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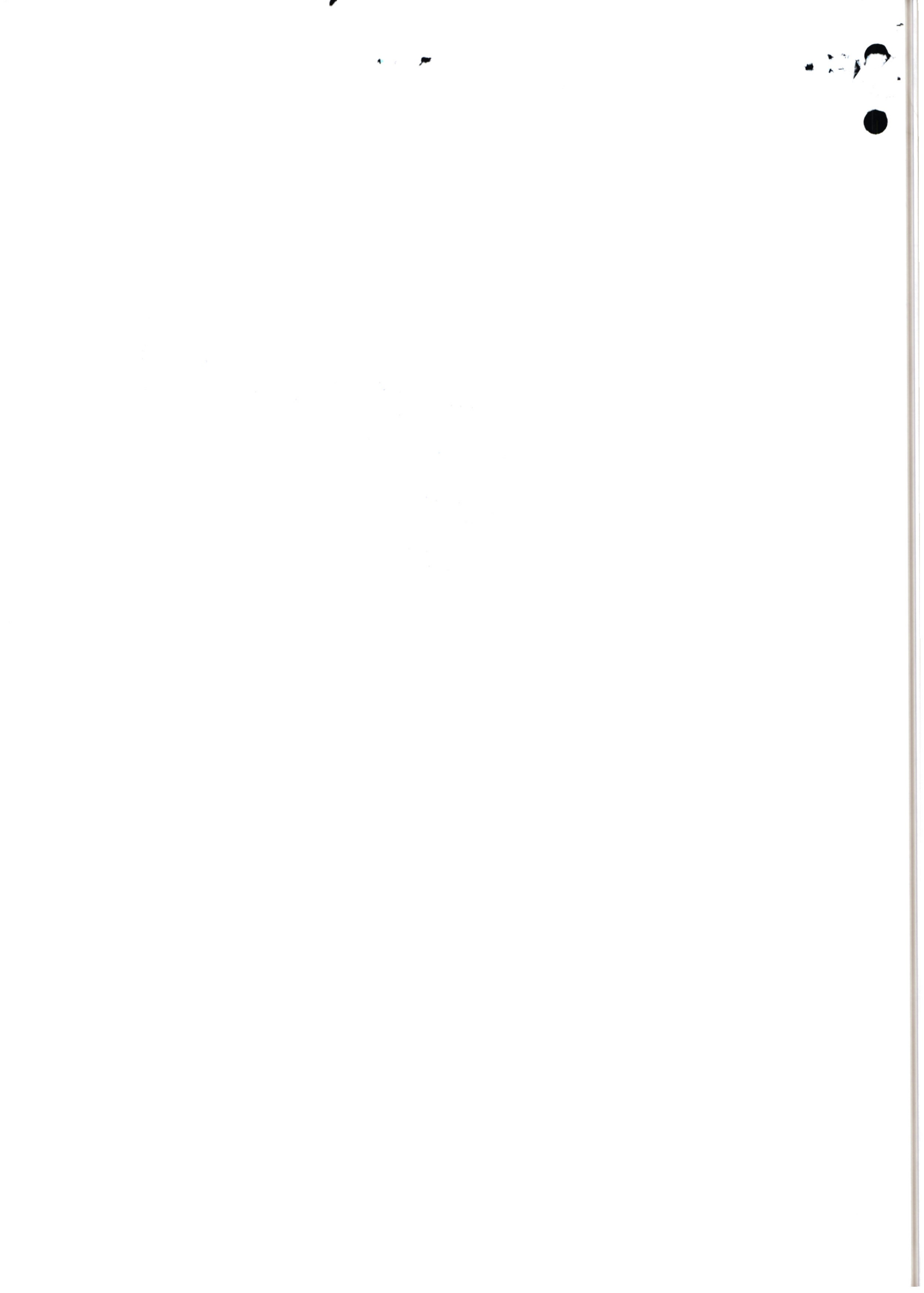
REPORT

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA FOREST SERVICE**

**FOR THE YEAR ENDED
30 JUNE 2018**





OFFICE OF THE AUDITOR GENERAL
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ANNUAL REPORT & FINANCIAL STATEMENTS

for the financial year ended

JUNE 30, 2018

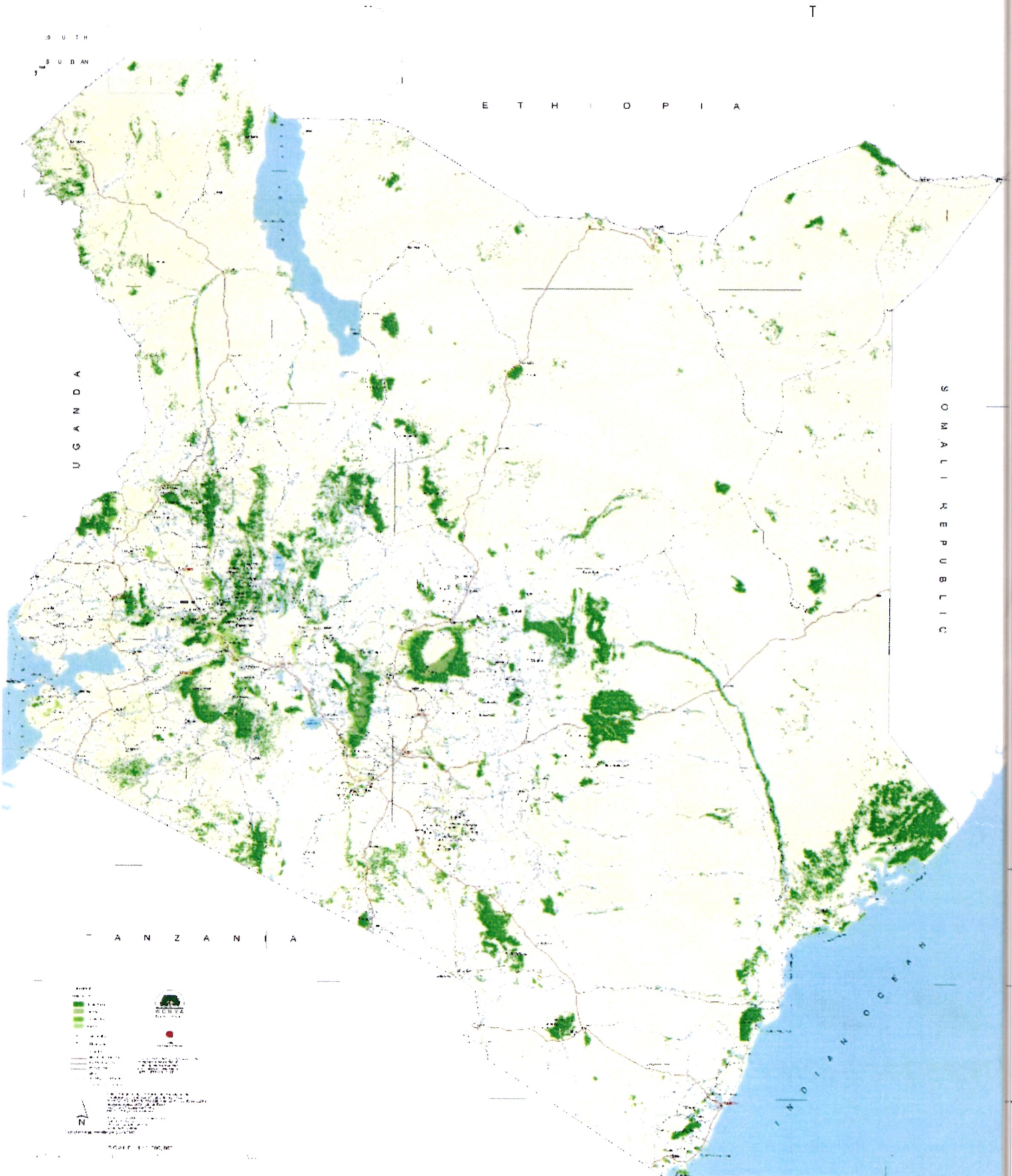
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Trees for better lives

**Kenya Forest Service
Annual Report and Financial Statements
For the year ended June 30, 2018**

KENYA FOREST TYPE MAP 2010



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INTRODUCTION

KEY SERVICE INFORMATION AND MANAGEMENT

Background Information

Kenya Forest Service is a body corporate established under the Forest Conservation and Management Act no 34 of 2016. The Act which was operationalized on March 31, 2017, gave the Service's mandate as *"to provide for the development and sustainable management, including conservation and rational utilization of all forest resources for the socioeconomic development of the country and for connected purposes"*

The Service is classified as a service State Corporation under PC 3A with a national spread stratified into ten (10) forest conservancy areas that are ecologically demarcated, with ecosystem offices in all the counties. These offices are critical in the coordination of forest conservation, management and surveillance.

Principal Activities

The Functions of the Service as provided in the act are;-

- i. Conserve, protect and manage all public forests in accordance with the provisions of the Act;
- ii. Prepare and implement management plans for all public forests and, where requested, assist in preparation of management plans for community forests or private forests in consultation with the relevant owners;
- iii. Receive and consider applications for licenses or permits in relation to forest resources or management of forests or any other relevant matter in accordance with the Act;
- iv. Establish and implement benefit sharing arrangements in accordance with the provisions of the Act;
- v. Assist county governments to build capacity in forestry and forest management in the counties;
- vi. In consultation with relevant stakeholders, develop programmes for tourism and for recreational and ceremonial use of public forests;
- vii. Promote forestry education and training;
- viii. Register and maintain a register of all forest management plans prepared for public forests;
- ix. Collaborate with relevant persons and institutions in identifying research needs and applying research findings in relation to forests and forestry;
- x. Manage water catchment areas in relation to soil and water conservation, carbon sequestration and other environmental services in collaboration with relevant stakeholders;
- xi. Prepare a Forest Status Report for the Cabinet Secretary once in every two years; and a Resource Assessment Report for the Cabinet Secretary once in every five years;
- xii. Consider and recommend to the Cabinet Secretary the establishment of public forests on un-alienated public land or any other public land;
- xiii. Consider and recommend to the Cabinet Secretary the determination and alteration of boundaries of public forests;
- xiv. Establish forest conservancy areas for purposes of conservation and management;
- xv. Approve the provision of credit facilities and technical training for community-based forest industries, and the provision of incentives to persons for the sustainable utilization of wood and non-wood forest products;
- xvi. Implement and enforce rules and regulations governing importation, exportation and trade in forest produce; and

Vision, Mission and Strategic Goal

Vision

“To be an internationally recognized organization of excellence in knowledge based sustainable forest resources development, conservation and management”.

Mission

“Conservation, management, development and sustainable utilisation of forests and allied resources”.

Strategic Goal

The Kenya Forest Service strategic goal is to conserve, develop and manage forest resources sustainably for the provision of forest goods and services.

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Core Values

Our core values form the foundation of how we conduct ourselves when carrying out our duties. KFS is guided by the following core values ;-(**T, R, E, E, I, S**):

- **Teamwork:** Embrace mutual support, active participation, collective responsibility, open communication, information sharing and mentoring.
- **Results Oriented.** Allocation of resources based on measured performance to maximize effectiveness.
- **Equity:** Fairness, affirmative action and sensitivity
- **Excellence:** Challenge to the highest level of performance, to create the greatest impact.
- **Integrity:** Conduct our daily business on the basis of accountability and transparency, with a zero tolerance for corruption.
- **Scientific principles and professionalism:** Decision making and practice will be based on current scientific knowledge and best practice.

Key Management

Kenya Forest Service day-to-day management is under the following key organs:

- Board of Directors;
- CEO; and
- Senior Management Team

Fiduciary Management

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

No.	Designation	Name
1.	Ag. Chief Conservator of Forests (CCF)	- Monica Kalenda
2.	Senior Deputy CCF, Field Operations	- Esau O. Omolo
3.	Senior Manager, Finance & Admin.	- Patrick Nyaga
4.	Senior Deputy CCF, KFC	- Peter K. Waweru
5.	Ag. Senior Deputy CCF, Support Services	- Lucy Kiboi
6.	Deputy CCF, Plantation & Enterprises	- Simiyu B. Wasike
7.	Deputy CCF, Forest Extension Services	- Patrick Kariuki
8.	Deputy CCF, Forest Conservation & Management	- Charity Munyasya
9.	Deputy CCF, Enforcement & Compliance	- Alex Lemarkoko
10.	Manager, Finance & Accounting	- Anastasia Muasya
11.	Manager, Human Resources & Admin.	- Juliana Ochieng
12.	Manager, Legal Services	- Esther Keige
13.	Principal Supply Chain Officer	- Victor Kobia
14.	Principal Internal Audit Officer	- Stephen Mugi
15.	Principal Corporate Communication	- Anne Muthamia

Fiduciary Oversight Arrangements

The Board has four Committees with specific delegated authorities. These are the Audit Committee, the Human Resources Committee, the Finance Committee and the Technical, Planning, Development & KFC Committee.

i) Technical, Planning, Development & KFC Committee

The Technical, Planning, Development & KFC Committee is responsible for ensuring; policy oversight, operational and legal compliance, advising the board on proposed subsidiary legislation, effective management of forests, effective organisational structures for forest conservancy areas as well as approvals of technical policies, strategies and systems. It also handles matters related to the Kenya Forestry College (KFC), Londiani.

NO.	NAME	POSITION
1.	Joel Laigong	Chairperson - Representing Forestry Society of Kenya.
2.	Dr. Jane Njuguna	Member - Ag. Director, KEFRI
3.	Ann Tek	Member - Representing Council of Governors
4.	Jaswant Singh Rai	Member - Representing Forest Industry
5.	Peter Wandera	Member - Representing Community Forest Associations (CFA)
6.	Peter Leitoro	Member - Representing PS, Environment & Forestry
8.	Chief Conservator of Forests, KFS	Member

ii) Finance Committee

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

NO.	NAME	POSITION
1.	Jaswant Singh Rai	Chairperson - Representing Forest Industry
2.	Anne Tek	Member - Representing Council of Governors
3.	Jane Wamoko	Member - Representing PS, National Treasury
4.	Peter Leitoro	Member - Representing PS, Environment & Forestry
7.	Chief Conservator of Forests, KFS	Member

iii) Human Resource and Administration Committee

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

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NO.	NAME	POSITION
1.	Anne Tek	Chairperson - Representing Council of Governors
2.	Peter Wandera	Member - Representing Community Forest Associations (CFA)
3.	Henry Barmao	Member - Representing Inspector General, National Police Service
4.	Joel Laigong	Member - Representing Forestry Society of Kenya
5.	Dr. Jane Njuguna	Member - Ag. Director, KEFRI
6.	Peter Leitoro	Member - Representing PS, Environment & Forestry
7.	Chief Conservator of Forests, KFS	Member

iv) Audit Committee

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

NO.	NAME	POSITION
1.	Peter Wandera	Chairperson - Representing Community Forest Associations (CFA)
2.	Henry Barmao	Member - Representing Inspector General, National Police Service
3.	Jane Wamoko	Member - Representing PS, National Treasury
4.	Peter Leitoro	Member - Representing PS, Environment & Forestry

Headquarters

Kenya Forest Service
P.O. Box 30513 - 00100,
Karura Forest, off Kiambu Road,
Nairobi - Kenya.

