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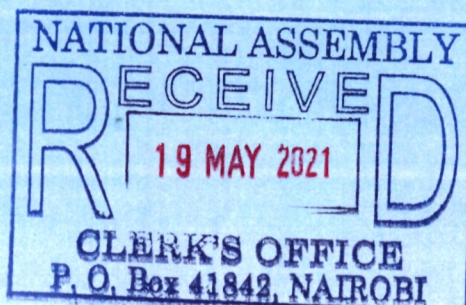
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA VETERINARY VACCINES
PRODUCTION INSTITUTE

FOR THE YEAR ENDED
30 JUNE 2016.





KENYA NATIONAL AUDIT OFFICE
P.O. BOX 30084 - 00103,
NAIROBI

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2016

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

- **KEY ENTITY INFORMATION AND MANAGEMENT**

- **Background information**

The Kenya Veterinary Vaccines Production Institute (KEVEVAPI) was established under Cap 446 of the laws of Kenya on 5th March 1990 through legal notice No. 223 of 4th June, 1990. The Institute was subsequently put under KARI management in July 2003 through Presidential Circular No. 3/2003 until July 2008 when it reverted back to its original status. It falls under the Ministry of Agriculture, Livestock and Fisheries, State Department of Livestock.

- **Principal Activities**

The vision of the Institute is to be an Institution of excellence and the preferred provider of high quality, affordable veterinary vaccines and services contributing to an improved quality of life for all Kenyans. Its mission is to develop safe, efficacious and affordable veterinary vaccines for the improvement of the livestock industry. It further strives to contribute complementary products and services in control of livestock diseases.

- **Key Management**

The management is composed of the Managing Director, who is the Chief Executive of the Institute and Secretary to the Board, two Deputy Directors responsible for Technical services and Finance, Human Resource and Administration departments and Heads of Divisions.

- **Fiduciary Management**

The key management personnel who held office during the financial year ended 30th June 2015 and who had direct fiduciary responsibility were as per the table of management team on pages 10-13.

- **Fiduciary Oversight Arrangements**

- Audit and finance committee activities-This are board meetings held on Quarterly basis and help to monitor the activities of the institute.
- Technical Committee- This is a technical committee of the board holding its meetings quarterly and any other time need arises and monitors the production and marketing activities of the institute.
- Full board meetings- These are meetings of the board to give direction and monitor management activities in every quarter of a financial year.
- Ministry of Agriculture, Livestock and Fisheries- Supervises operation of the Institute through the office of the PS and Director of Veterinary Services.




KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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- **Principal Legal Adviser**




P.K.Mbabu & Company Advocates
Cannon House, 2nd Floor
P.O.Box 6728-0100
Nairobi.

The Attorney General
State law office
Harambee Avenue
P.O. Box 40112 - 00200
Nairobi, Kenya


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 <p>Prof. Isaac M. Mbeche Board Director</p> <p>Key Qualification Ph.D., Department of Management Science, Management School, University of Lancaster, U.K, Master of Arts from the University of Nairobi (UON), Bachelor of Education (Science) UON Kenya</p>	<p>Date of Birth: -22ND AUGUST, 1952.</p> <p>Work Experience: Feb.2011-Date Deputy Vice-Chancellor (Student Affairs) University of Nairobi 2002-Jan.2011 Principal, College of Humanities and Social Sciences, University of Nairobi. Chairman and Member of Various Committees within and outside UON</p>
 <p>Mr. Robert M. Mburu</p> <p>Key Qualification-Egerton University BSC. Agriculture education and Extension</p>	<p>Date of Birth: - 22 July 1965</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • April 2010 to Date Operations Manager-Gicheha farm. • July 2007 to March 2010 Group Manager in charge of several estates managers at Tropical farm Management. • Mar.2002- Jun. 2007: Operations director in charge of all operations at Robert Flowers. • April 1997- May. 2002: Production Manager at Willam K. Ltd • 1990 to March 1997: Estate Manager at Tropical Farm Management.
 <p>Mr. Abdi Adan Suleiman</p> <p>Key Qualification:- University of Nairobi B.ED (Sc.) Honours</p>	<p>Date of Birth: - 30th June 1953</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • July 2012 appointed KEVEVAPI board member. • Mar. 2009- Mar. 2012 Chairman Kenya Meat Commission.






