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ON

**THE FINANCIAL STATEMENTS OF
KENYA FORESTRY RESEARCH
INSTITUTE**

**FOR THE YEAR ENDED
30 JUNE 2017**



KENYA FORESTRY RESEARCH INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2017**

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



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

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I. KEY INSTITUTE INFORMATION AND MANAGEMENT

a) Background Information

Kenya Forestry Research Institute (KEFRI) is a State Corporation established in 1986, under the Science and Technology Act (Cap 250) of the laws of Kenya, which has since been repealed by Science, Technology and Innovation Act No. 28 of 2013. The Institute's mandate is to carry out Research in forestry and allied natural resources. It is under Environmental Protection, Water and Natural Resources Budgetary Sector. KEFRI is ISO 9001:2008 and ISO 14001:2004 certified thus operates in conformity with international standards on Quality and Environmental Management Standards (EMS) and relevant national legislations.

- i. Our Vision
A centre of excellence in forestry research for development
- ii. Our Mission
To conduct research and provide information and technologies for sustainable development of forestry and allied natural resources for Socio-economic development
- iii. Our Core Values
 - Creativity and Innovation
 - Professionalism
 - Integrity
 - Teamwork
 - Clean and Healthy Environment
 - Partnership
- iv. Domicile
KEFRI is a State Corporation domiciled in Kenya.

b) Principal Activities

The principal activities of the Institute are to conduct research in Forestry and allied natural resources, dissemination of research findings and establish partnerships and cooperate with other research organizations and institutions of higher learning in joint research and training.

c) Key Management

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

- The Board of Directors
- The Chief Executive Officer (The Director)
- The Management

The Director is the Accounting officer. The institute has two departments namely; Research & Development and Finance & Administration headed by two Senior Deputy Directors. The Research & Development comprise of five divisions arranged into thematic areas as follows; Forest Biodiversity and Environment Management; Forest Products Development Research;



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Social Economics Policy & Governance; Forest Productivity & Improvement; and Technical Support Services.

Finance and Administration comprise of four divisions namely- Finance, Administration, Human Resource and Supply Chain Management.

Under the Directorate, the Institute has the office of Corporate Affairs and the Internal Audit Division as per legislation and best practice

d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:-

NO	DESIGNATION	NAME
1.	The Chief Executive Officer (The Director)	Dr. Ben Chikamai
2.	The Senior Deputy Director- Research & Development	Dr. Jane W. Njuguna
3.	The Senior Deputy Director - Finance & Administration	Mr. George Otieno
4.	The Deputy Director - Technical Support Services	Dr. Ebby Chagala - Odera
5.	The Deputy Director - Forest Biodiversity and Environment Management	Dr. Gabriel M. Muturi
6.	The Deputy Director -Forest Product Development Research	Dr. Joseph Githiomi
7.	The Deputy Director - Social Economic Policy & Governance	Dr. Joshua Cheboiwo
8.	The Deputy Director - Forest Productivity & Improvement	Dr. Jane W. Njuguna
9.	The Deputy Director -Corporate Affairs & Quality Assurance	Dr. Jackson M. Mulatya
10.	The Deputy Director - Human Resource	Mrs. Evelyn I. Oroni
11.	The Deputy Director – Administration	Mr. John M. Gisemba
12.	The Deputy Director – Finance	Mrs. Rose B. Osoro
13.	The Deputy Director – Supply Chain Management	Mr. Hudson Barasa
14.	Chief Internal Auditor	Mrs. Karen N. Muka



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e) Fiduciary Oversight Arrangements

KEFRI Board of Directors has established three oversight committees as required by the State Institutes Act, Section 9, Cap 446, Laws of Kenya which states as follows:

"A state Institute may establish committees consisting of members of the Board to deal with such matters as the Board may specify and notice of establishment of any committee in accordance with this section whether established before or after the commencement of this Act shall be served on the State Institutes Advisory Committee".

This provision is further reinforced by section 15, on financial accountability of the Institute.

f) KEFRI Board Committees

i. Research & Development Committee

This committee oversees the core business of the Institute of conducting research and disseminating information and technologies for sustainable development of forestry and allied natural resources for socio-economic development. It coordinates, directs and controls the research and development policies of the institute.

ii. Finance & Administration Committee

The committee oversees the budgeting, reviews progress reports on expenditures of the Institute including capital expenditure from time to time and makes recommendations to the Board. The committee ensures overall sound financial management and reporting. The Committee also oversees the finance, human resource, administration and procurement function of the Institute.

iii. Audit Committee

The committee has defined terms of reference set by the Board. Some of the duties include oversight over financial statements and financial reporting; compliance generally with set standards, internal control and risk management. The role of the Committee is advisory. The Chief Executive Officer is not a member of this Committee as per good governance practice.

