSTITUTE
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2014**

	Note	2013-2014 Kshs.	2012-2013 Kshs.
REVENUE			
Revenue from non-exchange transactions:			
Government Grants	3	1,116,107,634	931,795,255
Revenue from exchange transactions:			
External Grant for Research	4	107,625,563	89,516,707
Interest on TB,FDR and Savings A/c	5	4,131,865	1,254,569
Deferred Income from Donors	6(b)	54,872,631	48,010,699
Other Income	7	131,991,524	52,491,743
		<u>1,414,729,217</u>	<u>1,123,068,972</u>
TOTAL REVENUE			
EXPENSES			
Employee Costs	8	(705,017,785)	(653,519,173)
Operating Expenses	9	(460,970,373)	(381,911,132)
Board of Management Expenses	10	(15,992,611)	(11,917,077)
Financial costs	11	(1,043,396)	(819,570)
Establishment Cost(Sinking Fund)	12(a)	(10,000,000)	(5,000,000)
Depreciation	6(a)	(102,445,035)	(85,463,368)
Amortization on Intangible Asset	13	(4,232,095)	(2,905,383)
		<u>(1,299,701,295)</u>	<u>(1,141,535,703)</u>
TOTAL EXPENSES			
OTHER GAINS/(LOSSES)			
Gain on Sale of Fixed Assets	14	2,692,343	-
Exchange Gain/Loss		383,166	(6,091)
		<u>3,075,509</u>	<u>(6,091)</u>
Surplus/(Deficit) for the Year		<u>118,103,431</u>	<u>(18,472,822)</u>



KENYA FORESTRY RESEARCH INSTITUTE
STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014

		2013-2014	2012-2013
		Kshs.	Kshs.
ASSETS	Notes		
CURRENT ASSETS			
Cash and cash equivalents	15(a)	201,985,376	92,778,608
Receivables from exchange	16	6,880,715	37,567,919
Inventories	17	45,411,724	28,449,431
Investment in FDR	15(b)	10,000,000	10,000,000
		264,277,816	168,795,958
NON-CURRENT ASSETS			
Property, Plant & Equipment	6(a)	5,685,673,462	1,213,512,624
Intangible Assets	13	16,928,381	11,621,534
		5,702,601,843	1,225,134,158
TOTAL ASSETS		5,966,879,659	1,393,930,115
LIABILITIES			
CURRENT LIABILITIES			
Payables from exchange transactions	18	6,682,726	13,024,145
Unxpended External Donor Grants	4	26,669,555	33,628,130
Medical Scheme Funds	19	742,883	742,883
		34,095,165	47,395,159
NET ASSETS			
Government Grants for capital assets	20(a)	696,460,355	635,228,001
Deferred Income on Donated Assets	6(b)	737,930,202	670,093,113
Sinking Fund	12(b)	18,869,753	12,582,166
Revaluation Reserves	20(b)	4,467,199,488	134,410,413
Revenue Reserves	20(e)	12,324,695	(105,778,736)
		5,932,784,494	1,346,534,957
TOTAL NET ASSETS & LIABILITIES		5,966,879,659	1,393,930,116

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

Chairman:.....

Prof. Daniel Mugendi

Director, KEFRI:.....

Ben E.N. Chikamai (PhD)

Date

Date



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2014

	Deferred Income on Government Grants for Capital Assets Kshs	Deferred Income on Donated Assets Kshs	Revenue Reserves Kshs.	Revaluation Reserves Kshs	Sinking Fund Kshs.	Total Kshs.
Balance as at 1st July 2012	517,877,233	593,152,639	(87,305,914)	131,442,930	11,116,487	1,196,906,885
Adjustment- prior year	-	-	-	-	-	-
As restated	517,877,233	593,152,639	(87,305,914)	131,442,930	11,116,487	1,196,823,695
Surplus/(Deficit) for the year	-	-	(18,472,822)	-	-	(18,472,822)
Revaluation gain	-	-	-	2,967,483	-	2,967,483
Sinking Fund expenses	-	-	-	-	(4,529,680)	(4,529,680)
Additions during the year	125,000,000	124,951,173	-	-	5,995,359	255,946,532
To Income & Expenditure	(21,655,575)	-	-	-	-	(21,655,575)
Deferred Income for the year	-	(48,010,699)	-	-	-	(48,010,699)
Balance as at 30th June 2011:	635,228,001	670,093,113	(105,778,736)	134,410,413	12,582,166	1,380,163,087
Balance as at 1st July 2013	635,228,001	670,093,113	(105,778,736)	134,410,413	12,582,166	1,380,163,087
As restated	635,228,001	670,093,113	(105,778,736)	134,410,413	12,582,166	1,380,163,087
Surplus/(Deficit) for the year	-	-	118,103,431	-	-	118,103,431
Revaluation gain	-	-	-	4,332,789,075	-	4,332,789,075
Sinking Fund expenses	-	-	-	-	(5,115,659)	(5,115,659)
Additions during the year	81,700,000	122,709,720	-	-	11,403,246	215,812,966
To Income & Expenditure	(20,467,634)	-	-	-	-	(20,467,634)
Deferred Income for the year	-	(54,872,631)	-	-	-	(54,872,631)
Balance as at 30th June 2014:	696,460,355	737,930,202	12,324,695	4,467,199,488	18,869,753	5,932,784,494



KENYA FORESTRY RESEARCH INSTITUTE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2014

	NOTES	2013-2014 Kshs.	2012-2013 Kshs.
Cash Flows from Operating Activities			
Surplus(Deficit) for the Year		118,103,431	(18,472,822)
Adjustment for:			
Depreciation	6(a)	102,445,035	85,463,368
Amortization for Intangible Asset	13	4,232,095	2,905,383
Deferred Income	6(b)	(54,872,631)	(48,010,699)
KEFRI Surcharge		(46,763)	(163,563)
Commission Income		(166,842)	(124,875)
Interest Income from FDR/Savings	5	(4,131,865)	(1,254,569)
Gain on disposal of assets	14	(2,692,343)	-
Adjusted Surplus		162,870,117	116,363,622
Working Capital Changes:			
Decrease (Increase) in Stock		(16,962,293)	(4,366,964)
Decrease (Increase) in Debtors		30,687,204	(34,001,765)
Increase (Decrease) in Creditors		(13,299,994)	(10,102,868)
Net Cash from operating activities		424,916	(48,471,596)
Cash Flows from Investing Activities:			
Purchase of Assets	6(a)	(95,360,962)	(94,712,522)
Purchase of Intangible	13	(9,538,943)	(1,489,216)
Establishment Cost(Sinking Fund)	12(a)	10,000,000	10,000,000
Interest from FDR/Savings A/C -received	5	166,508	259,210
Proceeds from sale of assets	14	3,572,000	242,906
Net Cash from Investing activities		(91,161,397)	(96,996,502)
Cash Flows from Financing Activities:			
Development capital grants	3	61,232,366	103,344,425
Research Grants Received	4	101,962,199	87,456,934
Transfers/Adjustments		(1,295,211)	5,147,584
Research Grants Paid	4	(107,625,563)	(89,516,707)
Net Cash from Financing activities		54,273,791	3,087,811
Net Increase (Decrease) in Cash & Cash Equivalent		109,206,768	(26,016,665)
Opening Cash & Cash Equivalent		102,778,608	99,739,503
Closing Cash & Cash Equivalent		211,985,376	102,778,608
Cash & Cash Equivalent			
Bank balance	15(a)	201,985,376	92,778,608
Investment in FDR	15(b)	10,000,000	10,000,000
Closing Cash & Cash Equivalent		211,985,376	102,778,608