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 <p>Dr. Leonard Wachira Wamae Key Qualification: PhD University of Edinburgh, M.V.Sc University of Liverpool, B.V.M (UoN)</p>	<p>Date of Birth: 18 August 1954 Work Experience:</p> <ul style="list-style-type: none"> • 2012 : Appointed as Board Member KEVEVAPI • 2001 To Date: Assistant Director, Animal Health and Production. • 1998-2001: Principal Research Officer/KARI. • 1996-1998:Senior Research Officer/KARI • 1983-1996: Research Officer I/KARI • 1979-1983: Research Officer II KARI
 <p>Mr. Elijah Kabiru Key Qualification:</p>	<p>Work Experience: July 2015: Appointed to KEVEVAPI Board as alternate to PS Treasury.</p>
 <p>Prof. Philip Nyaga Key Qualification: American language(Columbia University, PHD & MPVM (University of California, BVM (UON)</p>	<p>Date of Birth: 1948 Work Experience:</p> <ul style="list-style-type: none"> • 2015 to date -appointed KEVEVAPI board member. • 1989-to Date Professor of Virology • 26 April 1985-Associate Professor • 26th April 1985- Senior Lecturer • 1/02/1976-Lecturer • 21/12/1975- Temporary Lecturer • March –September 1973-Clinician • March-June 1979-Junior Animal Health assistant
	<p>Date Of Birth: 18 April 1949 Work Experience:</p>

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<p>Diploma in Human Resource Management(Institute of Human Resource Mgt)</p>	<p>2006-Attachee at Nomotio Livestock Improvement Centre 2005-Deputy Presiding Officer during Referendum 2002-Registration Clerk during General Election</p>
<div style="text-align: center;">  </div> <p>Dr. Jane Wanjugu Wachira Chief Executive Officer (CEO) and Secretary to the Board, Key Qualification: MSC UK, BVM(UON), A, level</p>	<p>Date Of Birth: 15 May 1961 Work Experience: 2015 to date: Ag. Chief Executive Officer-KEVEVAPI</p> <p>2004-2015-Deputy Director Technical services</p> <p>2003-2004-Acting MD KEVEVAPI</p> <p>1993-2003-Production Manager Kabete</p> <p>1992-1993-Assistant Quality Assurance Manager KEVEVAPI setting up quality assurance labs Kabete and Muguga</p>

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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 <p>• Mr. Stephen Gitonga Njeu Quality Assurance Manager</p>	<p>Pursuing MSc. Infectious Dis Higher Dip. Applied Biology Dip. Applied Biology KACE 1P, 1Sub KCE DIV II</p>
 <p>M/S Jael Misoi Procurement Officer</p>	<p>Bachelor's degree 2nd class upper in Supplies and Procurement Advanced Diploma (CIPS UK) O' Level</p>
 <p>• Mr. Peter Kagera Gitigi Engineering Technician II</p>	<p>Final Level Certificate of Apprenticeship(Pipefitter/Welder) EACE DIV III</p>
 <p>• Dr. Benson Kibore Research and Development Manager</p>	<p>MSc. (UoN)- Veterinary Surgeon BVM KCSE KCPE</p>
 <p>Mr. Mathew Itumo Nzioka Production Manager- Embakasi</p>	<p>Higher Diploma Applied Biology Diploma Applied Biology KCSE KCPE</p>

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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• **REPORT OF THE CHIEF EXECUTIVE OFFICER**

Kenya's livestock sector contributes about 12% of the country's Gross Domestic Product (GDP) and accounts for nearly 50% of the agricultural sector's GDP. It is the main source of livelihood to the people in the ASALs accounting for 90% employment and more than 95% of family incomes for the people in these areas. In the high potential areas, the sector provides employment and incomes through dairy production.

The rural-based nature of livestock activities makes livestock keeping a suitable enterprise to improve household incomes and contribute to sustainable livelihoods for many people in the rural areas. The sector therefore contributes significantly to poverty reduction in the country.

