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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF**  
**KENYA FOREST SERVICE**

**FOR THE YEAR ENDED**  
**30 JUNE 2015**





**ANNUAL  
FINANCIAL STATEMENTS  
OF THE  
KENYA FOREST SERVICE  
FOR YEAR ENDED  
30<sup>TH</sup> JUNE 2015**

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

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## I. KEY ENTITY INFORMATION AND MANAGEMENT

### WHO WE ARE

The Kenya Forest Service is a State Corporation under the ministry of Environment, Water and Natural Resources in the State department of Environment and Natural resources. It was established in 2005 under the Forests Act No. 7 of 2005 and operationalised vide Kenya Gazette Supplement No 7, legal notice number 19 on 1<sup>st</sup> February 2007.

### OUR VISION

To be the leading organization of excellence in sustainable forest management and conservation.

### OUR MISSION

To enhance conservation and sustainable management of forests and allied resources, or environmental stability and socio-economic development.

### OUR MANDATE

To provide for establishment, development and sustainable management, including conservation and rational utilisation of forest resources for environmental protection and socio-economic development of the country.

### CORE VALUES

We shall be guided by the following core values, which provide an integrated focus towards enhancing provision of acceptable quality service.

- Adherence to scientific principles and professionalism
- Integrity and Ethics
- Promote partnerships
- Promote teamwork
- Prudent management of resources
- Promote gender and equity
- Pursue meritocracy, creativity and innovation

#### i) Principal Activities

The principal activities of the entity continue to be;

1. To increase net forest cover
2. To strengthen financial base
3. To enhance conservation, sustainable management and utilisation of forests by improving livelihoods in rural areas
4. To effectively manage information within interactive integrated information systems in support of business processes and improved service delivery

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5. To strengthen institutional capacity to deliver on its mandate

**ii) Management**

The day-to-day management of the Service is entrusted to the Director who is the Secretary to the Board and Chief Executive Officer of the Service. The Director is assisted by a management team of three (3) Senior Deputy Directors backed by nine (9) Deputy Directors, the Principal Kenya Forest College, the Head of Internal Audit, Head of Supply Chain Management, Head corporate communication, Head Air wing, Head of ICT and the Corporation Secretary.

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

**iii) Fiduciary Management**

KFS is run by a Sixteen (16) member Board of Directors, the chairman appointed by the president, seven independent board members appointed by cabinet secretary in charge of Environment and Natural Resources and eight (8) Government representatives including Kenya Forest Service Director who is the Secretary to the Board and Chief Executive Officer of the Service.

The board of Directors is responsible for formulating the Service's vision, realization of its mission and achievement of strategic objectives in an effective manner as well providing strategic oversight

**BOARD OF DIRECTORS**

1. Mr. Peter Kirigua HSC -	Chairman
2. Ms Naomi A. Mogoria-	Vice Chairlady
3. Dr. Christopher G. Gakahu-	Chairman technical, planning and development committee
4. Mr. John Gethi-	Chairman Finance Committee
5. Dr. Gelas Simiyu -	Chairman KFC Committee
6. Captain John Miriti-	Chairman Human Resources and Administration Committee
7. Mr. Bernard Sang -	Chairman Audit Committee
8. Principal Secretary Devolution-	Member
9. Director, Kenya Forest research institute-	Member
10. Director General, Kenya Wildlife Service-	Member
11. Director General, National Environmental Management Agency	Member
12. Principal Secretary Ministry of Environment and Natural resources -	Member
13. Principal Secretary the National Treasury -	Member
14. Principal Secretary Water and Irrigation -	Member
15 Directors, Kenya Forest Service -	Secretary

## DIRECTORS COMPOSITION OF BOARD COMMITTEES

### Board Committees

The Board has four Committees with specific delegated authorities. These are the Board Audit and Governance Committee, the Board Human Resources and Administration Committee, the Finance and General Purposes committee and the Technical, Planning and Development Committee.

### TECHNICAL, PLANNING AND DEVELOPMENT COMMITTEE

- 1) The technical, planning and development committee is responsible for ensuring; policy oversight, operational and legal compliance, advising the board on proposed subsidiary legislation, effective management of forests, effective organisational structures for forest conservancy areas as well as approvals of technical policies, strategies and systems.

NO.	NAME	POSITION
1.	Dr. Christopher Gatama Gakahu	Chairperson
2.	Mr. John Gethi	Member
3.	Ms. Naomi Apali Mogoria	Member
4.	PS/MENR	Member
5.	PS/ Devolution	Member
6.	Director, KEFRI	Member
7.	Director General, KWS	Member
8.	Director, KFS	Member

### FINANCE COMMITTEE

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

NO.	NAME	POSITION
1.	Mr. John Gethi	Chairperson
2.	Mr. Naomi Mogoria	Member
3.	Dr. Gelas Simiyu	Member
4.	PS/Treasury	Member
5.	PS/MENR	Member
6.	Director General , NEMA	Member
7.	Director KFS	Member

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**3) HUMAN RESOURCE AND ADMINISTRATION COMMITTEE**

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

NO.	NAME	POSITION
1.	Captain John Miriti	Chairperson
2.	Mr. Bernard Sang	Member
3.	Dr. Gelas Simiyu	Member
4.	PS/MENR	Member
5.	PS/Devolution	Member
6.	Director General, KWS	Member
7.	Director, KFS	Member

**4) AUDIT COMMITTEE**

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

No.	NAME	POSITION
1.	Mr. Bernard Sang	Chairperson
2.	Dr. Christopher Gakahu	Member
3.	Mr. John Miriti	Member
4.	PS/Treasury	Member
5.	PS/Water and Irrigation	Member
6.	Director, KEFRI	Member

**Headquarters**

Post Office Box 30513 – 00100,  
General Post Office,  
Karura Forest, Karura, off Kiambu Road,  
Nairobi - Kenya.

**iv) Contacts**

Telephone: (254) 020 2014663 / 020 2589055  
E-mail: [info@kenyaforestservice.org](mailto:info@kenyaforestservice.org), [director@kenyaforestservice.org](mailto:director@kenyaforestservice.org)  
Website: [www.kenyaforestservice.org](http://www.kenyaforestservice.org)

**v) Principal Bankers**

Co-operative Bank of Kenya  
P.O. Box 48231-00100,  
Tel: +254-20-3276000  
Fax: +254-20-219821  
E-mail: [customerservice@co-opbank.co.ke](mailto:customerservice@co-opbank.co.ke)  
Website: [www.co-opbank.co.ke](http://www.co-opbank.co.ke)

Kenya Commercial Bank  
P.O. Box 14959  
Tel: +254-20-3747576  
Fax: +254-20-3747576  
E-mail: [info@kcb.co.ke](mailto:info@kcb.co.ke)  
Website: [www.kcb.co.ke](http://www.kcb.co.ke)

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

Equity Bank  
P.O. Box 75102-00200-Nairobi  
Tel: +254-20-2262000  
Fax: +254-20-2737276  
E-mail: [info@equitybank.co.ke](mailto:info@equitybank.co.ke)  
Website: [www.equitybank.co.ke](http://www.equitybank.co.ke)

Commercial Bank of Africa  
P.O. Box 30347-00100, GPO-Nairobi  
Tel: +254-20-2884000,  
Fax: +254-20-2734616  
E-mail: [contact@cba.co.ke](mailto:contact@cba.co.ke),  
Website: [www.cbaService.com](http://www.cbaService.com)

**Independent Auditors**

Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084 – 00100,  
GPO, Nairobi.  
Tel: +254-20-2227383,  
Fax: +254-20-311482  
E-mail: [cag@kenao.go.ke](mailto:cag@kenao.go.ke),  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)

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**KENYA FOREST BOARD MEMBERS**



Chairman  
Peter Kirigua



Vice Chair Ms.  
Naomi Apali



Capt. John  
Miriti

Dr.  
Christopher  
Gakahu

Dr. Gelas  
Muse

Mr. Benard  
Sang

Mr. Gethi



Amb. Julius  
Kandie  
Rep PS,  
MENR

Mr. Arthur  
Nduati  
Rep CS,  
Treasury

Mr.  
Benjamin  
Kavuu  
Rep DG,  
KWS

Mr. Kodia  
D. Bisia  
Rep DG,  
NEMA

Mr. Emilio  
Mugo  
Director,  
KFS



Dr. Ben  
 Chikamai  
 Director  
 KEFRI

Karen  
 Ndegwa  
 Rep PS,  
 Devolution

**SENIOR MANAGEMENT STAFF**



**Emilio N. Mugo**  
 Director

Mr. Mugo is the Director & sits on the Board of the Kenya Forest Research Institute. He is a career forest officer with a master's degree in teams and financing, a post graduate diploma in project management and a bachelor's degree in forestry with over twenty eight (28) years experience in the field and in management. He has also undergone basic training at the National Youth Service and officer's paramilitary course at the Administration Police Training College in addition to being a member and past chairperson of the Forestry Society of chairperson of the Forestry Society of Kenya.



**Monica Kalenda**  
 Senior Deputy Director  
 Support Services




Mrs. Kalenda is in charge of Support Services representing the Director on the Board of the Kenya Wildlife Service. She is a career forest officer with a master's degree in Natural Resources Management, post graduate diploma in Corporate Governance, and a bachelor's degree in forestry with over twenty eight(28) years experience in the field and in management. She has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya and Kenya Institute of Management.



