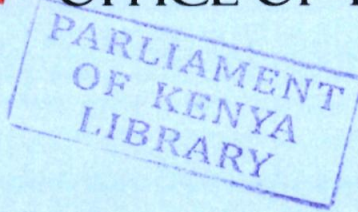


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



Paper laid on the  
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House by the

REPORT

OF

Leader of the  
Majority Party on

THE AUDITOR-GENERAL

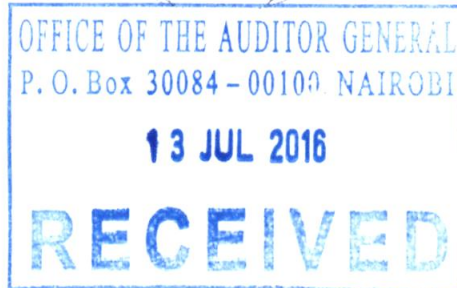
ON

Wednesday  
16<sup>th</sup> November 2016  
in the Afternoon.

THE FINANCIAL STATEMENTS OF  
KENYA AGRICULTURAL AND LIVESTOCK  
RESEARCH ORGANIZATION

FOR THE YEAR ENDED  
30 JUNE 2015





**KENYA AGRICULTURAL AND LIVESTOCK RESEARCH ORGANIZATION**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**30TH JUNE, 2015**

**Prepared in accordance with the Accrual Basis of Accounting Method under  
the International Public Sector Accounting Standards (IPSAS)**

## Table of Content

ITEM	Page No
I. KEY ORGANISATION INFORMATION AND MANAGEMENT	2
II. THE BOARD OF DIRECTORS	4
III. MANAGEMENT TEAM	5
IV. CHAIRMAN'S STATEMENT	6
V. REPORT OF THE CHIEF EXECUTIVE OFFICER	7
VI. CORPORATE GOVERNANCE STATEMENT	8
VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT	11
VIII. REPORT OF THE DIRECTORS	13
IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES	21
X. STATEMENT OF FINANCIAL PERFORMANCE	22
XI. STATEMENT OF FINANCIAL POSITION	23
XII. STATEMENT OF CHANGES IN NET ASSETS	24
XIII. STATEMENT OF CASHFLOWS	25
XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS	26
XV. NOTES TO THE FINANCIAL STATEMENTS	27

## I. KEY ORGANISATION INFORMATION AND MANAGEMENT

### (a) Background information

The Kenya Agricultural and Livestock Research Organization (KALRO) is State Corporation established under the Kenya Agricultural and Livestock Research Act, No 17 of 2013, with perpetual succession, the power to sue and be sued in its own name and the ability to own and alienate movable and immovable property. The organization is also governed by the provisions of the State Corporations Act, Chapter 446 of the Laws of Kenya, an Act of Parliament providing for control and regulation of state corporations. KALRO falls under the Ministry of Agriculture, Livestock and Fisheries, and is the country's principal national organization responsible for research and technology generation on crops, livestock, soil and water management and their socio-economics

### (b) Principal Activities

The institute's mandate is to conduct appropriate crop, livestock and factor research programmes that are geared towards the sustainable development of national agricultural sector. Its mission is to develop and disseminate appropriate agricultural technologies in collaboration with stakeholders. In pursuit of this mission, KALRO seeks to acquire and contribute knowledge and creative solutions that are participatory and client-oriented; holistic and system-oriented; gender-sensitive and affordable to its stakeholders.

The Institute has a computerized Financial Management Information System, which is operational in all research Centres and consolidation of financial data done at Headquarters.

### (c) Key Management

The organization's day-to-day management is under the following key organs:

1. Director General, KALRO
2. Deputy Director General (Livestock)
3. Deputy Director General (Crops)
4. Chief Manager, Corporate Services

### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2015 and who had direct fiduciary responsibility were:

No.	Designation	Name
1	Chairman	
2	Secretary	Dr. Eliud K. Kireger
3	Member	Dr. Moses K. F
4	Member	Prof. Kassim O. Farrah
5	Member	Prof. Mabel Imbuga
6	Principal Secretary	Ministry of Environment and Mineral Resources
7	Principal Secretary	MoALF, State Dept. of Livestock
8	Principal Secretary	MoALF, State Dept. of Agriculture
9	Principal Secretary	Ministry of Industrialization & Enterprise Development
10	Principal Secretary	National Treasury

**(e) Fiduciary Oversight Arrangements**

- Finance and Administration (F&A) Committee
- Scientific and Technical (S&T) Committee and
- Audit Committee

**(f) Organization Headquarters**

**Kenya Agricultural and Livestock Research Organization**

Headquarters,  
Kaptagat Road, Off Waiyaki Way  
P. O. Box 57811-00200  
**NAIROBI**  
Tel No. 4183301/20; Fax No. (254) 4183344

**(g) Organization Contacts**

P.O. BOX 57811 – 00200  
TEL:254-20-4183301-20 FAX: 254-20-4183344  
E-mail: director@kalro.org  
**NAIROBI**

**(h) Organization Bankers**

- |   |  |
|---|--|
| <p>1 Kenya Commercial Bank<br/>KICC, Branch<br/>P.O. Box 46950<br/><b>Nairobi</b><br/>Tel no. 020-214878, Fax no. 337650</p>            | <p>4.CFC Stanbic Bank<br/>Kenyatta Avenue Branch<br/>P.O Box 30550-00100<br/><b>Nairobi.</b></p> |
| <p>2 NIC Bank Limited<br/>Westlands Branch<br/>P.O. Box 44599- 00100<br/><b>Nairobi.</b><br/>Tel no. 4450882, Fax no. (020) 4450847</p> | <p>5.National Bank of Kenya<br/>Ruiru Branch<br/>P.O Box 93-00232<br/><b>Ruiru.</b></p>          |
| <p>3 Co-operative Bank of Kenya Ltd<br/>Kisumu, Kericho &amp; Ruiru Branch<br/>P O Box 48231 - 00100<br/><b>Nairobi</b></p>             |  |

**(i) Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084-00100  
Nairobi, Kenya

**(j) Principal Legal Adviser**

KALRO Legal Office  
P.O. BOX 57811 – 00200  
TEL:254-20-4183301-20 FAX: 254-20-4183344  
E-mail: director@kalro.org  
**NAIROBI**

## II. THE BOARD OF DIRECTORS

<b>No.</b>	<b>Name</b>	<b>Details</b>	<b>Designation</b>
1.	Prof. Mabel Imbuga	Vice Chancellor, JKUAT	Appointed Member
2.	Prof. Kassim O. Farrah	Senior Rangeland Management Expert IGAD	Appointed Member
3.	Prof. Fred Segor	PS State Dept of Livestock	Appointed Member
4.	Ms. Sicily K. Karuki	PS State Dept of Agriculture	Appointed Member
5.	Dr. Wilson A. Songa	PS Ministry of Indust & Enter. Devel.	Appointed Member
6.	Dr. Eliud K. Kireger		DG-KALRO Secretary
7.	Dr. Moses K. Rugutt	DG NACOSTI	Appointed Member
8.	Mr. James A. Aloyo	Representative, PS.National Treasury	
9.	Dr. Alice A. Kaudia	Representative, PS. Ministry of Environment & Natural Resources	
10.	Mr. Peter K. Waweru	Representative, Inspector General - State Corporation, Office of DP	

### III. MANAGEMENT TEAM

1 Dr. Eliud K. Kireger-B.Sc.; M.Sc.; PhD.



Director General KALRO

2 Dr. Joseph G Mureithi-B.Sc. ;MSc.; PhD.



Deputy Director General, Livestock

3 Dr. Felister W. Makini - B. Sc.; M.Sc.; PhD.



Deputy Director General, Crops

#### IV. CHAIRMAN'S STATEMENT

The agricultural sector in Kenya strives to increase productivity, commercialization and competitiveness through generation and promotion of knowledge, information and technologies that respond to clients' demands and opportunities.

In the year under review, the KALRO Board of Directors (BoD) ensured that the environment for the development of the 1st KALRO Strategic Plan (2015-2020) was created, the organization will adopt the Agricultural Productivity Value Chain (APVC) approach for all research programmes and projects.

The BoD developed policies that guided the annual activity planning and milestones. Subsequently, a performance contract with the Ministry of Agriculture was drawn and we committed ourselves to the achievement of the set goals. I am glad to report that we expect to record commendable achievements on all the targets for the year.

Since, KALRO is a newly formed organization, it is yet to be ISO certified as per the government directive to all public service institutions to embrace the ISO Quality Management System in order to ensure improved customer service orientation. During this period, the KALRO management continued to coordinate the ISO 17025 accreditation process for the Virology Laboratory and the Elisa Residual Analysis Laboratory at KALRO-Muguga. Additionally, the Board continues to oversee the maintenance of Accreditation of the KALRO-Kabete soil analysis Laboratories. These facilities continue to offer quality services to our clients and are key to our service delivery efforts.

The Board of Directors views Human Resources as an important resource for the advancement of Science, Technology and Innovativeness in the Institute. In an effort to uphold this, the Board oversaw the development of the Career Progression Guidelines and the Scheme of Service. These policy documents once finalized it is envisaged that they will go a long way in improving staff retention and succession planning.

I thank our Government of Kenya, development partners, collaborators, farmers, the KALRO Management and the entire staff for working hard to record these commendable achievements. Let us work even harder for we still owe our beloved nation and the Kenyan people even more for next year.

  
Chairman, KALRO BoD

## V. REPORT OF THE CHIEF EXECUTIVE OFFICER

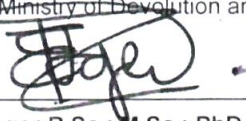
The Kenya Agricultural and Livestock Research Organization Management remained committed to the ideals of Kenya Vision 2030 in its implementation of the projects planned for the year under review. The research projects undertaken during the year were aligned to the former Institute's strategic Plan and Government Medium Term Plan. Besides, research projects focused on the assessment, validation and development of agricultural technologies identified along the Agricultural Product Value Chains (APVC). The activities included research which is KALRO's core business, staff development and welfare. These were meant to provide a good working environment, compensate and motivate staff, develop and maintain facilities in tandem with the research needs. During this period, we initiated the process of developing the first KALRO Strategic Plan (2015-2020). This strategic plan will guide the organization in the next five planning years and beyond.

Researchers continued conducting various projects with funding mainly from the Kenya Agricultural Productivity Project (KAPAP), the East African Agricultural Productivity Project (EAAPP) and other agencies and development partners totalling to over KSh. 1,593 million and Appropriation in Aid standing at KSh. 371 million. The Management continued to apply the best practices by ensuring that funds allocated to the Institute were utilized for the programmes and activities for which they had been targeted for. This contributed to prudent management of resources which in return led to the achievements reported herein.

Among the achievements, were the official releases of 35 crop varieties by KEPHIS. These included eight water efficient maize varieties, three stem-ruse resistant wheat varieties, four bean and four grasses and legume varieties. In addition, the Adaptive Research Programme tested and recommended 29 crop varieties to farmers for cultivation. On the livestock research, the new Contagious Bovine Pleuro-pneumonia (CBPP) vaccine and the porcine cysticercosis vaccine were developed and tested. Over 157 papers from KALRO researchers were published or accepted for publication in renowned peer reviewed journals. Another 345 papers were presented in conferences around the world and some 299 technical papers were published. This offered an opportunity to our researchers to communicate to farmers, the extension workers and other stakeholders on the technologies available. A total of 1022 farmer training workshops, field days and demonstrations were held and 3200 farmers and stakeholders trained on Kenya Good Agricultural Practices (GAP). To ensure that farmers used improved varieties around the country, the institute produced and sold 521 MT of basic seed and 13 million clean root crop planting material. The institute conducted 9 Multi-purpose Land use Assessments and 22 Land suitability Assessments to ensure optimal use of land. To ensure increased productivity through use of appropriate fertilizers, the institute analysed 29,050 Soil samples and developed reports on recommendations for appropriate fertilizer applications. Such reports were launched by the President in Nakuru during the financial year.