The 2009 population and housing census revealed that Kenya has a massive livestock resource comprising of 3.4 million exotic cattle, 14.1 million indigenous cattle, 17.1 million sheep, 27.7 million goats, 2.9 million camels 25.8 indigenous chicken and 6.1 million exotic chicken. This is an important resource that if tapped could create more wealth and employment in the country thereby contributing significantly to poverty reduction.

The Kenya Veterinary Vaccine Production Institute (KEVEVAPI) is mandated to protect this important resource. As the country gears up towards the realization of the goals of the Kenya Vision 2030, many challenges are bound to arise, key among them being the outbreak of livestock diseases.

Kenya Veterinary Vaccines Production Institute (KEVEVAPI) was established by Government of Kenya as a parastatals Institution on 5th March 1990 by Legal Notice No.223 under Cap 446 of the Laws of Kenya. The Institute operates under the auspices of the Ministry of Agriculture, Livestock and Fisheries.

The Institute operated independently until 2003, when it was merged into the Kenya Agricultural Research Institute under the Ministry of Agriculture following implementation of Presidential Circular No.3/2003 of 31st July 2003. In July 2008, through the effort of the Ministry of Livestock Development, the Institute reverted to operations as an independent public state

The institute has the expertise and facilities to produce fifteen livestock vaccines that are considered to be important in the region. Currently we are producing 14 vaccines. Rinderpest vaccine is no longer produced because the disease has been eradicated. Our Laboratories at Embakasi in Industrial area produces the Foot and Mouth Disease vaccine. All our other vaccines are produced at our Kabete vaccine production Laboratory.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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- Director, Kenya Agricultural Research Institute
- Not more than four other members not being employees of the Institute of whom not more than two shall be public officers appointed by the Minister.

COMMITTEES OF THE BOARD.

According to the State Corporation Act (Section 9), KEVEVAPI Board of Directors has three Committees namely:-

- Finance, Human Resource and Administration;
- Technical and Marketing Committee; and
- Audit Committee for the purposes of preliminarily discussing the business of the Board and preparing working minutes for the full Board meetings.

Current Members of the Board of Directors:

- Prof. James K. Wabacha-*Chairman Board of Directors*
- Principal Secretary National Treasury;
- Principal Secretary, State Department of Livestock.
- Director, Kenya Agricultural Research Institute – K.A.L.R.O ;
- Prof. Isaac M. Mbeche - Board Director
- Mr. Robert M. Mburu- Board Director
- Dr. Kiprono Lagat David- Board Director
- Prof. Philip Nyaga- Board Director
- Mr. Abdi Aden Suleiman, HSC- Board Director
- Dr. Boreya Lekenit- Board Director
- Prof. Lily Bebora- Board Director
- M/S Joan Naigerua Letoyia- Board Director
- Dr. Jane W. Wachira—CEO, KEVEVAPI (*Secretary BOD*)

VACCINES PRODUCED BY KEVEVAPI:

The Institute commercially produces vaccines against the following livestock diseases for country and the regional market. Our Laboratories at Embakasi located at Industrial area produces the Foot and Mouth Disease vaccine. All our other vaccines are produced at our Kabete vaccines production Laboratory.

- Foot and Mouth Disease
- Contagious Bovine Pleuropneumonia
- Rift Valley Fever
- Lumpy Skin Disease
- Contagious Caprine Pleuropneumonia
- Sheep and Goat Pox
- Bluetongue

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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• **CORPORATE GOVERNANCE STATEMENT**

Corporate governance refers to the principles, processes and practices by which an organization is operated, regulated and controlled so as to fulfill its goals and objectives in a manner that adds value and benefits to all its stakeholders.

The Kenya Veterinary Vaccines Production Institute's (KEVEVAPI) corporate governance statement shall contribute to clarify the roles between the stakeholders, the board of management and the management of KEVEVAPI.

Good and transparent management of and control over the business will provide the basis for creating long-term value for the institute, employees, other stakeholders and society in general and, thereby, sustainable and permanent value creation. The roles shall build trust among the stakeholders through predictability and credibility. Open and accessible communication will ensure that the institute maintains a good relationship with society in general and the stakeholders affected by the institute's activities in particular.