**Patrick Nyaga**  
 Senior Deputy Director  
 Finance & Administration

Mr. Nyaga is in charge of Finance & Administration & represents the Director on the Board of Rivatex East Africa Limited. He holds a master's degree in Strategic management, is a certified public accountant (K), holds diplomas in; Supply chain management, financial services & customer service management as well as a bachelor's degree in commerce with over sixteen (16) years experience. He is a member of; Life Office Management Association (LOMA), Institute of Certified Public Accountants (ICPAK) & associate

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	<p>- Kenya Institute of Supplies &amp; Management (KISM).</p>
 <p style="text-align: center;"><b>Esther Keige</b> Head of Legal Services &amp; Corporation Secretary</p>	<p>Ms. Keige is the Corporation Secretary/ Head, Legal Services. Holds a Bachelor's Degree in Law (LLB), a Post Graduate Diploma in Law and currently undertaking a Master's degree in Environmental Law. She is an Advocate of the High Court of Kenya, a Commissioner for oaths and a Certified Secretary. A member of the Law Society of Kenya (LSK) and the Institute of Certified Public Secretaries of Kenya (ICPSK). Has over Eighteen (18) years experience as an advocate.</p>
 <p style="text-align: center;"><b>Lucy Kiboi</b> Deputy Director Corporate Services</p>	<p>Mrs. Lucy Kiboi –Deputy Director Corporate services. She holds a master's degree in Business Administration and a bachelor's degree in food science and technology .She has over twenty three (23) years</p>
 <p style="text-align: center;"><b>Simiyu B Wasike</b> Deputy Director Plantation and Enterprise</p>	<p>Mr. Wasike is in charge of plantations &amp; enterprises. He holds a bachelor's degree in forestry with over twenty eight (28) years experience. He has undergone strategic management courses at the Kenya School of Government (KSG). He has also undergone basic paramilitary training at the National Youth Service &amp; officers course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya</p>



**Patrick Kariuki**  
Deputy Director Forest  
Extension Services

Mr. Kariuki is in charge of Forest extension services. He holds a Master of Agricultural Studies (Rural Development, Administration and Management), as well as a Bachelor of Science Degree in Forestry with over twenty eight (28) years experience in forest management and administration in addition to extensive operational knowledge in project development and management. He pioneered the establishment of farm forestry field schools in the forestry sector in Kenya. He has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya.



**Esau O. Omolo** Deputy  
Director, Forest  
Conservation and  
Management

Mr. Omollo is in charge of Forest Conservation and Management. He holds a master's degree in geo-information science & earth observation, holds a certificate in forestry research & extension as well as a bachelor's degree in land resource studies with over twenty nine (29) years experience. He has also undergone basic paramilitary training at the National Youth Service & officers course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya.



**Anastasia Muasya**  
Deputy Director Finance  
& Accounts

Mrs Muasya is in charge of Finance & Accounting. She holds a master's degree in Business administration, is a certified public accountant (K), as well as a bachelor's degree in Commerce with over twenty eight (28) years experience. She is a member of the Institute of Certified Public Accountants (ICPAK).



**Juliana Ochieng - Deputy  
Director Human Resource  
and Administration**

Mrs. Juliana Ochieng is currently the Deputy Director Human Resource and Administration. She holds a master's degree in business administration, a Bachelor's degree in Human Resource Management and Advance Diploma in Human Resource Planning and Development. Other Skills development courses undertaken include Strategic Leadership Development Programme and Senior Management Course. She is a member of the Institute of Human Resource Management as professional body

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**Alex Lemarkoko- Ag.  
Deputy Director  
Enforcement and  
Compliance**

Mr Lemarkoko has a mixed career that combines forestry and security management. He has a wealth of experience in forestry management as well as law enforcement and security having worked as a District Forestry Officer, head of Natural forests section at Forest Department Headquarters and later, the Head Forest Health and Protection from 2005 until 2008 when he was appointed the Deputy Commandant.

He holds a first degree in Forestry, a Master's degree in International Relations and is a graduate of the National defence college, Kenya.



**Prof. Donald Ogweno  
Principal Kenya Forestry  
College**

Professor. Ogweno is in charge of the Kenya Forestry college. The college carries out diploma & certificate courses in Forestry & paramilitary. He holds a doctorate degree in forestry, a master's degree in Science as well as a bachelor's degree in forestry with over thirty (31) years experience. He has also undergone basic paramilitary training at the National Youth Service & officers course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya.



**John Mburu  
Ag.Head Supply Chain  
Management**

Mr. John Mburu is the acting in charge of supply chain management. He holds a Master's degree in Procurement and Logistics from JKUAT holds a graduate diploma in purchasing and supply from the Chartered institute of Purchasing & Supply - UK, as well as a Bachelors of Economics from Moi University. He has over eleven (11) years experience. He is a full member of both the Kenya Institute of Supplies and Management (KISM) and Chartered Institute of Purchasing & Supply – UK



**Ms Pauline Mwende – Ag.  
Head, Internal Audit**

Ms. Mwende the acting internal auditor. She holds a bachelor's degree in commerce, is a certified public accountant (K) with over ten (10) years experience. She is a member of the Institute of Certified Public Accountants (ICPAK).

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**Ms Anne Muthamia**  
**Head: Corporate**  
**Communication**

Ms. Muthamia is in charge of Corporate Communications. She holds a master's degree in Communication Studies, as well as a bachelor's degree in Communication with over twelve (12) years experience. She is a member of Public Relation Society of Kenya (PRSK) and Association of Media women in Kenya (AMWIK).

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## II. CHAIRMAN'S STATEMENT

I present the seventh (7<sup>th</sup>) edition of the Service's financial statements for the year ended 30<sup>th</sup> June 2015.

Kenya's Economic Survey Report (2013) indicates that 42% of her Gross Domestic Product (GDP) is derived from natural resource based sectors. The Environment Protection, Water and Natural Resources sector, is the largest natural resource based sector therefore presents great potential in the attainment of the targeted annual GDP growth rate of 10% as stipulated in the Vision 2030.

2014/15 financial year was the first year of KFS implementation of its 2<sup>nd</sup> Strategic Plan whereby Kshs 5,470,606,000 was used to intensify conservation and sustainable management of strategic forest resources for environmental protection and economic growth; enhance productivity of industrial forest plantations; and employment creation by natural based enterprises. Specifically, these resources were used for rehabilitation and protection of 216,000 ha in water towers, 8,100ha established and 141,000 ha managed in Mau, Central Highlands and North Rift Conservancies, 17 Established Farmer Field Schools (FFS Partnered with schools to plant 2.5 million tree seedlings under the Green School Programme in all the counties, among other milestones.

During the period under review KFS operated under Government Performance Contracting where specific targets were set on Financial, Customer, Internal Process and Learning and Growth perspectives. My board of Directors is keen to ensure that KFS attains all their objectives and in collaboration with all stake holders to ensure that we work closely to achieving the 10% forest cover as expected in the vision 2030.



**Mr. Peter Kirigua HSC**  
Chairman, Board of Directors

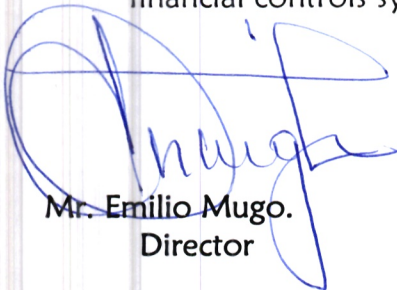
### III. REPORT OF THE DIRECTOR

I am pleased to announce the financial results of the Service for the financial period ended on 30<sup>th</sup> June 2015.

Over the period our annual appropriation in aid has increased from Kshs 2,719,684,475/- to Kshs 3,257,596,634/- during the financial year.

The implementation of all the planned activities continued in accordance with the work plan and the budgetary provision throughout the 2014/15 financial year. The focus of activities undertaken by the Service was on the promotion of sustainability, utilization and management of; environment, water and other natural resources for socio-economic development. Allocated resources were utilized as planned.

In my opinion the attached financial statement gives a true and fair view of the state of the financial affairs of KFS as at 30<sup>th</sup> June 2015. I further confirm the completeness of the accounting records maintained by KFS, which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the internal financial controls system.



Mr. Emilio Mugo.  
Director

#### IV. CORPORATE GOVERNANCE STATEMENT

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

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

##### **General Responsibilities**

The Board has a duty to the people of Kenya to ensure that the KFS achieves its objectives efficiently and effectively and in compliance with the Forest Act 2005. Statutory powers of the KFS Board include:

- Approve and ratify the policies of the Service.
- Manage, control and administer the assets of the Service in such manner and for such purposes as are best to promote the purposes for which the Service is established.
- Receive any gifts, grants, donations or endowments made to the Service.
- Determine the provisions to be made for capital and recurrent expenditure and for the reserves of the Service.
- Open a banking account or banking accounts for the funds of the Service.
- Invest any moneys of the Service not immediately required for the purposes of this Act.
- Determine and issue the terms and conditions for the appointment and enlistment of personnel to the Service.
- Co-operate with other organizations undertaking functions similar to its own, whether within Kenya or otherwise.