The committees meet at least quarterly and submit findings to the Board in exercise of their delegated authority.

The following are the Board Committees and its members;

Name of the Committee	Members
Audit Committee	1. Ms. Maureen Mwangovya - Chairperson 2. Mr. Hewson Kabugi - Member 3. Mr. Felix Ateng' - Member
Finance & Administration Committee	1. Mr. Kevin Kihara - Chairman 2. Mr. Robinson Ng'ethe - Member 3. Mr. Hewson Kabugi - Member 4. Mr. Felix Ateng' - Member
Research & Development Committee	1. Mr. Robinson Ngethe - Member 2. Mr. Emilio Mugo - Member 3. Dr. Abullahi D. Jillo - Member 4. Mr. Felix Ateng' - Member



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g) KEFRI Headquarters

Off Nairobi/Nakuru Highway – Muguga
P.O. Box 20412 – 00200 Nairobi

h) KEFRI Contacts

Tel: +254202010651/2
+254722157414
+254724259781/2
+254734251888
Email: director@kefri.org
Website: www.kefri.org

i) KEFRI Bankers

Kenya Commercial Bank Ltd
Sarit Centre Branch
P.O. Box 14959 – 00800
Nairobi

Co-operative Bank Ltd
Westlands Branch
P.O. Box 66589– 00800
Nairobi

Commercial Bank of Africa Ltd
P.O. Box 30437- 00100
Nairobi

j) Independent Auditors

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

k) Principal Legal Adviser





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



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II. THE BOARD OF DIRECTORS

DIRECTOR'S NAME	PASSPORT SIZE PHOTO	DIRECTOR'S DETAILS
<p>1. Mr. Robinson Ng'ethe – Director Independent Non Executive Director Professional/Academic qualification: MSc in Resource Management</p>		<p>Date of Birth: 15th March 1959</p> <p>Key qualification: Consultant in Natural Resource Management</p> <p>Work experience: 34 years</p>
<p>2. Dr. Abullahi D. Jillo - Director Independent Non Executive Director Professional/Academic qualification: PhD, Natural Resource Management</p>		<p>Date of Birth: 1956</p> <p>Key qualification: Agricultural Extension Services, Development Planning and Administration</p> <p>Work experience: 38 years</p>
<p>3. Mr. Kevin Kihara - Director Independent Non Executive Director Professional/Academic qualification: Master of International Public Policy</p>		<p>Date of Birth: 24th August 1975</p> <p>Key qualification: Finance & International Development</p> <p>Work experience: 21 years</p>
<p>4. Ms. Maureen Mwangovya - Director Independent Non Executive Director Professional/Academic qualification: Masters in Project Planning & Management (U.O.N)</p>		<p>Date of Birth: 10th October 1964</p> <p>Key qualification: Project Planning and Management/ Community Development, Gender, Administration, Advocacy, Resource Mobilization & Strategic Planning</p> <p>Work experience: 16 years</p>



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<p>5. Mr. Emilio Mugo – Director, KFS Professional/Academic qualifications: MSc Forestry</p>		<p>Date of Birth: 15th August 1962 Key qualifications: Senior Deputy Director KFS Work experience: 31 years</p>
<p>6. Mr. Hewson Kabugi – Representing Principal Secretary, SDNR Professional/Academic qualification: MSc – Watershed Management BSc – Forestry</p>		<p>Date of Birth: 8th November 1957 Key qualification: Director Forest Conservation Work experience: 34 years</p>
<p>7. Mrs. Margaret Maimba Representing Director General – NACOSTI Professional/Academic qualification: Msc in Geochemistry</p>		<p>Date of Birth: 1960 Key qualification: Chief Science Secretary Work experience: 33 years</p>
<p>8. Mr. Felix Ateng' Professional/Academic qualification: MBA Strategic Management Bachelor of Commerce, Marketing and Financial Management</p>		<p>Date of Birth: 21 July 1959 Key Qualification: Senior Assistant Director, Government Clearing Agent Work experience: 29 years</p>



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DIRECTOR'S NAME	PASSPORT SIZE PHOTO	DIRECTOR'S DETAILS
9. Dr. Ben Chikamai – Director/CEO Secretary to the Board Professional/Academic qualification: PhD in Forestry Utilization		Date of Birth: 27 th October 1957 Key qualification: Director Work experience: 34 years



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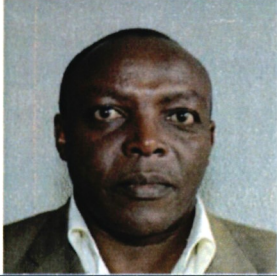