Contacts

Telephone: (254) 020 2014663 / 020 2589055

E-mail: info@kenyaforestservice.org, director@kenyaforestservice.org

Website: www.kenyaforestservice.org



@KeForestService



Kenya Forest Service



Kenya Forest Service

Bankers

Kenya Commercial Bank
P.O. Box 14959
Tel: +254-20-3747576
Fax: +254-20-3747576
E-mail: info@kcb.co.ke
Website: www.kcb.co.ke

National Industrial Credit Bank
P.O. Box 44599-00100, GPO,
Tel: + 254-20-28888000/ 4948000
Fax: + 254-20-2888505
E-mail: customercare@nic-bank.com
Website: www.nic-bank.com

Co-operative Bank of Kenya
P.O. Box 48231-00100,
Tel: +254-20-3276000
Fax: +254-20-219821
E-mail:
customerservice@co-pbank.co.ke
Website: www.co-opbank.co.ke

Equity Bank
P.O. Box 75102-00200-Nairobi
Tel: +254-20-2262000
Fax: +254-20-2737276
E-mail: info@equitybank.co.ke
Website: www.equitybank.co.ke

National Bank of Kenya
P.O. Box 72866-00200 Nairobi
Tel: 020-2828000
Fax: 020-311444/222304
E-Mail:
corporateaffairs@nationalbank.co.ke

Independent Auditors

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

Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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THE BOARD OF DIRECTORS

As per the provisions of the Forest Conservation and Management Act, 2016, the previous board's term expired with effect from March 31, 2018. The members of this board were;

- | | | |
|----------------------------|---|---|
| 1. Mr. Peter Kinyua | - | Chairman |
| 2. Ms. Naomi Apali Mogoria | - | Vice Chairlady |
| 3. Capt. John Miriti | - | Chairman - Human Resource and Administration Committee |
| 4. Dr. Christopher Gakahu | - | Chairman - Technical Planning and Development Committee |
| 5. Mr. John Gethi | - | Chairman - Finance and General Purposes Committee |
| 6. Mr. Bernard Sang | - | Chairman - Audit and Governance Committee |
| 7. Dr. Gelas Simiyu Muse | - | Member |
| 8. Mr. Christopher Musumbu | - | Member, Rep. PS, MENR |
| 9. Ms. Polly Maingi | - | Member, Rep. CS, National Treasury |
| 10. Ms. Irene Kamunge | - | Member, Rep. DG, NEMA |
| 11. Dr. Ben Chikamai | - | Member, Director, KEFRI |
| 12. Mr. Patrick Ojwang | - | Member, Rep. PS, Devolution |
| 13. Mr. James Ntabo | - | Member, Rep. PS, Water & Irrigation |
| 14. Dr. Samuel Kasiki | - | Member, Rep. Director, KWS |
| 15. Mr. Emilio Mugo | - | Chief Conservator of Forests, KFS |
| 16. Ms. Esther Keige | - | Corporation Secretary |

The current Board was constituted vide Gazette Notice No. 5617 on June 6, 2018. The members are as below;



Peter Kinyua - Chairman

Mr. Peter Kinyua graduated from Salve Regina University, Rhode Island, USA, in May 1986, with a Bachelor of Arts and Science Degree. He is a coffee trader and has been exporting coffee for over 25 years. He is a member of Kenya Coffee Traders Association of which he was the founder Chairman. He has also been a Director of the Coffee Board of Kenya. Currently he is a coffee Farmer in Juja and a coffee exporter by profession. He is a Director of the Rhino Ark Charitable Trust. He was a former Trustee of the Board of Kenya Wildlife Service and has a passion for conservation. He successfully sourced for substantial funding for conservation through Rhino Ark, a Charitable Trust.



Peter Wandera - Vice Chairman & Representative of Community Forest Associations (CFA)

Mr. Wandera is the Vice Chairman of the Board as well as, the Chairman of the Audit Committee. He has vast knowledge in forestry having attended different forestry trainings.



Peter Leitoro, OGW - Representative of Principal Secretary, Environment and Forestry

Mr. Leitoro holds a Masters in Security Studies and Risk Management and an MBA (Strategic Management as well as a diploma in Conservation and Management and diploma in International Studies). He has wide experience in law enforcement, conservation, managerial leadership and financial skills.



Jane Wamoko - Representative of Principal Secretary, National Treasury

Jane is a holder of a Master's degree in Public Management (MPM) and Bachelor of Arts degree (BA Hons). She is trained in Projects and Financial management as well as Strategic Leadership. Her areas of specialization include preparation and implementation of budgets; public procurement and resource mobilization.



Henry Barmao - Representative of Inspector General of National Police Service

Mr Barmao is a career Police Officer and is currently the Director of Operations - Kenya Police Service. He is also an instructor at the Police College. He sits on the board of the NTSA. He has attended various courses including Strategic Leadership Development and Management Course.



Dr. Jane Njuguna - Representative of KEFRI

Dr. Njuguna is currently the Acting Director, KEFRI. She holds a Ph.D in Forest Science.



Joel Laigong - Representative of Forestry Society of Kenya

Mr. Laigong is the Chairman of the Technical, Planning, Development and KFC Committee of the board. He holds a Master of Science degree in Forestry Management. He is currently an Assistant Researcher at KEFRI and also lectures at the University of Eldoret with his expertise being in Forest management including PFM/Forest Administration. Mr. Laigong is a life member of the Forestry Society of Kenya.



Jaswant Singh Rai - Representative of Forest Industry

Mr. Rai is the Chairman of the Finance Committee of the Board.



Anne Tek - Representative of the Council of Governors

Ms. Anne Tek is the Chair Lady of the Human Resource and Administration Committee. She holds a BSc. in Forestry and various courses on strategic management with over ten years' experience in organizational development and project management. She is currently the technical lead on Environment and Natural Resources at the Council of Governors and a member of the Forestry Society of Kenya.



Monica Kalenda - Ag. Chief Conservator of Forests

Monica Kalenda is the Acting Chief Conservator of Forests. She is a career forest officer with a master's degree in Natural Resources Management, post graduate diploma in Corporate Governance, and a bachelor's degree in forestry with over thirty one (31) years' experience in the field and in management. She has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya and Kenya Institute of Management.



Esther Keige - Corporation Secretary

Ms. Keige is the Corporation Secretary and Head, Legal Services. She holds a Bachelor's Degree in Law (LLB), a Post Graduate Diploma in Law and currently undertaking a Master's degree in Environmental Law.

She is an Advocate of the High Court of Kenya, a Commissioner for oaths and a Certified Secretary. She is a member of the Law Society of Kenya (LSK) and the Institute of Certified Public Secretaries of Kenya (ICPSK), with over twenty one (21) years experience as an advocate.

MANAGEMENT TEAM



Monica Kalenda - Ag. Chief Conservator of Forests

Monica Kalenda is the Acting Chief Conservator of Forests. She is a career forest officer with a master's degree in Natural Resources Management, post graduate diploma in Corporate Governance, and a bachelor's degree in forestry with over thirty one (31) years experience in the field and in management. She has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya and Kenya Institute of Management.



Esau O. Omolo - Senior Deputy Chief Conservator of Forests, Field Operations

Mr. Omolo is in charge of Field Operations. He holds a master's degree in geo-information science and earth observation holds a certificate in forestry research and extension as well as a bachelor's degree in land resource studies with over thirty one (31) years experience. He has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya.

Patrick Nyaga - Senior Manager Finance and Administration.



Mr. Nyaga is in charge of Finance, Accounting, Human Resource and Administration and represents the Director on the Board of Rivatex East Africa Limited. He holds a master's degree in Strategic management, is a certified public accountant (K), holds diplomas in; Supply chain management, financial services and customer service management as well as a bachelor's degree in commerce with over nineteen (19) years experience. He is a member of; Life Office Management Association (LOMA), Institute of Certified Public Accountants (ICPAK) and associate - Kenya Institute of Supplies and Management (KISM), as well as being a certified retirement benefits trustee.

Peter Waweru - Principal, Kenya Forestry College



Mr. Peter Waweru is in charge of Kenya Forestry College. The college carries out diploma and certificate courses in Forestry and paramilitary. He holds a master's degree in International studies Science, a post graduate diploma in education as well as two bachelor's degrees in forestry & nature conservation, with over thirty one (31) years experience. He has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College. He is a member of the Forestry Society of Kenya.

Lucy Kiboi - Ag. Senior Deputy Chief Conservator of Forests, Support Services



Mrs. Kiboi is in charge of Support Services. She holds a Master's Degree in Business Administration and a Bachelor's of Science Degree and is a Certified Public Accountant (K). She has over twenty-seven (27) years experience. She has also undergone basic paramilitary training at the National Youth Service and the SLDP course at Kenya School of Government. She is a member of Institute of Certified Public Accountants (ICPAK) & Kenya Institute of Management (KIM).



Simiyu B Wasike - Deputy Chief Conservator of Forests, Plantation and Enterprise

Mr. Wasike is in charge of Plantations and Enterprises. He holds a bachelor's degree in forestry with over thirty one (31) years experience. He has undergone strategic management courses at the Kenya School of Government (KSG). He has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya



Patrick Kariuki - Deputy Chief Conservator of Forests, Farm and Dryland Forestry

Mr. Kariuki is in charge of Farm and Dryland Forestry. He holds a Master of Agricultural Studies (Rural Development, Administration and Management), as well as a Bachelor of Science Degree in Forestry with over thirty one (31) years experience in forest management and administration in addition to extensive operational knowledge in project development and management. He pioneered the establishment of farm forestry field schools in the forestry sector in Kenya. He has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya.



Charity Munyasya - Deputy Chief Conservator of Forests, Forest Conservation and Management

Ms. Munyasya is in charge of Forest Conservation and Management. She previously held the position of Senior Assistant Director and served as Head of Conservancy-Nairobi. Ms. Munyasya has over twenty-six (26) years experience in the forestry sector. She holds a Masters of Arts degree in International Studies and is a full member of the Forestry Society of Kenya.



Anastasia Muasya - Manager Finance and Accounting

Mrs. Muasya is in charge of Finance and Accounting. She holds a master's degree in Business administration, is a certified public accountant (K), as well as a bachelor's degree in Commerce with over thirty one (31) years experience. She is a member of the Institute of Certified Public Accountants (ICPAK).



Juliana Ochieng - Manager Human Resource and Administration

Mrs. Ochieng is charge of Human Resource and Administration. She holds a master's degree in business administration, a Bachelor's degree in Human Resource Management and an advance Diploma in Human Resource Planning and Development. Other Skills development courses undertaken include Strategic Leadership Development Programme and Senior Management Course. She is a member of the Institute of Human Resource Management. She has over 25 years experience in human resource management



Alex Lemarkoko - Deputy Chief Conservator of Forests, Protection & Security

Mr. Lemarkoko is in charge of Protection & Security. Mr. Lemarkoko has over twenty-six (26) years of experience in forest management and protection. He holds a Masters of Arts degree in International Studies and is a Full Member of the Forestry Society of Kenya



Esther Keige - Corporation Secretary

Ms. Keige is the Corporation Secretary/ Head, Legal Services. She holds a Bachelor's Degree in Law (LLB), a Post Graduate Diploma in Law and currently undertaking a Master's degree in Environmental Law.

She is an Advocate of the High Court of Kenya, a Commissioner for oaths and a Certified Secretary. She is a member of the Law Society of Kenya (LSK) and the Institute of Certified Public Secretaries of Kenya (ICPSK), with over twenty one (21) years experience as an advocate.



Victor Kobia - Principal Supply Chain Officer

Mr. Kobia is in charge of Supply Chain Management. He has over fifteen (15) years experience in Supply Chain Management in the public sector. He holds a Master's Degree in Procurement and Logistics and is a Full Member of Kenya Institute of Supplies Management (KISM).



Stephen Mugi - Principal Internal Auditor

Mr. Mugi is in charge of Internal Audit and has over ten (10) years of experience in Auditing in the public sector. He holds a Master's of Science Degree in Finance and is a member of Institute of the Internal Auditors (IIA) - Kenyan Chapter and Institute of Certified Public Accountants of Kenya (ICPAK).



Anne Muthamia - Principal Corporate Communication Officer

Ms. Muthamia is in charge of Corporate Communications. She holds a Master's Degree in Communication Studies, as well as a Bachelor's degree in Communication with over fifteen (15) years experience. She is a member of Public Relations Society of Kenya (PRSK) and Association of Media Women in Kenya (AMWIK).

SERVICE REPORT

CHAIRMAN'S STATEMENT



Mr. Peter Kinyua - Chairman, KFS Board of Directors

I present the Kenya Forest Service Financial Statements for the year ended 30th June, 2018. Kenya Forest Service is mandated to conserve, develop, manage and ensure sustainable utilisation of forests and allied resources in the Country.

The Forestry Sector plays a critical role in the National economy by providing raw materials to the wood-based industry and wood energy for industrial use especially the tea factories. The direct contribution of the Forest Sector to the national economy is estimated to be 3.6%. In addition, the forest ecosystems support key sectors of the economy including Agriculture, Tourism; Water and Energy, to name a few.

The role of the Forest Sector in the realization of the Government's Big 4 Agenda cannot be understated as it is both an enabler and a driver, it is critical in the provision of: timber and building materials for construction of affordable housing; raw material as well as energy to manufacturing industry; food in support of food security and nutrition; and raw materials to the pharmaceutical industry in addition to the provision of clean environment and water that protect the public from diseases that would otherwise be costly to treat.

During the fiscal reporting period 2017/2018, the Service received a total of KShs. 5.05 Billion for both Development and Recurrent expenditure to fund her Annual Work Plan activities. The Service focused these resources on activities that would increase the national forest cover. Among the prioritized activities funded during the report period were: development of key policies, strategies and frameworks to guide the operations of the Service; protection of the existing 2.59 million hectares of strategic national forest resources; development of new forests; resources mobilization including forming and maintaining strategic partnerships for forestry development and conservation and institutional capacity development for enhanced service delivery; and public education and awareness creation.

Among the key achievements made during the report period were: gazettment of a total of 109,139 ha of forest; finalization and launching of the KFS third Strategic Plan (2017-2022); commissioned development of KFS Business Unit; improvement of housing for Rangers (Rangers Barrack constructed at Karura; renovated 291 Forest Rangers Units in the Conservancies, Five units of 2-bedroom houses for Rangers at Ngubi and Mai Mahiu completed while six other similar units in Rangers Outpost in Makutano, Baringo County

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and four units at Rangers Camp in Lamu County were near completion); Development of a Debt Collection Policy; and establishment of Four (4) model tree nurseries with capacity to raise 1.5 million seedlings annually each and also serve as capacity development nurseries for stakeholders in forestry development.

During the 2017/18 financial year, the Government through the Ministry of Environment imposed a moratorium on logging in public and community forests for a period of three months which was later extended by a further six months. The Government also constituted a Taskforce to look into forest resources management and logging activities in Kenya. The Moratorium presented significant challenges to the Service as the revenue (AIA) which was to be collected from the sale of plantation materials could not be realized and no compensation was received for the same from the National Treasury. The Moratorium also led to a significant drop in revenue realised from sale of other forests goods and services. This greatly affected the implementation of the planned activities. The Service re- focussed the remaining resources on implementing and enforcing the moratorium.

Going forward, my Board will continue to develop policies to promote forestry development and enhance prudent use of financial and other resources in the Service for the benefit of all Kenyans. I wish to thank all the Stakeholders who have provided resources to enable the Service more efficiently and effectively deliver on its mandate.

I would also like to thank the KFS management team and staff for their commitment in steering the Service even in unusually challenging times.


Peter Kinyua
Chairman, Kenya Forest Service Board

REPORT OF THE CHIEF EXECUTIVE OFFICER



Monica Kalenda - Ag. Chief Conservator of Forests

The Kenya Forest Service executes its mandate in line with the Forest Conservation and Management Act 2016 and utilizes the Strategic Plan to prioritize activities to be undertaken every financial year. During the reporting period, the Service implemented the first year of her third Strategic Plan (2017 -2022) whose goal is to increase the national forest cover by 1.115% during the plan period. The activities undertaken during the report period focused on increasing the National Forest Cover. The highlights of the achievements are as follows: Intensified the protection of the 2.59 million hectares of the Strategic national forest reserves against encroachment, illegal logging and forest fires; produced

75,528,310 high quality tree seedlings in the Kenya Forest Service tree nurseries located in all the 47 Counties; facilitated the production of 201,698,436 tree seedlings in private tree nurseries and established 7,698Ha of industrial Forest Plantations for the future supply of raw materials to the wood based industries . The Service also rolled out a public education and awareness programme on tree planting and forest conservation which saw many Kenyans participate in tree growing during the reporting period. In partnership with stakeholders, 14,678 Ha of commercial woodlots and 361.7 Ha of bamboo forests were established on private farms to complement production of the products from public forests.

The Government imposed a Moratorium on harvesting of timber from Public and Community Forests from February 24, 2018 and the Service was to enforce it. The Moratorium essentially meant that the Service could not sell any of the plantation materials to raise revenue. This affected our AIA which dropped from Kshs 4.425 Billion in FY 2016/17 to Kshs 2.996 Billion in the report period. Decrease of AIA affected implementation of the planned activities in accordance with the approved Work Plan and the budgetary provision. Measures are now in place to streamline the sawmilling industry and enhance forest conservation and management to ensure that the challenges that led to the Moratorium on logging are fully addressed.

The Service experienced other challenges during the report period, among them is the inadequate Forest Rangers to protect the vast forest resources located in very difficult terrain in the country; increasing stakeholders demands on the forest resources especially the forest adjacent communities; illegal logging, forest encroachment, forest fires and over exploitation of tree species especially red cedar; inability for the Service to meet an exceedingly high demand for seedlings by the public during the rainy season, the demand being as a result of successful awareness creation by the government.

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The Service welcomes and will continue to support tree planting initiatives by Government Ministries, Agencies and Departments both in government and community lands. Collective involvement including of Corporates and Communities will accelerate the attainment of the 10% National Forest Cover.

I note with gratitude that our stakeholders including the saw-millers and Community Forest Associations (CFAs) have continued to support the Service in implementing its mandate in line with the requirements of the Forest Conservation and Management Act 2016.

Going forward, the Service will continue to adhere to the Government's financial management requirements while ensuring efficient utilization of resources for optimum service delivery.

I wish to extend sincere gratitude to the Ministry of Environment and Forestry staff and the KFS Board for providing leadership in steering the Service to deliver on its mandate during the report period. I also wish to thank the KFS Management team and the entire staff for delivering selfless service to the Kenyan public.