The institute's value base is described in KEVEVAPI's code of conduct, and the guidelines for ethics and corporate responsibility have been designed on the basis of the code. KEVEVAPI adheres to the State's principles for sound corporate governance as described in the State Corporation act cap 446, The Constitution of Kenya 2010 and The Code of Governance for State Corporations (Mwongozo), and is subject to the reporting requirements relating to corporate governance pursuant to Public Finance Management Act.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016**

• **REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of the institute's affairs.

Principal activities

The principal activities of the entity continue to be preferred provider of high quality, affordable veterinary vaccines and services contributing to an improved quality of life for all Kenyans

Results

The results of the entity for the year ended June 30, 2016 are set out on page 1-5.

Directors


The members of the Board of Directors who served during the year are shown on page vi-xii & xvi

Auditors

The Auditor General is responsible for the statutory audit of the *entity* in accordance with the Section 68(k) of the Public Finance Management (PFM) Act, 2012.

By Order of the Board

Chief Executive Officer

Sign 

Date 18/4/2017

REPUBLIC OF KENYA

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NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA VETERINARY VACCINES PRODUCTION INSTITUTE FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Veterinary Vaccines Production Institute set out on pages 1 to 24, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows, statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

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 48 of the Public Audit Act, 2015 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. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Report of the Auditor-General on the Financial Statements of Kenya Veterinary Vaccines Production Institute for the year ended 30 June 2016

are registered in the name of Kenya Agricultural Research Institute. No explanation has been provided for this anomaly, a result of which, the ownership and valuation of these vehicles as reflected in the financial statements cannot be ascertained.

1.3 Depreciation and Amortization Expense

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.3,500,000 under depreciation and amortization expense for the year ended 30 June 2016. However this figure differs with the amount of Kshs.56,363,000 depreciation expense disclosed under Note 15 to the financial statements. In addition, workings provided for the depreciation and amortization expense showed an amount of Kshs.56,362,714. Consequently the accuracy of the expense cannot be confirmed.

2. Trade and Other Payables

The trade and other payables balance of Kshs.33,202,000 as at 30 June 2016 reflected in the statement of financial position, includes rate accruals totalling Kshs.13,180,000 that have remained unpaid for periods going as far back as 1998 and continued to attract interest and penalties. However, the amount of interest and penalties payable has not been determined and included in the trade and other payables balance of Kshs.33,202,000. In addition, no explanation has been provided for failure to clear the accrued rates over the years.

3. Receivables

The receivables balance of Kshs.236,753,000 as at 30 June 2016 reflected in the statement of financial position and as disclosed in Note 13 to the financial statements includes trade receivables totalling Kshs.235,403,000, out of which, an amount of Kshs.131,853,635 relates to 2014/2015 and earlier years. No provision has been made in the financial statements in respect of these old outstanding amounts whose collection appear to be doubtful.

4. Inventories

The statement of financial position reflects a balance of Kshs.333,938,000 against inventories as at 30 June 2016 which, however, differs from the balance of Kshs.333,405,000 extracted from supporting stock sheets. Consequently, the accuracy of the inventories figure cannot be ascertained.

5. Cash and Cash Equivalents

The statement of financial position reflects an amount of Kshs.482,171,000 as at 30 June 2016 against cash and cash equivalents which, as disclosed under Note 12 to the financial statements, includes a bank balance of Kshs.238,267,097 under Kenya Commercial Bank (KCB) account number 1107172764. The KCB balance, however, differs from the balance of Kshs.239,903,778 shown in the cash book, by Kshs.1,636,681. No explanation or reconciliation has been provided for the difference.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
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• **KEVEVAPI STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2016**

		2015/16 Kshs'000	2014/15 Kshs'000
Revenue from exchange transactions			
Sale of Vaccines	2	477,396	538,289
Cost of production	3	<u>(331,157)</u>	<u>(341,609)</u>
Gross Profit		146,239	196,680
Finance income –Bank Interest earned	4	2,107	1,939
Other income-Sundry income	5	353	1,005
Total		148,699	199,624
Administrative Expenses			
Employee costs	6	39,411	34,406
Depreciation and amortization expense	7	3,500	3,359
Repairs and maintenance	8	276	1,432
General expenses	9	50,246	72,748
Provision for bad & Doubtful Debts	10	2,354	2,440
Total expenses		95,787	114,385
Other gains/(losses)			
Gain on sale of assets		-	-
Gain on foreign exchange transactions	11	2,136	5,846
Surplus before tax		55,048	91,085
Taxation		-	-
Surplus for the period		55,048	91,085