KENYA FORESTRY RESEARCH INSTITUTE
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Full budget	Actual on Comparable	Performance difference	IPSAS 24.14(a)(b)
	2013-2014	2013-2014	2013-2014	2013-2014	2013-2014	IPSAS 1.53.63(c)
	Kshs	Kshs	Kshs	Kshs	Kshs	IPSAS 1.53.63(d)(e)
Revenue						
Government grants						
Recurrent	1,095,640,000		1,095,640,000	1,095,640,000	-	
Development	70,200,000	11,500,000	81,700,000	81,700,000	-	
Funds from External Donors	107,995,900		107,995,900	105,002,439	2,993,461	See Note 2 below.
Government grants - Total	1,273,835,900	11,500,000	1,285,335,900	1,282,342,439		
Funds from External Donors	107,625,563		107,625,563	107,625,563	-	
Interest Income - FDR	3,500,000	460,000	3,960,000	3,965,358	(5,358)	
Interest from Savings Bank A/c		166,508	166,508	166,508	0	
Sale of Stores		19,287	19,287	19,287	-	
Sale of Motor Vehicles	3,000,000	572,000	3,572,000	3,572,000	-	
Hire of Training Facilities - Training	3,500,000.00	300,000.00	3,800,000.00	3,953,470.00	(153,470.00)	
Sale of Seeds	10,000,000	300,000	10,300,000	10,542,194	(242,194)	
Sale of Electricity poles	60,450,000		60,450,000	60,547,319	(97,319)	
Other Internally Generated Revenue	51,380,000	500,000	51,880,000	52,380,784	(500,784)	
Total Revenue	1,513,231,463	13,817,795	1,527,109,258	1,525,114,921	(999,124)	
Expenses						
Compensation of Employees						
Basic Salaries	374,900,000	(8,000,000)	366,900,000	366,236,866	663,134	
Contractual Employees	350,000		350,000	302,000	48,000	
Casual Labour	30,000,000	500,000	30,500,000	30,406,165	93,835	
Pension Element 27.5%	20,000	1,000	21,000	20,864	136	
Gratuity	1,620,000		1,620,000	1,618,910	1,090	
Pension	45,000,000	(1,400,000)	43,600,000	43,043,818	556,182	
Pension -Arrears	25,630,000		25,630,000	25,623,998	6,002	
House Allowance	95,000,000	(4,000,000)	91,000,000	90,932,447	67,553	
Honoraria	902,000		902,000	901,893	107	
Acting Allowance	170,000		170,000	167,412	2,588	
Hardship Allowance	1,930,000		1,930,000	1,927,946	2,054	
Medical Allowance - Non Accountable	60,000	300,000	360,000	80,520	9,480	
Special Duty Allowance	580,000		580,000	513,385	61,615	
Incentive Allowance	12,300,000		12,300,000	12,283,487	16,513	
Entertainment Allowance	13,400,000		13,400,000	13,246,355	153,645	
Other Allowances	8,350,000		8,350,000	8,324,962	25,038	
Refund of Medical Expenses - Inpatient	800,000		800,000	776,439	23,561	
Refund of Medical Expenses - Exgratia	350,000		350,000	337,461	12,539	
Leave Expenses	5,275,000		5,275,000	5,255,500	19,500	
Commuter Allowance	51,204,000		51,204,000	51,064,371	139,629	
Employer Contribution to NSSF	620,000		620,000	618,026	1,974	
Medical insurance Cover for Staff	45,000,000		45,000,000	44,997,576	2,425	
Group Life Insurance	4,900,000		4,900,000	4,887,533	12,467	
Group Personal Accident Premium	1,310,000		1,310,000	1,278,457	31,543	
Group Personal Accident Premium- Casuals	170,000		170,000	166,395	3,605	
Compensation of Employees- Totals	719,841,000	(12,869,000)	706,972,000	705,017,785	1,954,215	
Goods & Services						
Insurance of Property and Motor vehicles						
Insurance of buildings & Equipment	1,200,000		1,200,000	1,133,413	66,587	
Insurance of Motor Vehicle	5,900,000		5,900,000	5,851,137	48,863	
Sub-total	7,100,000		7,100,000	6,984,550	115,450	