Monica Kalenda
Ag. Chief Conservator of Forests

CORPORATE GOVERNANCE STATEMENT

We believe in good Corporate Governance as an organisation. The Board provides leadership through oversight, review and guidance whilst setting the strategic direction. It is the primary decision-making body for all matters considered as material to the Service. The Board has the appropriate mix of skills, knowledge and experience to perform its role effectively.

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

General Responsibilities

The Board has a duty to the people of Kenya to ensure that the KFS achieves its objectives efficiently and effectively and in compliance with the Forest Conservation and Management Act 2016. Statutory powers of the KFS Board include:

- invest any moneys of the Service not immediately required for the purposes of this Act;
- Co-operate with other organizations undertaking functions similar to its own, whether within Kenya or otherwise.
- Set aside land for forestry research;
- Offer services to any person upon such terms as the Board may from time to time determine.

Specific Responsibilities

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

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

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

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Directors' remuneration

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

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

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

Risk Management and Internal Controls

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

Corporate Social Sustainability

The Service has put in place a corporate social responsibility strategy to better address its corporate social sustainability initiatives. Consequently, it has adopted a structured approach to social sustainability issues as part of its corporate plan. The Services' initiatives for the focal period are outlined in the Corporate Social Responsibility statement.

Board Committees

The Board has four Committees with specific delegated authorities. These are the Audit Committee, the Human Resource and Administration Committee, the Finance Committee as well as the Technical, Planning, Development & KFC Committee. The respective Chairpersons present their reports to the Board at each scheduled meeting. All Directors are subject to a three-year term renewable once (for independent members appointed by name) in accordance with the Forest Conservation and Management Act 2016. On first appointment, the Directors go through an induction

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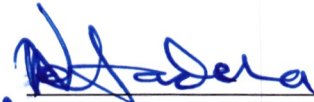
program covering the organisation's operations and an appreciation of the key risk areas. The Directors are advised on the legal, regulatory, and other obligations on an ongoing basis. The Directors also receive both internal and external training on Corporate Governance through a comprehensive training by the Centre for Corporate Governance.

Conflicts of interest

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

Compliance

The Board confirms that it is satisfied that the Service has adequate resources to continue operating for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements. The Board is satisfied that the Service has to the best of their knowledge complied with all relevant laws and conducted its business affairs in accordance with the law in particular to the State Corporations Act and the Forests Conservation and Management Act 2016. Further disclosures on compliance are set out in the Directors statement of responsibilities and notes to the financial statements.


Peter Kinyua
Chairman, Board of Directors


Monica Kalenda
Ag. Chief Conservator of Forests

MANAGEMENT DISCUSSION AND ANALYSIS

The Service has identified the following flagship projects and high priority programmes being implemented in Kenya Forest Service that were being implemented in the financial year to fast track delivery of Vision 2030 and other sector objectives:

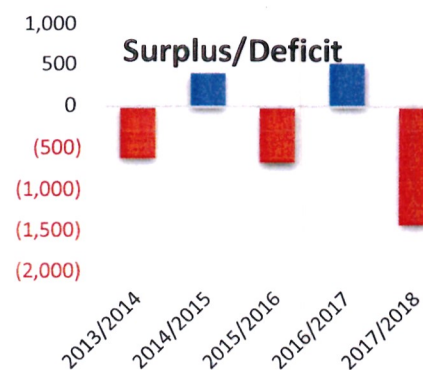
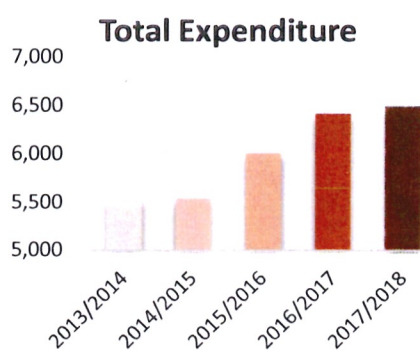
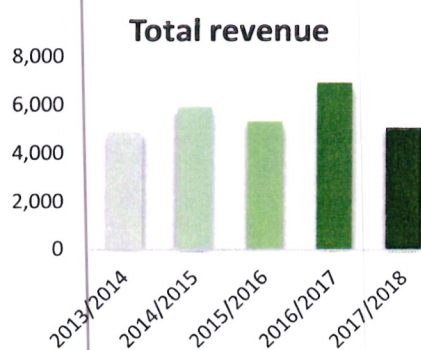
- a. Rehabilitation of water towers and management of water catchments - This programme entails full rehabilitation of the five water towers of Mau Escarpment, Mt. Kenya, Aberdare Ranges, Cherangany Hills and Mt. Elgon. The Service implements this project through rehabilitation of degraded natural forest, protection for natural regeneration, enrichment planting of Indigenous species in degraded natural forests, and planting of exotic forest plantations.
- b. Conservation and management of mangroves forests - This is a unique type of forest only occurring at the inter-tidal zone at the coast. The forest plays an important role in the marine ecosystem and the advancement of the Country's blue economy. The programme includes rehabilitation of degraded areas, and improves biodiversity; preparation of forest management plans, restoring threatened species, valuation of mangrove forests and promotion of sustainable utilization of mangrove forests.
- c. Farmland and dry land tree-planting initiative - This programme promotes tree planting outside public forest lands in order to contribute to the realization of 10% forest and tree cover by 2030. It also introduces commercial tree species in ASALs in order to control desertification and improve livelihoods.
- d. Forest plantation development - This programme deals with development of commercial forest plantations to meet the growing needs of wood supply in the country. It contributes to re-stocking and sustainable management of all public plantations.
- e. Forest Protection and security programme - This involves improving the capacity of KFS to protect, secure and safeguard forest resources and assets. This programme promotes and supports community forest policing; while using appropriate technology and strengthening the institutional capacity to protect and secure public forest and other corporate assets.
- f. Promotion of bamboo establishment and utilization - This programme mainstreams bamboo growing and value addition as a driver for the social and economic pillars of the Kenya Vision 2030.
- g. Control of invasive species - This initiative aims at reducing the threats to forest ecological functions caused by invasive species.
- h. Other programmes - In addition to the flagship projects and high priority programmes above, the Service also implements the programmes / projects / initiatives listed below:
 - i. Forest Roads and Infrastructure development - The programme covers forest roads construction, maintenance and improvements, upgrading of the institutional buildings, construction and maintenance of watch-towers, forest fencing, and ecotourism sites development.
 - ii. Forestry technical training - The programme ensures availability of skilled personnel and provision of other relevant courses to meet the needs of the forestry sector.
 - iii. Forest Parks and recreational areas initiative - This initiative entails development of parks, arboretum and other green spaces in the country for recreational and health purposes.

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Financial Performance

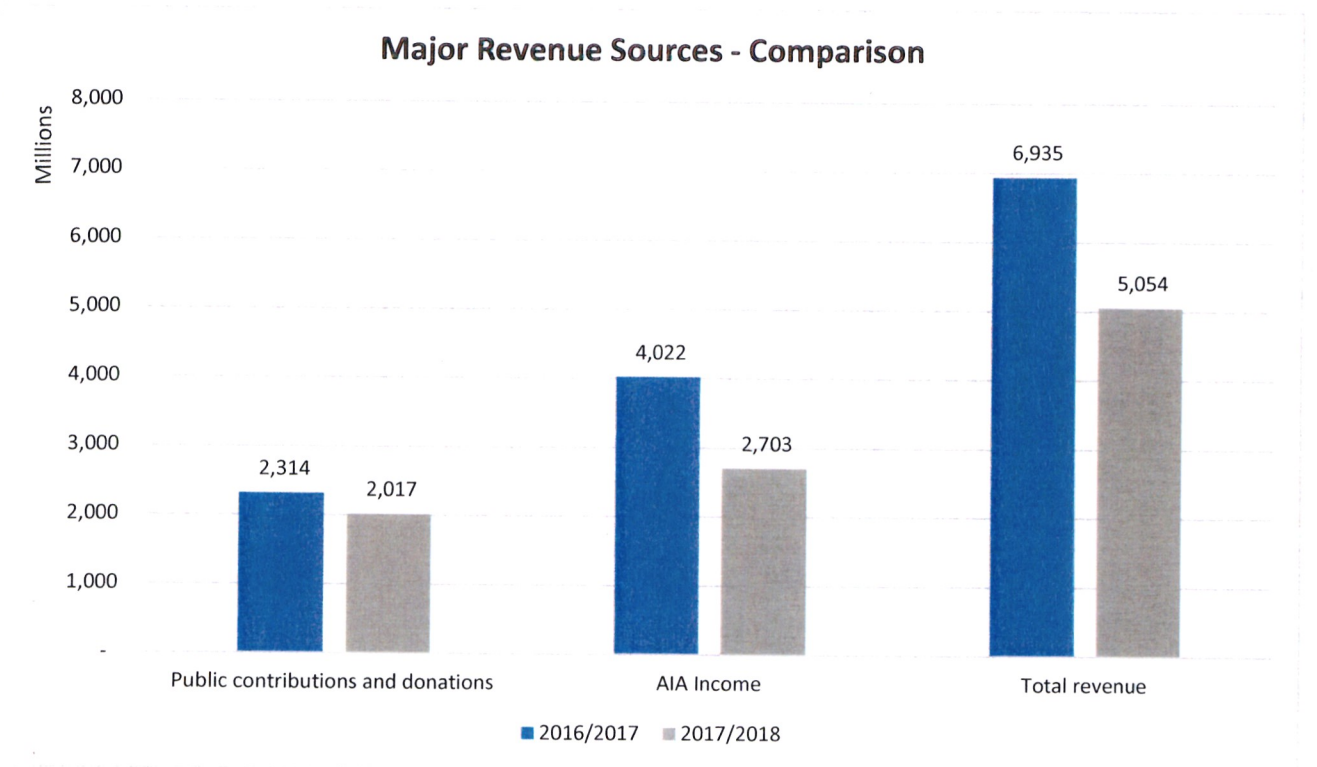
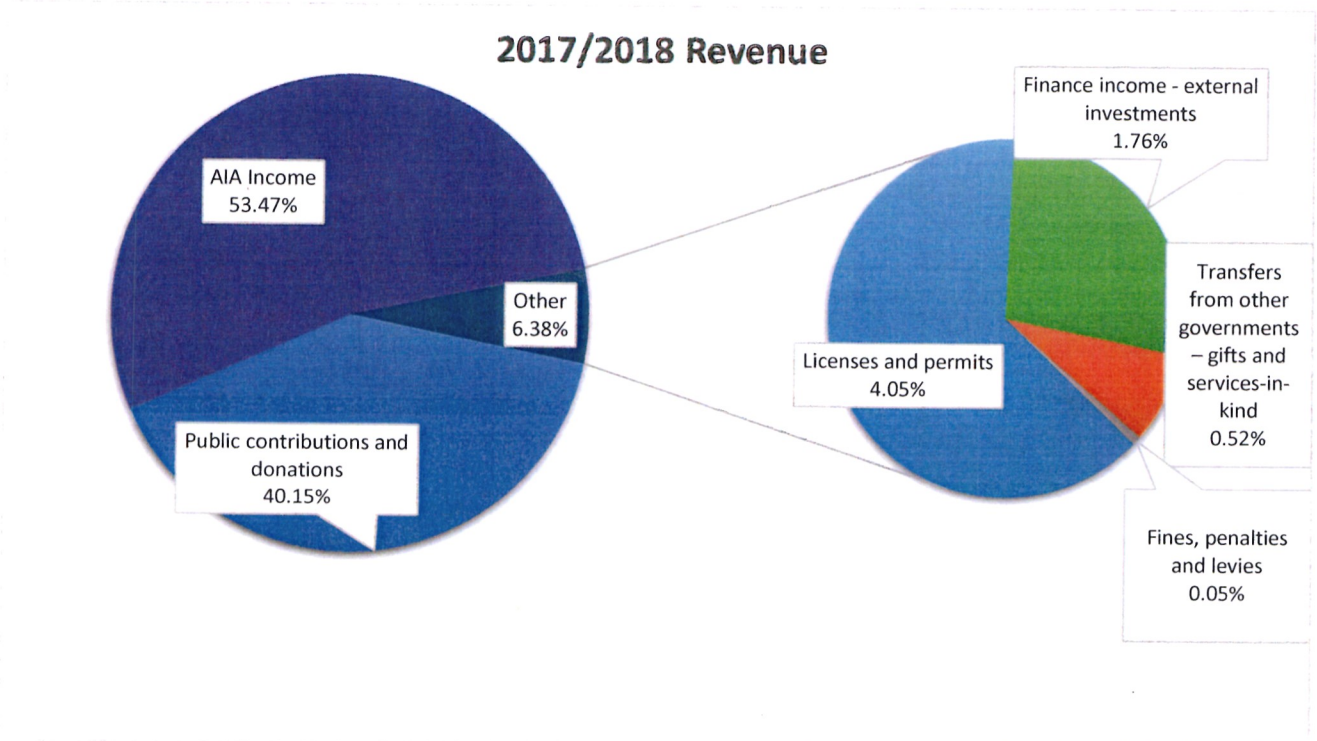
FIVE YEAR FINANCIAL PERFORMANCE

	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Revenue from non-exchange transactions					
Public contributions and donations	1,626,876	2,168,503	1,547,754	2,313,914	2,017,014
Transfers from other governments – gifts and services-in-kind	492,990	451,133	18,728	194,149	38,075
Fines, penalties and levies	1,501	3,183	1,465	1,901	2,710
	2,121,367	2,622,819	1,567,947	2,509,964	2,057,799
Revenue from exchange transactions					
AIA Income	2,460,466	2,997,926	3,349,466	4,021,549	2,702,905
Licenses and permits	257,717	257,262	272,246	282,562	204,794
Finance income - external investments	87,720	67,000	143,473	121,299	88,922
Other income	0	0	50	(160)	(2,149)
	2,805,903	3,322,188	3,765,235	4,425,251	2,994,472
Total revenue	4,927,270	5,945,007	5,333,182	6,935,215	5,052,271
Expenses					
Employee costs	3,430,105	3,574,811	3,862,421	4,308,609	4,566,696
Use of goods and services	19,208	25,514	24,254	26,707	26,161
Remuneration of Directors	7,225	7,736	30,720	25,834	19,488
Depreciation and amortization expense	479,379	372,671	342,999	296,533	227,407
Repairs and maintenance	316,192	286,088	275,945	321,944	376,301
Contracted services	122,915	74,479	47,244	55,900	51,300
Grants and subsidies	19,640	17,607	10,609	720	972
General expenses	1,162,859	1,186,022	1,415,440	1,382,816	1,268,159
Total expenses	5,557,523	5,544,928	6,009,632	6,419,063	6,536,484
Surplus/(Deficit)	(630,253)	400,079	(676,450)	516,152	(1,484,213)



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Revenue

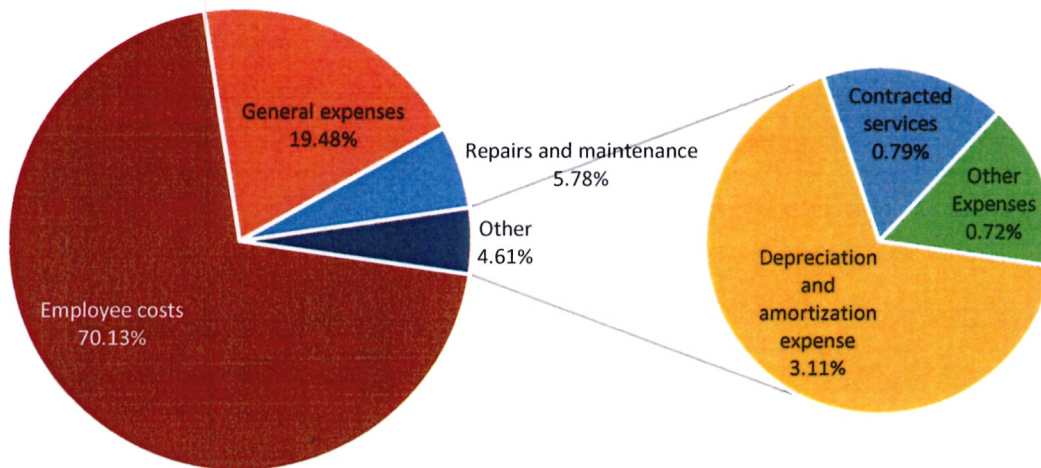


**Kenya Forest Service
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- There was a general decline in total revenues of 27% as compared to the financial year 2016-2017. This was attributed to reduction in amounts received from both the exchequer (13%) and from donors (80%).
- Internally generated revenues also declined by 32% mainly attributable to the Moratorium on harvesting of plantations imposed in February 2018.