The notes set out on pages 6 to 21 form an integral part of the Financial Statements

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
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• **STATEMENT OF CHANGES IN NET ASSETS**
• **For the year ended 30 June 2016**

Attributable to the owners of the controlling entity

	Capital Fund Kshs '000	Capital Grant Kshs '000	Revaluation Reserve Kshs '000	Accumulated surplus Kshs '000	Total Kshs '000
Balance as at 30 JUNE 2012	367,249	52,500	272,829	363,054	1,055,631
Surplus/(deficit) for the period	-	-	-	19,121	19,121
Additional GOK Grant	-	61,200	-	-	61,200
Balance as at 30 JUNE 2013	367,249	113,700	272,829	382,174	1,135,952
Surplus for the period	-	-	-	37,906	37,906
Additional GOK Grant	-	18,750	-	-	18,750
Balance as at 30 JUNE 2014	367,249	132,450	272,829	420,080	1,192,608
Surplus for the period	-	-	-	91,085	91,085
Additional GOK Grant	-	19,000	-	-	19,000
Balance as at 30 JUNE 2015	367,249	151,450	272,829	511,165	1,302,693
Surplus for the Period	-	-	-	55,048	55,048
Additional GOK Grant	-	217,100	-	-	217,100
Balance as at 30 June 2016	367,249	368,550	272,829	566,213	1,574,841

See note 1(i)

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
FINANCIAL STATEMENTS
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• **STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	REF
	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016	
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	
Revenue						
Government grants and subsidies	17,100	200,000	217,100	217,100	-	1
Sale of vaccines	500,000	-	500,000	477,396	22,604	2.
Other Income	2,500	0	2,500	2,460	40	
Gain on foreign Exchange	(200)	0	(200)	2,136	(2,336)	
Total income	502,300	(0)	502,300	481,992	20,308	
Expenses						
Compensation of employees	50,100	-	50,100	39,411	10,689	3
Goods and services	303,500	0	303,500	331,157	(27,657)	4.
Provision for Bad Debts & Depreciation	5,500	0	5,500	5,854	(354)	
Other payments	98,800	-	98,800	50,522	48,278	5.
Total expenditure	457,900	(0)	457,900	426,944	30,956	
Surplus for the period	44,400	0	44,400	55,048	10,648	
Capital Expenditure	17,100	200,000	217,100	33,627	183,473	6

References:-

1. Government grant-The institute had expected a government grant of Kshs 217,100 which was received. But because of the capital nature of the work to be done (building, renovations and machines) the amount was fully spent in the subsequent years.
2. Sale of vaccines- This is market driven therefore if there is less demand from our customers we experience less sales.
3. Compensation of employees- The institute had planned to recruit some technical staff on permanent basis but due to a freeze on employment by the government, this was not possible hence the less spending in compensation to employees.
4. Goods and Services- This cost was high because of the production of the first batch of purified oil based vaccine.
5. Other payments-This was less because of the cost cutting measures the institute had put in place.
6. Capital expenditure-The Institute spend much on equipments that will enable it produce purified oil based vaccine in order to attain GMP standards.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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Interest income

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

Rental income

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

b) Budget information

The 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 entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

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

Value Added Tax (VAT)

Expenses and assets are recognized net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation institute is included as part of receivables or payables in the statement of financial position.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)
- ***Financial liabilities***
Trade payables

Trade payables are current and are stated at their nominal value.

g) Inventories

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.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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 Entity.

h) Provisions

Provisions are recognized when the institute has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the institute expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
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n) Cash and cash equivalents

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

o) Comparative figures

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

p) Significant judgments and sources of estimation uncertainty

The preparation of the institute'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.

- **Critical accounting judgments in applying the entity's accounting policies**

- **Impairment losses on trade and other receivables**

- The institute reviews its trade and other receivables to assess impairment regularly. In determining whether an impairment loss should be recognised through profit or loss, the company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables, before a decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Institute based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Institute. Such changes are reflected in the assumptions when they occur.