III. THE KEFRI MANAGEMENT TEAM

NAME	PASSPORT SIZE PHOTO	MAIN AREA OF RESPONSIBILITY
1. Dr. Ben Chikamai – Director/CEO Professional/Academic qualification: PhD in Forestry Utilization		Chief Executive Officer (CEO)/ Director Kenya Forestry Research Institute (KEFRI)
2. Dr. Jane W. Njuguna Professional/Academic qualification: PhD – Forest Science		Senior Deputy Director – Research & Development
3. Mr. George Otieno Professional/Academic qualification: MBA – Finance – KU BBM – Accounting - Moi University CPA (K) Member of ICPAK and The Institute of Internal Auditors		Senior Deputy Director – Finance & Administration



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NAME	PASSPORT SIZE PHOTO	MAIN AREA OF RESPONSIBILITY
4. Dr. Ebby Chagala-Odera Professional/Academic qualification: PhD – Forest Genetics and Tree Breeding		Deputy Director – Technical Support Services
5. Dr. Gabriel M. Muturi Professional/Academic qualification: PhD – Invasion Ecology		Deputy Director – Forest Biodiversity and Environment Management
6. Dr. Joseph Githiomi Professional/Academic qualification: PhD – Forestry		Deputy Director – Forest Products Development
7. Dr. Joshua Cheboiwo Professional/Academic qualification: PhD – Environmental Economics		Deputy Director – Socio-economics, Policy and Governance



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NAME	PASSPORT SIZE PHOTO	MAIN AREA OF RESPONSIBILITY
<p>8. Dr. Jackson M. Mulatya</p> <p>Professional/Academic qualification:</p> <p>PhD – Tree Ecology and Agroforestry system interactions and management</p>		<p>Deputy Director – Corporate Affairs and Quality Assurance</p>
<p>9. Mrs. Evelyn I. Oroni</p> <p>Professional/Academic qualification:</p> <p>MBA – HRM HND – Human Resource Management</p>		<p>Deputy Director – Human Resource Management</p>
<p>10. Mr. John M. Gisemba</p> <p>Professional/Academic qualification:</p> <p>MA – Organizational Leadership CPS (K)</p>		<p>Deputy Director- Administration</p>
<p>11. Commissioner. Rose B. Osoro</p> <p>Professional/Academic qualification:</p> <p>MBA Strategic Management BA –Sociology CPS (CS) CPA (K)</p>		<p>Deputy Director- Finance</p>



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NAME	PASSPORT SIZE PHOTO	MAIN AREA OF RESPONSIBILITY
12. Mr. Hudson Barasa Professional/Academic qualification: MSc – Procurement and Logistics Management Final Diploma in Supplies Management Licensed practitioner in Supply Chain Management by KISM		Deputy Director - Supply Chain Management
13. Mrs. Karen M.N. Muka Professional/Academic qualification: MBA - Finance BCom - Accounting CPA(K) CISA CPS		Chief Internal Auditor



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IV. CHAIRMAN'S STATEMENT



I am delighted to report the Institute's performance during the financial year and share the achievements we have made to firmly place KEFRI on the path to success.

The 9th KEFRI Board of Directors was appointed on 31st May 2016 for a period of three years up to 30th May 2019. The Board was inaugurated on 12th July 2016. The Board has ensured systems, work plans, and programmes have been put in place to enable the Institute implement its mandate.

During this period the Board through its constituted committees deliberated on requisite policy matters and performance contracting of Institute's targets for the year under review. The Board has constituted the following committees: - 1). Research and Development Committee which mainly deals with forestry research issues; 2). Finance and Administration Committee which deals with finance, human resource and administration issues; and 3). Audit Committee which deals with audit and risk management issues and oversight role of the Institute

The Institute has engrained corporate governance as the pivotal institutional framework, through which strategic objectives of the Institute are set, attained and its performance monitored. Governance dictates the *modus operandi* of engagement and interaction between the board, management and regulators for the sustainable benefits to stakeholders. In addition the Institute has complied with the Mwongozo Code of Governance that promotes efficient deployment and accountability in the management of Institute resources.

The current Board continued with the implementation of the 5th Strategic Plan (2013-2018) developed using the Balanced Score Card (BSC) tool with a focus on enhanced performance and research results that demonstrate outcomes and impact based on economic, social and environmental aspects.

The Institute contributed to increased national forest cover through production of high quality seeds, improved germination of propagation materials, and development of rehabilitation technologies for degraded forests.

During the year, we were able to expand and complete research developments in Taita Taveta, Migori and Lamu. These facilities will improve forestry technologies uptake in the respective areas.

Funding has been increasing steadily over the years with government grants financing over 90% of its expenditures. Internally generated funds and resources mobilized from development partners/donors accounts for the 10% of the expenditure.

As the Acting chairman, I would like to bring attention to our stakeholders of the resignation of the Chairman of the Board in February 2017. However, the Board has closely worked with Management and other stakeholders to ensure development and implementation of Institute mandate.