During the reporting period, through the KALRO Training Master Plan, the following staff completed training: 8 PhD, 9 MSc, 14 BSc, 8 Diploma and 7 Certificate courses in various local and international institutions. During the same period, a total of 152 staff members were sponsored for short courses, study tours and conferences abroad while 23 were sponsored for local courses to improve staff skills capacity. KALRO also provided attachments for 57 students during the period.

On behalf of the Management, I would like to take this opportunity to thank the Government of Kenya and our development partners for the support they accorded to the Institute during the reporting period. This support ensured that the Institute meets the set targets leading to a "Very Good" rating by the Division of Performance Contracting, Ministry of Devolution and Planning.



Eliud K. Kireger-B.Sc.; M.Sc.; PhD  
DIRECTOR GENERAL , KALRO

## VI. CORPORATE GOVERNANCE STATEMENT

The Kenya Agricultural and Livestock Research Organization complies fully and strictly with all requirements of the regulatory and other non-commercial entities in Kenya including clarity of financial reporting and accountability to the public (citizens and stakeholders) and aims to set best practice standards in agricultural research and fair conduct towards its staff, suppliers and general public.

### Core Values

As an organization KALRO is fully committed to generate impact through its research and dissemination efforts as an ultimate measure of its performance. In this regard, KALRO embraces the following core values:

- 1 Innovativeness
- 2 Efficiency
- 3 Equity
- 4 Competitiveness
- 5 Professionalism
- 6 Teamwork
- 7 Integrity
- 8 Partnerships
- 9 Environmental consciousness

### Role of the Board of Management

The Act states that the functions of the Board of Directors of KALRO shall be:

- a) carry out the objects and functions of the Organisation;
- b) advise the Cabinet Secretary on Matters of policy relating to agricultural research;
- c) oversee the effective co-ordination of the operations of the Organisation;
- d) ensure that the activities of the Organisation are consistent with the policy and objectives of the government, and the national priorities relating to agriculture and agricultural research;
- e) approve, oversee and evaluate on a continuing basis the programs being implemented by the Organisation;
- f) direct strategic research and policy and prioritise and determine the research agenda;
- g) co-operation with other lead agencies and organizations in carrying out agricultural research;
- h) development of a economic, efficient and cost effective internal management structure, strategic Annual plan of the Organisation;
- i) Implementation and fulfilment of the policies and agreed objectives, performance targets and service standards of the Organisation;
- j) provision of advice as required on all matters within the responsibility of the Organisation; and
- k) perform such other functions as may be necessary for the exercise of its powers

### Board of the Kenya Agricultural and Livestock Research Organisation

- 1 The management of KALRO is vested in a Board of Directors consisting of:
  - a) Chairperson appointed by the President;
  - b) The Principal Secretary in the Ministry for the time being responsible for agriculture;
  - c) The Principal Secretary in the Ministry for the time being responsible for finance;
  - d) The Principal Secretary in the Ministry for the time being responsible for co-operatives;
  - e) The Principal Secretary in the Ministry for the time being responsible for environment;
  - f) The Principal Secretary for the time being responsible for livestock;
  - g) The Secretary to the Science Council appointed under paragraph 6 of the Second Schedule to the Science and Technology Act;

- h) One person with experience in agricultural research nominated by the Kenya Private Sector Alliance and appointed by the Cabinet Secretary;
  - i) Four persons appointed by the Cabinet Secretary, of whom
    - i) One represents the interests of farmers;
    - ii) One is a vice-chancellor in a university that conducts agricultural research; and
    - iii) Two persons co-opted by the Board who may be noncitizen scientists in the field of agriculture and possess such knowledge and experience as may be necessary for the better carrying out of the functions of the Board; and
    - iv) The Director General appointed in accordance with section 14.
- 2 Members appointed under sections 6(a), (g) and (h) shall serve on a part-time basis.
- 3 The Secretariat of the Board shall comprise of:
- i) The Director General;
  - ii) The Deputy Director-General of livestock;
  - iii) The Deputy Director-General of crops; and
  - iv) Any other staff.

#### **Other Board information**

The KALRO Board of Directors is answerable to the Government through the parent Ministry. The board signs a Performance contract with the Government through the parent Ministry every financial year outlining performance targets in line with the above stated functions.

#### **Board Meetings**

The Board and its Committees shall meet not less than four times in any calendar year and not more than four months shall lapse between the date of one meeting and the date of the next meeting. The actual dates of the meeting is subject to confirmation by notice which also contains the agenda of the meeting among other details.

### Board Committees

The KALRO Board has three Committees namely;

- Finance and Administration (F&A) Committee
- Scientific and Technical (S&T) Committee and
- Audit Committee

The above committees permit and facilitate more in-depth deliberations on issues than would otherwise, not be possible in a normal full Board Meetings. The Committees undertake preliminary discussions of the business of the board and prepare their resolutions for deliberations and adoption by the full Board Meetings. A decision of any of the Committees only becomes effective after it has been approved and confirmed by the full board.

Functions of the Scientific and Technical Committee includes:

- a) serving as the advisory arm to the Organisation; and
- b) providing technical, financial and legal expertise to the Board and the research institutes established under this Act.

In the performance of its functions under subsection (1), the Scientific and Technical Committee shall

- a) Advise the Board on—
  - i) Science policy and broad strategic research directions; and
  - ii) Strategic planning, priority setting and research agenda
- b) Commission and manage periodic external reviews of the programs of research;
- c) Undertake system level impact assessments;
- d) Collaborate with partners to mobilise and harness best science practices;
- e) Provide advice and capacity building to research institutes and individuals undertaking
- f) Analyse policies, research proposals and proposed research programs prior to submission to the Board for approval; and
- g) Perform such other functions relating to agricultural research as may be assigned to it by the Board.

### Communication

The Board receives management reports in advance of all scheduled meetings and in turn formally, communicates to staff through the Director General KALRO. Informal communication to staff may be made during Board meetings while in the institute. Board members cannot commit the Board in any way when having informal communication with staff.

## VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Kenya Agricultural and Livestock Research Organization (KALRO) is committed to contribute to the economic development of the country while improving the quality of life of our employees and uplifting the general wellbeing of the society by integrating Corporate Social Responsibilities (CSR) in its values, culture, operations and decisions at all levels.

Interest is growing in Corporate Social Responsibility activities in Kenya, more especially with regard to the social and environmental management practices. In line with that, Kenya Agricultural and Livestock Research Organization has gone beyond its mandate and emphasis on research and embraced CSR. The Institute has contributed to a number of voluntary long-term Corporate Social Responsibility projects, which include sponsoring noble ideas viz; breast cancer, freedom from hunger walk, ear walk, distributing tree seedlings to schools and contributing towards construction of such schools.

The objectives of this CSR policy are:

- To improve the livelihood of our employees, the neighbouring community and the lesser privileged sections of the society through sustainable and measurable initiatives.
- To participate in National, Community, Education, Environment and healthcare Research initiatives .
- To support farmers through generation and transfer of appropriate Research Technologies and knowledge.
- To offer a platform to employees to give back to the society in a meaningful way.
- To observe a high sense of corporate ethics and promote ethical behavior in all our activities.

KALRO recognizes the need to integrate our business values and operations to meet the expectations of all our stakeholders i.e. government departments, customers, employees, regulators, donors, suppliers, the community and the environment by:

- Recognizing that our social, economic and environmental responsibilities to these stakeholders are integral to our business
- Taking seriously the feedback that we receive from our stakeholders and maintaining open dialogue to ensure fulfilment of their requirements as stipulated in this policy
- Communicating our strategies, targets, performance and governance to our stakeholders in our continual commitment to sustainable development.
- Providing the necessary resources to enhance realization of the corporate responsibilities.

Pursuant to the above mentioned Corporate Social Responsibility objectives, Kenya Agricultural and Livestock Research Organization has endeavoured to give support through:

- KALRO management developed a Customer Service Delivery Charter in line with National Values and Principles of Governance as espoused in Article 10 of the Constitution such as: human dignity; human rights; equality and equity; social justice and inclusiveness; non-discrimination and protection of the marginalized; KALRO has been supporting Social/Community Development oriented activities like Promoting education by sponsoring primary schools at Muguga, Kiboko and Ruiru by to enhance their education standards;
- KALRO has developed an Environment Policy to guide the organization in environment oriented activities like Initiating and carrying out campaigns to promote environmental care and increase understanding of environmental issues i.e. soil fertility, land use, survey and conservation, vegetation survey, agro forestry, irrigation and drainage as well as Planting tree seedlings and carrying out other environmental activities across its locations;
- KALRO choir attended the country's national functions where they sang songs that enhance patriotism and national unity. During the first and the second quarters the choir sang patriotic songs during the Jamuhuri Day celebrations at Nyayo stadium on 12th Dec 2014. During other events including field days, the choir sang songs that rally around the organization's core values which reflect its national aspirations and goals.
- The organization also sponsored the Jacaranda Football Club which comprises of players from all parts of the country thereby enhancing National cohesion.
- The organization also sponsored the Jacaranda Football Club which comprises of players from all parts of the country thereby enhancing National cohesion.

- The organization contributed to sustainable development through generation of Technologies and Knowledge geared towards improvement of food security, income, employment and poverty reduction among Kenyans. These KALRO products have been publicized using market oriented activities such as Publications (website and hand-outs)
- The management has systematically been ensuring that KALRO is well represented in the counties by establishing centres and sub-centres to provide services throughout the all country.

## VIII. REPORT OF THE DIRECTORS

### RESEARCH PROGRAMME ACHIEVEMENTS: FY/2014/2015

The year recorded significant achievements in various programmes including Food Crops Research, Livestock Research and Operational Units. Presented below is the summary of achievements for each Research Institutes for FY 2014/2015.

#### A: CROPS RESEARCH

##### 1. Food Crops Research Institute

The following projects and initiatives have been implemented and coordinated by the Food Research Institute in collaboration with other agencies.