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q) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

2. Sales of vaccines(Exchange revenue)

Particulars	Ksh '000	2016		2015	
		US \$ '000	Kshs'000	US \$'000	
Sales on Account	274,628	422.277	300,125	1,436.936	
Cash Sales	103,400	560.591	77,077	196.149	
		982.867	377,202	1,633.085	
		101.1		98.64	
Total Kshs	378,028	99,368	377,202	161,087	
Rate					
Kshs Total					
Grand Total		477,396		538,289	

3. Cost of Sales

	30.6.16	30.06.15
	Shs	Shs
	000	000
Materials used	32,206	61,432
Direct Labour	69,536	57,518
Other staff benefits	18,179	16,891
General Expenses attributable to production	111,005	105,347
Power & lighting attributable to production	23,328	29,462
Maintenance& Repairs attributable to production	24,040	24,546
Depreciation attributable to production	52,863	46,413
Total production and Manufacturing Expenses	<u>331,157</u>	<u>341,609</u>

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Audit fees	580	580
Other professional charges	4,699	11,544
Subscriptions	96	169
Donations	400	200
Penalties	0	2,159
Bank charges	85	206
Sundry off. Exps	1542	2,819
Staff welfare	120	2,268
Administration expenses	14,782	12,046
Telecommunication	4,777	7,562
Local travel	10,510	8,807
Overseas travel	800	4,843
Motor vehicles	<u>1,039</u>	<u>1,428</u>
Grand Total	<u>50,246</u>	<u>72,748</u>

10. Provision for Bad Debts

Trading debtors as at year end	235,403	244,046
Impairment at 1%	2,354	2,440

11. Gain on Foreign Exchange Transactions

On sales to MTK Uganda	(135)	737
On sales to Doctors Co.	(389)	1,502
On sales to Aggrotech Rwanda	(82)	2,060
On sales to Other clients	(56)	686
On Cash held in the Bank	2,798	861
Totals	<u>2,136</u>	<u>5,846</u>

12. Cash and cash equivalents

	2016	2015
	KShs 000	KShs 000
Bank	482,024	174,596
Cash-on-hand and in transit	147	242
Short-term deposits(NIC Bank)	-	11,374
Guarantees		
Total cash and cash equivalents	482,171	186,212

NB:Bank Figure Breakdown

KCB Account No. 1109016492 Kshs	1,209,138.86
KCB Account No 1102301108 Kshs.	242,547,997.44
KCB Account No.1107172764 Kshs	<u>238,267,096.89</u>
Total	<u>482,024,233.20</u>

13. Receivables

	2016	2015
	KShs 000	KShs 000
Current receivables(Exchange transactions)		
Ministry of Livestock	98,644	105
MTK Uganda	64,023	107,044
Ministry of Agriculture Rwanda	26,029	23,868

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**15.
Property,
plant and
equipment**

	Land	Buildings	WIP	Plant & Machinery	Office Equipment	Furniture & Fittings	Motor Vehicles	Total
	Shs 000	Shs 000		Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Cost								
At 30 June	343,000	144,485	NIL	345,711	7,323	7,474	7,276	855,269
Acquisitions	-	750		9,128	2,302	1,720	19,727	33,627
At 30 June 2016	343,000	145,235	Nil	354,839	9,625	9,194	27,003	888,896
Depreciation and impairment								
At 30 June 2015	Nil	(20,225)	Nil	(169,465)	(4,670)	(3,708)	(7,258)	(205,326)
Depreciation Disposals	Nil	(2,905)	Nil	(44,355)	(1,203)	(1,149)	(6,751)	(56,363)
At 30 June 2016	-	(23,129)	Nil	(213,820)	(5,873)	(4,857)	(14,009)	(261,689)
Net book values								
At 30 June 2016	343,000	122,106	Nil	141,019	3,752	4,337	12,994	627,207
June	343,000	124,260	Nil	97,600	2,653	3,766	18	649,943

Note

Included in the value of land of Kshs 343,000,000 above on Property, Plant and Equipment is two parcels of land with civil cases in court that had been grabbed in prior years. The cases in court are as follows:-

- i) HCC ELC No. 454 and 455 Of 2009 Tuguta Enterprises Limited and TRUSTLAND developers' Limited vs KARI, KEVEVAPI, the land registrar and commissioner of lands. Land measuring 1.87 and 2.023 hectares or thereabout respectively
- ii) HCCC ELC Civil Suit No. 945 of 2012 Jasper Singh Birdi vs KEVEVAPI. Land measuring 0.4047 hectares or thereabout.