##### **Specific Responsibilities**

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

- Determine a clear statement of KFS's vision, mission, purpose and values.
- Make recommendations for appointment of the Director
- Monitor and appraise the performance of the Director
- Appoint and appraise other senior managers
- Ensure accountability through quality management systems
- Ensure adequate strategic planning
- Ensure adequate business and operational planning
- Ensure KFS has adequate financial resources

- Ensure adequate financial reporting
- Ensure adequate standards of internal controls
- Approve staff employment policies and practices
- Assess corporate performance through external evaluations
- Manage, protect and enhance KFS's reputation
- Ensure an efficient and effective functioning Board

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

#### **Directors' remuneration**

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

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

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

#### **Risk Management and Internal Controls**

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

#### **Corporate Social Sustainability**

The Service has put in place a corporate social responsibility strategy to better address its corporate social sustainability initiatives. Consequently, it has adopted a structured

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approach to social sustainability issues as part of its corporate plan. The Services' initiatives for the focal period are outlined in the corporate social responsibility statement.

### Board Committees

The Board has four Committees with specific delegated authorities. These are the Board Audit and Governance Committee, the Board Human Resources and Administration Committee, the Finance and General purposes Committee as well as the Technical, Planning and Development Committee. The respective Chairpersons present their reports to the Board at each scheduled meeting. All Directors are subject to a three year term renewable once (for independent members appointed by name) in accordance with the Forest Act 2005. On first appointment, the directors go through an induction program covering the organisation's operations and an appreciation of the key risk areas. The directors are advised on the legal, regulatory and other obligations as an ongoing basis. The directors also receive both internal and external training on corporate governance through a comprehensive training by the Centre for Corporate Governance.

### Conflicts of interest

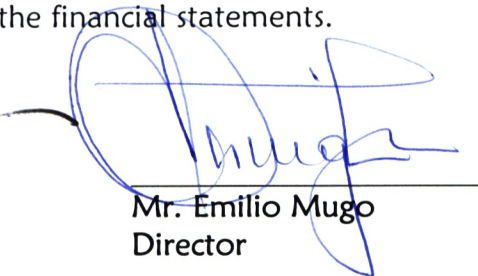
All directors are under a duty to avoid conflicts of interest. This entails not engaging, directly or indirectly in any business that competes or conflicts with the Service's business. The Service has established a robust process requiring directors to disclose outside business interests before they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

### Compliance

The Board confirms that it is satisfied that the Service has adequate resources to continue operating for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements. The Board is satisfied that the Service has to the best of their knowledge complied with all relevant laws and conducted its business affairs in accordance with the law in particular to the State Corporations Act and the Forest Act 2005. Further disclosures on compliance are set out in the Directors statement of responsibilities and notes to the financial statements.



Mr. Peter Kirigua HSC  
Chair, Board of Directors



Mr. Emilio Mugo  
Director

## V. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Kenya Forest Service strives to be a corporation that epitomizes the aspirations of Kenyans in environmental conservation and management. The Service recognizes its obligations to act professionally, ethically, and with integrity in its dealings with stakeholders including staff, neighbours, customers and the environment at large.

Through implementation of our mandate to conserve, develop and sustainably manage forestry resources, whether reclaiming forest areas, undertaking extension forestry, forest plantation establishment and management, forest law enforcement, or in tree planting, the Service seeks to be a responsible citizen and community partner. In line with embodying this ideal, the Service has developed an approach in implementing its mandate that seeks to uphold the following principles and responsibilities for good corporate citizenship: management commitment, good corporate governance, sustainability, community involvement, partnerships, and responsibility for forest resources, suppliers and employees.

We are committed to developing and implementing holistic, life transforming and sustainable projects. During the financial period: The Service made donations to several children's homes and homes for the elderly. KFS donated foodstuffs and firewood to these homes through the KFS Choir members who attended and participated in the activities through the Presidential Music Choir.

The Service sponsored sports events to publicize tree planting, educate players and mobilize participation in tree growing initiatives. These include KFS Golf events in several Golf Clubs and Sports and Volleyball tournaments in various parts of the Country. Notably, KFS contributed to the Gertrude's Hospital Foundation charity golf tournament

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## VI. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2015 which show the state of the Kenya Forest Service affairs.

### Principal activities

The principal activities of the entity continue to be;

- To increase net forest cover
- To strengthen financial base
- To enhance conservation, sustainable management and utilisation of forests by improving livelihoods in rural areas
- To effectively manage information within interactive integrated information systems in support of business processes and improved service delivery
- To strengthen institutional capacity to deliver on its mandate

### Results

The results of the entity for the year ended June 30, 2015 are set out on page 19 to 25.

### Auditors

The Auditor General is responsible for the statutory audit of the Kenya Forest Service in accordance with section 81 of the Public Finance Management (PFM) Act, 2012, & section 69 of the Public Audit Act which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

## VII. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

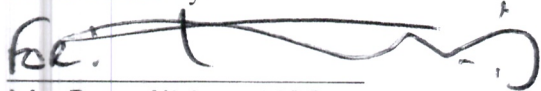
The Directors are responsible for the preparation and presentation of financial statements of the Kenya Forest Service, which give a true and fair view of the state of affairs of the Kenya Forest Service for and as at the end of the financial year (period) ended on June 30, 2015. This responsibility 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 Kenya Forest Service;
- (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) safeguarding the assets of the Kenya Forest Service;
- (v) selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

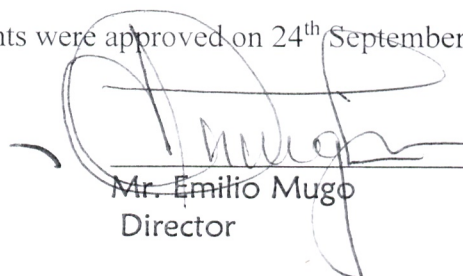
The Directors accept responsibility for the financial statements of Kenya Forest Service, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The Directors are of the opinion that the financial statements of the Kenya Forest Service give a true and fair view of the state of transactions of Kenya Forest Service during the financial year ended June 30, 2015, and of the financial position of the Kenya Forest Service as at that date. The Directors further confirm the completeness of the accounting records maintained for the Kenya Forest Service, which have been relied upon in the preparation of the financial statements of the Kenya Forest Service as well as the adequacy of the systems of internal financial control. Nothing has come to the attention of the Directors to indicate that the Kenya Forest Service will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The Kenya Forest Service financial statements were approved on 24<sup>th</sup> September 2015 and signed on its behalf by:



Mr. Peter Kirigua HSC  
Chairman, Board of Directors



Mr. Emilio Mugo  
Director

# REPUBLIC OF KENYA

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NAIROBI



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA FOREST SERVICE FOR THE YEAR ENDED 30 JUNE 2015

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Forest Service set out on pages 1 to 33, which comprise the statement of financial position as at 30 June 2015, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparative 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

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

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

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

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act 2003 and submit 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 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

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*Report of the Auditor-General on Kenya Forest Service for the year ended 30 June 2015*

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 Service'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. Property, Plant and Equipment**

As previously reported, the property plant and equipment balance of Kshs.2,294,047,000 as at 30 June 2015 excluded one hundred and eighty eight (188) un-valued parcels of land without title deeds. As a result, it has not been possible to confirm the accuracy of property plant and equipment balance of Kshs.2,294,047,000 as at 30 June 2015

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

As similarly reported my report for the 2013/2014 financial year, the receivables from exchange transactions balance of Kshs.440,153,000 (2014: Kshs.270,749,000) as at 30 June 2015 includes long outstanding debts of Kshs.129,064,876 owed by Government Agencies and media houses whose transmitters are located within Kenya Forest Service owned sites. The debtors have ignored or refused to pay for the license charges alleging that they make payment to the Kenya Broadcasting Corporation.

In consequence, it has not been possible to confirm the recoverability of the debts balance totalling to Kshs.129,069,876 included in the exchange transactions balance of Kshs.440,153,000 as at 30 June 2015.

#### **3. Grants and Subsidies**

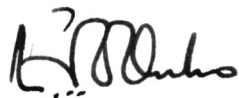
The statement of performance reflects grants and subsidies expenditure totalling to Kshs.17,607,000 (2014: Kshs.19,640,000) as at 30 June 2015. Included in the balance is a sum of Kshs.16,846,000 described as capital grants and Transfers. However, no supporting documents were presented for audit review to explain the balance.

In the circumstance, validity and propriety of the grants and subsidies expenditure of Kshs.17,607,000 could not be confirmed as at 30 June 2015.

### **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 the Kenya Forest Service 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 Standard and comply with the Forest Act, 2005 of the Laws of Kenya.