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Full budget	Actual on Comparable	Performance difference	IPSAS24.14(a)(b) IPSAS1.53.63(c) IPSAS1.53.63(d)(e)
	2013-2014	2013-2014	2013-2014	2013-2014	2013-2014	
	Kshs	Kshs	Kshs	Kshs	Kshs	
Operating Expenses						
Electricity	17,250,000		17,250,000	17,189,674	60,326	
Water and Sewerage Charges	2,900,000		2,900,000	2,892,700	7,300	
Telephone Expenses	2,250,000	10000	2,260,000	2,257,060	2,940	
Internet Connections	8,100,000		8,100,000	8,027,066	72,934	
Postal, Courier and Telegram Expenses	970,000	33,000	1,003,000	1,002,253	747	
Daily Subsistence Allowance/Domestic Travel						
	152,340,000	2,000,000	154,340,000	154,166,184	173,816	
Transfer Expenses	1,850,000		1,850,000	1,758,628	91,373	
Foreign Daily subsistence Allowance	10,550,000		10,550,000	10,538,032	11,968	
Printing & Publishing	3,860,000	400,000	4,260,000	4,258,985	1,015	
Subscriptions to Newspapers, Magazines	1,400,000.00		1,400,000.00	1,370,935.95	29,064.05	
Advertising, Awareness and Publicity Campaigns						
	14,350,000		14,350,000	14,256,402	93,598	
Trade Show and Exhibitions	3,600,000		3,600,000	3,565,587	34,413	
Training Expenses	13,300,000	510,000	13,810,000	13,809,703	297	
Cost of Conference & Seminar	580,000	20000	600,000	598,373	1,627	
Funeral Grants Expenses	500,000		500,000	489,239	10,761	
Purchase of Fungicides, Insecticides and Sprays						
	450,000		450,000	412,966	37,034	
Chemicals and Industrial Gases	2,650,000		2,650,000	2,642,342	7,658	
Purchase of Workshop Tools, Spares	490,000		490,000	488,919	1,081	
Purchase of Utensils and Cutlery	670,000		670,000	656,574	13,426	
Laboratory Materials, Supplies and Small Equip.						
	1,600,000		1,600,000	1,566,817	33,183	
Education and Library Supplies	1,000,000		1,000,000	983,442	16,558	
Purchase of P/graphic and Audio-Visual Materials						
	325,000		325,000	322,163	2,837	
Food & Ration	27,100,000	(450,000)	26,650,000	26,612,421	37,579	
Uniforms and Clothing	2,754,100		2,754,100	2,749,037	5,063	
Purchase of Supplies for Production	32,140,000	670,000	32,810,000	32,804,418	5,582	
General Office Supplies (papers, pencils)	11,150,000		11,150,000	10,971,717	178,283	
Supplies and Accessories for Computers & Printers						
	7,810,000		7,810,000	7,741,040	68,960	
Sanitary and Cleaning Materials, Supply & Services						
	2,600,000		2,600,000	2,529,860	70,140	
Transport Operating Expenses - Fuel & Lubricants						
	45,100,000	15000	45,115,000	45,112,762	2,238	
Other Fuels (wood, charcoal, gas etc.)	190,000		190,000	184,960	5,040	
Fuel for Generators	250,000		250,000	247,440	2,560	
Bank Service Commission and Charges	1,100,000		1,050,000	1,043,396	6,604	
Membership Fees, Dues and Subscriptions to Professional	3,300,000		3,300,000	3,270,603	29,397	
Legal Dues, Arbitration and Compensation Payments	1,800,000		1,800,000	1,740,000	60,000	
Land Rent & Rates	170,000		170,000	165,882	4,118	
Withholding Tax	25,000		25,000	24,976	24	
Project Administrative Expenses	205,705		205,705	205,705	-	
Sinking Fund Contribution	10,000,000		10,000,000	10,000,000	-	
Team Building Activities	1,220,000		1,220,000	1,216,580	3,420	
Choir and Sports exp	600,000		600,000	592,810	7,190	
Sub-total	388,499,805	3,208,000	391,657,805	390,467,654	1,190,151	
Professional Services						
Contracted Professional Services - Valuation	1,200,000		1,200,000	1,160,000	40,000	
Contracted Professional Services - Others	13,500,000		13,500,000	13,253,333	246,667	
Contracted Professional Services - Consultancy	2,600,000		2,600,000	2,536,281	63,719	
Contracted Professional Services - Audit Fees	970,000		970,000	967,440	2,560	
Contracted Professional Services - EMS surveillance						
Audit	630,000		630,000	622,920	7,080	
Contracted Technical Services	100,000	5,000	105,000	103,160	1,840	
Security Operations	12,400,000		12,400,000	12,364,321	35,679	
Sub-total	31,400,000	5,000	31,405,000	31,007,455	397,545	
Maintenance Expenses						
Maintenance Expenses - Motor Vehicle	24,450,000		24,450,000	24,429,082	20,918	
Maintenance of Plant & Equipment	2,800,000		2,800,000	2,764,884	35,116	
Maintenance of Office Furniture & Equipment	1,400,000		1,400,000	1,375,386	24,614	
Maintenance of Buildings - Residential	3,590,000		3,590,000	3,583,236	6,764	
Maintenance of Buildings & Stations	17,700,000		15,670,000	14,408,661	1,261,339	
Maintenance of Roads	1,100,000		1,100,000	1,036,105	63,895	
Minor Alterations to Buildings	2,800,000		2,800,000	2,774,111	25,889	
Maintenance of Computers, Software, Networks	2,400,000	1000	2,401,000	2,400,318	682	
Maintenance of Water & Sewerage	1,480,000		1,480,000	1,411,739	68,261	
Sub-total	57,720,000	1,000	55,691,000	54,183,523	1,507,477	
Board Expenses						
Boards and Conferences - Boards	8,750,000		8,650,000	8,586,980	63,020	



KENYA FORESTRY RESEARCH INSTITUTE
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Full budget	Actual on Comparable	Performance difference	IPSAS24.14(a)(b) IPSAS1.53.63(c) IPSAS1.53.63(d)(e)
	2013-2014 Kshs	2013-2014 Kshs	2013-2014 Kshs	2013-2014 Kshs	2013-2014 Kshs	
Medical Insurance Cover for Board Members	650,000		650,000	635,631	14,369	
KEFRI Chief Executive Officer's(CEO)						
Remuneration	6,770,000		6,770,000	6,770,000	-	
Board and Other Conference/Seminar Expenses	600,000		600,000	598,373	1,627	
Sub-total	16,770,000		16,670,000	16,590,984	79,016	
Capital Expenditure						
Construction of Buildings (Marigat,Lamu,Coldrooms e.t.c)	81,000,000		81,000,000	79,684,407	1,315,593	
Purchase of Office Furniture & Fittings	2,500,000		2,500,000	2,418,358	81,642	
Purchase of Loose Tools	750,000		750,000	738,112	11,888	
Purchase of Telephone Equipment	710,000		710,000	705,832	4,168	
Purchase of Computers, Printers	8,350,000		8,350,000	8,178,798	171,202	
Purchase of ICT Networking & Communications	7,500,000		7,500,000	7,417,773	82,227	
Purchase of Software	9,550,000		9,550,000	9,518,942	31,058	
Purchase of Motor Vehicle	8,400,000		8,400,000	8,314,779	85,221	
Purchase of Water & Plants	600,000		600,000	583,450	16,550	
Purchase of Laboratory Equipment	10,900,000		10,900,000	10,721,525	178,475	
Sub-total	130,260,000		130,260,000	128,281,976	1,978,024	
Total Expenditure	1,351,590,805	(9,655,000)	1,339,755,805	1,332,533,927	7,221,878	
Suplus (Deficit) for the period	161,700,658	23,472,795	187,353,453	192,580,994	(8,221,002)	

1. Donor/ Projects Grants are recognised in the Budget as actual amount utilized in the Financial Year under review. The balance is not reconized in the budget because most of the grants run more than one year.