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Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the institute's financial instruments.

Financial Assets At 30 June 2016	Carrying amount KShs,000	Fair value KShs,000
Receivables from non-exchange transactions	3,703	3,703
Receivables exchange transactions	235,403	233,049
Cash and cash equivalents	482,056	482,056
	721,162	718,808
	721,162	718,808

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Credit risk

Credit risk is the risk of financial loss to the institute if customers or counterparties to financial instruments fail to meet their contractual obligations. The institute's credit risk is primarily attributable to its receivables and cash and cash equivalents. The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors before extending credit. The carrying amount of financial assets represents the maximum credit exposure. The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings. The maximum exposure to credit risk as at 30 Jun 2016 was:

	Fully performing KShs,000	Past due Kshs,000	Impaired Kshs	Total Ksh,000
GOK grants receivable	-	-	-	-
Trade receivables	98,803	136,600	(2,354)	233,049
Cash and cash equivalents	482,171	-	-	482,171
	580,974	136,600	(2,354)	715,220
Maximum exposure to credit risk	580,974	136,600	(2,354)	715,220

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Trade payables from Non exchange transactions	14,621	14,621	
	<u>11,565</u>	<u>95,740</u>	<u>14,621</u>
			<u>121,926</u>

Market risk

Market risk is the risk of changes in market prices, such as foreign-exchange rates and interest rates, affecting the institute's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the risk.

- (i) **Price risk**
The institute does not hold investments that would be subject to price risk; hence this risk is not relevant.
- (ii) **Interest rate risk**
The institute does not hold any interest bearing liabilities or assets; hence this risk is not relevant.
- (iii) **Foreign currency risk**
The institute is exposed to foreign-currency risk through foreign currency denominated bank balances. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the end of the reporting period are shown below.

	2016 USD	2015 USD	2016 Total in KShs	2015 Total in KShs
Description				
Assets	-	-	-	-
Bank and cash balances	2,399,037.78	798,006.94	242,547,997.44	78,715,404.56
Receivables	257,452.61	517,417	26,029,025.64	51,038,012.88
	<u>2,656,490.39</u>	<u>1,315,423.94</u>	<u>268,577,023.08</u>	<u>129,753,417.44</u>

At 30 June 2016 an increase/decrease of 10% on the US dollar exchange rates would have resulted in an increase/decrease in surplus of Sh. 26,857,702.3 (Shs295, 434,725.30 – Shs 268,577,023.08).

Capital risk management policies

The primary objective of managing the institute's capital is to ensure that there is sufficient cash available to support the institute's funding requirements, including capital expenditure, to ensure that the institute remains financially sound. The institute monitors capital using a gearing ratio, which is net debt, divided by total capital, plus net debt. As at the end of the year, the institute had no debt.

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		<p>Institute has continued to use the vehicles, maintaining them and insuring them.</p> <p>Correspondences have been going on between the two Institutions to identify all the assets that belong to KARI in order to facilitate formal transfer or other appropriate action. However, the assimilation of KARI into Kenya Agricultural Livestock Research Organizations (KALRO) in 2014 posed a new challenge since it deprived KARI of its legal autonomy</p>			
2015/2	Unpaid Rates amounting to Kshs 13,180,000 dating back to F/Y 1998	The rates related to land that has a court case and therefore management had deemed fit to stop paying for the rates until the issue was resolved.	CEO	Resolved	Resolved
2015/3	Kshs 111,615,000 worth of receivables were long outstanding	Management had formed committee to oversee the collection of these debts and there were positives in collection	CEO	Resolved	Resolved
2015/4	Mpesa account Totaling to	The amount was accounted for in the revenue and bank balances of audited	CEO	Resolved	Resolved