- The process of seed commercialization reviewed and uploaded on KALRO website to ease access to KALRO seed.
- Participated in the development of Food Regulations alongside AFFA. This was submitted to parliament for approval with key recommendations.
- 9246 soil samples analyzed and recommendations given to farmers
- 6.22 MT of basic seed of assorted crops was produced
- 19 Crop varieties released
  - 4 wheat varieties; {R1305, R1286, R1302, R1301}
  - 1 finger millet variety {KACIMM172}
  - 2 canning beans varieties {KAT-SW-12, KAT-SW-13}
  - 2 medium kit maize varieties {WE3210, WE3502}
  - 2 coast maize kit varieties {CKH08069, WE3105}
  - 2 early kit maize varieties {WE3101, WE3102}
  - 1 sweet sorghum variety {KARI/ACFC003/12},
  - 5 hybrid Maize varieties officially released KH600-25A, KH600-26A, KH600-27A, KH500-50A (MU07-010) and KH500-51A (MU07-018)
- 3.3 million cuttings of sweet-potato and cassava were distributed to farmers
- 250.4 MT of maize and wheat seed was produced
- 10247 farm households have had their soils samples analyzed.
- A survey on Maize Lethal Necrosis disease conducted and report completed
- Seed licensing procedure to enhance seed access by seed companies for the commercialization of staple crop varieties have been reviewed and the draft report is ready
- 6 bread wheat lines submitted and undergoing National Performance Trials at KEPHIS in 2014/15. (R1317, R1325, R1331, R1336, R1472, R1473). These lines are high yielding and moderately resistant to stem rust. Lines R1472 and R1473 tolerant to Russian Wheat Aphid, other crop varieties submitted for NPT 2015 are; 2 feed barley lines (Nj-B-1, and Nj-B-2 submitted for NPT) and 1 soybean line (KALRO-Soy1).
- Four trials established in 2015; 2 for broad-leafed weeds (Everest 2.0 and TCI Bropa) and 2 (Axial I 65 EC and Traxos I 65 EC) for both grass and broad-leafed weeds in Njoro and Eldoret
- One fungicide (Prosaro EC250) recommended for control of foliar and stem fungal infections in oil seed rape
- Three hundred and eighty two banana seedlings indexed for viral diseases (BSV and BBTv) upstream for mass propagation.
- 500 disease free-banana seedlings (worth Ksh 50,000) produced and sold in year 2015
- 500 tons of wheat breeder seed of variety K. Kingbird sold and shipped to Ethiopia
- Optimized the methodology of selecting 1000 mutant wheat lines for improved nutritional properties using molecular techniques
- Seven (2 in Narok; 1 in Njoro; 1 in Kyeni; 3 in Buuri, Meru) farmer groups trained on community seed multiplication/bulking and processing
- An improved prototype thresher convenient for small scale wheat applications, tested and plans for mass production completed

- Thirty (30) metric tonnes of improved bean varieties (KK 8), 40 metric tonnes of soya bean (SB 19) have been availed through community seed multiplication systems with support from the project.
- Over 20,000 farmers trained on CA-based intensification practices and seed multiplication. Another 20,000 trained on production and post-harvest techniques
- About 1,000 farmers trained on processing of palm oil and its products
- A general soil fertility assessment for Kakamega County completed and nutrient/soil acidity zonation maps developed to assist in making informed decisions on where to apply specific nutrients including lime.
- 195 bags of Irish potato (Asante, Sherekea, Mavuno and Shangji) produced.
- 34 crop officers (24 male and 10 female) and 49 farmers (32 male and 17 female) trained on seed production protocols
- Book showing soil suitability evaluation for maize production in Kenya published

## 2. Horticulture Research Institute and Industrial Research Institute

- Tomato lines resistant to nematodes and tolerant to bacterial wilt developed and 2 lines recommended for NPT
- Collection, characterization and domestication of indigenous mushroom species conducted
- Introduced varieties of fruits of superior quality e.g papaya, apples, mangoes and passion fruits
- New germplasm of Litchi, Pears, Apricot, Nectarine, Peaches were introduced through the partnership between KARI and ICRAF and conserved at KALRO Kandara and Molo.
- 2 new fungicides against late blight in potatoes and recommended for registration by pest control products board (PCPB) and KALRO Tigoni
- Shangji, a popular potato variety was released in 2015 and is being grown by 80% of approximately 800,000 farmers in the country
- Six varieties of African leafy vegetables collected and maintained for seed collection and as germplasm
- KALRO in partnership with MESPT-Kwale, and Nuts Directorate identified superior coconut mother plants in Kwale County to supply quality seed materials.
- Nursery operators and service providers were trained on seed selection, nursery establishment and management.
- KALRO -Kibos revived 6 cotton cooperative societies in Kisumu County
- Three extension handbooks on coconut, cashew and mango prepared and translated to Kiswahili
- KALRO-Mwea and Fibre Crops Directorate (FCD) have acquisitioned and received a High Volume Instrument (HVI) for determining cotton fibre qualities.
- 4 Rice Varieties released by National Variety Release Committee
- Superior cross combinations of aromatic hybrid rice with resistance to blast have been identified by KALRO-Mwea Six soya bean varieties selected, tested and promoted in dry areas of Kikuyu sub-county (Karai); SBH1/2/9, 2/1/1, Kensoy 009, 931/5/5, Kensoy 001 and EAI3600.
- Seven sunflower varieties selected on station, tested and promoted to farmers in Karai; KAJ 001, 013, 024, 058,022, 044, and 047 and 2 OPVs
- Diamond Back Moth Exotic parasitoids reared and released on Brassicas in 3 counties
- 1 bio-pesticide developed tested and validated
- Farmers groups trained on safe use of pesticides in 3 counties
- Two book chapters developed, 30 papers published in refereed journals and 80 papers presented in conferences

## 3. Genetic Resource Research Centre

Spearheaded the development of the Seeds and Plant Varieties (Amendment) Bill, 2015 and the "seeds and plant varieties (conservation, access and benefits sharing of plant genetic resources for food and agriculture (PGRFA)) regulations, 2015". The Bill has been approved by Cabinet and submitted to parliament for debate and enactment. The regulations provide for:

- Protection of the ownership of indigenous seeds and plant varieties and their use by communities of Kenya, including deriving benefits from materials accessed;

- Promotion of In situ and ex situ conservation of Plant Genetic Resources for Food and Agriculture (PGRFA);
- Mechanisms for Access and Benefits Sharing for materials inside and outside the multilateral system of the International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA) to which Kenya is a signatory; and,
- Domestication ITPGRFA for Access and Benefits Sharing (ABS) for food security materials under Annex 1 of

The process of the development of the Draft regulations was consultative and involved the following;

- The drafting team composed of the following key institutions; MoALF, NEMA, KALRO, GeRRI, NMK, KEFRI, NACOSTI, KIPI, STAK, KEPHIS, PBAK, FAO, Bioversity International.
- National Stakeholders' workshop representing various interested parties.
- Public engagement through 4 daily newspaper advertisers' announcements and
- Meetings with the Constitution Implementation Oversight Committee (CIOC) of the National Assembly, the Constitution Implementation Commission (CIC), the Kenya Law Reform Commission (KLRC) and the Office Attorney General

#### **4. Coffee Research Institute**

- Selection of high production and high quality Arabica cultivars for commercial use; SL 34, SL 28 and K7 varieties which are susceptible to the main coffee diseases - Coffee Berry Disease (CBD) and Coffee Leaf Rust (CLR).
- Developed in-vitro clonal propagation protocols for increased seedling production of variety Ruiru 11 that is highly demanded by farmers.
- Developed the vegetative propagation protocol for varieties Ruiru 11 and Batian to increase farmers' access to seedlings. It has also enabled farmers to convert the traditional varieties to the disease resistant by grafting on the old stems.
- Developed disease management strategies for various coffee growing regions which enabled farmers to manage diseases by use of fungicides.
- Established a credible and responsive field advisory and training system to respond to farmers needs
- Developed a moisture deficit testing kit to determine the need for irrigation which has enabled farmers to irrigate only when necessary
- Developed fertilizer regimes for various coffee regions that enabled synchronization of fertilizer application with weather patterns of different regions.

#### **5. Tea Research Institute**

- Successful recertification audit for QMS ISO 9001:2008; now awaiting renewal certificate where TRI QMS internal staff were trained in QMS automation for the purpose of fast-tracking auditing.
- TRI staff handling data trained on ISO 27000:2013 Information Security Management System (ISMS) by KEBS;
- Established a Programme Review Committee comprising all heads of programmes to review annual work programmes and prioritize research activities as per the needs of the tea industry and available budget;
- Pioneer farmers, County MCAs, CECs and Agricultural Extension Service providers trained in tea production.
- Donated 200,000 tea seedlings for planting in suitable tea growing areas identified during a County Tea Growing Feasibility Study conducted in February 2015.
- Sold an extra 300,000 vegetatively propagated plants, while one million cuttings in mother bushes are awaiting collection by Bungoma County;
- Product diversification and value addition factory construction is now over 95%

#### **6. Sugar Research Institute**

The following achievement have been realized by the Sugar Research Institute in collaboration with other agencies in line with the Jubilee manifesto:

- 9 varieties with desirable characteristics were released in July 2014 for commercial production: KEN 98-367, KEN 98-530, KEN 98-533, KEN 98-551, KEN 00- 13, KEN 00-3548, KEN 00-3811and KEN 00-5873;

- Established 70 ha of clean seed nurseries at strategic locations in various zones across the sugar industry (Transmara, Sony Sugar, Soin, Mumias, Ndhiwa, Chemilil, Muhoroni, Nzoia and Busia).
- Institute acquired modern laboratory equipment at a cost of 112 million which has greatly enhanced research, laboratory analytical and advisory services.
- More than 500 soil and plant tissues from farmers have been analyzed and farmers advised accordingly.
- A protocol for testing Ratoon Stunting Disease a bacterial disease causing over 29% yield losses developed and over 3000 farmers given recommendations.
- The Institute has constructed a weir across River Kibos to enable water diversion into the Kibos farm. This is aimed at ensuring seed cane production and supply of adequate high quality seed cane to the industry. In addition 4.2 ha and 2 ha irrigated land are available at the Institute's stations in Mtwapa and Opapo respectively to enable sugarcane production even during the dry season.
- A sand filter prototype developed that will help the sugar industry treat the factory effluents more affordably and effectively.
- A sand filter prototype developed that will help the sugar industry treat the factory effluents more affordably and effectively.
- Developed a GIS/RS Based Sugarcane Yield Estimation Model. Through time series auto correlation, results show that both NDVI and rainfall variables are significantly correlated to yield. Yield prediction models were developed using linear mixed effects and multivariate approaches based on these two indicators. The models developed were significant with a  $p < 0.001$ . We conclude that the developed models are significant and are in use to estimate sugarcane yield in Kenya and provide spatial information to support decision making in the Sugar Industry.
- Preliminary results showed that the instrument could accurately predict the sucrose content of cane delivered. It was also established that the sucrose based cane payment system is economically viable, despite the insignificant difference in current cane prices. Results from these units will inform the industry as it prepares to adopt the new cane payment system.
- Seven model farms established in West Kenya- Kakamega County. Three of them harvested in February 2015. The farms are being used for demonstration and training on improved technologies.
- Phase one (baseline survey) was undertaken between November 2014 and March 2015. One technical report done in phase 1 and a paper published in the International Journal for Agriculture Innovations and Research.
- Demonstration plots with improved varieties and crop management practices established in Soin, Sony Sugar, West Kenya and Nzoia. A total of 8.93ha of seed cane was established in various sugarcane growing zones. In the first year 19 farmers were contracted to grow the seed which was later distributed to another 27 farmers.
- A total of 8.93ha of Breeders' seed cane was established in various sugarcane growing zones. In the first year 19 farmers were contracted to grow the seed which was later distributed to another 27 farmers.
- 14 field days and 3 open days were held Soin, Sony Sugar, West Kenya and Nzoia. In total over 7,000 farmers were trained on good crop management practices and use of improved sugarcane varieties.
- Four booklets published on the improved varieties, the common diseases and pests, sugarcane growers' guide and the common weeds of sugarcane. In total 4,000 copies of these publications were distributed to farmers and other stakeholders.