2. Some of the projects activities were continuous which spill over to the subsequent year.

3. The Institute received Kshs.11,500,000 more funds from the Government for research activities through the State Department of Enviroment and Natural Resources which was not in the printed Estimate.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

NOTE 1: GENERAL INFORMATION

Statement of compliance and basis of preparation - IPSAS 1

The Institute's Financial Statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) Accrual. The accounting policies have been consistently applied to all the years presented. The financial statements have been prepared on the basis of historical cost convention, as modified by the inclusion of certain Fixed Assets on a revalued basis. The cashflow statements have been prepared using the in-direct method.

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 categories of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. It is the policy of the Institute to capitalise major renovation and refurbishment expenses incurred on buildings. 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.
- ii) Depreciation on property, plant and equipment is recognised in the income statement on a reducing balance basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

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

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



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iii) Donated Assets - IPSAS 23

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

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

(c) Intangible Assets - IPSAS 31

Costs incurred on computer software and other intangible assets are initially accounted for at cost as intangible assets and subsequently at total cost less any accumulated amortization. Amortization is calculated on the reducing balance basis at the rate of 20% over the expected useful life of the intangible assets.

(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 Group and can be measured reliably.

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

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

iii) Interest income

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



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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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

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

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.

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

(g) Taxation

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

(h) Foreign Currency Transaction

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

(i) Receivables

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

(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.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Cash and Cash Equivalent

For the purpose of the Cash Flows statement, Cash and cash equivalents include short term liquid investment which are readily convertible into known amounts of cash and which are within three months of maturity when acquired including Treasury Bills.

m) Financial risk management objectives: IPSAS 30

The Institute Funds' activities expose it to a variety of financial risks including credit and liquidity risks and the effects of changes in foreign currency. The fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. In the current year the management met and drafted a risk management manual that will guide in the management of the risks affecting the funds. The manual shall be launched in year ending 30/6/2015. The Board proposes to provide policies for overall risk management, as well as policies covering specific areas such as liquidity risk, market risk and credit risk.

i) Credit and market risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Institute. Credit risk arises from bank balances, trade receivables and amounts due from related parties. The market risk shall also be considered due to Investments. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Institute.

Classification of credit risk bearing assets

The table below represents company's maximum exposure to credit risk as at 30th June 2014

	Fully performing	Past due	Impaired	Total
Cash at banks	201,985,376	-	-	201,985,376
Receivables from exchange	6,276,065	604,650	-	6,880,715
Investment in FDR	10,000,000	-	-	10,000,000
Total	218,261,441	604,650	-	218,866,091

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 2014	1-6 months	6-12 months	1 – 5 years	Total
Financial liabilities				
Trade payables	3,093,922	3,026,512	562,292	6,682,726

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.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Budget information: IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Institute. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the annual financial statements.

(p) 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 circumstances arising beyond the control of the Institute. Such changes are reflected in the assumptions when they occur.

q) Comparative figures

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



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013-2014	2012-2013
	Kshs.	Kshs.
NOTE 3: GOVERNMENT GRANTS RECEIVED		
Recurrent Grants	1,095,640,000	910,139,680
Development Grants	81,700,000	125,000,000
Totals	1,177,340,000	1,035,139,680
(b) Recognised Income		
Recurrent : Income & Expenditure	1,095,640,000	910,139,680
Development Grants: Recognised Deferred Income	20,467,634	21,655,575
To Income & Expenditure	1,116,107,634	931,795,255
Deferred Income -GoK Development Grants	61,232,366	103,344,425
Totals	1,177,340,000	1,035,139,680
NOTE 5: INTEREST ON FDR & SAVINGS A/C		
Interest Income earned - FDR-Net	3,965,358	995,359
Interest received on Savings Account	166,508	259,210
Totals	4,131,865	1,254,569



NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: EXTERNAL DONOR GRANTS FOR RESEARCH 2013-2014

	Various Projects	IFRI-CRC	MSB-UPP	ITK/IIED-GEDE	SANREM	FOREAIM	EURO A/C	ITK/IIED PROJECT A/C-HQTS	KAPP Wood curving	KAPP Prosopis	ASARECA	US DOLLAR	KCDP-IDA	KCDP -GEF	MMMB	KEFRI/ REGIONAL TRAINING	KEFRI PALWECO PROJECT A/C	CLINTON CLIMATE INITIATIVE-SLEEK	KEFRI CIFOR PROJECT A/C	TOTAL
	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)				(KSHS)
Balance b/f July 2013	14,209,787	599,067	2,365,738	2,763	33,682	640,327	8,125,191	285,269	(46,588)	477,524	41,264	610,389	184,956	54,027	5,728,066	316,669	-			33,628,130
Adjustment						262,012		(1,557,223)												(1,295,211)
Received during the Year	25,310,083	1,812,130	17,104,207	2,000,000	-	-	12,603,912	-	-	-		9,284,088	10,849,847	3,975,877	-	11,420,502	4,579,043	904,150	2,118,361	101,962,199
Transfer from Dollar A/C	5,668,619							330,591			1,297,073	(7,296,283)								0
Transfer from Euro A/C	3,018,000						(17,130,918)	14,112,918												
Available during the Year	48,206,490	2,411,197	19,469,945	2,002,763	33,682	902,339	3,598,185	13,171,555	(46,588)	477,524	1,338,337	2,598,194	11,034,802	4,029,904	5,728,066	11,737,171	4,579,043	904,150	2,118,361	134,295,118
Spent during the Year	(37,136,028)	(2,349,014)	(18,822,900)	(2,000,584)	(9,515)	(890,565)	(3,466)	(10,516,013)	(9,534)	(4,930)	(1,334,770)	(17,995)	(11,024,125)	(4,015,608)	(2,916,228)	(11,486,194)	(3,272,571)	(398,702)	(1,416,821)	(107,625,563)
Balance c/f	11,070,462	62,183	647,045	2,179	24,167	11,774	3,594,718	2,655,542	(56,122)	472,594	3,567	2,580,199	10,677	14,296	2,811,837	250,977	1,306,472	505,448	701,540	26,669,555