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

**Nairobi**

**14 November 2016**

Kenya Forest Service  
Financial Statements for the Year Ended 30<sup>th</sup> June 2015

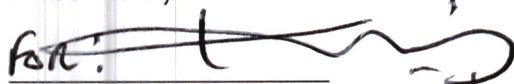
**1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2015**

	Note	2014-2015 Kshs '000'	2013-2014 Kshs '000'
<b>Revenue from non-exchange transactions</b>			
Public contributions and donations	3	2,168,503	1,626,876
Transfers from other governments – gifts and services-in-kind	4	451,133	492,989
Fines, Penalties and Levies	6	3,183	1,501
		<b>2,622,820</b>	<b>2,121,367</b>
<b>Revenue from exchange transactions</b>			
AIA Income	5	2,997,926	2,460,466
Licenses & Permits	7	257,262	257,717
Finance income - external investments	8	67,000	87,721
Foreign Exchange Gain	9	0	9,200
		<b>3,322,187</b>	<b>2,815,104</b>
<b>Total revenue</b>		<b>5,945,007</b>	<b>4,936,471</b>
<b>Expenses</b>			
Employee costs	10	3,574,811	3,430,105
Bulk purchase of water & Electricity	11	25,514	19,208
Board Expenses	12	7,736	7,225
Depreciation and amortization expense	13	372,671	479,379
Repairs & Maintenance	14	286,088	316,192
Contracted Services	15	74,479	122,915
Grants & Subsidies	16	17,607	19,640
General Expenses	17	1,186,022	1,162,860
<b>Total expenses</b>		<b>5,544,928</b>	<b>5,557,523</b>
<b>Surplus before tax</b>		<b>400,079</b>	<b>(621,051)</b>

**2. STATEMENT OF FINANCIAL POSITION AS AT 30<sup>th</sup> JUNE 2015**

	Note	2014-2015 Kshs '000'	2013-2014 Kshs '000'
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	18	2,208,042	1,642,459
Receivables from non-exchange transactions	19	227,186	102,315
Receivables from exchange transactions	20	440,153	270,749
		<b>2,875,381</b>	<b>2,015,522</b>
<b>Non-current assets</b>			
Plantation	22	59,315,177	59,981,875
Property, plant and equipment	23	2,294,047	2,520,059
Intangible assets	24	11,546	21,315
		<b>61,620,770</b>	<b>62,523,249</b>
<b>Total assets</b>		<b>64,496,151</b>	<b>64,538,772</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	25	130,519	80,499
Refundable deposits from customers	26	21,772	13,565
Provisions	27	74,763	42,962
Employee benefit obligation	28	15,005	25,413
Payments received in advance	29	10,017	2,503
Withheld Taxes	30	359	5
		<b>252,436</b>	<b>164,948</b>
<b>Net assets</b>		<b>64,243,715</b>	<b>64,373,823</b>
<b>Reserves</b>		<b>64,243,715</b>	<b>64,373,823</b>
<b>Total net assets and liabilities</b>		<b>64,243,715</b>	<b>64,373,823</b>

The Financial Statements set out on pages 20 to 24 were signed on behalf of the Board of Directors by:



**Mr. Peter Kirigua HSC**  
Chairman, Board of Directors



**Mr. Emilio Mugo**  
Director

Date.....

Date.....

Kenya Forest Service  
Financial Statements for the Year Ended 30<sup>th</sup> June 2015

**3. STATEMENT OF CHANGES IN CAPITAL FUNDS AND RESERVES FOR THE YEAR ENDED 30TH JUNE 2015**

	Capital Funds Kshs.000	Revaluation Reserves Kshs.000	Revenue Reserves Kshs.000	Total Kshs.000
Balance b/f As at 01.07.2013	63,516,687	0	1,506,398	65,023,085
Adjustment for the year	(843,605)	0	0	(843,605)
Additions for the Year	815,395	0	0	815,395
Surplus/Deficit for the year	0	0	(621,052)	(621,052)
<b>Balance C/F as at 30.06.2013</b>	<b>63,488,477</b>	<b>0</b>	<b>885,347</b>	<b>64,373,823</b>
Balance b/f As at 01.07.2014	63,488,477	0	885,347	64,373,823
Adjustment for the year	(668,674)*	0	(478)*	(669,152)
Additions for the Year	136,989	0	1,975*	138,964
Surplus/Deficit for the year		0	400,079	400,079
<b>Balance C/F as at 30.06.2015</b>	<b>62,956,791</b>	<b>0</b>	<b>1,286,923</b>	<b>64,243,715</b>

*\*An adjustment of Kshs 668,674 has been done on the capital funds to adjust on the movement in value of the plantations (kshs 666,698) and to write of the cost of a written off motor vehicle ( Kshs 1,975) during the year.*

*\*An amount of Ksh 478 has also been adjusted being retention amount not recognized as an expense during the year.*

**4. STATEMENT OF CASH FLOWS THE YEAR ENDED 30<sup>th</sup> JUNE 2015**

	Notes	2014/2015 Kshs "000"	2013/2014 Kshs "000"
<b>Cash flows from operating activities</b>			
Net operating deficit/Surplus for the year		400,079	(621,051)
<b>Adjustments For</b>			
Depreciation of Plant, Property and Equipment	23	359,731	466,604
Net Book Value Retired		99	-
Amortisation of intangible assets	24	12,939	12,774
Increase (Decrease) in Provisions	27	31,801	1,000
Net cash flow generated from operating activities before changes in working capital		<b>804,649</b>	<b>(140,673)</b>
<b>Changes in working capital</b>			
Increase in Trade and other receivables	19 & 20	(294,276)	(31,925)
Increase in Trade and other payables	25,26,2 8,29& 30	55,210	2,356
<i>Net cash flows from operating activities</i>		<b>565,583</b>	<b>(170,242)</b>
<b>Cash flows from Investing Activities</b>			
Sale of investments		0	0
Purchase of Plant, Property and Equipment	23 & 24	<u>(136,989)</u>	<u>(815,395)</u>
<i>Net outflow from investing activities</i>		<b>(136,989)</b>	<b>(815,395)</b>
<b>Cash flows from Financing Activities</b>			
Development Grants received	23 & 24	<u>136,989</u>	<u>815,395</u>
<i>Net inflows from Financing activities</i>		<b>136,989</b>	<b>815,395</b>
Increase in Cash and Cash Equivalents		565,583	(170,242)
Cash and Cash Equivalents at beginning of the Period	18	1,642,459	1,812,701
Cash and Cash Equivalents at the end of the Period		<b>2,208,042</b>	<b>1,642,459</b>

Kenya Forest Service  
Financial Statements for the Year Ended 30<sup>th</sup> June 2015

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

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Notes
	2014-2015	2014-2015	2014- 2015	2014-2015	2014-2015	
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	
<b>Revenue</b>						
Public contributions and donations	1,101,750	570,000	1,671,750	2,168,503	496,752	3
Transfers from other governments – gifts and services-in-kind	1,558,433		1,558,433	451,133	(1,107,299)	4
Sale of goods	2,299,300		2,299,300	3,258,371	959,071	5,6&7
Finance Income	-		-	67,000	67,000	8
Foreign Exchange Gains	-		-	0	-	9
<b>Total income</b>	<b>4,959,483</b>	<b>570,000</b>	<b>5,529,483</b>	<b>5,945,007</b>	<b>415,524</b>	
<b>Expenses</b>						
Compensation of employees	3,600,910		3,600,910	3,574,810	26,099	10
Goods and services	1,686,200		1,682,200	1,564,196	122,003	11,14,15, 16 & 17
Board Expenses	25,000		25,000	7,736	17,264	12
Acquisition of Assets	815,395		815,395	136,989	678,406	23
<b>Total expenditure</b>	<b>6,127,505</b>		<b>6,127,505</b>	<b>5,283,732</b>	<b>843,773</b>	
<b>Surplus for the period</b>	<b>(1,168,022)</b>	<b>570,000</b>	<b>(598,022)</b>	<b>661,275</b>	<b>(428,249)</b>	

Adjustments to the budget is as a result of the supplementary budget given after review during the year.

## 6. NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### 1. Statement of compliance and basis of preparation

The financial statements are prepared in accordance with & comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Service and all values are rounded to the nearest a thousand shillings (1,000 Kshs). The accounting policies have been consistently applied to all the years presented. The cash flow statement is prepared using the indirect method. The financial statements have been prepared on the basis of historical cost basis of measurement as modified by fair value adjustments where necessary.

### 2. Summary of significant accounting policies

The Service is a going concern with there being no intention to liquidate or curtail its operations materially. The preparation of these financial statements conforms to Generally Accepted Accounting Principles (GAAP) which requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting amounts of revenues and expenses during the reporting period.

#### a) Revenue recognition

##### i. Revenue from non-exchange transactions

#### Public Contributions and Donations

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

#### Transfers from other government entities

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

*Notes to the Financial Statements (cont)*

ii. **Revenue from exchange transactions**

*Rendering of services*

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

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

*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 entity.

*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.

**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 Service. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or organisational 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**

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to acquisition of the assets. Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under revaluation surplus.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of property and equipment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining the surplus. Tools and other minor office equipments are fully (100%) depreciated in the year of acquisition.

**Notes to the Financial Statements (cont)**

Depreciation is calculated on a pro-rata straight-line basis to the date of acquisition to write down the cost of each asset to its residual value (at 5% of the historical cost) over its estimated useful life using the following annual rates.

Buildings	5%
Plants, Machinery and Tractors-	10%
Office/ residential Furniture	20%
Office / residential Equipment	20%
Motor Vehicles	25%
Roads	12½%
Fences	12½%
Computers	33 ⅓%
Aircraft	7½%

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

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

**d) Intangible assets**

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

The useful life of the intangible assets is assessed as either finite or indefinite.