#### **7. Arid and Rangelands Research Institute (ARRI)**

Initiated National Performance Trials (NPT) at Mariakani, Buchuma, Kiboko, Kampi ya Mawe, Katumani and Lanet for pasture varieties in collaboration with KEPHIs which is aimed at setting the stage for formal seed production and marketing for the ASAL. The varieties are;

##### **Sorghums and Millets**

- Sugar graze
- Nutrifeed

##### **Rangeland Pastures**

- Pokot Rhodes
- Boma Rhodes
- Chloris gayana Ex- Tozi
- Katumani Rhodes

- Enteropogon macrostachyus
- Chloris roxburghiana
- Established demonstration plots for released crop varieties
- Produce high quality crop seeds for farmers through the KARLO Seed Unit.

## **LIVESTOCK RESEARCH**

### **1. Dairy Research Institute (DRI)**

- Through World Bank support, the new institute has developed robust conferencing facilities for use by dairy stakeholders and other government departments.
- Has expanded the animal nutrition Laboratory to be one of the most highly equipped laboratories in Kenya.
- Has made efforts to develop partnerships with County governments of Narok and Nakuru. Partnership proposal has been given to both governments for financing of research activities in the respective counties.
- Has approached Land O Lakes for partnership in Lucerne production and FAO for the Smallholder Dairy Commercialization project for financing of technology development and dissemination
- The National Sahiwal cattle breeding program has been revitalized to meet the ever increasing demand for Sahiwal breeding animals. An expanded program involving the DRI-Sahiwal nucleus herd and new multiplier herds.
- 28 multiplier farms (in Kajiado, Transmara and West Pokot) have fully been recruited into the expanded Sahiwal breeding program and receive technical backstopping to support breeding management.
- A total of 840 progenies have been produced through various mating designs implemented in the multiplier farms since November 2015. More superior germplasm is expected in this quarter (April to June 2015).
- New breeding management with enhanced mating systems has resulted in a two fold increase in the calving rate from 41 percent previously to the current 77 percent.
- A total of 426 progenies have been produced from a broad range of Sahiwal bulls (33 sires from 6 generations). This is now the foundation based for further genetic improvement both on-centre (retained females) and on-farm (through sale of young bulls).
- 112 Breeding bulls have been distributed to our strategic participating farms in the last 1 year. An additional 97 are planned for the next quarter.
- A planned crossbreeding program involving Sahiwal and European breeds (mainly Ayrshire and Friesian) has now been strengthened. A tentative ration of 1 out of 7 Sahiwal females will produce F1 generation crossbred per year. So far 57 crossbreds have been produced from the program. The crossbreeding program is to be extended to the Ol'Jorok Centre.
- Semen extraction in conjunction with KAGRC has been increased from 250 straws per quarter to the current 1200 straws per quarter to meet the demand for Sahiwal germplasm. Established 32 acres of Boma Rhodes and 11 acres of Lucerne at Ol'Magogo farm
- Erected approximately 16 kilometers of electric perimeter fence
- Constructed dairy resources centre complex with research and accommodation facilities
- Built kilometer of institute access road
- Constructed Milk processing unit
- Constructed a hay shed of 10,000 bail capacity

### **2. Beef Research Institute (BRI)**

#### ***Breeds and Breeding***

- The Institute has redesigned breeding programs for various livestock breeds for improvement of the genetic potential and their population to meet clients demand.
- 80 genetically improved Boran and Sahiwal cattle, Boran x Friesian crosses, Sahiwal x Ayrshire crosses, Red Maasai sheep with high growth and reproductive performance for breeding purposes have been sold to farmers.

#### ***Pasture and fodder development and multiplication***

- Undertook research on pastures, forages and developed cost effective feed formulations in support of the beef industry.

- Produced and sold 17 metric tons of Rhodes grass seed (Boma, ex-Tozi) to farmers.
- Submitted ex-Tozi Rhodes grass variety to KEPHIS for National Performance Trials (NPT).
- Rigorous selection of the Brachiaria grass spp is ongoing and promising lines have been subjected to Advanced Yield Trials (AYT); preliminary results show promise for improved rangeland production in beef cattle systems.
- Establish 200 acres for E1291, E6518, BJ28, BM30 and Ikinyaruka sorghum varieties for livestock feeds and seed production. New sorghum variety (LAN 1) has undergone AYT and currently awaiting NPT before official release as a dual purpose variety.
- The Institute has established Technology Demonstration Farms and bulking sites at the various Centres for pasture and fodders testing, multiplication and sale to farmers; they include sweet potato vines (Wagabolige, Marooko and K158), grasses (Brachiaria, Panicum, Setaria, Rhodes and Napier) and forage legumes (Desmodium - green and silver leaf, Caliandra, Lucaenia, Vetch and Dolichos lablab).
- The Napier grass accessions were subjected to artificial inoculation with Ustilago kameruniensis spores in glass house studies and thereafter PCR analysis. The results indicated that eight (16782, 16789, 16805, 16811, 16783, 16800, 16835 and 16796) of the accessions were tolerant and only one (16806) seemed completely resistant (immune) to the head smut disease.
- The Napier grass accessions 16811, 16800, 16806 + 16791 (Kakamega 1-negative check) and 15743 (positive check) are undergoing field evaluation at KALRO-Muguga (LH3) and Kahuro (LH1) in Murang'a County.
- 1,151,200 three-nodes-cuttings were availed to farmers in various counties (Kiambu, Murang'a, Nyeri, Nyandarua, Kajjado, Nairobi, Kirinyaga, Embu, Meru and Machakos) during the period July 2014 to June 2015.
- About 650 Farmers and Students Visited the Centre on training and demonstrations of agricultural research technologies

### 3. Apiculture Research Institute (ARI)

- 87 Kapkuikui super log hives taken up by famers in Moiben, Marakwet, Ngambo and at Kapkuikui since 2014. National potential of the Kapkuikui super log hive is 5,070,175 households.
- 30,700 mango seedlings (5 popular varieties) seedlings sold by 2014 to farmers
- 28,406 citrus seedlings sold by 2014 to farmers
- 10 Sahiwal bulls sold to Baringo County Governors' Bull Scheme in 2014.
- 6 tons of groundnut seed bulked at the Institute and disbursed to farmers through MOALF

### 4. Sheep and Goat Research Institute (S&GRI)

- Confirmed the Institute ranch, Plot no. KARI/Jirime/240, is intact and that the title deed for the 119.4 hectares is already prepared and can be viewed at Ruaraka Lands offices. An original copy of the cadastral map for the ranch, has been delivered for safe keeping at KALRO headquarters.
- A partners' meeting coordinated by the National Drought Monitoring Agency (NDMA) was held on the 9th October 2014 to co-ordinate the activities of various stakeholders in drought response.
- Staff participated in the Kalacha cultural festival from 5th-9th December 2014 and the Kenya Pastoralists' week in Narok from 5th-7th December 2014, to explain to various stakeholders our capacity and capability, as KALRO and SGRI. They emphasized on the Institute mandate in small ruminants and camels.
- Demonstrations using posters and display of materials were used to educate the pastoralists on:
  - Duom palm products i.e. weaving technology of different handicrafts
  - Pulses and alternative cereals suited to special ecosystems (Mountain, Foot slopes, and Oases) in arid environment – for Agro-pastoralists.
  - Chumvi Kuria
  - Technology for reducing in-breeding using Aprons, burdizzor and elastrators
  - Animal Health Component – Deworming, Ticks Control and Drug Administration
  - Technologies that enhances milk hygiene – Milk coolers, Hemp technology. Cream
  - Hides and Skin Value addition.

- A discussion with a visiting World Bank consultancy team on 2nd December, 2014 resulted in development of concept notes for their consideration for funding. The team's mission was on Agricultural Risk Management, emphasizing on livestock in ASAL areas. The Institute developed 3 concepts for upscaling technologies already developed and tested by KALRO. These technologies are: the Camel technologies, sheep and goat technologies on housing and supplementary feeding, and pasture seed production.

#### **5. Veterinary Research Institute (VRI)**

- One stakeholders' workshop held at KARI-Embu which brought together government veterinarians working in eastern region of Kenya, representatives from Kenya Vaccine Production Institute (KEVEVAPI), foot and mouth disease laboratory Embakasi, and scientists from KARI.
- Desk-top study was conducted to analyse movement permits and any other legal means of animal movement
- On-farm disease surveys in cattle was conducted that involved collection of samples (511 bovine serum samples) and administration of questionnaires (106) to cattle farmers. A scientific paper presented at KVA conference held in Eldoret, from the results of serum analysis detailing the sero-prevalence and circulating FMD virus serotypes in Eastern Kenya

A survey on animal health service providers i.e. Vets, Agro-inputs providers, AHAs was conducted. This involved administration of questionnaires (88 questionnaires) and face-to-face interviews. A scientific paper presented on the same during KVA conference held in Eldoret.

- Conducted a market survey of slaughter houses including collection of samples (100 bovine serum samples) and administered 109 questionnaires to livestock traders. Visited 12 slaughter establishments.
- Established animal welfare status of livestock during slaughter and a paper on the same presented during KVA conference in Eldoret.
- On-farm survey of in-contact animals (sheep, goats and pigs) was conducted and serum samples from in-contact animals i.e. sheep (150), goats (150) and pigs (140) were collected.

#### **6. Non-Ruminant Research Institute (NRI)**

- A KALRO Kienyenji chicken was developed with high genetic merit. The bird lays approximately 200 eggs and grows much faster than the unimproved bird.
- A breed flock is maintained at Naivasha from which day old chicks and breeding cocks are availed to farmer.
- A total of 240,000 day old chicks were sold to farmers in 2014 and in the first 7 months of 2015 a total of 143,000 have been supplied.
- A second hatchery with the capacity to produce an additional 12,000 chicks per month has been established at NRI Kakamega centre and plans are underway to increase the capacity at NRI Naivasha to 44,000 chicks per month. This will increase the KALRO capacity to 56,000 chicks per month.
- Newcastle Disease is a major constraint in poultry production and although vaccines are available they require a cold chain that is not available in many rural areas. Therefore, KALRO partnered with the Kenya Veterinary Vaccine Institute to develop a thermostable Newcastle Disease Vaccine. This vaccine is now commercially available to farmers.
- Through the trainings organized in Naivasha and Kakamega an estimated 250,000 farmers have been reached with the indigenous chicken technologies. This include through digital platforms YouTube, twitter and Facebook.
- A total of 30,000 farmers in 24 counties are keeping the KALRO indigenous chicken and using other technologies.
- A total of 15 farmer companies have been formed in Western Kenya with a share capital of more than KES 30 million. They all keeping indigenous chicken.