KENYA FORESTRY RESEARCH INSTITUTE

NOTE 6(a): FIXED ASSETS SCHEDULE AS AT 30TH JUNE 2014

ACCOUNT	311201	311052	311113	311104	311107	311091	311074	311075	1310	311101	311029	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)
As at 1st July 2012	149,167,800	1,167,363,478	40,377,695	3,715,179	6,556,900	181,302,145	90,034,557	177,430	36,433,664	113,075,389	121,457,949	36,317	13,233,336
Acquisition during the Year		62,077,068	1,628,004		1,060,417	8,774,063	2,903,719			18,917,852			
Donated Assets													
Transfer to completed buildings		13,233,336											(13,233,336)
Work-in Progress									2,967,483				648,440
Revaluation													
Disposal during the Year													
As at 30th June 2013	149,167,800	1,242,673,862	42,005,699	3,715,179	7,617,317	190,076,208	92,938,276	177,430	39,401,147	238,026,562	140,375,640	36,317	648,440
Depreciation													
As at 1st July 2012		374,551,817	23,464,524	2,548,791	3,915,342	146,621,334	73,339,667	157,464	35,997,238	93,400,667	93,808,962	18,099	
Disposal													
Charge for the Year		21,703,052	2,317,647	145,799	455,247	5,431,859	2,449,826	2,496	1,276,466	36,156,674	15,522,226	2,277,24	
As at 30th June 2013		396,254,869	25,782,171	2,694,589	4,430,589	152,063,193	75,789,493	159,960	37,273,704	129,557,141	109,331,188	20,376	
Net Book Value													
As at 30th June 2013	149,167,800	846,419,013	16,223,528	1,020,590	3,186,728	38,023,015	17,148,783	17,470	2,127,443	108,469,421	31,044,452	15,941	648,440
As at 30th June 2012	149,167,800	792,811,661	16,913,171	1,166,388	2,381,558	34,680,812	16,694,890	19,866	436,476	19,674,722	27,648,966	18,218	13,233,336

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

ACCOUNT	311201	311052	311113	311104	311107	311091	311074	311075	1310	311101	311029	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)
As at 1st July 2012	573,885,331	1,577,276	57,359	135,416	11,728,099	5,647,947	20,478	19,916	27,451	124,951,173			
Additions													
Disposal													
Deferred Income To Income & expenditure for the year	573,885,331	1,577,276	57,359	135,416	11,728,099	5,647,947	20,478	19,916	27,451	124,951,173			
As at 30th June 2013	559,538,188	1,389,116	56,189	118,489	10,262,086	4,911,954	17,318	12,457	18,300	93,753,405			



KENYA FORESTRY RESEARCH INSTITUTE

NOTE 6(a): FIXED ASSETS SCHEDULE AS AT 30TH JUNE 2014

(a) Depreciation

ACCOUNT	3130101	3110201	3110502	3111113	3111004	3111107	3110901	3110704	3110705	3110701	1310	3111101	3110209	TOTAL
COST/VALUATION	LAND	BUILDINGS	WATER EQUIP & PLANTS	LOOSE TOOLS	TELEPHONE EQUIP	LAB. EQUIP APPARATUS & ELECT. EQUIP	FURNITURE AND FITTINGS	BICYCLES	HEAVY VEHICLE AND TRACTORS	MOTOR CARS & CYCLES	COMPUTERS OFFICE AND ICT EQUIPMENT	MEDICAL & DENTAL EQUIP.	PROGRESS WORK-IN-PROGRESS	
	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)
As at 1st July 2013	149,167,800	1,242,673,882	42,005,699	3,715,179	7,617,317	190,076,208	92,938,276	177,430	39,401,147	238,026,562	140,375,640	36,317	648,440	2,146,859,896
Acquisition during the Year	-	11,858,364	563,450	738,112	705,832	10,721,525	2,418,368	-	-	8,314,779	15,596,571	-	69,068,735	119,985,735
Donated Assets	-	-	9,020,000	-	-	113,689,720	-	-	-	-	-	-	-	-
Elimination on revaluation	-	(161,879,500)	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to completed buildings	-	648,440	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation	3,974,217,200	483,171,700	-	-	-	-	-	-	-	-	-	-	(648,440)	-
Disposal during the Year	-	-	-	-	-	-	-	-	-	(9,567,878)	-	-	-	4,457,388,900
As at 30th June 2014	4,123,385,000	1,576,472,886	51,589,149	4,453,291	8,323,148	314,487,453	95,356,644	177,430	39,401,147	236,773,463	155,972,211	36,317	69,068,735	6,675,496,874
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 1st July 2013	-	396,254,869	25,782,171	2,694,589	4,430,589	152,053,193	75,789,493	159,960	37,273,704	129,557,141	109,331,188	20,376	-	933,347,272
Disposal	-	-	-	-	-	-	-	-	-	(8,688,221)	-	-	-	(8,688,221)
Elimination on revaluation	-	(37,280,674)	-	-	-	-	-	-	-	-	-	-	-	-
Charge for the Year	-	30,437,467	3,225,872	219,838	486,570	20,304,283	2,445,894	2,184	797,791	28,976,136	15,547,008	1,993	-	102,445,035
As at 30th June 2014	-	389,411,662	29,008,043	2,914,427	4,917,159	172,357,475	78,235,387	162,144	38,071,495	149,845,055	124,878,196	22,369	-	989,823,412
Net Book Value	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 30th June 2014	4,123,385,000	1,187,061,224	22,581,106	1,538,864	3,405,990	142,129,978	17,121,257	15,286	1,329,652	86,928,408	31,094,015	13,948	69,068,735	5,685,673,462
As at 30th June 2013	149,167,800	846,419,013	16,223,528	1,020,590	3,186,728	38,023,015	17,148,783	17,470	2,127,443	108,469,421	31,044,452	15,941	648,440	1,213,512,624

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

Donated Assets

As at 1st July 2013	-	559,538,198	1,380,116	50,189	118,489	10,262,086	4,941,954	17,918	12,457	93,753,405	18,300	-	-	670,093,113
Additions	-	-	9,020,000	-	-	113,689,720	-	-	-	-	-	-	-	122,709,720
Disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income	-	559,538,198	10,400,116	50,189	118,489	123,951,806	4,941,954	17,918	12,457	93,753,405	18,300	-	-	792,802,833
To Income & expenditure for the year	-	13,988,455	1,300,015	6,274	14,811	15,493,976	617,744	2,240	4,665	23,438,351	6,100	-	-	54,872,631
As at 30th June 2014	-	545,549,743	9,100,102	43,916	103,678	108,457,831	4,324,210	15,679	7,791	70,315,054	12,200	-	-	737,930,202