**e) Biological assets**

Living plants with probable future economic benefits which are owned and controlled by the service are accounted for as biological assets. Biological assets are measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. They are subsequently measured at lower of cost and net realizable value in accordance with IPSAS 27 before harvesting.

*Notes to the Financial Statements (cont)*

The fair value of the biological assets that have an active market is determined using the quoted price in the market. The fair value of the biological assets that do not have an active market is determined at the present value of the expected net cash flows discounted at the current market determined pre-tax borrowing rate. The fair value of the service's newly planted trees is estimated by reference to costs incurred on the trees up to the reporting date.

Point of sale costs include commissions to brokers and dealers, levies by regulatory agencies and transfer taxes and duties but exclude transport and other costs necessary to get the assets to the market.

For financial reporting purposes, the service considers its biological assets as *Consumable biological assets* which are those biological assets that are to be harvested as agricultural produce or to be sold as biological assets. These are plantations grown by the service.

Gains or losses arising on initial recognition of biological assets and agricultural produce and from changes in fair value less point of sale costs are recognized in the income statement for the year.

**f) Nature and purpose of reserves**

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

At the close of the financial year, the Service had an accumulated fund of sixty four billion, two hundred forty three million, seven hundred and fourteen thousand, six hundred and thirty seven shillings only (Kshs **64,243,714,637**) as compared to sixty four million, three seventy three million, eight twenty three thousand shillings (Kshs **64,373,823,488**) cumulated as at end of 2013/2014 financial year.

**g) Changes in accounting policies and estimates**

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

**h) Employee benefits**

The Service provides retirement benefits for its employees under a defined contribution scheme.

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

The Service runs a defined contribution pension scheme for its permanent and pensionable staff, the assets of which are held in a separate trustee administered scheme managed by independent scheme administrators, fund managers and custodians

***Notes to the Financial Statements (cont)***

engaged at arm's length as well as a gratuity scheme for its contracted employees which is fully funded by the Service.

The Service also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF) a national retirement benefit scheme as defined by Kenyan statutes. The Fund's contributions to the above schemes are charged in the year to which they relate.

**i) Foreign currency transactions**

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

**j) Related parties**

The Service regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Service, or vice versa. Members of the board of directors & key management are regarded as related parties and comprise of the Director, senior deputy directors, deputy directors & heads of departments.

**k) Service concession arrangements**

The Service analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Service recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Service also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**l) 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.

*Notes to the Financial Statements (cont)*

**m) Financial instruments**

**i. Financial assets**

Initial recognition and measurement

Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

*Notes to the Financial Statements (cont)*

**ii. Financial liabilities**

**Initial recognition and measurement**

Financial liabilities are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

***Loans and borrowing***

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

**n) Comparative figures**

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

**o) Significant judgments and sources of estimation uncertainty**

The preparation of the Service's financial statements in conformity with IPSAS requires, its Director's make certain 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, that are continuously evaluated and assessed for adjustments based on prior experience and other determinants, including expectations of future events that are believed to be reasonable under the prevailing circumstances. Although these estimates are based on the Directors' best knowledge of current events and actions, in practice actual results may differ from these estimates. Such estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made and are described in these notes to the Financial Statements.

***Estimates and assumptions***

The Service is a going concern with there being no intention to liquidate or curtail its operations materially. The preparation of these financial statements conforms to Generally Accepted Accounting Principles (GAAP) which requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting amounts of revenues and expenses during the reporting period.

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

Kenya Forest Service  
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*Notes to the Financial Statements (cont)*

adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Service based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Service. Such changes are reflected in the assumptions when they occur.

*Useful lives and residual values*

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

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

*Provisions*

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

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 22. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money.

*Contingent liabilities*

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

*Contingent assets*

The service does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become

*Notes to the Financial Statements (cont)*

virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**P) Financial risk management objectives and policies**

The service principal financial instruments comprise cash and cash equivalents, trade receivables, trade payables and amounts due from related parties. These instruments arise directly from its operations.

The service does not enter into derivative transactions.

The service has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk.

**r) 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, 2015.

**3. Public Contributions and Donations**

These are funds from the exchequer to finance the Services recurrent and development activities in the following core programmes: Natural Forest conservation and management, Farm and Dry land Forests Conservation and Management, Plantation and Enterprise Development. The service received Kshs 2,305,491,726 out of which Kshs 136,988,522 was capitalized to leave Kshs 2,168,503,204 reported under financial performance.

**4. Transfers from other governments**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Service and can be measured reliably. Donor grants are accounted for where they are recognized as income over the periods necessary to match them with the related assets which they are intended to compensate on a systematic basis while capital grants and non-monetary grants, such as property, plant and equipment or other resources, are usually accounted for at fair value. During the year the Service received grants as set out below;

**• INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) GRANTS**

These were grants for the Natural Resource Management project funded by the Government of Kenya through a World Bank credit facility. The project is designed to support forest and water resources institutions to build the necessary capacity to implement new legislations in both sectors.

*Notes to the Financial Statements (cont)*

- **AFRICAN DEVELOPMENT BANK (ADB)**

These were grants for the Green Zones Development Support Project (GZDSP) financed through a loan from the African Development Fund (ADF) of the African Development Bank (ADB). The project objectives are to promote forest regeneration and conservation for environmental protection as well as to improve rural livelihoods and incomes of communities living adjacent to forests.
  
- **GOVERNMENT OF FINLAND**

These were grants for the Miti Mingi Maisha Bora (MMMB) project financed by the Government of Kenya and Government of Finland. It is a five (5) year bilateral programme to support forest sector reform in Kenya and reduction of poverty by ensuring the forest sector contributes effectively and sustainably to improving lives of the poor, restoring the environment, and aiding the economic recovery and growth of Kenya, within the context of vision 2030.
  
- **FAO– UNFF**

These were grants from the United Nations Forum on Forests (UNFF) is a high-level intergovernmental policy forum, composed of all United Nations Member States, with the main objective to promote inter alia the management, conservation and sustainable development of all types of forests and to strengthen long-term political commitment to this end based on the Rio Declaration, the Forest Principles, Chapter 11 of Agenda 21 and other key milestones of international forest policy
  
- **FAO-NFPF**

These were grants for the National Forest Programme Facility. The facility is to kick-start the process of forest sector development with attention on poverty alleviation and ecological restoration. It will be used to strengthen and complement ongoing initiatives, identify emerging issues, develop, test and refine joint forest management models for ecologically sensitive forests, involving local communities.
  
- **UNEP**

These were grants for the Innovative Approaches Towards the restoration of the Mau (IARME) project. It is a three (3) year intervention to rehabilitate the Northern Mau complex for the restoration of vital water catchments and establishment of payments for environmental services; to improving the livelihoods of local communities and monitoring carbon storage in the Mau. It is funded by the European Union and implemented by the Government of Kenya and the United Nations Environmental Program
  
- **NATURE KENYA**

This is a GEF Project executed by UNDP and implemented by the Government of Kenya. This project addresses the need to improve PA representation in the Eastern Afromontane Hotspot, complementing efforts to strengthen the management of Montane Forests as part of a national strategy to improve the coverage of the PA system. The project is designed to conserve biodiversity, including unprotected forest lands and reserve forests being managed for production. The systemic interventions planned will indirectly improve the status of the entire western forest estate. This will be achieved by improving accountability for decision making, monitoring and adaptive management.

Kenya Forest Service  
Financial Statements for the year ended 30<sup>th</sup> June 2015

*Notes to the Financial Statements (cont)*

• GOVERNMENT FINLAND - ICFRA (Metla)

These were grants from Government of Finland for the development of forest resource Accounts (FRA) with the Finish Forest Research Institute (Metla) as part of component I of the Miti Mingi Maisha Bora project.

• CLINTON FOUNDATION

Is a grant through the Clinton climate initiative (CCI) towards supporting establishment & operationalization of a system for land-based emissions estimate to support Kenya national priorities in the sector to provide better access to data on the conditions of Kenya's natural resources

**Unconditional grants**

	2014/2015	2013/2014
	Kshs "000"	Kshs
IDA	10,828	21,880
JICA	-	143,409
ADB	61,477	266,238
PARTNERS Donations	2,419	4,584
UNEP	(2,156)	24,153
FAO-NFPF	2,007	4,753
GOVT-FINLAND MMMB	370,572	1,860
NATURE KENYA	-	6,297
MINISTRY OF AGRICULTURE	-	11,544
GOVT of FINLAND – ICFRA (Metla)	2,937	6,076
FAO-UN FORUM ON FORESTS (UNFF)	1,868	1,541
CLINTON FOUNDATION	-	654
Centre for Disease Control (CDC)	1,181	-
Transfers from other governments – gifts and services-in-kind	<b>451,133</b>	<b>492,990</b>

**5. Appropriation in aid**

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

Kenya Forest Service  
Financial Statements for the year ended 30<sup>th</sup> June 2015