**7. Biotechnology Research Institute (BRI)**

- Two High Performance Computers (HPCs) were donated by Yale University, School of Public Health and by the University of Cambridge to support bioinformatics platform at the Institute
- Engaged with Governor's Council on Biotechnology. BRI together with the Council and the Ministry of Agriculture initiated the process of developing a strategy for the adoption and scaling up of BT cotton in traditional and other suitable cotton growing areas, using KALRO soil maps as a guide.
- Transgenic maize, cassava, BT cotton field trials are on-going in various parts of the country. New material on Maize Lethal Necrosis have been collected and undergoing analysis
- Transgenic Gypsophila trials have been concluded at the Blue line Farm Naivasha for agronomic evaluation gene flow studies and environmental impact analysis.
- Approval has been granted following application to the National Biosafety Authority to carry out confined field trial to evaluate virus resistant sweet potato in Kakamega.
- Genetic diversity studies have been undertaken on Aloe Vera, Dolichos Lablab and the African potato; new materials collected for identification
- The BRI, Kabete centre continued development and supply of inoculum of Maize Lethal Necrosis disease for screening in Naivasha.
- Laboratory screening (ELISA, PCR and Sequencing) was done for all MLN samples collected country wide and is on-going.
- Characterization continued of the sweetpotato begamoviruses collected from the Coastal region
- Operationalized Embryo Transfer (ET) Facility for multiplication of preferred breeds in collaboration with Sasini Ltd and Eastern Africa Embryo Transfer Association. MOU to be developed
- Submitted an application to NEMA to allow access to the country's insect biodiversity in order to colonize and rear insects for medical use and feed supplementation; already producing maggots for wound healing, awaiting ethics clearance after a very successful clinical trial at Kenya National Teaching and Referral Hospital. TV documentaries were produced by Nation TV, British Broadcasting Corporation (BBC) and Australian Broadcasting Corporation.
- Equipment received from Slovak Government for collection of insect secretions and excretions for use in formulating new products for medical use (supported by Slovak Aid)

## IX. STATEMENT OF DIRECTOR'S RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the organization's financial statements, which give a true and fair view of the state of affairs of the organization for and as at the end of the financial year (period) ended on June 30, 2015. 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 organization; (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 organization; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the organization's financial statements, which have been prepared in accordance with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the organization's financial statements give a true and fair view of the state of organization's transactions during the financial year ended June 30, 2015, and of the organization's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the organization, which have been relied upon in the preparation of the organization's financial statements as well as the adequacy of the systems of internal financial control.

With effect from 1st July 2014, Kenya Agricultural Research Institute(KARI),Kenya Sugar Research Foundation(KESREF),Tea Research Foundation(TRF) and Coffee Research Foundation(CRF), were dissolved in pursuant to the Kenya Agricultural and Livestock Research Act 2013. Its newly acquired name is Kenya Agricultural and Livestock Research Organization (KALRO). This will not affect the organization going concern for at least the next twelve months from the date of this statement.



**Chairman, KALRO BoD**

Date: 7/7/2016



**Eliud K. Kireger (PhD)**  
**Director General**

Date: 07/07/2016

# REPUBLIC OF KENYA

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## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA AGRICULTURAL AND LIVESTOCK RESEARCH ORGANIZATION FOR THE YEAR ENDED 30 JUNE 2015

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Agricultural and Livestock Research Organization set out on pages 22 to 38, which comprise the statement of financial position as at 30 June 2015, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

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*Kenya Agricultural and Livestock Research Organization – Annual Report and Financial Statements for the year ended 30 June 2015*

auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion**

#### **1. Receivables from Non-exchange Activities**

##### **1.1 Outstanding Imprests**

Included in receivables from non-exchange transaction figure of Kshs.537,509,000 and as disclosed under note 22 to the accounts are staff imprests totalling Kshs.45,021,000 that are not supported with the dates of issue and the due dates. Also as previously reported in 2013/2014 financial year, temporary imprest includes amounts of Kshs.1,558,396 held by former employees of Kenya Sugar Research Institute and long outstanding imprest amounts of kshs.5,980,161 of which Kshs.2,964,822 relates to imprests issued in the financial year 2009/2010 to the Sugar Research Institute.

##### **1.2 Debt Recovery**

As previously reported, the receivables from non-exchange transactions figure includes an amount of Kshs.124,496,000 due from Kenya Planters Cooperative Union (in receivership) and Kshs.23,445,000 from Coffee Board of Kenya relating to Coffee Research institute. And although the organization has made a full provision of Kshs.124,496,000 in respect of KPCU debt and forwarded a claim to receiver manager, no meaningful progress had been reported towards recovery of this debt as at the date of this report.

##### **1.3 Commodity Levy**

Receivables from non-exchange transaction figure also includes an amount of Kshs.315,269,000 in respect of commodity levy representing 59% of the total receivables from non-exchange transactions. This figure however includes Kshs.6,727,880 due from Nyambene Mills which is under receivership. The

management has not provided evidence of the steps being taken to ensure that these debts are recovered.

Consequently, it has not been possible to confirm whether receivables from non-exchange transactions figure of Kshs.537,509,000, in these financial statements is fairly stated.

## **2. Receivables from Exchange Transactions**

The receivables from exchange transactions figure of Kshs.151,309,000 as disclosed under note 21 to the accounts includes amounts of Kshs.12,649,000 and Kshs.33,287,000 owed by various debtors and Kenya Seed Company respectively which have remained outstanding for over three (3) years. The receivable balance also include long outstanding debts of Kshs.537,700 owned by former Members of Parliament.

It has not been possible to confirm whether or when the organization will be able to recover the above debts.

## **3. Biological Assets**

Included in the Kshs.424,541,000 figure of biological assets are assets with KALRO of Kshs.225,043,000, Sugar Research Institute (SRI) of Kshs.630,090 and Tea Research Institute of Kshs.198,868,000. The total amount however excludes undetermined values of assets held at the Coffee Research Institute. In the circumstances, it is not possible to confirm whether biological assets figure of Kshs.424,541,000 as at 30 June 2015 is fairly stated.

## **4. Property, Plant and Equipment**

- (i). As previously reported, included in the property, plant and equipment figure of Kshs.24,904,777.00 is an amount of Kshs.2,932,785,960 in respect of six (6) parcels of land relating to the former Kenya Agricultural Research Institute which the Organization has no ownership documents. The parcels include L.R. No. 5212 which although the Institute holds an allotment letter was allocated to a private developer. Further, it was observed that part of the Organisation's land at Manera and Olmagogo farms in Naivasha - Mai Mahiu Road, was illegally acquired by private developers in year 2000 and another property in Katumani Centre measuring approximately 100 hectares has been occupied by private developers since year 2000. In addition, part of this land is being used as a dumping site by the County Government of Machakos and construction of a power station is taking place on the same land.

Similarly, in January 2011, a group of individuals forcibly invaded the Organization's land L. R. 5210 and L. R. 5211 in Naivasha, claiming ownership.

The Organization filed a case in court to have them evicted, and a ruling in favour of the Organization was made on 29 March 2012. However, a review of the position at the date of this report revealed that the invaders had not vacated the land.

- (ii) Audit review of the available information and documentation of the Organization's land ownership documents revealed that the Organization does not have title to 36 parcels of land across the country some of which have not been surveyed.
- (iii) As previously reported, property, plant and equipment balance of Kshs.24,904,777,000 as at 30 June 2015 excludes undetermined value of parcels of land located in Azani and Koru measuring 99 ha and 127 ha respectively, which the Coffee Research Institute uses for farming. The titles to the parcels of land however are in the name of Coffee Board of Kenya (CBK) which has since merged to form Agricultural Food and Fisheries Authority. Although the management has explained that the Organisation has made several requests to have the land transferred in its name, no progress had been achieved as at 30 June 2015.
- (iv) The Agricultural Mechanization Services (AMS) – a department within the Ministry of Agriculture occupies a portion of the Organization's land at Rukera and has set up their own buildings. Although management clarified that the value of the constructions/improvements by AMS are not included in the asset balances, and that AMS was devolved from the National Government to the County Government, yet the County Government had not signed any lease agreement and has not paid any rent to the Coffee Research Institute for use of the land as at the date of this report.
- (v) The property, plant and equipment figure of Kshs.24,904,777,000 excludes the value of a developed twenty (20) acres piece of land by Tea Research Institute in Kirinyaga county with an estimated value of Kshs.8,430,634. However, available information indicates that the land ownership belongs to the Kenya Forest Service.
- (vi) The capital work-in-progress figure of Kshs.396,052,000 includes Kshs.185,898,000 being cost of a factory under construction at Tea Research Institute. However a review of the records provided for verification revealed that works valued at Kshs.136,602,733 has been supported. The management has not provided evidence to support the resultant difference of Kshs.49,295,267.
- (vii) The property, plant and equipment net book value of Kshs.24,904,777,000 includes a figure of Kshs.81,650,080 representing the value of buildings allocated to Kenya Plant Health Inspectorate Service in 1998. The net book value is therefore overstated by the Kshs.81,650,000.

- (viii) As previously reported, the property, plant and equipment balance of Kshs.24,904,777,000 includes the value of an office block completed in the year 2012/13 at a cost of Kshs.663,772,203 in respect to Sugar Research Institute. However, the valuation report on the building placed the value as Kshs.447,992,751 resulting to unexplained difference of Kshs.215,779,453. It is not therefore clear how the new building value could drop below the actual cost of construction with such a high margin.
- (ix) The value of land reported under Coffee Research Institute is inclusive of undetermined value of coffee bushes thus violating the International Public Sector Accounting Standard (IPSAS) No.1 on presentation which requires assets to be shown separately on the face of the financial statements.
- (x) Further, available information shows that a residential building at Kisiii sub-centre of Coffee Research Institute has been taken over by the Kisii County Government with no benefit accruing to the Organization.

Under the foregoing circumstances, the accuracy and completeness of the property, plant and equipment figure of Kshs.24,904,770,000 cannot be confirmed.

#### **5. Medical Cover with First Assurance Company**

The organization renewed its staff medical cover with First Assurance Company Ltd on 24 September, 2014 for a period of one year with effect from 1 October, 2014 to 30 September, 2015 at a cost of Kshs.157,000,000 whereas the previous contract was for kshs.150,000,000 leading to an increase of Kshs.7,000,000.

According to the minutes of 24 September, 2014, one hundred and thirty eight (138) members of staff had exited from KALRO and thus not included in the new cover. It is not clear why the Organization opted for the renewal option resulting to an increase of Kshs.7,000,000 for less members of staff instead of tendering the cover afresh for a fair competition. Further, the cover was renewed on 24 September 2014, a week before expiry date implying that the organization had no intention of an open tender.

#### **6. Trade and Other Payables**

- i. A Construction Company was awarded a contract to put up a new office block and Laboratories at Sugar Research Institute which were completed in the year 2013. However, to date the Institute has not released the retention money amounting to Kshs.15,856,328 included in the trade and other payables in this financial statements.
- ii. As reported during the previous year, the trade and other payables figure of Kshs.266,102,000 includes an amount of Kshs.3,771,786 owed to various hospitals that have remained unpaid for a very long time. Also included is an amount of Kshs.4,592,506 in regard to penalty from Kenya Revenue Authority

on unremitted Pay As You Earn (PAYE). No explanation has been provided by management as to why these liabilities remain unsettled.

Under the circumstances, it is not possible to confirm whether trade and other payables balance of Kshs.266,102,000 is fairly stated.

## **7. Investments**

The Investments figure of Kshs.2,149,000 as disclosed under note 29 to the accounts includes the Kenya Planters Co-operative Union (KPCU) unsecured loan stock of Kshs.40,000 and KPCU redeemable ordinary shares of Kshs.2,092,000 with a nil fair value as at 30 June 2014. Further, KPCU is under the statutory management. In the circumstances, it is not possible to confirm whether the investments figure of Kshs.2,149,000 is fairly stated.

## **8. Cash and Cash Equivalents**

As previously reported, the cash and cash equivalents figure of Kshs.1,257,923,000 excludes cash withdrawals totaling Kshs.6,914,345 made in 2009/2010 in respect to Sugar Research Institute against which the related supporting documents were not availed for audit verification. Although the management had indicated that the missing documents are a subject of investigation by the Sugar Research Foundation and other arms of the Government, the amount of Kshs.6,914,345 nevertheless remains unaccounted for and as at the date of this report, no evidence had been provided for verification on the status of the investigations.