Expenditure

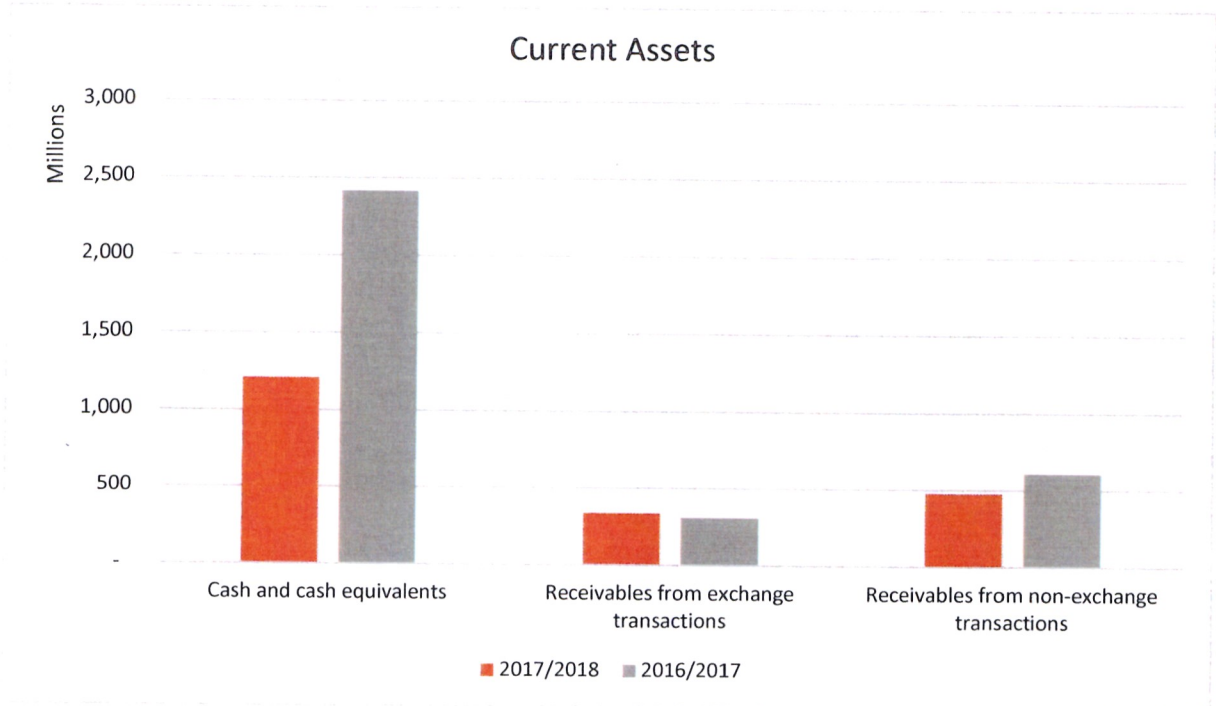
2017/2018 Expenditure



- 89% of the Service Recurrent budget is currently expended on Staff remuneration. However, out of the total expenditure i.e. Recurrent and development, personell emoluments accounts for 70.13%.
- The activities planned were carried out as per the budget and financed by the savings that the service was holding;
- There was a notable decline in provision for depreciation and amortisation since a sizable number of our assets are almost fully depreciated;
- Employee costs increased by a margin of 6% due to implementation of re-categorization of the Service and the Annual salary increments;
- Due to the above decline in revenues while continuing implementation of the planned activities and enforcement of the moratorium, the service realised a huge deficit of Kes 1.48 Billion as compared to a surplus of Kes 500 Million in the previous year.

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Current Assets



There was a 50% decline in cash and cash equivalents from a figure of Kes. 2.4 billion to 1.2 billion. The amounts held were utilised in implementation of the budgeted activities.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The Service has put in place a Corporate Social Responsibility strategy to better address its corporate social sustainability initiatives. Some of the Corporate Social Responsibilities that the Service undertook in the year ended 30 Jun 2018 are;

Laptops Donation in support of Forest Adjacent Schools Project

In the 2017/2018 Financial Year, Amadeus East Africa in partnership with Kenya Forest Service donated a total of 54 laptops as part of the Service's Corporate Social Responsibility Program. The laptops were donated by Amadeus East Africa to Kenya Forest Service to boost environmental education in primary schools. This initiative was also established to support schools in a bid to promote digital learning in the conservation of the environment especially in schools located around forest areas in different parts of the country. Some of the counties in which the laptops were distributed include; Murang'a, Elgeyo Marakwet, Marsabit, Kajiado, Meru and Laikipia County.



KFS Board Chairman Peter Kinyua presents 20 laptops to Elgeyo Marakwet CEC for Environment and Natural Resources Abraham Barsosio to promote environmental learning in the County.



Chief Corporate Communication Officer, Charles Ngunjiri presents five laptops to the head teacher of Likii Special School in Laikipia County.

KFS Choir CSR Activities

The KFS choir has been participating in charity works by visiting needy homes in various conservancies all-round the country. During the month of December 2017, the team had the opportunity to visit two homes in Coast Conservancy; Mwangaza Children's Home and Riziki Children's Home. During the month of September the choir team visited Uganda Martyrs Children's Home, AIC Baby Home and St. John Eudes Rehabilitation Center in Eastern Conservancy.



The Ecosystem Conservator for Kitui County presenting foodstuffs to the children of AIC Baby Home

Training of community members on Healthy Living

The Service through the KFS ZUIA Projects has been conducting trainings to community members on healthy living and choices. Some of these activities are as below;



Healthy Choices II training at KFS Hqs, Karura by the KFS Zuia Ukimwi Imarisha Afisa Project



Sister to Sister Training in Nakuru by the KFS Zuia Ukimwi Imarisha Afisa Project

**Kenya Forest Service
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REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Kenya Forest Service affairs.

Principal activities

The principal activities of the Service continue to be;

- i. Conserve, protect and manage all public forests in accordance with the provisions of the Act;
- ii. Prepare and implement management plans for all public forests and, where requested, assist in preparation of management plans for community forests or private forests in consultation with the relevant owners;
- iii. Receive and consider applications for licenses or permits in relation to forest resources or management of forests or any other relevant matter in accordance with the Act;
- iv. Establish and implement benefit sharing arrangements in accordance with the provisions of the Act;
- v. Assist county governments to build capacity in forestry and forest management in the counties;
- vi. In consultation with relevant stakeholders, develop programmes for tourism and for recreational and ceremonial use of public forests;
- vii. Promote forestry education and training;
- viii. Register and maintain a register of all forest management plans prepared for public forests;
- ix. Collaborate with relevant persons and institutions in identifying research needs and applying research findings in relation to forests and forestry;
- x. Manage water catchment areas in relation to soil and water conservation, carbon sequestration and other environmental services in collaboration with relevant stakeholders;
- xi. Prepare a Forest Status Report for the Cabinet Secretary once in every two years; and a Resource Assessment Report for the Cabinet Secretary once in every five years;
- xii. Consider and recommend to the Cabinet Secretary the establishment of public forests on un-alienated public land or any other public land;
- xiii. Consider and recommend to the Cabinet Secretary the determination and alteration of boundaries of public forests;
- xiv. Establish forest conservancy areas for purposes of conservation and management;
- xv. Approve the provision of credit facilities and technical training for community-based forest industries, and the provision of incentives to persons for the sustainable utilization of wood and non-wood forest products;
- xvi. Implement and enforce rules and regulations governing importation, exportation and trade in forest produce; and

Results

The results of the Service for the year ended June 30, 2018 are set out on page 1 to 42.

**Kenya Forest Service
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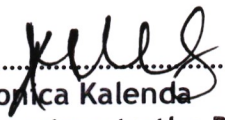
Directors

The members of the Board of Directors who served during the year are shown on pages viii-xi.

Auditors

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

By Order of the Board


.....
Monica Kalenda
Secretary to the Board
Nairobi

Date: 12/4/2019

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 26 of the Forest Conservation and Management Act, 2016; section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Kenya Forest Service, which give a true and fair view of the state of affairs of the Kenya Forest Service at the end of the financial year and the operating results of the Service for that year. The Directors are also required to ensure that the Kenya Forest Service keeps proper accounting records which disclose with reasonable accuracy the financial position of the Kenya Forest Service. The Directors are also responsible for safeguarding the assets of the Kenya Forest Service.

The Directors are responsible for the preparation and presentation of financial statements of the Kenya Forest Service, which give a true and fair view of the state of affairs of the Kenya Forest Service for and as at the end of the financial year ended on June 30, 2018. This responsibility includes:

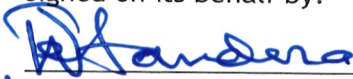
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Kenya Forest Service;
- (iii) 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 Kenya Forest Service;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the financial statements of Kenya Forest Service, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public-Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The Directors are of the opinion that the financial statements of the Kenya Forest Service give a true and fair view of the state of transactions of Kenya Forest Service during the financial year ended June 30, 2018, and of the financial position of the Kenya Forest Service as at that date. The Directors further confirm the completeness of the accounting records maintained for the Kenya Forest Service (except as stated in Note 22), which have been relied upon in the preparation of the financial statements of the Kenya Forest Service, 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 Kenya Forest Service 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 Kenya Forest Service financial statements were approved on September 2018 and signed on its behalf by:


Peter Kinyua
Chairman, Board of Directors


Monica Kalenda
Ag. Chief Conservator of Forests



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA FOREST SERVICE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Forest Service set out on pages 1 to 39, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of Kenya Forest Service as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Forest Conservation and Management Act, 2016

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1. Prior year Issues

- (i) As previously reported, the financial statements as at 30 June 2018 reflect property, plant and equipment balance of Kshs.1,848,646,138 out of which Kshs.996,034,267 relates to the value of buildings owned by the Service in various locations. However, contrary to the requirements of IPSAS 17, the land on which these buildings were erected had not been valued in the last five years and disclosed separately.
- (ii) As previously reported, the Service acquired all the assets of the former forest department including land vide legal notice No.151 of 2008 published in the Kenya Gazette Supplement No.28 of 28 November 2008. However, out of the two hundred and sixty-five (265) gazetted forest blocks owned by the Service with an acreage of 2,585,526.44 hectares, only seventy-seven (77) blocks have title deeds while twenty-five (25) are at an advanced stage of title deed acquisition.

Report of the Auditor-General on the Financial Statements of Kenya Forest Service for the year ended 30 June 2018

- (iii) The acreage of 2,585,526.44 hectares includes undetermined area of land with ongoing court cases on land ownership disputes between the Service and private parties.
- (iv) It was noted that there was illegal encroachments and excisions on forest land in various parts of the country of which a total of 555.9 hectares were illegally acquired by private parties in Kipkabus and Tingwa. Further, in Uasin Gishu County 29.5 hectares of land has installations in the forest land that were not formally permitted through a license and are operational and some which were licensed but remained unpaid for as tabulated below:-

Institution	Acreage in hectares
Ministry of Energy	0.7
Kenya Airports Authority	1
Nabkoi Water Project	10
Kapsaret Water Project	1.8
County Cemetery	16
Total	29.5

Failure to have appropriate licenses results to loss of revenue and illegal use/occupation of the land.

Consequently, it has not been possible to confirm the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.1,848,646,138 reflected in the financial statements.

1.2. Unsupported Depreciation and Amortization Expenses

The financial statements reflect charge for depreciation and amortization on plant, property and equipment of Kshs.227,407,126 as at 30 June 2018. However, the management did not provide supporting documents indicating the basis upon which the depreciation amounts on various categories of assets were determined.

In absence of the tabulation, the certainty of the depreciation and amortization charge of Kshs.227,407,126 for the year ended 30 June 2018 could not be confirmed.

2. Heritage Assets

Note 24 to the financial statements indicates that the Service has two hundred and sixty-five (265) gazetted forest blocks, some of which form part of conservation areas and nature reserves including the land, forest and allied forest resources therein and are such treated as heritage assets as per IPSAS 17. However, the Service did not disclose the specific forest blocks recognized as heritage assets as required by paragraph 9 and 12 of IPSAS 17.

Consequently, the accuracy and completeness of heritage assets as at 30 June 2018 cannot be ascertained.

3. Cash and Cash Equivalents

As previously reported, the cash and cash equivalents balance reflects Kshs.1,187,021,044 (2017: Kshs.2,414,669,771) as at 30 June 2018. However, the bank reconciliation statement for Kenya Commercial Bank account No.1106770021 availed for audit review reflects long outstanding receipts in the cash book not in the bank statements totaling Kshs.18,325,365 (2017:Kshs.10,824,086) some dating back to September 2014.

In addition, Kenya Commercial Bank account No.1106928652 bank reconciliation statement has payments in the cash book not in the bank statement amounting to Kshs.128,325,952 (2017: Ksh.149,052,070) which had not been cleared as at 30 June 2018.

In the circumstances, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.1,187,021,044 as at 30 June 2018 is fairly stated.

4. Forest Plantations

4.1 Omission of Plantation Land

As previously reported, note 25 reflects plantation balance of Kshs.60,932,496,193 (2017:Kshs.58,112,352,723) as at 30 June 2018. However, the value of the land on which the plantations grow was not separately disclosed under property, plant and equipment or investment property as required by IPSAS 27. The IPSAS further requires that biological assets, other than bearer plants, that are physically attached to the land be measured as biological assets separately from the land. In addition, it is not clear whether the plantations have been treated as investment property, or property, plant and equipment or biological assets. Further, a detailed register showing the plantations land owned by the Service has not been maintained.

In the circumstances, the value of plantations of Kshs.60,932,496,193 as at 30 June 2018 could not be confirmed as fairly stated.

4.2 Impairment of Plantations

As previously reported Note 25 to the financial statements reflects impairment to plantations of Kshs.34,621,404 (2017: Kshs.41,786,050) representing a decrease of 18% or Kshs.7,164,646 from the previous year. However, the impairment has not been recognized as a loss in the statement of financial performance for the year ended 30 June 2018 as required by IPSAS 27.

In addition, the Service has not disclosed or explained the basis (method and assumptions) for the impairment amount as well as the categories and distinction of its biological assets as required by IPSAS 26.

Further, no disclosure has been made on changes to the carrying amount of the biological assets. It was not clear if the biological assets were disclosed using fair value measurements as required by IPSAS 27.

Consequently, the total impairment value for plantations amounting to Kshs.34,621,404 as at 30 June 2018 could not be confirmed.

5. Receivables from Exchange Transactions

As similarly reported previously, the receivables from exchange transactions balance of Kshs.330,215,977 (2017: Kshs.303,223,258) as at 30 June 2018 include long outstanding debts of Kshs.159,567,842 out of which debts amounting to Kshs.75,024,727 are owed by Government Agencies and Media houses whose transmitters are located within Kenya Forest Service land. The license charges had not been paid for by 30 June 2018 as the license fee is said to have been paid to the Government owned Kenya Broadcasting Corporation. In addition, a review of debtors aging analysis confirmed that some debtors have been outstanding for several years, some since year 2010. Further, during the year under review, the audit of plantation balance revealed that an amount of Kshs.1,221,251,092 debt on harvested forest plantation was not disclosed in the financial statements thus understating the receivables from exchange transactions.

In the circumstances, it has not been possible to confirm the receivables from exchange transactions balance of Kshs.330,215,977 as at 30 June 2018.

6. Revenues and Appropriation in Aid

6.1 Inappropriate Recognition of Revenue from Non-Exchange Transactions

As previously reported the statement of financial performance for the year ended 30 June 2018 reflects revenue from non-exchange transactions of Kshs.2,057,799,547 and deficit for the year of Kshs.1,484,211,923.

The revenue amount of Kshs.2,057,799,547 includes Kshs.38,075,060 reflected as transfers from other governments in Note 7 to the financial statements. The audit of the component revealed that the receipts had related conditions attached that would give rise to a liability to repay the amounts and therefore deferred income would be recognized as required by IPSAS 23. However, the management has not recognized any deferred income contrary to IPSAS 23, significant accounting policy 4 (a) and Note 7 to the financial statements.

In addition, the statement of changes in net assets for the year ended 30 June 2018 reflects an adjustment of Kshs.124,110,416 made to the revenue reserves which has been described as refunds to different donors after the closure of specific projects for the financial year 2016/2017. Further, donor related grants received during the year have not been recognized as income over the periods necessary to match them with the related assets which they are intended to compensate on a systematic basis. In the circumstances, the accuracy and completeness of the revenue from non-exchange

transactions balance of Kshs.2,057,799,547 and the deficit for the year of Kshs.1,484,211,933 for the year ended 30 June 2018 could not be confirmed.

6.2 Plantation Revenue and Seeds & Seedlings

During the year under review, the Service earned Kshs.2,702,904,804 as Appropriation-in-Aid (AIA) from forest and related forest products. In the same period, the Service spent Kshs.124,315,407 being Kshs.67,682,163 for trees seeds and seedlings and Kshs.56,633,244 for tree planting activities. This translated to 5% of revenue earned from sale of trees and tree related products. These seedlings were planted in forest plantation areas with an acreage of 7,698 hectares against plantation harvesting of 4,909 hectares. Although the area planted (7,698 ha) appeared higher than the area harvested (4,909 ha), the expenditure on the tree seeds and seedlings was a mismatch with the revenue earned. In addition, the expenditure on seeds and seedlings appears minimal and full stocking of the plantation area may not be realized as there was no justification for minimal spending in trees seeds and seedlings planting despite earning substantial revenue from the tree sales. Further, the planting regime undertaken by the Service does not seem to match with the international standards which should be geared towards increasing the national tree coverage by 10% every year.