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2013-2014	2012-2013
		Kshs.	Kshs.
NOTE 7(a): OTHER INCOME			
Sale of Forestry Produce	7(b)	83,616,841	22,718,478
Nominal Income (Rent, Water & Electricity)		6,939,434	5,771,316
Surcharges		46,763	163,563
Commission Income		166,842	124,875
Bus Charges (Income)		1,089,778	821,118
Other Income/Tenders and Hire of Grounds		1,387,100	1,831,100
Hire of KEFRI Facilities	7(c)	33,078,895	17,057,514
Lab Analysis	7(d)	3,085,419	2,622,062
Clinic Revenue		1,971,290	1,138,811
Insurance Compensation		589,875	-
Sale of Stores		19,287	242,906
Totals		131,991,524	52,491,743
NOTE 7(b): ANALYSIS OF FOREST PRODUCE INCOME			
Sale of Forestry Produce		1,875,775	1,842,728
Sale of Seeds		7,506,298	9,366,225
Karura Revenue		10,542,194	7,133,414
Londiani Income		34,743,777	2,096,971
Gede Income		1,641,377	999,383
Turbo Income		25,803,542	125,669
Kibwezi Income		584,270	373,450
Kakamega Revenue		162,670	207,313
Nyeri Income		291,250	358,090
Lodwar Revenue		345,500	9,000
Marigat Revenue		29,100	187,950
Kuja River Revenue		80,538	15,308
Ramogi Revenue		10,550	2,977
Total		83,616,841	22,718,478
NOTE 7(c): HIRE OF TRAINING FACILITIES			
Hire of Training Facilities - Training[Muguga]		3,953,470	3,158,200
Kitui Revenue		18,320,990	9,021,648
KEFRI House Income		10,804,435	4,877,666
Total		33,078,895	17,057,514
NOTE 7(d): LAB ANALYSIS			
Muguga Laboratory Revenue		117,980	247,240
Maseno Revenue		2,967,439	2,374,822
Total		3,085,419	2,622,062



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2013-2014	2012-2013
		Kshs.	Kshs.
NOTE 8: EMPLOYEE COSTS			
Salaries and Wages	8(b)	396,966,831	387,737,413
Gratuity Costs		1,618,910	787,101
Staff Pension Cost/Administration Costs	8(c)	69,306,706	61,337,767
House Allowances		90,932,447	88,284,832
Medical Allowance N/A		58,719	2,589,881
Other Personal Allowances	8(d)	88,434,811	75,498,457
Staff Medical Costs (In-Patient)		776,439	262,984
Compensation & Ex-gratia		337,461	557,944
Leave & Passage Expenses		5,255,500	5,480,128
Group Life Insurance Premium		4,887,533	5,303,021
Group Personal Accident		1,278,457	1,082,380
Group Personal Accident Premium- Casuals		166,395	194,371
Medical Insurance Cover for Staff		44,997,576	24,402,894
Total		705,017,785	653,519,173
NOTE 8(b): SALARIES & WAGES			
Basic Salaries		366,236,866	359,066,725
Contractual Employee		302,000	960,322
Casual Labour		30,427,965	27,710,367
Total		396,966,831	387,737,413
The number of employees as at the end of the year		965	958
NOTE 8(c): STAFF PENSION COST			
NSSF Employer		618,026	537,519
Pension Employer Cost		43,015,543	41,622,648
Pension Employer Cost - Individual Vouchers		28,275	177,600
Pension Element 27.5%		20,864	-
Pension -Arrears		25,623,998	19,000,000
Total		69,306,706	61,337,767



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013-2014	2012-2013
	Kshs.	Kshs.
NOTE 8(d): OTHER ALLOWANCES		
Honoraria	901,893	1,059,670
Acting Allowance	167,412	630,140
Hardship Allowance	1,927,946	1,885,300
Special Duty Allowance	518,385	416,344
Incentive Allowance	1,028,888	666,732
Incentive Allowance - Individual Vouchers	11,254,599	237,000
Entertainment Allowance	5,491,081	4,741,529
Responsibility Allowance	7,755,274	7,470,373
Other Allowances	8,324,962	6,304,150
Other Allowances (Individual Vouchers)	-	32,796
Risk - Individual Vouchers	-	1,800
Commuter Allowance	51,064,371	52,052,623
Total	88,434,811	75,498,457
NOTE 9: OPERATING EXPENSES		
Electricity Expenses	17,189,674	10,996,283
Water & Conservancy	2,892,700	2,667,604
Telephone, Telex & Mobile Phone	2,258,072	3,014,222
Internet Costs	8,027,066	4,298,500
Postal Courier & Telegrams	1,002,253	1,023,044
Travelling & Accommodation Expenses	141,900,953	129,685,618
Transfer Expenses	1,758,628	1,625,243
External Travelling Costs	10,538,032	7,501,832
Printing & Publishing	4,258,985	5,539,125
Subscription, Newspapers & Periodicals	1,370,936	1,257,001
Advertising & Publicity	14,256,402	10,103,328
Trade Show and Exhibitions	3,565,587	4,777,001
Training Expenses and Attachment fee	13,809,703	10,424,905
Cost of Conference & Seminars	598,373	-
Purchase of Coffin	489,239	258,300
Insurance of Buildings & Equipment	1,133,413	592,211
Insurance of Motor Vehicles	5,851,137	7,618,586
Supplies of medical Drugs	1,986,176	1,800,768
Supplies of Dressings	80,643	64,032



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: OPERATING EXPENSES (Continued)		2013-2014	2012-2013
		Kshs.	Kshs.
Fungicides & Insecticides		412,966	488,314
Purchase of Utensils and Cutlery		656,574	175,308
Purchase of Research Materials	9(b)	5,020,241	10,234,865
Library Expenses		983,442	409,167
Food & Ration		26,612,421	15,308,716
Staff Uniform Expenses		2,749,037	2,712,740
Purchase of Supplies for Production		32,804,418	21,964,616
Stationery Expenses		10,971,717	9,024,668
Computer Expenses		7,741,428	7,258,646
Sanitary & Cleaning Material		2,529,860	2,729,068
Fuel & Lubricants Expenses	9(c)	45,112,762	33,323,062
Membership Fees to Statutory Organization		3,270,603	4,910,455
Legal Dues, Arbitration and Compensation Payments		1,740,000	527,552
Contracted Professional Services	9(d)	17,675,694	12,048,096
Audit Fees		967,440	660,000
Security Operations		12,364,321	9,612,357
Maintenance Expenses	9(e)	54,183,523	44,305,779
Land Rent & Rates		165,882	247,180
Withholding Tax on Interest Accounts		24,976	38,881
Project Administrative Expenses		205,705	210,857
Import Duty (Kenya Revenue Authority)		-	19,125
Donations		-	40,000
Counterpart Contribution		-	745,133
Silver Jubilee/Team Building Activities		1,216,580	1,249,260
Choir and Sports exp		592,810	419,685
Total Operating Expenses		460,970,373	381,911,132
NOTE 9(b): PURCHASE OF RESEARCH MATERIALS			
Chemicals & Industrial Gases		2,642,342	2,495,589
Laboratory Materials		1,566,817	6,835,361
Workshop Materials		488,919	579,442
Photographic & Audio Visual Material		322,163	324,474
Total		5,020,241	10,234,865