## **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Agricultural and Livestock Research Organization as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with Kenya Agricultural and Livestock Research Organization Act, 2013 of the Laws of Kenya.

## **Emphasis of Matter**

### **1. KALRO Act, 2013**

The Cabinet Secretary Ministry of Agriculture, Livestock and Fisheries through gazette notice no. 110 dated 1/8/2015 set 1-8-2014 as the commencement date for the operation of the Organization. This Act repealed the Science and Technology Act 250-KARI, Coffee Act (No 9 of 2001)-CRF, Sugar Act (No 10 of 2001)-KESREF and the Tea Act Cap 343-TRF.

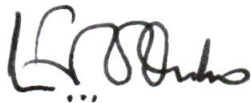
However other than the Kenya Agricultural Research Institute which was operating under the Science and Technology Act Cap 250 of the Laws of Kenya, the other parastatals were operating under the Companies Act, Cap 486 of the Laws of Kenya. According to section 221 (1) of the cap 486, "An application to the court for winding up of a company shall be by petition presented, subject to the provisions of this section, either by the company, by any creditor or creditors (including any contingent or prospective creditor or creditors), contributory or contributories, or by all or any of those parties, together or separately".

The management has not provided evidence that this provision of the Companies Act, Cap 486 was complied with in the establishment of KALRO and although the management has stated that the entities were not wound up but merged, this explanation seems to be in contradiction with Section 56 of the KALRO Act, 2013 which states that, "Any reference to the former Institution in any written law or in any contract, document or instrument of whatever nature shall, on the commencement of this Act, be read and construed as a reference to the Organization". In the absence of such evidence therefore, Coffee Research Foundation (CRF), Tea Research Foundation (TRF) and Kenya Sugar Research Foundation (KESREF) are still legally in existence.

## **2. Commodity Levy**

The total revenue from exchange transactions figure of Kshs.4,310,726,000 includes an amount of Kshs.1,023,232,000 described as commodity levy representing 20.9% of the total revenue. However, with the abolishing of the cess on coffee and tea in the 2016/2017 Finance Bill, the Authority's is likely to face liquidity problems in financing its operations unless an alternative source of income is sought for urgently.

My opinion is not qualified in respect to these matters.



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

**Nairobi**

**18 October 2016**

**X. STATEMENT OF FINANCIAL PERFORMANCE**

For the year ended 30 June 2015

	Notes	2014-2015 Kshs'000	2013-2014 Kshs'000' Restated
<b>Revenue from exchange transactions</b>			
Goods	3	381,189	556,700
Services	4	87,777	93,538
Interest Received	5	35,751	56,884
Other Receipts	6	76,696	50,344
		<b>581,412</b>	<b>757,465</b>
<b>Revenue from non-exchange transactions</b>			
GoK Recurrent	7	2,058,125	2,085,375
GoK Development	8	41,500	296,963
World Bank	9	259,658	636,115
Other Grants	10	928,211	1,411,298
Commodity levy	11	1,023,232	1,002,621
		<b>4,310,726</b>	<b>5,432,372</b>
<b>Total Revenue</b>		<b>4,892,138</b>	<b>6,189,837</b>
<b>Expenses</b>			
Staff Costs	12	2,934,253	3,005,997
Administrative Costs	13	1,881,202	2,102,937
Board Expenses	14	8,593	47,058
Audit Fees	15	3,713	3,311
Depreciation & Amortization expense	16	537,817	413,339
Repairs and Maintenance	17	148,014	177,422
Contracted Services	18	100,795	109,264
Finance cost	19	4,774	8,300
<b>Total Expenses</b>		<b>5,619,161</b>	<b>5,867,627</b>
<b>Surplus/(Deficit)</b>		<b>(727,023)</b>	<b>322,210</b>

The Financial Statements set out on pages 22 to 27 form an integral part of the Financial Statements.

**XI. STATEMENT OF FINANCIAL POSITION**

**As at 30th June 2015**

	Notes	2014-2015 Kshs'000	2013-2014 Kshs'000' Restated
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash equivalents	20	1,257,923	1,885,668
Receivables from Exchange Transactions	21	151,309	96,353
Receivables from Non-exchange Transactions	22	537,509	489,431
Prepayments	23	39,250	37,669
Inventories	24	347,114	380,115
Deposits	25	2,331	2,331
		<b>2,335,436</b>	<b>2,891,567</b>
<b>Non-Current Assets</b>			
**Property, Plant and Equipment	26	24,904,777	25,191,743
Intangible Assets	27	106,145	161,591
Biological Assets	28	424,541	141,767
Investments	29	2,149	2,149
		<b>25,437,612</b>	<b>25,497,249</b>
<b>Total Assets</b>		<b>27,773,048</b>	<b>28,388,816</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank overdraft	30	10	17
Trade & Other Payables	31	266,102	337,798
		<b>266,113</b>	<b>337,816</b>
<b>Non-Current liabilities</b>			
Deferred Income	32	102,276	82,298
<b>Total Liabilities</b>		<b>368,389</b>	<b>420,114</b>
<b>Net assets</b>		<b>27,404,660</b>	<b>27,968,701</b>
**General Reserve	33	2,183,918	2,910,941
Capital Fund	34	5,355,365	5,192,383
**Revaluation Reserve	35	19,865,377	19,865,377
<b>Total Net Assets and liabilities</b>		<b>27,404,660</b>	<b>27,968,701</b>

The Financial Statements set out on pages 22 to 27 form an integral part of the Financial Statements:

*pp August*  
Chairman, KALRO BoD

Date: 07/7/2016

*August*  
Director General

Date: 07/07/2016

\*\*The prior year audited figures have been restated. See note 38

**XII STATEMENT OF CHANGES IN NET ASSETS**

**For the year ended 30 June 2015**

	<b>Capital Fund</b>	<b>Revaluation Reserve</b>	<b>General Reserve</b>	<b>Totals</b>
	<b>Kshs'000'</b>	<b>Kshs '000'</b>	<b>Kshs'000'</b>	<b>Kshs'000'</b>
Balance as at 1st July 2013	4,908,496	19,869,032	2,651,681	27,429,210
Surplus/(Deficit) for the period	283,887	-	322,210	606,097
Prior year adjustment	-	(3,655)	(62,950)	(66,606)
<b>Balance as at 30 June 2014</b>	<b>5,192,383</b>	<b>19,865,377</b>	<b>2,910,941</b>	<b>27,968,701</b>
Surplus/(Deficit) for the period	162,981	-	(727,023)	(564,041)
<b>Balance C/F: 30/06/2015</b>	<b>5,355,365</b>	<b>19,865,377</b>	<b>2,183,918</b>	<b>27,404,660</b>

### XIII STATEMENT OF CASHFLOW

As at 30<sup>th</sup> June 2015

	Notes	2014-2015 Kshs'000	2013-2014 Kshs'000
<b>Cash Flow from Operating Activities</b>			
<b>Receipts</b>			
Sale of Goods		381,189	556,700
Finance Income		35,751	56,884
Rendering of Services		87,777	93,538
Government & Donor Grants		3,287,494	4,429,751
Commodities levies		1,023,232	1,002,621
Other Incomes		76,696	50,344
<b>Sub-Total</b>		<b>4,892,138</b>	<b>6,189,837</b>
<b>Payments</b>			
Compensation of employees		2,934,253	3,005,997
Goods & Services		2,142,317	2,439,991
Finance Costs		4,774	8,300
<b>Sub-Total</b>		<b>5,081,344</b>	<b>5,454,288</b>
Net Cash flow from operating activities	35	(189,206)	735,549
<b>Cash flow from investing activities</b>			
Purchase of Property, plant equipment, intangible & Bio		(395,566)	(986,028)
Proceeds from sale of Assets		674	357
Revaluation of Biological assets		(83,265)	7,857
(Increase)/Decrease in Stocks		33,001	30,436
(Increase)/Decrease in Receivables-Exchange		(54,956)	(4,794)
(Increase)/Decrease in Receivables-Non-Exchange		(48,076)	(263,301)
(Increase)/Decrease in Prepayments		(1,581)	(1,284)
Increase/(Decrease) in Creditors		(71,703)	208,016
<b>Sub-Total</b>		<b>(225,906)</b>	<b>(22,712)</b>
<b>Cash flow from Financing Activities</b>			
Capital Grant		162,981	307,100
Increase/(Decrease) in Short-term deposits		-	(339)
Differed Income(Capital )		19,976	47,937
<b>Sub-Total</b>		<b>182,957</b>	<b>354,698</b>
Increase in Cash and Cash Equivalent for the Year	20	(627,745)	81,507
Cash and Cash Equivalent as the Start of the Year		1,885,668	1,804,161
<b>Cash and Cash Equivalent at the End of the Year</b>		<b>1,257,923</b>	<b>1,885,668</b>

The Financial Statements set out on pages 22 to 27 form an integral part of the Financial Statements.

**XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

	Original budget	Adjustments	Final Budget	Actual on comparable basis	Performance difference
	2014-2015	2014-2015	2014-2015	2014-2015	2014-2015
	Kshs'000	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
<b>Revenue from exchange transactions</b>					
Goods	324,709	-	324,709	381,189	56,480
Services	86,000	-	86,000	87,777	1,777
Interest Received	37,026	-	37,026	35,751	(1,275)
Other Receipts	82,246	-	82,246	76,696	(5,551)
<b>Sub total</b>	<b>529,981</b>	<b>-</b>	<b>529,981</b>	<b>581,412</b>	<b>51,431</b>
<b>Revenue from non-exchange transactions</b>					
GOK Personal Emoluments	2,614,375	(556,695)	2,057,680	2,058,125	445
GOK Development	799,765	(758,265)	41,500	41,500	-
World Bank	466,000	(200,000)	266,000	259,658	(6,342)
Other Grants	935,371	-	935,371	928,211	(7,160)
Commodity Levy	1,050,000	-	1,050,000	1,023,232	(26,768)
<b>Sub total</b>	<b>5,865,511</b>	<b>(1,514,960)</b>	<b>4,350,551</b>	<b>4,310,726</b>	<b>(39,825)</b>
<b>Total Revenue</b>	<b>6,395,492</b>	<b>(1,514,960)</b>	<b>4,880,532</b>	<b>4,892,138</b>	<b>11,606</b>
<b>Expenses</b>					
Staff Costs	2,937,121	-	2,937,121	2,934,253	2,868
Administrative Costs	2,618,722	(732,500)	1,886,222	1,881,202	5,020
Board Expenses	25,533	-	25,533	8,593	16,940
Audit Fees	4,511	-	4,511	3,713	797
Depreciation & Amortization expenses	538,365	-	538,365	537,817	548
Repairs and Maintenance	154,788	-	154,788	148,014	6,774
Contracted Services	108,535	-	108,535	100,795	7,740
Finance cost	7,290	-	7,290	4,774	2,516
<b>Total Expenses</b>	<b>6,394,864</b>	<b>(732,500)</b>	<b>5,662,364</b>	<b>5,619,161</b>	<b>43,203</b>
<b>Surplus/(Deficit)</b>	<b>628</b>	<b>(782,460)</b>	<b>(781,832)</b>	<b>(727,023)</b>	<b>(31,597)</b>

## **XV. NOTES TO THE FINANCIAL STATEMENTS**

### **1. Statement of compliance and basis of preparation – IPSAS 1**

The organization'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 organization and all values are rounded to the nearest thousand (KShs. 000). 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 direct method. The financial statements are prepared on accrual basis

### **2. Summary of significant accounting policies**

#### **a) Revenue recognition**

##### **i) Revenue from non-exchange transactions - IPSAS 23**

###### **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 organization and can be measured reliably.

##### **ii) Revenue from exchange transactions – IPSAS 9**

###### **Rendering of services**

The organization recognizes revenue from rendering of services only when it is probable that the economic benefits or service potential associated with the transaction will flow to the organization. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized only to the extent of the expenses recognized that are recoverable.