Consequently, it has not been possible to confirm the accuracy and completeness of revenue from plantation balance of Kshs.2,702,904,804 for the year ended 30 June 2018.

6.3. Unsupported Appropriations in Aid (AIA)

As previously reported, Note 9 to the financial statements (2016/2017) are proceeds from AIA amounting to Kshs.4,021,549,302 which were not supported. In addition, there were:

- (i) An unexplained variance between AIA reported at KFS and AIA reported at the Ministry amounting to Kshs.107,679,919 as at 30 June 2017.
- (ii) No budget for each compartment or acreage, or an estimate of harvests and revenue to be generated from each compartment or acreage as at 30 June 2017.
- (iii) No revenue target reports were made available for audit, although KFS provided revenue collected per county for the year ended 30 June 2017.

Consequently, it has not been possible to confirm the accuracy and completeness of Appropriation-in-Aid balance of Kshs.4,021,549,302 for the year then ended.

6.4. Unaccounted for Plantations Harvesting Revenue

As previously reported, the Service receives the bulk of its appropriation in aid from its commercial plantations. This arises from royalties awarded to the saw millers from the chief conservator of forests with instructions that no harvesting should take place on any allocations unless the royalty is paid for in full and within 30 days.

However, this practice is in contrast to the requirements of the Public Procurement and Asset Disposal Act, 2015 and the previous practice of bidding for forest materials which are deemed to be goods and services as provided.

In addition, review of plantation management in Meru Forest confirmed that thirty (30) saw millers were awarded tender to remove forest materials within the forest compartments and blocks during the financial year 2016/2017. It was however, noted that a substantial number of the saw millers had not paid the royalty in full amounting to Kshs.126,081,805 yet, they had harvested the forest material. Further, the names of some of the saw millers could not be traced in the revenue ledgers submitted for audit review.

Consequently, the revenue due may not have been accounted for as at 30 June 2018.

7. Unsupported Instructors Allowance

As previously reported, included in note 12 on employee costs of Kshs.4,566,696,388 (2017:Kshs.4,308,608,650) is an amount of Kshs.4,417,676 (2017:Kshs.3,518,244) relating to instructor's allowances. No documentary evidence or approved rates and work done were provided for audit review to ascertain the validity of the expenditure while the Kenya Forestry Service Human Resource Manual is silent on the rates applicable.

In absence of documented details of how the payments are determined, it has not been possible to ascertain propriety of the expenditure amounting to Kshs.4,417,676 being instructor's allowances for the year ended 30 June 2018.

8. Aircraft Operations and Maintenance Cost

The Service acquired a caravan aircraft and helicopter to enhance its accessibility to forested areas and other transport related needs. During the year under review, the Service incurred Kshs.8,258,136 for aircraft operating, Kshs.41,505,295 for maintenance of aircraft and Kshs.7,884,154 for fueling, all totaling Kshs.57,647,585. In addition, the aircraft and helicopter were leased out for private functions and earned the Service Kshs.15,503,509. However, no travel logs of the aircraft and helicopter were provided to indicate the journeys the two had been used for and the rates applied in order to verify the revenue generated.

Consequently, it was not possible to determine whether the aircrafts were being utilized for official duties, the completeness of the revenue earned of Kshs.15,503,509 and validity of the total aircraft costs of Kshs.57,647,585 for the year ended 30 June 2018.

9. Board of Directors Meetings

Section 8 (1) C of the State Corporations Act (Cap 446) stipulates that no meeting of the Board shall be held at any place other than the registered or principal office of the State Corporation except with the prior written approval of the State Corporations Advisory Committee (SCAC). A number of instances were noted where the board's business was conducted outside principal place of business with an expenditure of Kshs.2,317,678 but for which no authority was availed for audit review. In addition, an expenditure of Kshs.3,216,180 was incurred but could not be confirmed as there were no board minutes availed for audit review despite the attendance register having been signed for the meetings listed below;

Date	Description
11/7/2017 & 12/7/2017	BOD meeting on Strategic Plan at Elementaita Lodge
29/1/2018	Special BOD held at KFS Headquarters
27/2/2018	Special BOD held at KFS Headquarters
01/3/2018	Special BOD held at KFS Headquarters
7/3/2018	Special BOD held at KFS Headquarters

Consequently, the propriety of Kshs.5,533,858 could not be confirmed and as such the expenditure incurred thereof was not a proper charge of the public resources.

10. Unsupported Special Operations Expenditure

As previously reported, included in note 19 to the financial statements is general expenses balance of Kshs.1,268,159,267 (2017:Kshs.1,382,815,810) as at 30 June 2018 which includes Kshs.94,706,754 (2017:Kshs.107,868,181) for special operations expenditure. This expenditure was incurred on imprests issued to various District Forest Officers and Regional Commandants for purchase of goods and services and allowances to forest rangers. However, the management did not avail report to support special activities on forest protection.

In the circumstances, it has not been possible to confirm the propriety of expenditure on special operations of Kshs.94,706,754 and whether it is a proper charge of public resources.

11. Forest Conservation Committee Chairmen (FCC) Monthly Honoraria

During the year under review, the Service paid honoraria of Kshs.3,040,000 to chairpersons of Forest Conservation Committees. The honoraria is pegged on a monthly pay of Kshs.30,000. Supporting documents/schedules showing how the rate was derived was not availed for audit review. The payment which has been going on since year 2009 had no basis of payment as the rates are not included in the KFS human resource manual. Consequently, it has not been possible to confirm the accuracy and completeness of honoraria of Kshs.3,040,000 and whether it is a proper charge of public resources.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Forest Service in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1. Utilization of Information Technology (IT)

The financial statements under review indicates the net book value of computers and ICT assets as Kshs.38,359,011 and the value of intangible assets as Kshs.28,452,934 all totaling Kshs.66,811,945. It was noted that the Service was still experiencing inadequate IT infrastructure in terms of suitable systems (software), ICT personnel and appropriate hardware. The slow adaptation of ICT services was noted despite having invested over Kshs.51M on computerization. The use of Geographical Information System (GIS) is still not effective in the surveillance and monitoring of forests activities such as illegal logging, theft of firewood or forest fires. The system is not linked to any devices positioned in the forests for prompt surveillance and GIS is not interfaced with the aim of surveillance and monitoring of forests.

2. Enterprise Resource Planning (ERP)

The Service acquired an Enterprise Resource Planning (ERP) system to manage its operations. The ERP has several modules amongst which is the revenue collection module which is used in the management of revenue collection. An analysis of the revenue collection module revealed that the Service operates both a manual and electronic system in the collection of revenue.

Manual receipt books are used to collect revenue then subsequently an electronic internal receipt is issued to clear the initial collected revenue and recognize or account for the revenue in the system. The management has not explained why the Manual system and Electronic system are used interchangeably

3. Property, Plant and Equipment

3.1. Asset Valuation Policy

Note 4(e) on property, plant and equipment under the summary of significant accounting policies stipulate that all asset category are re-valued every 5 years or when need arises. In addition, IPSAS 17 Section 31 stipulates that revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. The Service has a policy document to guide the management in the management of its assets; mainly the valuation, recording and capitalization of assets, rate/method of depreciation, impairment of assets, the procedures of write offs and disposal. However, there is no evidence that valuation has been carried out as stipulated in the policy document.

In the circumstances the assets as reflected in the financial statements may not be at fair value.

3.2. Plantations Valuation Method

As previously reported, the valuation process used by the service had the following shortcomings:

- The Ecosystem Conservation (E.C) of forests in the 10 regions across the country identified the trees stock earmarked for sale. Once identified, valuation was done by a team of field inventory enumerators assisted by casuals due to what was claimed by the department as staff shortage.
- The Ecosystem Conservation (EC) then recommended the saw millers to be allocated and forwarded the same to the Chief Conservator of Forests (CCF) who were then allocated the plantations based on the size of the saw miller in the respective region.
- Sales invoices were then prepared and sent to the respective millers according to the assessed value. Harvesting was not to commence before the Service was in receipt of full invoice value from the suppliers. This was the ideal situation for most of the plantations allocated.
- Exceptions occurred where saw millers paid full invoice value but tree stands remained un-harvested for longer periods, even longer than the stipulated one-year period.
- In other instances, rebates were issued to saw millers who encountered defective trees during harvesting thereby reducing the invoice value. This scenario results to reconciliation issues between the plantation department and the revenue section which sometimes remained outstanding for long periods unresolved.
- Likelihood of collusion amongst the saw millers, inventory team, Chief Conservator of Forests (CCF) office and the Ecosystem Conservation (EC) office is evident due to-:
 - ✓ Absence of reconciliation in the two departments may misstate revenue.
 - ✓ Allocation to saw millers may not be free and fair.
 - ✓ Valuation process may be manipulated during assessment, miller identification and allocation.
- Further there was no evidence of any reconciliation between the allocated materials, invoiced materials, paid materials, removed materials and even remaining materials on the ground. Lack of plantation compartment register and an overall plantation management plan has adversely affected the accountability of the country's forest cover.

Section 72(1) b of the Public Finance Management (PFM) Act, 2012 states that the accounting officer of a public entity shall manage the assets in a way that ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets.

In absence of the above checks and balances the plantation valuation and disposal process cannot be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Procurement Matters

1.1. Procurement and Installation of Asset Tagging, Bar Coding and Management System

As similarly reported in 2016/2017, the Service procured services for the installation of asset tagging, bar coding and management system through tender No.KFS/06/2016-2017 that was advertised on 19 August 2016. Seven bids were received and after evaluation a consulting firm was awarded the tender to provide the services at a tender sum of Kshs.5,393,960. However, the firm was not the lowest evaluated bidder. A review of the documents provided revealed that the lowest evaluated bidder was another consulting firm that had placed a bid of Kshs.3,662,120 and had met the pass mark on both financial and technical evaluation of 75%. It is not clear why the lowest evaluated bidder was not awarded the tender to offer the services.

As a result of the award, Kenya Forest Service may have not obtained value for money on this contract on the excess of Kshs.1,731,840

1.2. Legal and Arbitration

As previously reported, note 19 to the financial statements includes legal and arbitration expenses amounting to Kshs.15,393,903 (2017: Kshs.9,893,272) as at 30 June 2018. During the year under review and prior years it was noted that various lawyers or law firms were engaged to carry out legal services on behalf of Kenya Forest Service.

During the year under review, the legal cost rose by 56% from Kshs.9,893,272 to Kshs.15,393,903. It is not clear and the management did not explain which procurement and selection methods were used to procure the law firms and why the approval to hire services was not sought from Attorney-General. In addition, reports of pending and finalized litigations as at 30 June 2018 were not availed for audit review.

Consequently, it was not possible to confirm whether the entity got value for money and is in breach of the Law.

2. Sale of Commercial Plantations

During the year under review, the Service sold tree plantations worth Kshs.2,312,653,626 by use of direct procurement method contrary to the procurement law. The saw millers were identified by Ecosystem Conservator (EC) who then recommended the saw millers to the Chief Conservator of Forests (CCF) for allocation of plantation compartments. There was no evidence of how the trees values were determined as there were no reserve prices set by the Ecosystem Conservator.

Upon receipt of recommendations from E.C. the CCF had the prerogative to adopt or make amendments on the recommendations for allocations. After examination of the recommendations, the CCF awarded the trees based on the sizes to the saw millers. There were no clear guidelines how the E.C and the CCF identified, examined, evaluated and awarded the saw millers thereby rendering the method subjective and subject to abuse.

In addition, review of the award process revealed that these were done in violation of the forest participation as stipulated in Sustainable Forest Management Rules, 2009 and Public Procurement and Asset Disposal (PPAD) Act, 2015 which guides on use of the open tender method for such forms of procurement.

Further, the process did not incorporate expertise of the procurement department personnel who are mandated by the law in providing professional opinion in such matters. Consequently, the management flouted the PPAD Act, 2015 and the Forest Management Rules, 2009 which leads to suppression of competitiveness among saw millers and the entity may not have got value for money.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Unjustified Cost of Refined Fuels

As previously reported the Service has a contract for fuel supplies with Total Kenya and Flamex Petroleum Ltd for provision of fuel for motor vehicles, machineries, aircraft and chopper amounting to Kshs.124,973,371 as at 30 June 2018.

A review of ledgers provided for audit review revealed that the Service continues to issue accountable imprest to District Forest Officers and Regional Commandants for purchase of fuel for motor vehicles, in complete disregard to the contract between the Service and Total Kenya Limited. It has not been possible to confirm control effectiveness employed by the service.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Service's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Service or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

Those charged with governance are responsible for overseeing the Service's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Service's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Service's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Service to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Service to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

22 May 2019

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

	Note	2017/2018 Kes.	2016/2017 Kes.
Revenue from non-exchange transactions			
Public contributions and donations	6	2,017,014,037	2,313,913,954
Transfers from other governments - gifts and services-in-kind	7	38,075,060	194,148,951
Fines, penalties and levies	8	2,710,450	1,900,658
		2,057,799,547	2,509,963,563
Revenue from exchange transactions			
AIA Income	9	2,702,904,804	4,021,549,302
Licenses and permits	10	204,794,360	282,562,436
Finance income - external investments	11	88,922,289	121,299,230
		2,996,621,453	4,425,410,968
Total revenue		5,054,421,000	6,935,374,531
Expenses			
Employee costs	12	4,566,696,388	4,308,608,656
Use of goods and services	13	26,160,720	26,706,999
Remuneration of Directors	14	19,488,350	25,833,789
Depreciation and amortization expense	15	227,407,126	296,533,111
Repairs and maintenance	16	376,300,678	321,944,450
Contracted services	17	51,299,675	55,899,800
Grants and subsidies	18	972,092	720,000
General expenses	19	1,268,159,265	1,382,815,810
Total expenses		6,536,484,294	6,419,062,615
Other gains/(losses)			
Loss on foreign exchange transactions	20	(2,148,629)	(159,505)
Surplus(Deficit) before tax		(1,484,211,923)	516,152,411
Taxation		-	-
Surplus/(Deficit) for the period		(1,484,211,923)	516,152,411
Attributable to:			
Surplus/(Deficit) attributable to owners of the controlling entity		(1,484,211,923)	516,152,411

The notes set out on pages 6 to 38 form an integral part of these Financial Statements


Kenya Forest Service
Annual Report and Financial Statements
For the year ended June 30, 2018

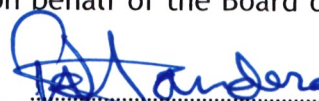
**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

	Note	2017/2018 Kes.	2016/2017 Kes.
Assets			
Current assets			
Cash and cash equivalents	21	1,187,012,044	2,414,669,771
Receivables from exchange transactions	22	330,215,977	303,223,258
Receivables from non-exchange transactions	23	464,874,815	610,000,662
		1,982,102,836	3,327,893,691
Non-current assets			
Plantation	25	60,932,496,193	58,112,352,723
Property, plant and equipment	26	1,848,646,138	1,914,476,198
Intangible assets	27	28,452,934	16,010,410
		62,809,595,265	60,042,839,331
Total assets		64,791,698,101	63,370,733,022
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	28	102,811,989	98,755,113
Refundable deposits from customers	29	11,209,574	13,209,574
Provisions	30	128,984,380	91,899,093
Employee benefit obligation	31	19,638,628	22,381,722
Payments received in advance	32	1,159,378	2,709,233
Withheld Taxes	33	989,277	714,131
		264,793,226	229,668,866
Total liabilities		264,793,226	229,668,866
Net assets		64,526,904,875	63,141,064,156
Reserves			
Capital funds		65,012,873,439	62,018,710,379
Accumulated surplus/(deficit)		(485,968,562)	1,122,353,777
Total net assets and liabilities		64,526,904,877	63,141,064,156

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


.....
Monica Kalenda
Ag. Chief Conservator of Forests


.....
Anastasia Muasya
Manager, Finance & Accounting
ICPAK Member Number: 6732


.....
Peter Kinyua
Chairman of the Board

Date: 12/4/2019

Date: 12/4/19

Date: 12/4/2019



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

	Capital Funds	Revenue Reserves	Total
Balance b/f as at 1 July 2016	62,989,316,581	574,952,248	63,564,268,829
Adjustment for the year		31,249,118	31,249,118
Additions for the year	(970,606,202)		(970,606,202)
Surplus/(deficit) for the year		516,152,411	516,152,411
Balance c/f as at 30 Jun 2017	62,018,710,379	1,122,353,777	63,141,064,156
Balance b/f as at 1 Jul 2017	62,018,710,379	1,122,353,777	63,141,064,156
Adjustment for the year		(124,110,416)	(124,110,416)
Additions for the year	2,994,163,060		2,994,163,060
Surplus/(deficit) for the year		(1,484,211,923)	(1,484,211,923)
Balance c/f as at 30 Jun 2018	65,012,873,439	(485,968,562)	64,526,904,877