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: OPERATING EXPENSES (Continued)	2013-2014	2012-2013
	Kshs.	Kshs.
NOTE 9(c): FUEL EXPENSES		
Fuel & Lubricants Expenses	44,680,362	33,073,612
Other Fuels (wood, charcoal, gas etc.)	184,960	
Fuel for Generators	247,440	249,450
Total	45,112,762	33,323,062
NOTE 9(d): CONTRACTED PROFESSIONAL SERVICES		
Contracted Prof. Services- Valuation	1,160,000	52,000
Contracted Prof. Services- Others	13,253,333	3,376,769
Contracted Prof. Services- Consultancy	2,536,281	8,120,024
Contracted Professional Services - EMS surveillance Audit	622,920	255,036
Technical Services	103,160	244,267
Total	17,675,694	12,048,096
NOTE 9(e): MAINTENANCE EXPENSES		
Vehicle Maintenance Expenses	24,429,082	19,622,154
Maintenance of Plant & Machinery	2,764,884	4,087,248
Maintenance of Furniture	1,375,386	637,212
Maintenance of Buildings - Residential	3,583,236	2,233,138
Maintenance of Buildings	14,408,661	8,906,993
Maintenance of Roads	1,036,105	201,641
Minor Alterations	2,774,111	1,518,117
Maintenance of Computer Software	2,400,318	6,165,364
Maintenance of Water Supplies & Sewage	1,411,739	933,913
Total	54,183,523	44,305,779
NOTE 10: BOARD OF MANAGEMENT EXPENSES		
Board Costs	8,586,980	4,299,917
Conferences	-	49,000
KEFRI Chief Executive Officer's Remuneration	6,770,000	6,777,470
Group Life Insurance-Board Members	-	264,800
Medical Insurance Cover for Board Members	635,631	525,890
Total	15,992,611	11,917,077
NOTE 11: FINANCE COSTS		
Bank Charges for the Year	1,043,396	819,570



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013-2014	2012-2013
	Kshs.	Kshs.
NOTE: 12(a) ESTABLISHMENT COST		
Sinking Fund	10,000,000	5,000,000

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

NOTE 12(b): SINKING FUND

Balance b/f	12,582,167	11,116,488
Received during the Year	11,403,246	5,995,359
Available during the Year	23,985,413	17,111,847
Spent during the Year	(5,115,659)	(4,529,680)
Balance c/f	18,869,754	12,582,167

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

NOTE 13: INTANGIBLE ASSETS - COMPUTER SOFTWARE

Cost

At the beginning of the year-Net	11,621,534	13,037,701
Additions for the year	9,538,943	1,489,216
Amortization on Intangible Assets - Software	(4,232,095)	(2,905,383)
At the end of the year	16,928,381	11,621,534

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 14: GAIN ON SALE OF FIXED ASSETS

Sale Proceeds	3,572,000	
Value at Cost	9,567,878	
Less: Accumulated Depreciation	(8,688,221)	
Net Book Value	879,657	
Gain on Disposal	2,692,343	

NOTE 15(a): CASH AND CASH EQUIVALENT -CASH AT BANK

Recurrent	26,710,734	356,912
Development	18,997,166	5,566,970
Various Projects	10,910,786	13,704,111
IFRI project	667,187	1,229,721
Sinking Fund	9,619,468	4,145,252
Gold Plus Savings	3,310,554	3,290,580
Gold Plus Revenue	116,235,241	44,899,609
EU FOREAIM	11,773	902,339
KEFRI US Dollar Account	2,580,198	624,577
SANREM - CRSP	9,822	19,336
EURO A/C	3,594,719	8,920,709
KAPP Woodcurving	1,269	10,679
KAPP Prosopis	472,654	477,584
ASARECA	3,566	41,263
KCDP-IDA	10,663	184,942
KCDP-GEF	14,296	54,029
MMMB GOF Project	2,816,677	5,728,066



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 15(a): CASH AND CASH EQUIVALENT -CASH AT BANK (Continued)	2013-2014	2012-2013
	Kshs.	Kshs.
KEFRI-MSB/UPP PROJECT -Millenium Seed for Life	597,045	2,315,738
KEFRI/REGIONAL TRAINING	250,977	18,160
KEFRI ITK/IIED PROJECT A/C-HQTS	2,655,541	285,269
KEFRI CIFOR PROJECT A/C	701,540	
KEFRI PALWECO PROJECT A/C	1,305,872	
CLINTON CLIMATE INITIATIVE-SLEEK PROJECT	505,448	
KEFRI ITK/IIED PROJECT A/C-GEDE	2,179	2,763
Totals	201,985,376	92,778,608

NOTE 15(b): Investment in Fixed deposit account

The Institute has short term investment of Ksh. 10,000,000 in fixed deposit in an account held at the Co-operative bank of Kenya. The investment interest rate is 10.5% and shall mature on 12/8/2014 unless a roll-over shall be desirable.

NOTE 16 DEBTORS SCHEDULE (RECEIVABLES) FROM EXCHANGE TRANSACTIONS

Travelling Imprest	63,650	-
Station/Special Imprest	140,000	1,663,112
Salary in Advance	37,000	16,000
Salary Advance	510,967	712,904
KCB - Lodwar	10,000	10,000
KCB - Londiani	15,000	15,000



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 16: DEBTORS SCHEDULE (RECEIVABLES) FROM EXCHANGE TRANSACTIONS(Continued)

	2013-2014	2012-2013
	Kshs.	Kshs.
Water and Electricity Debtors	1,291,432	784,481
Kenya Forest Service	589,750	589,750
A. A. R Credit Service	114,339	114,339
Meshack Kiarie	6,000	6,000
P.S. Ministry of Forestry & Wildlife	-	30,975,000
Interest Receivable-Accrued	2,937,299	2,123,928
Sundry Debtors	726,300	482,380
National Bank-Loan A/C	208,964	-
Select Management Services	46,214	-
Freshco Kenya Limited	140,000	-
Jomo Kenyatta University of Agr & Tec	28,900	-
National Environment Trust Fund	-	32,500
Greenland Agroforestry Nursery	-	27,625
Catholic Diocese of Kitui	14,900	14,900
Total	6,880,715	37,567,919