###### **Sale of goods**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the organization.

###### **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 – IPSAS 24**

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

**c) Property, plant and equipment – IPSAS 17**

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. 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 fairvalue.

Biological assets are measured on initial recognition and at the end of each reporting period at fair value less costs to sell in accordance with IPSAS 27

Depreciation is calculated to write off the cost or valuation of fixed assets using the straight-line method at the following annual rates

Buildings	2.00%
Motor vehicles and Motor cycles	25.00%
Tractors	25.00%
Plant and machinery	12.50%
Office equipment	12.50%
Computers & Electronics	33.30%
Furniture & fittings	12.50%
Laboratory equipment	12.50%
Infrastructural Assets	25.00%

**d) Intangible assets–IPSAS 31**

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.

**e) Research and development costs**

The organization expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the organization 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.

**f) Inventories – IPSAS 12**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

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

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

#### **g) Nature and purpose of reserves**

The organization creates and maintains reserves in terms of specific requirements. organization to state the reserves maintained and appropriate policies adopted.

#### **h) Employee benefits – IPSAS 25**

##### **Retirement benefit plans**

The organization provides retirement benefits for its employees. The retirement scheme is contributory with employee and employer contributing as below on the basis of the Basic Salary.

	Employee	Employer
Former CRF	7.5%	15%
Former KARI	5%	10%
Former KESREF	5%	10%
Former TRF	10%	20%

#### **i) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call. Bank account balances include amounts held of at various commercial banks at the end of the financial year.

#### j) Comparative figures

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

#### k) Significant judgments and sources of estimation uncertainty – IPSAS 1

The preparation of the organization'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.

#### l) 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 organization 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 organization. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

#### m) Subsequent events – IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2015.

### 3 Sale of Goods

	2014-2015 Kshs '000	2013-2014 Kshs '000
Sheep & Goats	1,070	1,046
Pigs	-	242
Cows	18,767	23,220
Poultry	16,888	21,502
Maize	3,464	5,593
Sorghum & Millets	131	453
Rice	75	87
Root and Tuber	2,005	1,751
Vegetables	262	904
Herbs	6	44
Beans	83	707
Fruits	496	417
Bananas	600	1,271
Wheat	18,828	17,601
Cassava	8	33
Seeds	49,009	121,604
Seedlings	42,426	19,895
Trees and Plants	233	3,971
Manure	329	236
Sand & Ballast	419	74
Firewood	554	722
Flowers	361	53
Pyrethrum	122	133
Cotton	64	-
Fodder	12,543	10,466
Beef	185	33
Milk	18,723	20,021
Eggs	147	94
Tomatoes	59	85

Kenya Agricultural and Livestock Research Organisation  
Financial statements for the year ended 30th June 2015

Hay	4,415	3,440
Water	754	624
Other Farm produce	26,730	27,395
Increase/Decrease in Stock	48,617	132,351
Sale of Scrap	390	4,443
Coffee and Tea Sales	107,213	129,023
Milling Cane	5,212	7,168
<b>Total</b>	<b>381,189</b>	<b>556,700</b>

**4. Services**

Soil Analysis	11,701	15,312
Other Lab Services	2,659	2,048
Sale of Journals Periodicals	245	141
Hire-Ground/Conference Facilities	11,481	7,928
Royalties	5,859	5,350
Rent	52,390	54,802
Other services	3,441	7,957
<b>Total</b>	<b>87,777</b>	<b>93,538</b>

**5. Interest Received**

	2014-2015	2013-2014
	Kshs '000	Kshs '000
Interest Received	35,751	56,884
<b>Total</b>	<b>35,751</b>	<b>56,884</b>

**6. Other Receipts**

	2014-2015	2013-2014
	Kshs '000	Kshs '000
Cafeteria Income	30,701	33,211
Guest House Income	11,108	8,143
Bus Income	686	910
Utilities Income	2,182	1,764
Sale of Tender Documents	142	1,036
Grazing Fee	1,619	130
Commission Received	39	41
Sale of mature trees	9	5
Library coffee	14	16
Gain/Loss on Foreign exchange	24,568	3,762
Gain/Loss on revaluation of assets	3,935	(857)
Gain/Loss on Sale of Fixed Assets	1,692	2,183
<b>Total</b>	<b>76,696</b>	<b>50,344</b>

**7. GOK Personnel Emoluments**

	2014-2015	2013-2014
	Kshs '000	Kshs '000
Grants-Personal Emoluments	2,058,125	2,085,375
<b>Total</b>	<b>2,058,125</b>	<b>2,085,375</b>

**8. GOK Development Funds**

This represents GoK funds received from development research activities.

	2014-2015	2013-2014
	Kshs '000	Kshs '000
Development Grant -GoK	41,500	296,963
<b>Sub-Total</b>	<b>41,500</b>	<b>296,963</b>

**9. World Bank**

	2014-2015	2013-2014
	Kshs '000	Kshs '000
Development Fund - KAPAP	177,463	496,245
Development Fund - EAAPP	82,195	139,870
<b>Total</b>	<b>259,658</b>	<b>636,115</b>

## 10. Development Funds - Other Donors

These represent grants received from various donors for research activities.

	2014-2015 Kshs '000	2013-2014 Kshs '000
Development Grant - EU	77,169	142,966
Development Grant - USAID	12,415	10,731
Development Grant - Rockefeller	-	1,825
Development Grant - CIP	77,644	47,951
Development Grant - CIAT	5,509	12,740
Development Grant - ICRAF	3,629	914
Development Grant - FAO	7,575	8,707
Development Grant - ILRI	35,078	12,502
Development Grant - ADB	16,535	10,891
Development Grant - ICRISAT	4,111	5,554
Development Grant - CIMMYT	63,805	75,073
Development Grant - AFNET	-	2,461
Development Grant - IDRC	5,745	125,277
Development Grant - AGRA	39,711	45,162
Development Grant - ASARECA	8,807	13,767
Development Grants -CORNEL UNI	4,571	-
Development Grant - Small Grants	565,907	894,777
<b>Total</b>	<b>928,211</b>	<b>1,411,298</b>

	2014-2015 Kshs '000	2013-2014 Kshs '000
<b>11. Commodity levy</b>		
Commodity levy	1,023,232	1,002,621
<b>Total</b>	<b>1,023,232</b>	<b>1,002,621</b>

## 12. Staff Costs

	2014-2015 Kshs '000	2013-2014 Kshs '000
Basic Salary	1,521,272	1,540,193
House Allowance	328,678	342,298
Other Personal Allowance	53,901	97,619
Commuter Allowance	223,588	233,787
Transfer Allowance	2,738	1,416
Passage & Leave Expenses	24,654	24,725
Gratuity & Pension Contribution	251,172	253,245
Medical Expenses	193,282	177,440
Casual Labour	334,967	335,273
<b>Total</b>	<b>2,934,253</b>	<b>3,005,997</b>

## 13. Administrative Costs

	2014-2015 Kshs '000	2013-2014 Kshs '000
Fuels, Oils and Lubricants	109,592	127,160
Vehicle Insurance	28,314	5,699
Road Tax & Licenses	1,715	1,739
Hire of Transport	6,865	5,829
Freight, Clearing & Shipping	1,492	1,571
Purchase of Supplies Production	211,105	195,036
Purchase of Drugs	5,502	4,859
Purchase of Sierra & Vaccines	1,414	2,821
Farm Development	76,942	118,281
Purchase of Fungi Insecticide & Sprays	9,612	4,767
Purchase of Farm Input	49,450	39,477
Purchase of Laboratory Stores	58,785	37,948
Research Materials	87,357	161,044
Purchase of Animals	1,060	1,986
Purchase of Dressing & Non Pharmaceutical	90	704

Kenya Agricultural and Livestock Research Organisation  
Financial statements for the year ended 30th June 2015

Purchase of Consumables Stores	20,709	18,546
Miscellaneous Operating Expenses	12,584	4,656
Hire Machinery & Equipment's	14,168	3,032
Purchase of Workshop Tools, Spares & Equipment	2,140	1,211
Farm Grants (CIGs/CBOs)	17,283	13,503
Purchase of seed	-	2,766
Office Running Expenses	9,034	17,589
Office Stationery	25,923	33,845
Computer Expenses	7,420	17,861
Printing and Publishing	6,665	15,486
Advertising and Publicity	23,306	33,657
Library Expenses	1,331	2,942
Show Expenses	18,602	22,165
Cafeteria Expenses	24,973	32,517
Food and Ration	10,035	10,635
Official Entertainment	2,580	7,620
Conference and Seminars	38,671	29,044
Rent and Rates	4,951	2,798
Commission and Honoraria	15,802	11,122
Security Expenses	49,150	49,909
Insurance - Property	3,815	7,387
Uniforms and Clothing	3,282	6,057
Miscellaneous Charges	16,204	16,916
Subscriptions to Newspapers	508	797
Insurance - GPA & GL	25,001	41,919
Daily Subsistence Allowance	639,118	695,420
External Travels and Per Diem	30,876	23,926
Travel Costs (Air & Bus) Mileage	19,629	20,893
Training	52,387	69,505
Water Expenses	4,610	3,003
Electricity Supplies	100,179	98,147
Gas Expenses	45	61
Telephone Expenses	12,187	13,535
Postage and Courier Expenses	2,852	2,519
Internet Connections	4,848	7,540
Leased Communication Lines	1,394	473
Membership Fees & Subscription	1,957	5,617
Legal Dues, Arbitration & Compensation	7,687	49,398
<b>Total</b>	<b>1,881,202</b>	<b>2,102,937</b>

**14. Board Expenses**

<b>Board</b>	<b>2014-2015</b>	<b>2013-2014</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Board and Committees	8,593	47,058
<b>Total</b>	<b>8,593</b>	<b>47,058</b>

**15. Audit Fees**

These are fees incurred by the Institute during external audits.