**An adjustment of Kes 124,110,416 has been done on the Revenue Reserves to adjust on the funds refunded to the Government of Finland after the closure of the Miti Mingi Maisha Bora project in year 2016-2017.*

**The additions to Capital Funds for the year include Kes. 157,014,036 being purchase of fixed assets (Note 26), Kes. 17,005,554 being additions to intangible assets (Note 27) and Kes. 2,820,143,470 being additions to Plantations (Note 25).*

**The Service creates and maintains reserves in terms of specific requirements. The service classifies its reserves as either capital or revenue in nature. Capital reserve is the replacement development reserve that will help the service to replace assets as they age. Revenue reserve is the accumulated surplus over the years.*

Kenya Forest Service
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**STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2017/2018 Kes.	2016/2017 Kes.
Cash Flows from operating activities			
Net operating Surplus		(1,484,211,923)	516,152,411
Adjustment			
Depreciation	15	222,844,096	294,550,098
Net book value Retired		-	316,669
Amortization of Intangible Assets	27	4,563,030	1,983,013
Increase in Provision for Audit Fees	30	4,520,000	(4,480,000)
Increase in Provision for doubtful debts	30	32,565,287	
Net Cash generated from operating activities before Changes in working Capital		(1,219,719,510)	808,522,191
Changes in Working Capital			
Increase in Trade and other receivables	22, 23, 28, 29, 31, 32, 33	118,133,128	(300,269,716)
Increase in trade and other payables		(1,960,926)	(56,329,911)
Net Cash generated from operating activities		(1,103,547,308)	451,922,564
Cash Flows from investing activities			
Sale of investments		-	-
Purchase of fixed assets	26, 27	(174,019,590)	(157,546,514)
Net cash used in investing activities		(174,019,590)	(157,546,514)
Cash Flows from Financing activities			
Development Grants Received	6	174,019,590	157,546,514
Development Grants Refunded		(124,110,416)	(1,786,518)
Net cash used in Financing activities		49,909,174	155,759,996
Net increase in cash & cash equivalents		(1,227,657,725)	450,136,045
Cash & cash equivalents at the beginning of the period	21	2,414,669,771	1,964,533,726
Cash & cash equivalents at the end of the period		1,187,012,046	2,414,669,771

Kenya Forest Service
Annual Report and Financial Statements
For the year ended June 30, 2018

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

	Original budget 2017/2018 Kes.	Adjustments 2017/2018 Kes.	Final budget 2017/2018 Kes.	Actual on comparable basis 2017/2018 Kes.	Performance difference 2017/2018 Kes.	
Revenue						
Public contributions and donations	2,829,639,028	-	2,829,639,028	2,191,033,627	(638,605,401)	-23%
Transfers from other governments - gifts and services-in-kind	867,000,000	-	867,000,000	38,075,060	(828,924,940)	-96%
Sale of goods	3,193,706,117	6,293,883	3,200,000,000	2,910,409,614	(289,590,386)	-9%
Finance Income				88,922,289	88,922,289	100%
Total income	6,890,345,145	6,293,883	6,896,639,028	5,228,440,590	(1,668,198,438)	-24%
Expenses						
Compensation of employees	4,510,275,798	310,316,444	4,820,592,242	4,566,696,388	253,895,854	5%
Goods and services	1,977,740,583	(96,472,561)	1,881,268,022	1,722,892,430	158,375,592	8%
Board Expenses	18,000,000	4,450,000	22,450,000	19,488,350	2,961,650	13%
Acquisition of Assets	384,328,764	(212,000,000)	172,328,764	174,019,590	(1,690,826)	-1%
Total expenditure	6,890,345,145	6,293,883	6,896,639,028	6,483,096,758	413,542,270	6%
Surplus for the period	-	-	-	(1,254,656,168)	(1,254,656,168)	
Reconciliation with operating surplus						
Less: Grants received for financing activities				(174,019,590)		
Add: Depreciation & amortization expense				227,407,126		
Add: Acquisition of assets				174,019,590		
Less: Loss on foreign exchange transactions				(2,148,629)		
Surplus in statement of financial performance				(1,484,211,923)		

Budget notes

- Public Contributions and donations had a negative variation of Kes 638 Million representing 23% of the projected income which was due to reduced disbursements from the exchequer.
- Transfers from other governments had a total negative variation of Kes 828 Million which represents 96% of the projected income. This is due to African Development bank sponsored project which did not start as projected.
- Finance income had a 100% positive variation due to the current agreement with banks where all balances in the bank accounts earn interest.
- Board expenses had a positive variance of Kes. 3 Million representing 13% of projected expenditure. This was due to the Service not having a Board for a period of 4 months from March to June 2018 after expiry of the previous Board's term.
- The budget adjustment is as a result of the supplementary budget approved by the board.

NOTES AND APPENDICES

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kenya Forest Service is established by and derives its authority and accountability from the Forest Conservation and Management Act, 2016. The Service is wholly owned by the Government of Kenya and is domiciled in Kenya. The Service's principal activity is conservation and management of state forests.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Service's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Service. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

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

STANDARD	IMPACT
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IPSAS 39:	Applicable: 1st January 2018
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Employee Benefits	The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
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ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

STANDARD	EFFECTIVE DATE AND IMPACT:
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IPSAS 40:	Applicable: 1st January 2019:
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Public Sector Combinations	The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

iii. **Early adoption of standards**

The Service did not early-adopt any new or amended standards in year 2018.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) **Revenue recognition**

i) **Revenue from non-exchange transactions**

Public Contributions and Donations

The Service recognizes revenues from the Government and other private entities when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Service and the fair value of the asset can be measured reliably. Amounts of assets bought during the year are capitalised from these revenues.

Transfers from other government entities

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

Fees, taxes and fines

The Service recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Service and the fair value of the asset can be measured reliably.

ii) **Revenue from exchange transactions**

Rendering of services

The Service recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Sale of goods

Revenue from the sale of goods is recognized before significant risks and rewards of ownership have been transferred to the buyer, usually on sale of the goods and when the amount of revenue can be measured reliably.

Interest income

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

Rental income

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

b) Budget information

The original budget for FY 2017-2018 was approved by the National Assembly in March 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Service upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Service recorded reduced appropriations of Kes. 286,871,781 on the 2017-2018 budget following the governing body's approval.

The Service's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. A comparison of budget and actual amounts is then presented in the statement of comparison of budget and actual amounts.

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

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Current income tax (Cont.)

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Service operates and generates taxable income.

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

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Service and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the placement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Service recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. All items in an asset category are re-valued every 5 years or when need arises

Depreciation on property, plant and equipment is calculated to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life using the below rates;

Category	Rate
Buildings	- 5%
Plant, Machinery & Tractors	- 10%
Motor Vehicles & Cycles	- 25%
Computer & ICT Equipment	- 33 ¹ / ₃ %
Furniture & Fittings	- 20%
Office & Household Equipment's	- 20%
Tools & Minor Equipment's	- 100%
Roads, Fences, Boreholes & Civil Works	- 12.5%
Aircrafts, Hoppers & Boats	- 7.5%
Biological Assets	- Subject to revaluation
Intangible Assets	- 33 ¹ / ₃ %

Depreciation is charged from the date of asset recognition and ceases on the date of asset disposal.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

f) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Service. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Service also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Service will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

g) Intangible assets

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

h) Research and development costs

The Service expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Service can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) Provisions

Provisions are recognized when the Service has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Service expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

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

Contingent assets

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

j) Nature and purpose of reserves

The Service creates and maintains reserves in terms of specific requirements. The service classifies its reserves as either capital or revenue in nature. Capital reserve is the replacement development reserve that will help the service to replace assets as they age. Revenue reserve is the accumulated surplus over the years. At the close of the financial year, the Service had an accumulated fund of Sixty-four billion, five hundred twenty-six million, nine hundred four thousand, eight hundred and seventy-five shillings (Kes 64,526,904,875) as compared to Sixty-three billion, one hundred and forty-one million, sixty-four thousand, one hundred and fifty-six shillings (Kes 63,141,064,156) cumulated as at end of 2016/2017 financial year.

k) Changes in accounting policies and estimates

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

l) Employee benefits

Retirement benefit plans

The Service provides retirement benefits for its employees and Directors. Defined contribution plans are post-employment benefit plans under which the Service pays fixed contributions into a separate Entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

m) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise. Monetary assets and liabilities as at the end of the year denominated in foreign currencies are translated using the average exchange rate during the year.

n) Related parties

The Service regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Service, or vice versa. Members of key management are regarded as related parties and comprise the Directors, the CCF and senior managers.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

p) Comparative figures

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

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 Service based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Service. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Service
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 29. The Service recognises provision for bad debts on all overdue debtors above 180 days in default as follows;

- 181 - 270 days overdue, a provision of 5%
- 271 - 360 days overdue, a provision of 20%
- 360 days and above, a provision of 50%

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Subsequent events

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Transfers from Government (Public Contributions and Donations)

These are funds from the exchequer to finance the Services recurrent and development activities in the following core programmes: Natural Forest Conservation and Management; Farm and Dryland Forests Conservation and Management, and Plantation and Enterprise Development.

Description	2017/2018 Kes.	2016/2017 Kes.
GOK Subventions - Recurrent	1,842,908,627	1,879,760,468
GOK Subventions - Development	348,125,000	591,700,000
Less: Grants received for financing activities	(174,019,590)	(157,546,514)
Total public contributions and donations	2,017,014,037	2,313,913,954

6b) Transfers from Ministries, Departments and Agencies

Name of the Service Sending the Grant	Amount Recognized to Statement of Comprehensive Income Kes	Amount Deferred Under Deferred Income Kes	Amount Recognised in Capital Fund. Kes	Total Grant Income During the Year 2017/2018 Kes	2016/2017 Kes
Ministry of Environment & Natural Resources	2,011,414,037	-	174,019,590	2,185,433,627	2,471,460,468
State Department of Interior	5,600,000	-	-	5,600,000	-
Total	2,017,014,037	-	174,019,590	2,191,033,627	2,471,460,468

(The details of the reconciliation have been included under appendix IV)

7. Transfers from other Governments

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 Service and can be measured reliably. Donor grants are accounted for where they are recognized as income over the periods necessary to match them with the related assets which they are intended to compensate on a systematic basis while capital grants and non-monetary grants, such as property, plant and equipment or other resources, are usually accounted for at fair value. During the year, the Service received grants as set out below;

• **Partners donations**

The Service partners with different stakeholders on forest conservation and management. These includes donations from the German government, embassies like the Korean Embassy and other corporates who support tree planting in designated areas.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Transfers from other governments (Continued)

- European Union (WaTER Programme)**
 This is a grant from the European Union with an objective to support Kenya eradicate poverty through enhancing the productivity of ecosystem services of Kenya's critical ecosystems and enhance resilience to climate change of her water sources. The purpose is to improve the quality and quantity of ecosystem services provided by Kenya's water towers through increased forest cover, improved landscape and natural resource management, and waste management systems leading to increased benefits to rural communities from forest, agriculture and agro-forestry land use systems.
- FAO-NFPF**
 These are grants for the National Forest Programme Facility. The facility is to kick-start the process of forest sector development with attention on poverty alleviation and ecological restoration. It will be used to strengthen and complement ongoing initiatives, identify emerging issues, develop, test and refine joint forest management models for ecologically sensitive forests, involving local communities.
- Centres for Disease Control (CDC)**
 These are funds from the USAID through Centres for Disease control (CDC) to support Aids Control unit within the Service through KFS ZUIA Project.
- UK Space Agency - Ecometrica**
 These are donor funds for the Forest 2020 (Kenya) Project from the UK Space Agency through Ecometrica, a private company in UK. The main aim of the project is to addresses critical gaps in current National Monitoring Systems in Kenya by providing a sustained and effective forest monitoring system capable of measuring forest change and providing information on the risks and drivers of forest loss.

Description	2017/2018 Kes.	2016/2017 Kes.
Partners Donations	17,141,243	14,625,862
FAO	5,370,712	800,000
Centres for Disease Control (CDC)	4,755,642	3,214,044
European Union - EU	448,775	174,031,114
UK Space Agency - Ecometrica	10,358,688	1,477,931
Total transfers from other governments - gifts and services-in-kind	38,075,060	194,148,951

8. Fines and Surcharges

These are penalties levied to uniformed staff on disciplinary cases.

Description	2017/2018 Kes.	2016/2017 Kes.
Fines and Surcharges	2,710,450	1,900,658
Total fines, penalties and levies	2,710,450	1,900,658

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Appropriation in Aid

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Appropriation in aid (Continued)

Description	2017/2018 Kes.	2016/2017 Kes.
Plantations	2,297,030,674	3,595,957,480
Mangrove	3,780,110	5,500,175
Transmission Poles	-	15,540
Mangrove Poles	-	1,808,550
Small Poles	55,183	163,220
Bamboo Stems	287,690	397,979
Professional fees	1,074,755	467,266
Tuition Fees	8,172,689	10,407,732
Boardwalk Fees	9,360	70,000
Water charges-Water easements	7,026,622	9,130,091
Aircraft Usage	16,064,721	15,503,509
Poles	1,741,109	6,413,593
Fuel wood	13,805,732	31,577,528
Quarrying, Soil, Sand	12,300,674	25,159,975
Resin	641,000	625,700
Ecotourism sites	268,328	265,816
Grazing Fees	27,986,404	31,337,351
Other Forest Incomes	722,547	4,872,474
Recreation	24,988,919	23,117,791
Grass	1,104,662	1,992,936
Withies	322,668	662,872
Assessment Fees	933,759	-
Application Fees	38,500	1,000
Accommodation	230,772	210,300
Fallen tree Materials	20,929	32,735
Staff Quarters	5,106,040	7,168,368
Leases	74,905,783	76,126,036
Land Rent	170,524,334	133,202,529
PELIS/Shamba Rent/Land Rent	20,698,257	20,653,720
Ground Rent	-	1,144,967
Bonded Items	808,398	922,420
Seedlings & Cuttings	10,347,935	7,146,820
Third Party Commissions	1,866,613	1,710,842
Unapplied Receipts	-	(159,160)
Unidentified Receipts	-	31,617
Other Miscellaneous Receipts	-	429,780
Staff Medical Recoveries	1,637	-
Proceeds from Disposal of Assets	-	7,422,480
Sale of Tender Documents	38,000	57,270
Total AiA income	2,702,904,804	4,021,549,302

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Licenses & Permits

Description	2017/2018 Kes.	2016/2017 Kes.
Movement Permits	180,403,704	244,706,432
Monthly Fuel Licenses	12,068,843	18,125,696
Saw millers Licenses	12,321,813	19,730,308
Total licenses and permits	204,794,360	282,562,436

11. Finance Income - External Investments

This relates to interest earned from interest bearing current accounts during the financial year.

Description	2017/2018 Kes.	2016/2017 Kes.
Holding Account Interest - KCB	0	4,612,109
Holding Account Interest - Equity	30,366,472	37,451,606
Holding Account Interest - Coop	50,752,605	52,026,947
Holding Account Interest - National Bank of Kenya	6,258,414	27,197,587
Holding Account Interest - NIC	1,544,798	10,981
Total finance income - external investments	88,922,289	121,299,230

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Employee costs

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

Description	2017/2018	2016/2017
Number of Employees	4,810	5,028
	Kes.	Kes.
Basic Salaries	2,932,847,979	2,765,578,827
Acting Allowance	885,062	2,023,016
Transfer Allowance	23,230,510	16,383,724
Commuting Allowance	267,413,795	274,951,295
Hardship Allowance	87,446,601	65,181,288
Medical Allowance	-	88,612
Special Duty Allowance	658,426	616,282
Leave Allowance	81,645,188	74,556,505
Extraneous Allowance	3,316,200	3,491,216
Telephone Allowance	5,730,000	5,142,258
Medical Expenses - Ex-Gratia (Write-off)	3,995,416	-
Staff Medical Insurance	309,052,913	309,375,970
House Allowance	392,104,841	366,495,211
Non-Practice Allowance	705,000	660,000
Entertainment Allowance	600,000	594,516
Instructor's Allowance	4,417,676	3,518,244
GPA/GLA	-	5,144,849
Contributions to National Social Security	12,042,636	12,412,782
Staff Pension- KFS Contributions	436,162,859	402,394,061
Staff Gratuity	4,441,286	-
Total employee costs	4,566,696,388	4,308,608,656

13. Use of Goods and Services

Description	2017/2018	2016/2017
	Kes.	Kes.
Electricity	15,136,903	15,479,889
Water and Sewerage Charges	9,297,343	8,337,323
Membership Fees, Dues and Subscriptions	1,726,474	2,889,787
Total goods & services	26,160,720	26,706,999

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Remuneration of Directors

Description	2017/2018 Kes.	2016/2017 Kes.
Boards and Committees	19,488,350	25,833,789
Total remuneration of Directors	19,488,350	25,833,789

The Board expenses for 2017/2018 are less than the board expenses for 2016/2017 due to the Service not having a Board for a period of 4 months from March to June 2018 after expiry of the previous Board's term.