*Notes to the Financial Statements (cont)*

Appropriation in aid (Cont)	2014/2015 Kshs. "000"	2013/2014 Kshs. "000"
Plantations	2,464,570	2,002,883
Mangrove	264	52
Transmission Poles	25,882	25,193
Mangrove Poles	4,681	7,644
Small Poles	8	161
Bamboo Stems	256	71
Professional fees	1,381	510
Tuition Fees	5,855	5,407
Treatment of Poles	-	10
Water charges-Water easements	3,452	4,522
Aircraft Usage	5,159	-
Poles	4,735	9,845
Fuel wood	21,840	37,746
Quarrying, Soil, Sand	15,635	5,273
Resin	1,181	2,070
Ecotourism sites	302	2,573
Grazing Fees	31,642	39,255
Other Forest Incomes	30,533	8,941
Recreation	5,700	7,466
Grass	1,646	1,647
Withies	691	1,387
Assesment Fees	15,637	1,579
Accomodation	36	214
Fallen tree Materials	-	21,419
Staff Quarters	1,888	3,177
Leases	44,691	77,299
Land Rent	217,768	355
PELIS/Shamba Rent/Land Rent	80,276	178,514
Ground Rent	431	3,389
Bonded Items	1,233	1,603
Seedlings & Cuttings	10,239	5,510
Third Party Commissions	291	6
Unapplied Receipts	(418)	-
Proceeds from Disposal of Assets	1	3,936
Other Miscellaneous Receipts	-	249
Staff Medical Recoveries	-	9
Sale of Tender Documents	439	550
<b>AIA Income</b>	<b>2,997,925</b>	<b>2,460,466</b>

Kenya Forest Service  
Financial Statements for the year ended 30<sup>th</sup> June 2015

*Notes to the Financial Statements (cont)*

**6. Fines and Surcharges**

	2014/2015 Kshs "000"	2013/2014 Kshs "000"
Fines & Surcharges	3,183	1,501
	<b>3,183</b>	<b>1,501</b>

**7. Licenses & Permits**

	2014/2015 Kshs "000"	2013/2014 Kshs "000"
Movement Permits	222,887	210,988
Monthly Fuel Licenses	24,564	23,956
Saw millers Licenses	9,811	22,773
	<b>257,262</b>	<b>257,717</b>

**8. Finance Income – External Investments**

This relates to call deposits interest earned during the financial year

	2014/2015 Kshs "000"	2013/2014 Kshs "000"
Fixed Deposit Interest-KCB	40,247	16,118
Investment interest-Gratuity	0	604
Fixed Deposit Interest-Equity	2,768	36,074
Fixed Deposit Interest – Coop	15,411	18,021
Fixed Deposit Interest – National	8,490	15,982
Fixed Deposit Interest – NIC	83	922
	<b>67,000</b>	<b>87,720</b>

**9. Foreign exchange Gain**

This relates to recognition of foreign exchange gain realised on accounts held in foreign currency

Kenya Forest Service  
Financial Statements for the year ended 30<sup>th</sup> June 2015

*Notes to the Financial Statements (cont)*

**10. Employee costs**

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

	2014/2015	2013/2014
Number of Employees	5,136	5,078
	Kshs "000"	Kshs "000"
Basic Salaries	2,209,459	2,101,148
Casual Labour	156,026	108,012
Acting Allowance	1,301	665
Transfer Allowance	11,139	10,870
Commuting Allowance	237,827	242,427
Hardship Allowance	12,967	12,992
Medical Allowance	25	86
Special Duty Allowance	833	996
Leave Allowance	52,739	59,094
Extraneous Allowance	3,530	3,513
Telephone Allowance	5,243	5,290
Refund of Medical Expenses - Ex-Gr	570	843
Staff Medical Insurance	278,070	316,599
House Allowance	243,517	252,020
Non Practice Allowance	660	660
Entertainment Allowance	300	360
Instructor's Allowance	2,516	3,904
Arrears Pay	1,188	0
Uniform Allowance	13,619	27
Contributions to National Social S	12,415	13,286
Staff Pension- KFS Contributions	329,658	291,216
Staff Gratuity	1,130	6,005
Risk Allowance	78	91
<b>Total Employee Costs</b>	<b>3,574,811</b>	<b>3,430,105</b>

**11. Bulk Purchase of Water & Electricity**

	2014/2015	2013/2014
	Kshs. "000"	Kshs. "000"
Electricity	19,426	13,853
Water	6,088	5,355
<b>Total</b>	<b>25,514</b>	<b>19,209</b>

**12. Board Expenses**

	2014/2015	2013/2014
	Kshs "000"	Kshs "000"
Board Expenses	3,139	2,425
Board Secretary's Remuneration	<u>4,597</u>	<u>4,800</u>
<b>Total Expenses</b>	<b><u>7,736</u></b>	<b><u>7,225</u></b>

Kenya Forest Service  
Financial Statements for the year ended 30<sup>th</sup> June 2015

*Notes to the Financial Statements (cont)*

**13. Depreciation and Amortization Expenses**

	2014/2015 Kshs. "000"	2013/2014 Kshs. "000"
Depreciation – PPE	359,732	466,605
Amortisation – Intangible Assets	12,939	12,774
<b>Total</b>	<b>372,671</b>	<b>479,379</b>

**14. Repairs & Maintenance**

	2014/2015 Kshs. "000"	2013/2014 Kshs. "000"
Maintenance Expenses - Motor Vehicles	66,916	68,872
Maintenance of Plant and Machinery	2,221	2,574
Maintenance of Office Furniture	9,404	7,435
Maintenance of Buildings – Residential	9,319	21,028
Maintenance of Buildings Offices and Stations	34,050	37,672
Maintenance of Civil Works	62,148	63,480
Maintenance of Roads	96,378	109,693
Maintenance of Computers, Software	4,279	4,040
Maintenance of Aircraft	1,372	1,398
<b>Total Repairs &amp; Maintenance</b>	<b>286,088</b>	<b>316,192</b>

**15. Contracted Services**

	2014/2015 Kshs "000"	2013/2014 Kshs "000"
Contracted Professional Services	31,397	55,766
Contracted Technical Services	43,082	67,149
<b>Total Expenses</b>	<b>74,479</b>	<b>122,915</b>

**16. Grants To CFAs & Other Institutions**

	2014/2015 Kshs "000"	2013/2014 Kshs "000"
Capital Grants and Transfers	16,846	19,640
Capital Transfers Non-Profit Orga	762	-
<b>Total Expenses</b>	<b>17,607</b>	<b>19,640</b>

Kenya Forest Service  
Financial Statements for the year ended 30<sup>th</sup> June 2015

*Notes to the Financial Statements (cont)*

**17. General Expenses**

This comprises of administrative costs as set out below

	2014/2015 Kshs. "000"	2013/2014 Kshs. "000"
Staff Welfare Costs	11,480	6,687
Telephone, Telex, Facsimile, Compu	10,149	10,636
Courier and Postal Services	8,730	11,510
Leased Communication Lines	4,000	2,655
Supplies of Accessories for Comput	39,507	27,058
Travel Costs(airlines, bus, railway	7,562	5,547
Accommodation - Domestic Travel	23,942	18,441
Daily Subsistence Allowance	226,402	154,601
Field Operational Allowance	5,371	4,169
Travel Cost-International(Overseas	32,414	10,665
Publishing and Printing Services	39,798	47,103
Newspapers, Magazines and Periodic	693	2,533
Advertising, Awareness and Publici	24,940	27,182
Travel, Accommodation, Tuition Fee	53,257	70,103
Production and Printing of Trainin	99	337
Hire of Training Facilities and Eq	27,665	12,848
Training Accomodation Allowance	-	370
Service Personal Insurance	25,465	11,870
Buildings Insurance	1,774	954
Plant, Equipment and Machinery Ins	2,311	-
Motor Vehicle Insurance	28,531	31,586
General Insurance	7	-
Aircraft Insurance	12,867	15,686
Fungicides, Insecticides and Spray	1,694	19,594
Workshop Tools, Spares and Small E	19	-
Education and library Supplies	44	-
Production of photographic and Aud	13	10
Paramilitary Small Equipment and S	13,188	1,781
Laboratory Materials, Supplies an	-	42
General Office Supplies (papers, p	23,192	27,069
Cleaning Materials, Supplies and	4,300	4,489
Catering services	12,049	12,326
Fines,Interest-NSSF,NHIF	2,569	12,600
Refined Fuels and Lubricants for T	91,600	103,440
Bank Service Commission and Charge	1,966	1,722
Contracted Guards and Cleaning Ser	873	1,125
Membership Fees, Dues and Subscrip	1,277	694
Forest Conservation Committees Ex	9,878	8,142
Legal dues, Arbitration and Compen	14,554	10,595
Management Fees	495	498
Security Operations	54,873	34,720
Allowance for Doubtful debts	30,801	0
Food and Rations	20,898	20,294
Events and Celebrations	32,439	34,206
Tree seeds and seedlings.	108,154	194,551
Supplies for production	77,192	83,471

## Kenya Forest Service

Financial Statements for the year ended 30<sup>th</sup> June 2015

<i>Notes To The Financial Statements</i>	2014/2015	2013/2014
<i>(cont) (General Expenses)</i>	Kshs. "000"	Kshs. "000"
Partner Donation Expenses	1,262	1,424
Seminars and Conferences	-	1,079
Tree Planting	48,158	78,766
Land Levies	-	21
Other Operating Costs	24,739	21,733
Withheld Interest Income	10,050	0
Scholarships and other Education B	-	21
Net Book Value Retired	99	0
Staff Uniforms and Clothing	6,708	10,460
Trainees Uniforms and Clothing -	1,494	967
Audit Fee	4,480	4,480
	<b>1,186,021</b>	<b>1,162,859</b>