	<b>2014-2015</b>	<b>2013-2014</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Audit Fees	3,713	3,311
<b>Total</b>	<b>3,713</b>	<b>3,311</b>

#### 16. Depreciation & Amortization Expense

	2014-2015 Kshs '000	2013-2014 Kshs '000
Buildings	123,941	123,290
Plant and Machinery	25,925	32,242
Motor Vehicles	104,571	99,135
Motor Cycles & Bicycles	1,937	1,652
Lab & Scientific Equipment	74,551	64,787
Office & Computer Equip.	118,488	47,763
Office Furniture & Fittings	20,542	18,011
Infrastructure(G/hses, fences, streetlighting)	12,417	19,378
Amortization-Software	55,446	7,082
<b>Total</b>	<b>537,817</b>	<b>413,339</b>

#### 17. Repairs and maintenance

These refers to repairs and maintenance on the various assets of the organisation

	2014-2015 Kshs '000	2013-2014 Kshs '000
Repairs & Maintenance of Vehicles	59,349	61,102
Repairs & Maintenance of Motor Cycles	160	376
Repair & Maintenance of Buildings & Stations	43,602	55,104
Repair & Maintenance of Water Supplies and Pumps	4,281	7,102
Repair & Maintenance of Office Equipment	4,393	6,072
Repairs & Maintenance Laboratory Equipment	946	1,248
Repairs & Maintenance Furniture	271	352
Maintenance of Plant and Machinery	29,454	40,998
Maintenance of Roads, Ferries	1,296	-
Minor Alter & Maintenance of Works	4,261	5,067
<b>Total</b>	<b>148,014</b>	<b>177,422</b>

#### 18. Contracted Professional Services

	2014-2015 Kshs '000	2013-2014 Kshs '000
Contracted Professional Services	100,795	109,264
<b>Total</b>	<b>100,795</b>	<b>109,264</b>

#### 19 Finance cost

	2014-2015 Kshs '000	2013-2014 Kshs '000
Bank Charges	4,774	8,300
<b>Total</b>	<b>4,774</b>	<b>8,300</b>

#### 20 Cash and cash equivalent

	2014-2015 Kshs '000	2013-2014 Kshs '000
Bank Balances	1,257,923	1,669,763
Deposits	-	215,905
<b>Total</b>	<b>1,257,923</b>	<b>1,885,668</b>

#### 21 Receivables from Exchange Transactions

	2014-2015 Kshs '000	2013-2014 Kshs '000
Trade Debtors	57,134	18,687
Kenya Seed	33,287	33,287
Interest Receivable	0	3,062
Prepayments	1,592	1,592
Rent dues	721	361
Bungoma Union	746	746
Mugama Co-op Union	1,863	1,863
Other Receivables	60,011	40,801
Former staff debtors	663	663
Provision for Dbt/ful Debts	(4,709)	(4,709)
<b>Total</b>	<b>151,309</b>	<b>96,353</b>

	2014-2015	2013-2014
	Kshs '000	Kshs '000
<b>22 Receivables from Non-exchange Transactions</b>		
GOK recurrent	159,750	159,750
Commodity Levy	315,269	246,563
Staff Imprest	45,021	64,207
Staff advances	1,781	3,121
Medical Debtors	98	200
Coffee Board of Kenya	23,445	23,445
KPCU	124,496	124,496
Provision for Doubtful Debts	(132,351)	(132,351)
<b>Total</b>	<b>537,509</b>	<b>489,431</b>

	2014-2015	2013-2014
	Kshs '000	Kshs '000
<b>23 Prepayments</b>		
Medical cover	39,250	37,669
<b>Total</b>	<b>39,250</b>	<b>37,669</b>

	2014-2015	2013-2014
	Kshs '000	Kshs '000
<b>24 Inventories</b>		
Consumables	172,635	189,325
Livestock	167,136	182,915
Crop	7,684	8,216
Provision for obsolete stock	(341)	(341)
<b>Total</b>	<b>347,114</b>	<b>380,115</b>

	2014-2015	2013-2014
	Kshs '000	Kshs '000
<b>25 Deposits</b>		
Deposits	2,331	2,331
<b>Total</b>	<b>2,331</b>	<b>2,331</b>

26. Property plant and Equipment

	LAND	BUILDINGS	MOTOR VEHICLES	PLANT & MACHINERY	OFFICE EQUIP.	FURNITURE & FITTINGS	LAB EQUIPMENT	MOTOR CYCLES & BICYCLES	INFRASTRUCTURE (G/hses, fences, streetlighting)	WORK IN PROGRESS	TOTAL
Cost	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
<b>As at 1 July 2013</b>	18,064,575	5,882,909	402,500	189,592	146,644	167,101	589,863	6,079	75,017	84,351	25,608,631
Addition for the period	1,159	49,391	90,809	32,924	224,877	2,803	100,682	2,074	234	184,142	689,095
Disposal for the period	-	-	(4,125)	-	(318)	-	-	(405)	-	-	(4,849)
Transfer from WIP	-	-	-	-	2,937	-	-	-	-	(2,937)	-
<b>As at 1 July 2014</b>	18,065,734	5,932,300	489,183	222,516	374,140	169,904	690,545	7,748	75,251	265,556	26,292,876
Addition for the period	-	13,567	21,812	7,999	14,331	26,236	21,858	-	324	289,439	395,566
Transfer from WIP	-	158,943	-	-	-	-	-	-	-	(158,943)	-
Reclassification of assets categories	-	-	-	6,489	-	-	(6,489)	-	-	-	-
Transfer to Biological assets	(201,432)	-	-	-	-	-	-	-	-	-	(201,432)
Disposal for the period	-	-	(2,093)	-	-	-	-	-	-	-	(2,093)
<b>Cost to end of period</b>	17,864,302	6,104,810	508,902	237,004	388,471	196,140	705,913	7,748	75,575	396,052	26,484,917
<b>Depreciation</b>											-
Accumulated Depreciation b/f	1,924	285,191	247,266	79,214	72,574	64,124	224,596	3,195	56,444	-	1,034,528
Prior Year Adjustment on b/f Depreciation	-	-	-	-	66,606	-	-	-	-	-	66,606
<b>Adjusted Depreciation b/f</b>	1,924	285,191	247,266	79,214	139,180	64,124	224,596	3,195	56,444	-	1,101,134
Charge for the period	-	123,941	104,571	25,925	118,488	20,542	74,551	1,937	12,417	-	482,371
Accumulated depreciation on Disposal	-	-	(1,419)	-	-	-	-	(22)	-	-	(1,441)
Depreciation on reclassification	(1,924)										(1,924)
<b>Accumulated depreciation to end of period</b>	-	409,132	350,418	105,139	257,668	84,666	299,147	5,110	68,861	-	1,580,140
<b>Net Book Value at 30 June 2015</b>	17,864,302	5,695,679	158,484	131,865	130,803	111,475	406,767	2,638	6,713	396,052	24,904,777
<b>Net Book Value at 30 June 2014</b>	18,063,810	5,647,109	241,917	143,302	234,960	105,781	465,949	4,553	18,806	265,556	25,191,743

## 27 Intangible Assets

	2014-2015 Kshs '000	2013-2014 Kshs '000
Cost at the start of the Year	182,746	23,535
Addition for the period	-	159,212
<b>Cost or Valuation at end of Period</b>	<b>182,746</b>	<b>182,747</b>
Accumulated amortization b/f	21,155	14,073
Amortization for the period	55,446	7,082
Accumulated amortization at the end of period	76,601	21,155
<b>Net Book Value at end of Period</b>	<b>106,145</b>	<b>161,591</b>

## 28 Biological Assets

	2014-2015 Kshs '000	2013-2014 Kshs '000
As at 1st July	146,738	153,480
Reclassification of assets category	200,792	-
Loss in value due to reclassification	(1,283)	-
Sold during the year	(5,481)	(7,168)
Gain in Value during the year	88,535	426
<b>As at 30th June</b>	<b>429,301</b>	<b>146,738</b>
<b>Apportionment:</b>		
Current portion (cane over 6 months)	4,760	4,971
Non-current portion (cane below six months)	630	1,324
	<b>5,390</b>	<b>6,295</b>
<b>Total</b>	<b>424,541</b>	<b>141,767</b>

## 29 Investments

	2014-2015 Kshs '000	2013-2014 Kshs '000
<b>Quoted Investments:</b>		
1,672 B A T Kenya Limited shares- Fairvalue is Kshs 1,238,211 (2013/2014:Kshs 1,078,440)	17	17
<b>Other Investments:</b>		
KPCU Unsecured Loan Stock	40	40
KPCU Redeemable Ordinary shares Fairvalue is Kshs 0 (2013/2014:Kshs 0)	2,092	2,092
<b>Total</b>	<b>2,149</b>	<b>2,149</b>

The fair value of BAT shares is determined by reference to published price quotation in the active market (NSE) .On 30th June 2015, the shares traded at Kshs 741 per share.

The KPCU unsecured loan stock and redeemable ordinary shares are unquoted investments classified as available for sale and measured at cost.The fair value of KPCU is estimated and zero as the KPCU is under the statutory management by Kenya Commercial Bank

## 30 Bank Overdraft

	2014-2015 Kshs '000	2013-2014 Kshs '000
Bank overdraft	10	17
<b>Total</b>	<b>10</b>	<b>17</b>

## 31 Trade and Other Payables

	2014-2015 Kshs '000	2013-2014 Kshs '000
Trade Creditors	88,277	144,219
Statutory Deductions	31,330	49,422
Other Creditors	90,147	80,918
Rent Deposits	491	481
Capital WIP Retention	15,856	15,856
Employee Benefit Obligation	-	6,903
Provision for Liabilities(Arbitration - Dinesh Construction )	40,000	40,000
<b>Total</b>	<b>266,102</b>	<b>337,798</b>

### 32 Deferred income

Grants received from donors for specific projects are classified as non-current liabilities. They are carried at amortized cost of which amortization is recorded as other grants in proportion to expenditure incurred on the project over the life of the project.

	2014-2015 Kshs '000	2013-2014 Kshs '000
Balance Brought Forward as a 1st July	82,298	34,363
Additional Receipts	36,483	89,184
<b>Total</b>	<b>118,782</b>	<b>123,547</b>
Amount Expensed	(16,507)	(41,248)
<b>Balance Carried Forward as at 30th June</b>	<b>102,276</b>	<b>82,298</b>

### 33 General reserve

	2014-2015 Kshs '000	2013-2014 Kshs '000
Balance Brought Forward as at 1 July	2,910,941	2,651,681
Surplus/(Deficit) for the Year	(727,023)	322,210
Prior year adjustment-Depreciation	-	(66,606)
Prior year adjustment-Reclassification		3,655
<b>Balance Carried Forward as at 30 June</b>	<b>2,183,918</b>	<b>2,910,941</b>

### 34 Capital fund

	2014-2015 Kshs '000	2013-2014 Kshs '000
Capital Funds Brought Forward as at 1st July	5,192,383	4,908,496
Capital Funds during the year	162,981	283,887
<b>Balance Carried Forward as at 30th June</b>	<b>5,355,365</b>	<b>5,192,383</b>

### 35 Revaluation reserve

	2014-2015 Kshs '000	2013-2014 Kshs '000
Balance Brought Forward as a 1st July	19,865,377	19,869,032
Prior year adjustment-Reclassification	-	(3,655)
<b>Balance Carried Forward as at 30th June</b>	<b>19,865,377</b>	<b>19,865,377</b>

### 36 Net cash flow from operating activities

	2014-2015 Kshs '000	2013-2014 Kshs '000
Surplus/(Deficit)	(727,023)	322,210
Add : Depreciation	537,817	413,339
<b>Net Cash Flow</b>	<b>(189,206)</b>	<b>735,549</b>

### 37. Provisions for contingent liabilities

During the financial year under review, liability relating to actual deficit as per the report on actuarial valuation of the Kenya Agricultural and Livestock Research Organization Staff retirement benefits Scheme indicated a valuation figure of Kshs.427 million. It is worth noting that this figure keep on changing every year and could not be disclosed under trade payables as it would materially affect the working capital of the Institute.

### 38 Prior year adjustments

During the financial year under review, the following prior year adjustments were made

Item	Kshs '000
Depreciation	66,606
General Reserve	(3,655)
Revaluation Reserve	3,655
<b>Total</b>	<b>66,606</b>