15. Depreciation and Amortization Expenses

Description	2017/2018 Kes.	2016/2017 Kes.
Depreciation: Motor Vehicles	39,323,650	108,798,474
Depreciation -Furniture & Fittings	18,205,805	25,099,628
Depreciation - Computers	19,013,983	14,018,061
Depreciation -Air Conditioners, Fans and Heating Equipment	1,245,384	1,629,656
Depreciation - Non-Residential Buildings	52,157,116	51,582,505
Depreciation-Plant, Machinery & Tractors	2,686	-
Depreciation- Residential Buildings	11,874,576	9,128,005
Depreciation - Roads & Civil works	9,440,737	10,297,954
Depreciation - ICT, Exchanges and Other Communication Equipment	3,147,059	3,213,774
Depreciation - Photocopiers and other Office Equipment	5,155,805	7,151,580
Depreciation - Tools, Spares & Small Equipment	2,751,718	2,479,253
Depreciation - Power Generators	23,256,515	22,295,035
Depreciation - Perimeter Fences	1,417,391	1,146,603
Depreciation - Household & Institutional Appliances	713,656	701,865
Depreciation - Aircraft & Hoppers	38,510,149	37,840,377
Depreciation - Boreholes	1,190,896	1,150,341
Total depreciation expenses	227,407,126	296,533,111

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Repairs & Maintenance

Description	2017/2018 Kes.	2016/2017 Kes.
Maintenance Expenses - Motor Vehicles	70,228,660	60,807,089
Maintenance of Plant, Machinery and Equipment	9,083,809	1,979,676
Maintenance of Office Furniture and Equipment	1,537,661	1,611,432
Maintenance of Buildings - Residential	79,608,759	62,179,026
Maintenance of Buildings and Stations - Non-Residential	39,153,680	25,965,004
Maintenance of Civil Works	14,965,479	4,488,404
Maintenance of Roads	116,264,759	138,588,781
Maintenance of Computers, Software, Network	3,952,576	4,164,151
Maintenance of Aircraft	41,505,295	22,160,887
Total repairs and maintenance	376,300,678	321,944,450

17. Contracted Services

Description	2017/2018 Kes.	2016/2017 Kes.
Contracted Professional Services	25,592,123	53,365,133
Contracted Technical Services	25,707,552	2,534,667
Total contracted services	51,299,675	55,899,800

18. Grants & Subsidies

The Service through the WaTER towers project supported partner institutions, Kenya water towers agency, Kenya Wildlife Service and Climate Change Directorate with some equipment funded by the EU.

Description	2017/2018 Kes.	2016/2017 Kes.
Capital Grants and Transfers	972,092	720,000
Total grants and subsidies	972,092	720,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. General Expenses

This comprises of administrative costs as set out below:

Description	2017/2018 Kes.	2016/2017 Kes.
Casual Labour	222,983,164	269,373,121
Staff Welfare Costs	19,154,724	20,618,924
Telephone, Telex, Facsimile, Computer	7,180,955	9,106,036
Courier and Postal Services	7,546,556	8,504,711
Leased Communication Lines	748,608	2,745,875
Supplies of Accessories for Computers & Printers	10,568,420	17,055,077
Travel Costs (airlines, bus, railway, mileage)	3,484,842	4,243,030
Accommodation - Domestic Travel	7,861,285	8,085,900
Daily Subsistence Allowance	183,412,433	202,417,568
Field Operational Allowance	4,109,417	2,364,200
Travel Cost-International (Overseas)	20,803,976	28,170,163
Publishing and Printing Services	40,135,979	31,036,315
Newspapers, Magazines and Periodicals	458,062	911,970
Advertising, Awareness and Publicity Campaigns	5,159,269	14,058,413
Training	40,078,513	76,013,975
Remuneration of Instructors	823,274	348,900
Production and Printing of Training Materials	555,415	376,860
Hire of Training Facilities and Equipment	1,975,107	12,810,410
Training Accommodation Allowance	100,000	32,500
Group Personal Insurance	41,979,255	24,593,325
Buildings Insurance	3,608,730	2,737,699
Plant, Equipment and Machinery Insurance	-	1,414,538
Motor Vehicle Insurance	21,120,893	24,991,743
Aircraft Insurance	10,831,558	11,031,748
Motor Boat Insurance	482,587	-
Fungicides, Insecticides and Sprays	1,872,878	860,202
Workshop Tools, Spares and Small Equipment	491,000	-
Forest Agricultural Materials and Supplies	45,000	-
Education and library Supplies	72,333	77,440
Production of photographic and Audio-Visual Materials	29,915	92,000
Paramilitary Small Equipment and Supplies	6,351,600	1,542,800
Laboratory Materials, Supplies and Small	192,300	7,550
General Office Supplies (papers, pencils etc.)	14,982,965	14,983,487
Cleaning Materials, Supplies and Services	4,911,449	3,677,223
Catering services	15,390,671	12,046,203
Refined Fuels and Lubricants for Transport	124,973,371	90,405,946
Refined Fuels and Lubricants for --Other	624,076	250,000
Firebreaks	2,941,989	27,847,525
Bank Service Commission and Charges	1,712,245	1,559,239
Contracted Guards and Cleaning Services	4,070,227	3,068,556
Forest Conservation Committees Expenses	5,452,540	13,123,426

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Legal dues, Arbitration and Compensation Packages	15,393,903	9,893,272
Special Operations	94,706,754	107,868,181
Provision for Bad Debts	32,565,287	-
Food and Rations	16,816,489	23,820,547
Events and Celebrations	45,145,283	74,190,899
Tree seeds and seedlings.	67,682,163	69,374,850
Supplies for production	24,253,823	29,887,366
Net Book Value Retired	-	316,669
Rounding off Difference Account	(41)	-
Seminars and Conferences	42,909,249	48,041,816
Tree Planting	56,633,244	25,518,894
Land Levies	82,032	881,176
Office Rent Expense	488,922	-
Aircraft Operating Costs	8,258,136	10,053,052
Staff Uniforms and Clothing	14,946,440	40,384,490
Audit Fee	9,000,000	-
Total general expenses	1,268,159,265	1,382,815,810

20. Foreign Exchange gain/(loss)

Description	2017/2018 Kes.	2016/2017 Kes.
Foreign Exchange Gain	15,528	-
Foreign Exchange Loss	(2,164,157)	(159,505)
Total foreign exchange gains/(loss)	(2,148,629)	(159,505)

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21. Cash and Cash Equivalent

Description	2017/2018 Kes.	2016/2017 Kes.
Cash at bank	1,186,692,572	2,414,003,648
Cash in hand	319,472	346,124
Short term deposits	-	320,000
Total cash and cash equivalents	1,187,012,044	2,414,669,772

21(a). Detailed Analysis of the Cash and Cash Equivalents

(i) Bank Balances	Account No.	2017/2018 Kes.	2016/2017 Kes.
Co-operative Bank - Stima Plaza			
IVEMUA Project		-	(200)
MMMB GOK Project	01120275352200	1,248	104,499
SCBFFE JSDF Project	01141275291700	369,397	369,397
SCBFFE GOK Project	01141275291701	-	1,103
KFS Holding - COOP	01141532868700	398,575,471	712,712,853
KFS Forest Investment Facility	01141532868701	61,477,810	56,588,373
KFS Water Towers GOK A/c	01141532868702	142,783	437,772
KFS (JICA) Capacity Development Project	01141532868703	166,536	44,033
Forest Irrigation Climate & Green Energy	01141532868704	30,490	88,623
		460,763,735	770,346,453
Equity Bank - Ridgeways			
KFS Forest Investment Facility	0810298871018	11,635,777	6,265,395
KFS Forest Management & Conservation Fund	1340261075747	4,776,541	2,098,396
KFS FAO Capacity Building	1340261075761	18,982	18,982
KFS Holding-Equity	0470267372824	393,466	493,472,925
		16,824,766	501,855,698
Kenya Commercial Bank - Sarit Centre			
KFS Main Operating - KCB	1106928652	59,118,677	23,474,129
KFS AIA Collection	1106770021	307,178,100	342,055,907
MMMB Donor Project	1117738760	30,219	100,509,543
KFS Main Development	1116447347	217,199,142	115,782,866
MMMB Euro Project	1117739384	-	25,560,682
KFS Gratuity A/C	1139669249	7,133,062	15,230,332
KFS Dollar A/C	1122198353	6,425,319	2,678,551
KFS FAO Forest & Farm Facility Programme	1172165084	963,081	1,095,899
KFS Water Towers Euro Ac	1181839513	3,330,081	3,331,114
KFS Water Towers Donor Ac	1181839106	59,897,516	81,137,283
KFS IPP - Forest 2020 Project	1203757093	5,461,746	11,477,271
		666,736,943	722,333,577
National Bank - Kenyatta Avenue			
KFS Airwing A/C	01020069730800	11,044,545	1,162,985
KFS Holding - NBK	01023064393301	3,758,835	392,208,444
		14,803,380	393,371,429
NIC Bank - Village Market			
KFS SPA Network Project	1001238015	2,623	706,443
KFS Zuia Project	1002211536	713,536	74,586
KFS Airwing Sinking Fund A/C	1004667472	26,847,589	25,315,461
		27,563,748	26,096,490
Total bank balance		1,186,692,572	2,414,003,647
(ii) Others			
Cash in hand		319,472	346,124
Short term deposits		-	320,000
		319,472	666,124
Grand total		1,187,012,044	2,414,669,771



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22. Receivables from Exchange Transactions

Description	2017/2018 Kes.	2016/2017 Kes.
Receivables	317,331,620	286,912,584
Rental Deposit Receivable	1,319,345	-
Suppliers Prepayments	10,928,812	15,974,474
Safaricom Deposits	50,000	50,000
Aquamist Ltd	586,200	286,200
Total receivables from exchange transactions	330,215,977	303,223,258

Note: The total receivables from exchange transactions excludes debts accumulated on timber allocated and harvested some of which payments have not been received contrary to KFS Policy.

23. Receivables from Non-Exchange Transactions

Description	2017/2018 Kes.	2016/2017 Kes.
Exchequer Receivable	384,327,156	469,327,157
Zonal Control Account - Development	22,247,819	65,539,875
Zonal Control Account Recurrent	14,082,338	31,476,664
Temporary Imprest	38,410,482	35,619,180
Standing Imprest	1,641,448	1,461,164
Salary Advances	4,165,572	6,576,622
Total receivables from non - exchange transactions	464,874,815	610,000,662

For the purposes of these financial statements, receivables from non-exchange transactions also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

24. Forest Land

As per the Forest Act all assets of the former forest department vested in the Kenya Forest Service vide Legal Notice number 151 of 2008 published in the Kenya Gazette Supplement number 82 of 28th November 2008, with effect from 1st February 2007. Currently there are two hundred and sixty-five (265) gazetted forest blocks. Out of the two hundred and sixty-five (265) gazetted forest blocks, the Service holds title deeds for seventy-seven (77) forests blocks.

Due to the non-availability in the open market of gazetted forest land they cannot be valued hence have not been recognised as part of property, plant and equipment. However, there are some gazetted forest blocks which form part of conservation areas and nature reserves including both the land, the forest & allied forest resources therein.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Commercial plantations

Kenya Forest Service maintains commercial tree plantations for sale as per the gazetted Forest Service General Orders provisions.

The value of public plantation as at 30 June 2018 is as under:

Total area under plantations	=	121,043 Ha.
Total area of un-stocked plantations	=	31,747.1 Ha.

Species composition of public plantation forests in Kenya; -

i)	Cypress	-	54%
ii)	Pines	-	22%
iii)	Eucalyptus	-	15%
iv)	Others	-	<u>9%</u>
			<u>100%</u>

Main Annual Increment (M.A.I) for the growing species

i)	Cypress	-	15M ³ /Ha/Yr
ii)	Pines	-	18M ³ /Ha/Yr
iii)	Eucalyptus saps	-	25M ³ /Ha/Yr

Description	2017/2018 Kes.	2016/2017 Kes.
Balance c/f as at 1 July	58,112,352,723	59,240,505,439
Add; new stands	269,080,000	257,845,000
Less sales	(2,312,653,626)	(3,634,160,096)
Add increase in value due to growth	4,898,338,500	2,289,948,430
Less impairment		
: Poaching	(216,300)	(618,000)
: Forest Fires	(1,800,000)	(20,696,064)
: Diseases	(32,605,104)	(20,471,986)
Total Impairment	(34,621,404)	(41,786,050)
Amount Recognized as at 30 June	60,932,496,193	58,112,352,723

Significant assumptions made in the estimation of the fair value of the trees in 2018 include:

- (i) The transformation of the un-matured plantations is based on the current age of tree species;
- (ii) Cash inflows and outflows accrue evenly throughout the useful life; and
- (iii) 15% of the trees planted will not attain maturity due to natural factors.

*The difference between the value of commercial plantation as at 30 June 2017 and 30 June 2018 of KSh. 2,820,143,470 represents an increase in the value of the capital base and has since been adjusted in the statement of changes in Net Assets under capital reserves.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. PROPERTY, PLANT AND EQUIPMENT

	Buildings Kes.	Plant and Machinery Kes.	Work in Progress Kes.	Motor Vehicles & Cycles Kes.	Computers & ICT Equipment Kes.	Office Furniture Kes.	Office & Household Equipment Kes.	Tools & Minor Equipment Kes.	Roads, Boreholes & Civil Works Kes.	Aircraft & hoppers Kes.	Totals Kes.
Cost As at 01-07-2017 Adjustment	1,330,670,322	244,792,386	1,228,313	967,154,593	234,810,604	166,923,246	74,202,002	111,629,516	103,527,854	569,028,219	3,803,967,055
Total as at 01-07-2017	1,330,670,322	244,792,386	1,228,313	967,154,593	234,810,604	166,923,246	74,202,002	111,629,516	103,527,854	569,028,219	3,803,967,055
Additions (cost)	36,372,381	912,500	21,551,214	68,885,475	11,575,415	6,902,823	2,255,075	2,444,400	4,100,400	2,014,353	157,014,036
Revaluation											
Cost Adjustment											
Disposal											
Total Cost as at 30-06-2018	1,367,042,703	245,704,886	22,779,527	1,036,040,068	246,386,019	173,826,069	76,457,077	114,073,916	107,628,254	571,042,572	3,960,981,091
Accumulated Depreciation	306,976,744	97,223,813	-	814,121,566	190,428,996	122,203,958	57,550,761	104,055,297	45,525,077	151,404,645	1,889,490,857
Acc. Dep. Adjustment											
Total as at 30-06-2017	306,976,744	97,223,813	-	814,121,566	190,428,996	122,203,958	57,550,761	104,055,297	45,525,077	151,404,645	1,889,490,857
Charge for the year	64,031,692	23,259,201	-	39,323,650	17,598,012	18,205,805	7,114,845	2,751,718	12,049,024	38,510,149	222,844,096
As at 30th June 2018	371,008,436	120,483,014	-	853,445,216	208,027,008	140,409,763	64,665,606	106,807,015	57,574,101	189,914,794	2,112,334,953
NBV 30th June 2018	996,034,267	125,221,872	22,779,527	182,594,852	38,359,011	33,416,306	11,791,471	7,266,901	50,054,153	381,127,778	1,848,646,138
NBV 30th June 2017	1,023,693,578	147,568,573	1,228,313	153,033,027	44,381,608	44,719,288	16,651,241	7,574,219	58,002,777	417,623,574	1,914,476,198

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. PROPERTY, PLANT AND EQUIPMENT (cont.)