**18. Cash and Cash Equivalent**

	2014/2015	2013/2014
	Kshs. "000"	Kshs. "000"
Cash in Hand	272	474
Cash at Bank	2,054,450	770,325
Short Term Investments	153,320	871,660
<b>Cash and cash Equivalent</b>	<b>2,208,042</b>	<b>1,642,459</b>

The above cash at Bank is held in the following banks

	2014/2015	2013/2014
	Kshs. "000"	Kshs. "000"
<b>Cash at Bank</b>		
Cash at KCB	1,947,720	620,747
Cash at Co-operative	41,335	122,765
Cash at Equity	60,121	20,408
Cash at NIC	3,960	5,597
Cash at National Bank	1,311	95
Cash at CBA	3	713
<b>Total Cash at Bank</b>	<b>2,054,450</b>	<b>770,325</b>

The short term Investments are distributed to different banks as follows;

	2014/2015	2013/2014
	Kshs. "000"	Kshs. "000"
<b>Short Term Investments</b>		
Bank Guarantee – KCB	3,320	3,000
Call Account Deposit – KCB	150,000	337,823
Call Account Deposit – Equity	0	15,000
Call Account Deposit – NBK	0	497,479
Call Account Deposit – NIC	0	18,357
<b>Total Short Term Investments</b>	<b>153,320</b>	<b>871,660</b>

Kenya Forest Service  
Financial Statements for the year ended 30<sup>th</sup> June 2015

*Notes to the Financial Statements (cont)*

19. Receivables from Non Exchange Transactions

	2014/2015 Kshs. "000"	2013/2014 Kshs. "000"
Zonal Control Account -		
Development	70,269	44,119
Zonal Control Account Recurrent	26,109	12,373
Temporary Imprest	120,117	41,239
Standing Imprest	1,968	1,417
Salary Advances	8,723	3,167
<b>Receivables from Non Exchange Transactions</b>	<b>227,186</b>	<b>102,315</b>

20. Receivables from Exchange Transactions

	2014/2015 Kshs. "000"	2013/2014 Kshs. "000"
Receivables	405,968	263,904
Suppliers Prepayments	34,135	6,844
Safaricom deposit	50	0
<b>TOTALS</b>	<b>440,153</b>	<b>270,748</b>

*Notes to the Financial Statements (cont)*

**21. Forest Land**

As per the Forest Act all assets of the former forest department vested in the Kenya Forest Service vide Legal Notice number 151 of 2008 published in the Kenya Gazette Supplement number 82 of 28th November 2008, with effect from 1st February 2007. Currently there are two hundred and sixty five (265) gazetted forest blocks. Out of the two hundred and sixty five (265) gazetted forest blocks, the service holds title deeds for seventy seven (77) forests blocks. Due to the non-availability in the open market of gazetted forest land they cannot be valued hence have not been recognised as part of property, plant and equipment. However, there are some gazetted forest blocks which form part of conservation areas and nature reserves including both the land, the forest & allied forest resources therein and are treated as heritage assets as per IPSAS 17.

**22. Commercial plantations**

Kenya Forest Service maintains commercial tree plantations for sale as per the gazetted Field Service General Orders for provision of transmission poles, small poles, fuel wood, timber wood, fallen tree materials *et al.* The value of the plantations was arrived to as follows;

	2014/2015 Kshs "000"	2013/2014 Kshs "000"
Balance c/f as at 1 <sup>st</sup> July	59,981,875	60,825,480
Add; new stands	351,400	47,537
	60,333,275	60,873,017
Less sales	(2,464,570)	-2,091,935
	57,868,705	58,781,082
Add increase in value due to growth	1,446,472	1,200,793
	59,315,177	59,981,875
Less impairment	0	0
<b>Amount Recognized as at 30<sup>th</sup> June</b>	<b>59,315,177</b>	<b>59,981,875</b>

Total area of stocked plantations = 140,000 Ha.

Species composition of public plantation forests in Kenya:-

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

M.A.I for the growing species

i)	Cypress	–	15M <sup>3</sup> /Ha/Yr
ii)	Pines	–	18M <sup>3</sup> /Ha/Yr
iii)	Eucalyptus spp	–	25M <sup>3</sup> /Ha/Yr

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Financial Statements for the year ended 30<sup>th</sup> June 2015  
*Notes to the Financial Statements (cont)*

Value of plantations in 2013/2014 = Kshs.59,981,875,347.00

Add volume increment in 2014/2015 of 711,379.94M<sup>3</sup> = Kshs.1,446,471,110.00

Add new planting is 10,040 ha x Kshs.35,000 per ha. = Kshs.351,400,000.00

Less actual sales for 2014/2015 of 947,911.46M<sup>3</sup> = Kshs. 2,464,569,809.00

Value of plantations by 30<sup>th</sup> June, 2015 = Kshs.59,315,176,647.00

Significant assumptions made in the estimation of the fair value of the trees in 2015 include:

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

*\*The difference between the value of commercial plantation as at 30<sup>th</sup> June 2014 and 30<sup>th</sup> June 2015 of Ksh 666,698,700.00 represent a reduction in the value of the capital base and has since been adjusted in the statement of changes in Net Assets under capital reserves.*

Kenya Forest Service  
Financial Statements for the year ended 30<sup>th</sup> June 2015

*Notes to the Financial Statements (cont)*

**23. PROPERTY, PLANT AND EQUIPMENT**

	Buildings	Plant and Machinery	Work In Progress	Motor Vehicles & Cycles	Computers & ICT Equipments	Office Furniture	Office & Household Equipments	Tools & Minor Equipments	Roads, Boreholes & Civil Works	Aircraft & hoppers	Totals
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Cost As at 01-07-2013	939,814,562	181,998,078	175,821,893	681,297,100	162,342,439	116,284,732	57,845,031	2,634,577	64,290,434	236,772,045	2,619,100,891
Adjustment											-
Total as at 01-07-2013	939,814,562	181,998,078	175,821,893	681,297,100	162,342,439	116,284,732	57,845,031	2,634,577	64,290,434	236,772,045	2,619,100,891
											-
Additions (cost)	216,506,670	50,905,397	(140,509,063)	198,033,088	12,869,060	7,259,643	4,893,335	103,401,438	20,614,200	332,256,175	806,229,942
Total Cost as at 30-06-2014	1,156,321,231	232,903,475	35,312,831	879,330,188	175,211,499	123,544,374	62,738,366	106,036,016	84,904,634	569,028,219	3,425,330,834
											-
Accumulated Depreciation	88,908,201	8,414,570	-	222,294,418	78,973,397	22,008,087	14,801,169	1,807,120	1,417,662	43,138	438,667,762
Acc Dep Adjustment											-
Total as at 30-06-2013	88,908,201	8,414,570	-	222,294,418	78,973,397	22,008,087	14,801,169	1,807,120	1,417,662	43,138	438,667,762
Charge for the year	45,664,286	22,125,830	-	179,965,750	40,442,337	22,684,588	10,721,175	98,603,249	8,556,853	37,840,377	466,604,445
As at 30th June 2014	134,572,487	30,540,400	-	402,260,168	119,415,734	44,692,674	25,522,345	100,410,370	9,974,515	37,883,514	905,272,207
											-
NBV 30th June 2014	1,021,748,744	202,363,075	35,312,831	477,070,020	55,795,766	78,851,700	37,216,021	5,625,646	74,930,120	531,144,705	2,520,058,627
NBV 30th June 2013	850,906,360	173,583,508	175,821,893	459,002,682	83,369,043	94,276,645	43,043,862	827,457	62,872,773	236,728,907	2,180,433,129

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*Notes To The Financial Statements (cont)*

	Buildings	Plant and Machinery	Work In Progress	Motor Vehicles & Cycles	Computers & ICT Equipments	Office Furniture	Office & Household Equipments	Tools & Minor Equipments	Roads, Boreholes & Civil Works	Aircraft & hoppers	Totals
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Cost As at 01-07-2014	1,156,321,231	232,903,475	35,312,831	879,330,188	175,211,499	123,544,374	62,738,366	106,036,016	84,904,634	569,028,219	3,425,330,834
Adjustment											-
Total as at 01-07-2014	1,156,321,231	232,903,475	35,312,831	879,330,188	175,211,499	123,544,374	62,738,366	106,036,016	84,904,634	569,028,219	3,425,330,834
Additions (cost)	2,463,715	773,150	53,603,315	8,635,040	30,465,721	26,450,889	5,273,805	-	6,058,087	-	133,723,722
Revaluation											-
Cost Adjustment *				(1,975,160)							(1,975,160)
Disposal											-
Total Cost as at 30-06-2015	1,158,784,946	233,676,625	88,916,146	885,990,068	205,677,220	149,995,263	68,012,171	106,036,016	90,962,721	569,028,219	3,557,079,396
											-
Accumulated Depreciation	134,572,487	30,540,400	-	402,260,168	119,415,734	44,692,674	25,522,345	100,410,370	9,974,515	37,883,514	905,272,207
Acc Dep Adjustment *	(70,064)	3,724		(1,876,400)	(89,561)	(6,917)	(2,721)		70,064		(1,971,875)
Total as at 01-07-2014	134,502,424	30,544,124	-	400,383,768	119,326,173	44,692,674	25,519,623	100,410,370	10,044,579	37,883,514	903,300,332
Charge for the year	55,762,203	22,139,684	-	164,987,932	33,321,121	25,300,740	11,096,655	323,844	8,959,282	37,840,377	359,731,838
As at 30th June 2015	190,264,627	52,683,808	-	565,371,700	152,647,294	69,986,497	36,616,279	100,734,214	19,003,861	75,723,891	1,263,032,170
NBV 30th June 2015	968,520,320	180,992,817	88,916,146	320,618,368	53,029,926	80,008,766	31,395,892	5,301,802	71,958,860	493,304,328	2,294,047,225
NBV 30th June 2014	1,021,748,744	202,363,075	35,312,831	477,070,020	55,795,766	78,851,700	37,216,021	5,625,646	74,930,120	531,144,705	2,520,058,627

Cost Adjustment \* relates to the cost of a motor vehicle written off from the books

Acc Dep Adjustment \* relates to reclassification of depreciation posted in wrong classes and the accumulated depreciation of the written off asset.