NOTE 17: INVENTORIES

Stationery/Computer Accessories	2,050,150	1,850,686
Motor Vehicle Spare Parts & Fuel	783,765	439,572
Uniforms and Clothings	3,463	7,880
Food Stuff	71,683	174,092
Hardware, Electricals & Cleaning Materials	2,102,652	3,339,770
Seeds & Seedlings	36,132,325	19,323,479
Forest Plantations	1. (e)(ii) 3,682,350	2,005,350
Drugs & Dressings	526,047	1,098,648
Fungicides & Sprays/Chemicals	9,580	10,097
Small Lab Equipment	16,250	199,858
Utensils and cutlery	33,460	-
Total	45,411,724	28,449,431

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 18: CREDITORS SCHEDULE (PAYABLES)		2013-2014	2012-2013
		Kshs.	Kshs.
Auditor General- accrued audit fee		773,720	580,000
Sundry Creditors - Merchants		3,026,512	10,376,368
Accruals - (KPLC)		1,588,222	913,485
Insurance Compensation		443,564	393,704
Miscellaneous Recovery (Unpaid June BTLs)	17(b)	850,709	760,589
Totals		6,682,726	13,024,145
NOTE 18(b): MISCELLANEOUS RECOVERIES			
Family Remittance		2,800	64,700
Harambee Co-operative		2,000	2,000
BRITAK		146,807	146,807
Pioneer Insurance Co.		3,341	3,341
Mercantile Ass. Co.		2,652	2,652
Madison Insurance Co.		13,070	13,070
Blue Shield		1,959	1,959
Cooperative Ins (C.I.S.)		11,865	3,955
Appollo Insurance Co.		1,086	1,086
CFC Life Assurance		12,865	-
Corporate Insurance		113,094	55,043
S.A.Y.E.		111,300	111,300
NVRC		10,200	10,200
PS Min.of Roads & Pub. Works- Rent		2,500	2,500
Londiani Forestry College		10,000	10,000
Transport Welfare		72,493	-
National Bank-Loan A/C		-	11,599
Attachment fees		66,500	61,000
Ukulima Fosa - Advances		161,058	161,058
DFO -House Rent		4,000	2,000
Kenya Professional Association of Women in Agriculture		7,800	7,800
Karura Welfare		25,600	25,600
KANASA		4,200	4,200
Metropolitan Teachers SACCO		1,900	1,900
Gede Welfare Group		17,800	17,800
Platinum Credit		26,526	26,526
Marigat Welfare Society		9,493	9,493
HR Welfare		4,800	
UKULIMA Housing Soc		3,000	3,000
Total		850,709	760,589



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19: KEFRI MEDICAL SCHEME FUND ACCOUNT A/C		2013-2014	2012-2013
		Kshs.	Kshs.
Items contributing to Fund balance:			
Contributions:	Employer'	-	1,529,006
	Employee's	-	1,147,420
Income:	Interest from TBs	-	-
	Interest from FDR	-	52,594
Contribution to the Fund		-	2,729,020
Items Reducing Fund balance:			
Medical Claims Paid		-	2,478,187
Bank charges		8,430	12,200
Printing & Publishing		17,700	-
Food & Ration		5,680	-
Transport operating exp		73,500	48,000
Travelling & Accommodation		731,500	469,230
Reduction to the Fund		836,810	3,007,617
Fund Surplus		(836,810)	(278,597)
Current Assets:			
Cash at Bank		28,432,844	29,269,655
Debtors: GoldPlus Savings Account		345,205	345,205
Recurrent		397,678	397,678
		742,883	742,883
Fund Net Assets		29,175,727	30,012,538
Fund Balance as at 01.07.2013		30,012,537	30,291,134
Surplus for the year		(836,810)	(278,597)
Fund Balance as at 30.06.2014		29,175,727	30,012,537



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 20: CAPITAL GRANTS/DEFERRED INCOME & RESERVES

Nature and Purpose of Reserves

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

(a)(i) Deferred Income from Government Grants for Capital Assets		2013-2014	2012-2013
Government Grants for Capital Assets /Donations		Kshs.	Kshs.
	Note		
Balance b/fwd		635,228,001	517,877,233
Additions	3	61,232,366	103,344,425
Transfer from/ to Deferred Income/ Donated Assets		-	14,006,342
Balance C/d		696,460,355	635,228,001
(a) (ii) Deferred Income from External Donors on Donated Assets			
Balance b/fwd		670,093,113	593,152,639
Deferred Income/ Donated Assets	6(b)	122,709,720	124,951,173
Deferred Income	6(b)	(54,872,631)	(48,010,699)
Balance C/d		737,930,202	670,093,113

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



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE20: CAPITAL GRANTS/DEFERRED INCOME & RESERVES (Continued)

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

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

Sinking Fund	2013-2014 Kshs.	2012-2013 Kshs.
Balance b/f	12,582,167	11,116,488
Received during the Year	11,403,246	5,995,359
Available during the Year	23,985,413	17,111,847
Spent during the Year	(5,115,659)	(4,529,680)
Balance c/f	18,869,754	12,582,167

(d) External Grants Reserve

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

(e) Accumulated Surplus / (Deficit)

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

Balance b/f	(105,778,736)	(87,305,914)
Surplus/(Deficit) for the Year	118,103,431	(18,472,822)
Balance c/f	12,324,695	(105,778,736)

NOTE 21: IPSAS 20 Related Party Disclosures

Related parties are parties that control or have significant influence over the reporting entity including key management personnel and parties that are controlled or significantly influenced by the reporting entity.

RELATED PARTY TRANSACTIONS	Note	Kshs.	Kshs.
Remuneration and other costs of Directors	10	15,992,611	11,917,077
Salaries and other staff employment benefits including key Management	8(a)	705,017,785	653,519,173
Staff receivables	16	4,529,326	2,392,016
Total		725,539,722	33,323,062



KENYA FORESTRY RESEARCH INSTITUTE

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor. and management comments that were provided to the

a) Reference No. on the external audit report b) Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status	Time Frame
a) No. 1 2012/2013 Report. b) Property, Plant and Equipment	A joint task force on land and asset sharing between the two institutions (KEFRI/KFS has since been constituted to review land and asset belonging to KEFRI within the forest land for purposes of formal ownership. The institute is also engaging the National Land Commission and County Government on the acquisition of land for its research and development use.	Bernard Kigomo, Senior Deputy Director	Not resolved	30.12.2015

Chairman: *Daniel Mugendi*
 Prof. Daniel Mugendi

Director, KEFR: *Ben E.N. Chikamai*
 Ben E.N. Chikamai (PhD)

Date 12/6/2015

Date 12/06/2015