	Buildings	Plant and Machinery	Work in Progress	Motor Vehicles & Cycles	Computers & ICT Equipment	Office Furniture	Office & Household Equipment	Tools & Minor Equipment	Roads, Boreholes & Civil Works	Aircraft & hoppers	Totals
	Kes.	Kes.	Kes.	Kes.	Kes.	Kes.	Kes.	Kes.	Kes.	Kes.	Kes.
Cost As at 01-07-2016	1,270,065,497	234,697,845	-	942,899,777	210,385,835	159,670,338	71,825,321	108,472,416	96,438,679	569,028,219	3,663,483,928
Adjustment											
Total as at 01-07-2016	1,270,065,497	234,697,845	-	942,899,777	210,385,835	159,670,338	71,825,321	108,472,416	96,438,679	569,028,219	3,663,483,928
Additions (cost)	60,604,825	10,094,541	1,228,313	30,588,188	24,424,769	7,252,908	2,376,681	3,157,100	7,089,175	-	157,546,514
Revaluation											
Cost Adjustment											
Disposal				(6,333,372)							(6,333,372)
Total Cost as at 30-06-2017	1,330,670,322	244,792,386	1,228,313	967,154,593	234,810,604	166,923,246	74,202,002	111,629,516	103,527,854	569,028,219	3,803,967,055
Accumulated Depreciation	246,266,233.58	74,928,778.12	-	711,339,795.75	175,180,174.93	97,104,329.76	48,067,659.99	101,576,044.07	32,930,178.72	113,564,267.61	1,600,957,464.00
Acc. Dep. Adjustment				(6,016,704)							
Total as at 30-06-2016	246,266,234	74,928,778	-	705,323,092	175,180,175	97,104,330	48,067,660	101,576,044	32,930,179	113,564,268	1,594,940,760
Charge for the year	60,710,510	22,295,035	-	108,798,474	15,248,821	25,099,628	9,483,101	2,479,253	12,594,898	37,840,377	294,550,097
As at 30th June 2017	306,976,744	97,223,813	-	814,121,566	190,428,996	122,203,958	57,550,761	104,055,297	45,525,077	151,404,645	1,889,490,857
NBV 30th June 2017	1,023,693,578	147,568,573	1,228,313	153,033,027	44,381,608	44,719,288	16,651,241	7,574,219	58,002,777	417,623,574	1,914,476,198
NBV 30th June 2016	1,023,799,264	159,769,067	-	231,559,981	35,205,660	62,566,008	23,757,661	6,896,372	63,508,500	455,463,952	2,062,526,465

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. Intangible Assets

Description	2017/2018 Kes.	2016/2017 Kes.
Cost		
At beginning of the year	94,410,184	83,680,170
Additions	17,005,554	10,730,014
At end of the year	111,415,738	94,410,184
Additions-internal development	-	-
At end of the year	111,415,738	94,410,184
Amortization and impairment		
At beginning of the year	78,399,774	76,416,761
Amortization	4,563,030	1,983,013
At end of the year	82,962,804	78,399,774
Impairment Loss	-	-
At end of the year	82,962,804	78,399,774
Net Book Value(NBV)	28,452,934	16,010,410

28. Trade and other payables from exchange transactions

Description	2017/2018 Kes.	2016/2017 Kes.
Employee Liability Account	1,693,840	873,800
Inventory AP Accrual Account	2,922,104	8,549,852
Expense AP Accrual Account	41,466,131	37,982,373
Suppliers Liability Account	47,365,028	42,934,783
Tricon Works Kenya Ltd-Retention	1,516,987	1,516,987
Thunder Plumbing	1,024,020	1,024,020
Pinnie Agency Limited-Retention	2,225,460	2,225,460
Olegise Inventory Limited-Retention Acct	1,170,671	1,170,671
Mareka Enterprises Limited-Retention Acc	5,056	5,056
Mustard Group	378,113	1,043,067
Centric Ltd	377,098	935,245
Intermass Technologies	370,968	370,968
Jemily Construction Ltd	122,831	122,831
Gargar Construction Company - Retention	736,204	-
Gumtree Kenya Ltd-Retention	378,424	-
Khamim Construction Co. Ltd-Retention	618,250	-
Olat Enterprises	440,804	-
Total trade and other payables from exchange transactions	102,811,989	98,755,113

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. Refundable deposits from customer

Description	2017/2018 Kes.	2016/2017 Kes.
Tender Refundable Deposits	346,928	346,928
Performance Bonds	10,862,646	12,862,646
Total refundable deposits from customers	11,209,574	13,209,574

30. Provisions

Description	Provision for Audit Fee	Provision for Bad Debts	Total
Balance at the beginning of the year	4,520,000	87,379,093	91,899,093
Additional provisions	9,000,000	32,565,287	41,565,287
Provision utilized	(4,480,000)		(4,480,000)
Total provisions	9,040,000	119,944,380	128,984,380

31. Employee Benefits Obligations

Description	2017/2018 Kes.	2016/2017 Kes.
Net Salary Account	49,082	20,047
NSSF	-	400
NHIF	48,690	40,490
HELB	23,427	27,768
SAYE	9,140	9,140
Sacco Deductions Account	54,979	117,121
Commercial Banks Deductions	295,337	1,004,232
Insurance Deductions	709,345	717,711
Hire Purchase Deductions	368,457	368,457
Family Maintenance	39,960	51,960
Training Levy	30,633	10,516
House Rent Utility Charges	5,470,511	4,605,432
Staff Pension Contributions	8,441,658	7,659,530
Staff Gratuity	4,097,409	7,748,918
Total employee benefits obligations	19,638,628	22,381,722

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. Payments Received in Advance

Description	2017/2018 Kes.	2016/2017 Kes.
Imprest Clearing Account	1,159,378	2,709,233
Total advance receipts	1,159,378	2,709,233

33. Withheld Taxes

Description	2017/2018 Kes.	2016/2017 Kes.
Income Tax(PAYE)	-	19,050
Value Added Tax	152,756	15,898
Withholding Tax	798,121	664,104
Pay Master General-PAYE	38,400	-
Paymaster General - WCPS	0	15,079
Withheld taxes	989,277	714,131

34. Financial Risk Management

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

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

(i) Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

(i) Credit risk (Continued)

	Total amount Kes	Fully performing Kes	Past due Kes	Impaired Kes
At 30 June 2018				
Receivables from exchange transactions	330,215,977	94,812,017	235,403,960	-
Receivables from non-exchange transactions	466,393,312	466,393,312	-	-
Bank balances	1,186,701,572	1,186,701,572	-	-
Total	1,983,310,861	1,747,906,901	235,403,960	0
At 30 June 2017				
Receivables from exchange transactions	303,223,258	66,061,437	237,161,821	-
Receivables from non-exchange transactions	610,000,662	610,000,662	-	-
Bank balances	2,414,003,648	2,414,003,648	-	-
Total	3,327,227,568	3,090,065,747	237,161,821	0

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

The Service has significant concentration of credit risk on amounts due from government institutions.

The Board of Directors sets the Service's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Service's Directors, who have built an appropriate liquidity risk management framework for the management of the Service's short, medium and long-term funding and liquidity management requirements. The Service manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Service under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

(ii) Liquidity risk management (continued)

	Up to 1 month Kes.	1 - 3 Months Kes.	3 - 12 months Kes.	Over 1 year Kes.	Total Kes.
At 30 June 2018					
Financial assets					
Trade receivables	12,660,062	41,988,612	27,278,987	235,403,960	317,331,620
Other receivables and prepayments	93,432,016	-	-	-	93,432,016
Amount due from related parties	384,327,156	-	-	-	384,327,156
Bank balances and cash deposits	1,187,012,044	-	-	-	1,187,012,044
Total financial assets	1,677,431,278	41,988,612	27,278,987	235,403,960	1,982,102,837
Financial liabilities	(135,808,846)	-	-	-	(135,808,846)
Total financial liabilities	(135,808,846)	-	-	-	(135,808,846)
Net liquidity gap	1,541,622,432	41,988,612	27,278,987	235,403,960	1,846,293,991

	Up to 1 month Kes.	1 - 3 Months Kes.	3 - 12 months Kes.	Over 1 year Kes.	Total Kes.
At 30 June 2017					
Financial assets					
Trade receivables	16,614,577	57,733,990	69,306,848	159,567,842	303,223,258
Other receivables and prepayments	140,673,505	-	-	-	140,673,505
Amount due from related parties	469,327,157	-	-	-	469,327,157
Bank balances and cash deposits	2,414,669,772	-	-	-	2,414,669,772
Total financial assets	3,041,285,011	57,733,990	69,306,848	159,567,842	3,327,893,692
Financial liabilities	(137,769,773)	-	-	-	(137,769,773)
Total financial liabilities	(137,769,773)	-	-	-	(137,769,773)
Net liquidity gap	2,903,515,238	57,733,990	69,306,848	159,567,842	3,190,123,919

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

(iii) Market risk

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

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

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

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

a) Foreign currency risk

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

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

The Service manages foreign exchange risk from future commercial transactions and recognises assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

(iii) Market risk (Continued)

(a) Foreign currency risk (Continued)

	Ksh Kes	Other currencies Kes	Total Kes
At 30 June 2018			
Financial assets (investments, cash, debtors)	1,982,102,836	9,755,401	1,991,858,237
Liabilities			
Trade and other payables	135,808,846	-	135,808,846
Borrowings	-	-	-
Net foreign currency asset/(liability)	1,846,293,990	9,755,401	1,856,049,391
At 30 June 2017			
Financial assets (investments, cash, debtors)	3,327,893,691	31,570,347	3,359,464,038
Liabilities			
Trade and other payables	137,769,773	-	137,769,773
Borrowings	-	-	-
Net foreign currency asset/(liability)	3,190,123,918	31,570,347	3,221,694,265

b) Interest rate risk

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

Management of interest rate risk

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

c) Capital Risk Management

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

	2017/2018 Kes	2016/2017 Kes
Revenue Reserves	(485,968,562)	1,122,353,777
Capital reserve	65,012,873,439	62,018,710,379
Total funds	64,526,904,877	63,141,064,156

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35. Related Party Balances

Nature of related party relationships

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

Government of Kenya

The Government of Kenya is the principal shareholder of the entity, holding 100% of the entity's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external.

The Service is related to;

- i) The National Government;
- ii) The Ministry of Environment & Forestry;
- iii) Key management;
- iv) Board of Directors;

	2017/2018 Kes.	2016/2017 Kes.
a) Grants from the government		
Grants from National Government	2,017,014,037	2,313,913,954
	2,017,014,037	2,313,913,954
b) Key management remuneration		
Directors' emoluments	19,488,350	25,833,789
Compensation to the CEO	6,492,500	6,069,775
Key management compensation	72,179,022	68,953,308
	98,159,872	100,856,872
c) Due from related parties		
Due from Parent Ministry	384,327,156	469,327,157
	384,327,156	469,327,157

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36. Contingent assets and contingent liabilities

Contingent Liabilities	30-Jun-18 Kes	30-Jun-17 Kes
Ongoing Contracted Professional Services	-	20,893,960
Total	-	20,893,960

A provision for payment of ongoing contracted professional works in Assets tagging and financial system upgrade was made in year ending 30 Jun 2017 due to the budget considerations.

37. Capital Commitments

Capital Commitments	30-Jun-18 Kes	30-Jun-17 Kes
Authorised and contracted for System Upgrade	-	15,500,000
Total	-	15,500,000

A provision for payment of ongoing contracted professional works in financial system upgrade was made in year ending 30 Jun 2017 due to the budget considerations.

38. Events after the reporting period

There were no material adjusting and non- adjusting events after the reporting period.

39. Ultimate and Holding Service

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

40. Currency

The financial statements are presented in Kenya Shillings (Kes).

Appendix 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Property Plant and Equipment- Exclusion of 188 unvalued parcels of land without title deeds	As previously stated, the Service asked for assistance from the Ministry of Lands for valuation of the Gazetted land and got a response advising against the valuation as the land is not available for sale in the open market. A copy of the correspondence from the Ministry is attached. The Service is also in pursuit of the title deeds with the Ministry of Lands and the process is in different stages for different parcels of land.	Mr. Esau Omolo Senior Deputy Chief Conservator of Forest- Field Operations	Not Resolved	Continuous
2	Receivables from Exchange Transaction	Long outstanding debts by government agencies and media houses. The Service has continued to monitor the debt balances and improved on the debt recovery strategies by creating a debts section within finance department. This has had a positive effect on the recovery of debts and as well, the Service continues to make provision for doubtful debt based on their ages.	Mrs. Anastasia Muasya- Manager, Finance and Accounting & Mr. Esau Omolo Senior Deputy Chief Conservator of Forest- Field Operations	Not resolved	Continuous


Monica Kalenda
Ag. Chief Conservator of Forests

Date: 12/4/2019


Peter Kinyua
Chairman of the Board

Date: 12/4/2019

Appendix 2: PROJECTS IMPLEMENTED BY THE SERVICE

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1. WaTER Programme	FED/2016/375-958	European Union (EU)	2016 - 2020	EUR 4,000,000	Yes	Yes
2. Capacity Development for Sustainable Forest Management	5553	JICA	2016 - 2021	KES. 2,700,000,000	Yes	Yes
3. KFS - ZUIA (Zuia Ukimwi Imarisha Afisa) Project	CK-02-9-170-03806-5-00	Centres for Disease Control (CDC)	2014 - 2019	KES. 9,000,000	Yes	Yes
4. Forests 2020 Project		UK Space Agency through Ecometrica	2017 - 2020	£ 725,000	Yes	Yes

Status of Projects completion

Project	Total project Cost (Kes)	Total expended to date Kes	Completion % to date	2017/2018 Budget Kes	2017/2018 Actual Kes	Source s of funds
1 WaTER Programme	400,000,000	140,156,629	35%	133,000,000	58,119,245	EU& GoK
2 Capacity Development for Sustainable Forest Management	2,700,000,000					JICA
3 KFS - ZUIA (Zuia Ukimwi Imarisha Afisa) Project	14,232,165	9,854,271	69%	4,755,642	4,115,973	CDC
4 Forests 2020 Project	94,250,000	16,380,075	17%	27,115,000	16,379,415	UK

For the year ended June 30, 2018
Annex 3: INTER-SERVICE TRANSFERS

AP SERVICE NAME: KENYA FOREST SERVICE

Break down of Transfers from the State Department of Environment & Natural Resources

FY 17/18

	<u>Bank Statement Date</u>	<u>Amount (Kes)</u>	<u>FY to which the amounts relate</u>
a. Recurrent Grants		Kes	
Ministry of Interior	04-07-2017	5,600,000	2017/2018
Ministry of Environment & Natural Resources	11-01-2018	300,000,000	2017/2018
Ministry of Environment & Natural Resources	16-01-2018	184,327,157	2017/2018
Ministry of Environment & Natural Resources	23-04-2018	484,327,157	2017/2018
Ministry of Environment & Natural Resources	31-05-2018	484,327,157	2017/2018
Ministry of Environment & Natural Resources	03-07-2018	384,327,156	2017/2018
	Total	1,842,908,627	
b. Development Grants		Kes	
Ministry of Environment & Natural Resources	23-10-2017	56,000,000	2017/2018
Ministry of Environment & Natural Resources	22-12-2017	44,500,000	2017/2018
Ministry of Environment & Natural Resources	20-03-2018	102,125,000	2017/2018
Ministry of Environment & Natural Resources	24-05-2018	145,500,000	2017/2018
	Total	348,125,000	
C. Donor Receipts			
European Union (EU)		448,775	2017/2018
FAO		5,370,712	2017/2018
Centre for Disease Control (CDC)		4,755,642	2017/2018
UK Space Agency - Ecometrica		10,358,688	2017/2018
	Total	15,564,205	

The above amounts have been communicated to and reconciled with the Ministry of Environment & Natural Resources as below:

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Appendix 4: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Where Recorded/Recognized

Name of the MDA/Donor Transferring the Funds	Date Received as per bank statement	Nature: Recurrent/Development /Others	Total Amount - Kes	Statement of Financial Performance Kes	Capital Fund Kes	Deferred Income Kes	Receivables Kes	Others - must be specific Kes	Total Transfers during the Year Kes
Ministry of Interior	04-07-2017	Recurrent	5,600,000	5,600,000					5,600,000
	11-01-2018	Recurrent	300,000,000	300,000,000					300,000,000
	16-01-2018	Recurrent	184,327,157	184,327,157					184,327,157
	23-04-2018	Recurrent	484,327,157	484,327,157					484,327,157
	31-05-2018	Recurrent	484,327,157	484,327,157					484,327,157
	03-07-2018	Recurrent	384,327,156	384,327,156			384,327,156		384,327,156
Ministry of Environment & Natural Resource	23-10-2017	Development	56,000,000	56,000,000					56,000,000
	22-12-2017	Development	44,500,000	44,500,000					44,500,000
	20-03-2018	Development	102,125,000	85,904,810	16,220,190				102,125,000
	24-05-2018	Development	145,500,000	0	145,500,000				145,500,000
			2,191,033,627	2,029,313,437	161,720,190		384,327,156		2,191,033,627
Centre for Disease Control (CDC)	19-08-2017		603,249	603,249					603,249
	27-09-2017		678,848	678,848					678,848
	06-10-2017	Donor Funds	563,808	563,808					563,808
	13-02-2018		863,382	863,382					863,382
	21-03-2018		895,638	895,638					895,638
	02-05-2018		1,150,718	1,150,717					1,150,718
			4,755,643	4,755,642					4,755,643
UK Space Agency - Ecometrica	07-08-2017		1,881,475	1,881,475					1,881,475
	02-11-2017	Donor Funds	1,974,782	1,974,782					1,974,782
	05-02-2018		2,133,161	2,133,161					2,133,161
	30-04-2018		4,369,270	4,369,270					4,369,270
			10,358,688	10,358,688					10,358,688
Total			2,200,547,958	2,200,547,958	161,358,762	-	384,327,156	-	2,200,547,958