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*Notes to the Financial Statements (cont)*

**24. Intangible Assets**

	Kshs "000"
<b>Cost</b>	
At 1 July 2013	70,459
Additions	9,165
<b>At 30 June 2014</b>	<u>79,624</u>
Additions – internal development	3,265
<b>At 30 June 2015</b>	<u><u>82,888</u></u>
<b>Amortization and impairment</b>	
At 1 July 2013	45,534
Amortization	12,774
<b>At 30 June 2014</b>	<u>58,308</u>
Amortization	12,939
Adjustment	95
<b>At 30 June 2015</b>	<u><u>71,343</u></u>
<b>Net book values</b>	
At 30 June 2015	11,546
At 30 June 2014	21,315

**25. Trade and other payables from exchange transactions**

	2014/2015	2013/2014
	Kshs "000"	Kshs "000"
Inventory AP Accrual Account	9,312	10,113
Expense AP Accrual Account	4,502	23,933
Suppliers Liability Account	106,880	30,961
Monaco Engineering Ltd Retention a	-	2,943
Tricon Works Kenya Ltd-Retention	1,517	1,039
Ciem Ventures Ltd Retention A/C	-	598
Thunder Plumbing	330	1,024
Concordia Building & Civil Enginee	-	2,993
Pinnie Agency Limited-Retention	2,044	1,268
Bumula Contractors Rentention	-	732
Balesa Building Contractor-Retenti	0	172
Three N International- Retention	0	574
Highlife Construction- Retention A	-	515
Olegise Inventory Limited-Retentio	1,475	-
Mareka Enterprises Limited-Retenti	601	601
Atlas Plumbers & Builders (K) Limi	3,858	3,031
<b>Trade and other payables from exchange transactions</b>	<b>130,519</b>	<b>80,499</b>

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*Notes to the Financial Statements (cont)*  
 26. Refundable deposits from customer

	2014/2015 Kshs "000"	2013/2014 Kshs "000"
Performance Bonds	21,637	13,445
Tender Refundable Deposits	135	120
<b>Total deposits</b>	<b>21,772</b>	<b>13,565</b>

27. Provisions

	2014/2015 Kshs "000"	2013/2014 Kshs "000"
Provision for Audit Fee	5,000	4,000
Provision for Bad Debts	69,763	38,963
<b>Total</b>	<b>74,763</b>	<b>42,963</b>

28. Employee Benefits Obligations

	2014/2015 Kshs "000"	2013/2014 Kshs
Salary Clearance Account	2	22
Net Salary Account	4,266	0
NHIF	36	36
HELB	28	28
SAYE	9	38
Sacco Deductions Account	739	0
Commercial Banks Deductions	159	110
Social Welfare Deductions	10	194
Insurance Deductions	83	123
Hire Purchase Deductions	321	377
Family Maintenance	(90)	0
House Rent Utility Charges	440	318
Staff Pension Contributions	6,706	18,696
Staff Gratuity	2,295	5,471
<b>Employee Benefits Obligations</b>	<b>15,005</b>	<b>25,413</b>

29. Payments Received in Advance

	2014/2015 Kshs "000"	2013/2014 Kshs "000"
Advance receipts	10,017	2,503
<b>Total Advance Receipt</b>	<b>10,017</b>	<b>2,503</b>

*Notes to the Financial Statements (cont)*

**30. Withheld Taxes**

	2014/2015 Kshs "000"	2013/2014 Kshs "000"
Income Tax(PAYE)	10	5
Value Added Tax	207	0
Withholding Tax	142	0
Paymaster General – WCPS	0	0
<b>Withheld Taxes</b>	<b>359</b>	<b>5</b>

**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The directors have adopted various measures to minimize losses that may arise from these exposures. These are explained as follows:

**(a)Credit risk**

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation and cause the service to incur a financial loss.

The largest concentrations of credit exposure within the service relate to cash and cash equivalents held with banks, trade receivables and amounts due from related parties. The maximum exposures for credit risk is therefore in regards to the carrying amount of cash and cash equivalents, trade receivables and amount due from related parties net of any impairment losses. The Service only places significant amounts of funds with recognised financial institutions with strong credit ratings and does not consider the credit risk exposure to be high. Amounts due from related parties do not expose the Service to significant credit risk.

Customer credit risk is managed by the Service subject to the established policy, procedures and control relating to customer credit risk management. Credit quality of the customer risk assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any accruing debts are generally covered by valid contracts.

The amount that best represents the service's maximum exposure to credit risk as at 30 June 2015 is made up as follows:

The Service's trade and other receivables were as follows:

	2014/2015 KShs '000	2013/2014 KShs '000
Net trade receivables	440,927	270,748
Net staff and Regional Offices receivables	227,186	102,315
	668,113	373,063

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*Notes to the Financial Statements (cont)*

No collateral is held for any receivable. All trade receivables that are neither past due nor impaired are within their approved credit limit, and no receivables have had their terms renegotiated.

Movement in provisions for doubtful debts:

	2014/2015 KShs "000"	2013/2014 KShs "000"
As at 1 July	38,963	38,963
Provisions for the year	30,801	0
As at 30 June	69,764	38,963

(b) *Market risk*

Market risk is the risk that the fair value or future value of instruments will fluctuate due to changes in market valuables such as interest rates and foreign exchange rates. The objective of market risk management policy is to protect and enhance the statement of financial position and income statement by managing and controlling market risk expenses within acceptable parameters and to optimize the funding of business operations and facilitate capital expansions.

• *Interest rate risk*

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. Since the base rates charged by the banks are determined by the market forces, the Service has not formulated any practical measures to minimize the exposure.

• *Exchange risks*

The Service operates in Kenya and most of the transactions are carried out in the local currency. Some few transactions in foreign currencies are carried out in the relatively stable US Dollars and Euro.

(c) *Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the service's short, medium and long term funding and liquidity management requirements. The service manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Kenya Forest Service  
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*Notes to the Financial Statements (cont)*

The following table analyses the organization's financial liabilities that will be settled on a net basis into relevant maturity Servicing's based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Up to	1 - 3	3 - 12	over	Total
	1 month	Months	months	1 year	
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
At 30 June 2015					
Financial assets					
Trade receivables	440,927	0	0	0	440,927
Other receivables and prepayments	0	0	0	0	0
Amount due from related parties	227,186	0	0	0	227,186
Bank balances and cash deposits	2,208,041	0	0	0	2,208,041
Total financial assets	2,876,155	0	0	0	2,876,155
Financial liabilities	(177,673)	0	0	0	(177,673)
Total financial liabilities	(177,673)	0	0	0	(177,673)
Net liquidity gap	2,698,482	0	0	0	2,698,482
At 30 June 2014					
Financial assets					
Trade receivables	270,748	0	0	0	270,748
Other receivables and prepayments	0	0	0	0	0
Amount due from related party	102,315	0	0	0	102,315
Bank balances and cash deposits	1,642,459	0	0	0	1,642,459
Total financial assets	2,015,522	0	0	0	2,015,522
Financial liabilities	(121,985)	0	0	0	(121,985)
Total financial liabilities	(121,985)	0	0	0	(121,985)
Net liquidity gap	1,893,537	0	0	0	1,893,537

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*Notes to the Financial Statements (cont)*

(d) *Operational risk*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Service's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Service seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The Service's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Service's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

This responsibility is supported by the development of overall Service standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and legal requirements;
- documentation of controls and procedures;
- requirements for the yearly assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and,
- Risk mitigation, including insurance where this is effective.

Operational risk is managed by a programme of regular reviews undertaken by the Internal Audit and the results of the reviews are discussed with the management, with summaries submitted to the Audit Committee and senior management of the Service.

**32. Events after the reporting period**

There are no material adjusting events after 30<sup>th</sup> June 2015



Mr. Peter Kirigua HSC  
Chairman, Board of Directors



Mr. Emilio Mugo  
Director

Date.....

Date.....