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I take this opportunity to thank my colleagues in the Board for supporting me in providing leadership over the past year. Their commitment contributed immensely to our performance in the year just ended. I commend management and staff for working tirelessly to achieve the level of growth that we witnessed during the year. I am confident that they shall spare no effort to attain and surpass the targets we have set for the new financial year.


.....

Mr. Robinson Ng'ethe

For: Chairman, KEFRI Board of Directors

Date: 21/12/17
.....



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V. REPORT OF CHIEF EXECUTIVE OFFICER



The Forest sector plays a key role in Kenya's social and economic development and forestry research is a major driver in the whole process. KEFRI is a State Institute which was established in 1986 under the Science and Technology Act (Cap 250), which has since been repealed by the Science, Technology and Innovation Act No.28 of 2013, as a lead agency in carrying out research in forestry for development.

The Institute has three key mandates namely: conducting research in forestry and allied natural resources, dissemination of the information and technologies generated to stakeholders; and cooperating with other research organizations and institutions of higher learning in joint research and trainings.

During the year under review, KEFRI continued to implement the 5th Strategic Plan 2013-2018 given the Performance Contracting target of 2016/2017 Financial Year. The Strategic Plan is aligned to Medium Term Plan II (MTP II) priority activities and the Research Themes in line with the National Forest Programme as follows: Forest Productivity and Improvement; Forest Biodiversity and Environment Management; Forest Products Development; Forest Economics, Policy and Governance; Technical Support Services; and Corporate Affairs & Quality Assurance Unit.

Notable achievements during the 2016/2017 FY include;

To expand forestry technology uptake during the year, kefri achieved the following:

Research and Development:

- Undertook studies, developed and refined various technologies in our eco-regions including:
 - Methodologies for raising and managing various species including indigenous and lowland bamboo, *Euphorbia tanaensis*, *Ocotea usambarensis*, *Osyris* and *Melia volkensii*
 - Drought tolerant tree species towards mitigation and adaptation to climate change
 - Rehabilitation and restoration of forests and woodlands:
- Established eighteen (18) ha, of seed orchards and twenty five (25) ha of seed stands of various species
- Collected and distributed 11,900 kg of high quality tree seeds
- Raised 47,000 tree seedlings of difficult-to-propagate tree species that included: *Terminalia kilimandscharica*, *T. brownii* bamboo (30,000), *Osyris* (4000) and *E. urophylla*.
- The Institute also achieved excellent results in various categories for the display of scientific technologies during the ASK shows across the country, and achieved Quality Management System (QMS) ISO-9001:2008 certification.



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Infrastructural Development:

- Established and Constructed Taita Taveta Sub Centre
- Launched Lamu Sub-Centre
- Construction of and refurbishment of glass houses
- Installation and commissioning of water hydrants

Staff Capacity Building

- Components of the Strategic Plan touching on staff succession were implemented including recruitment of 48 staff in key positions.
- Emphasis on staff capacity development to enhance skills for service delivery
- The Board implemented SRC recommendations on salary structure.
- Management enhanced member benefits in the existing staff medical insurance scheme.

Development Partners

In the year under review, the Institute received donor funds from the European Union – WaTER Tower Project, NAS-PEER, JICA and Climate Adaptation Change Fund boosted the Institute's financial and research activities.

Financial Stewardship

The main sources of Institute's fund for research, operations and maintenance are:-

- The Government of Kenya through the Exchequer,
- Internally Generated Revenue (AIA) and
- Donor funding

During the financial year 2016/17, the Institute received **Kshs. 1,455,880,992** as recurrent grants and development grant of **Kshs. 76,500,000**. The funds were transferred to the Institute and were fully utilized for the approved projects and activities. The Institute collected **Kshs.120,627,413** as Internally Generated Revenue and Donor grants amounted to **Kshs. 242,468,332**.

Challenges

In the year under review, the Institute was faced with the following challenges:

- Budget cuts and delays in disbursement of funds from the National Treasury
- Inadequate policy on institutional and legal framework on forestry research access to gazzeted forest land to experimental plots and seed sources
- Changes in weather pattern affected the raising and planting of seedlings as many regions were hit by drought

In conclusion, I would like to thank the Board of Directors, our clients, dedicated and talented staff, our service providers for their continued support and loyalty, without which our objectives

could not have been achieved. I also extend our gratitude to the Government of Kenya, The National Treasury, the Ministry of Environment and Natural Resources, Development Partners and all other stakeholders for their cooperation and support in accomplishing the Institutes mandate.


.....

J.W. Njuguna (PhD)
Ag. Director, KEFRI

Date:.....21/12/17.....



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VI. CORPORATE GOVERNANCE STATEMENT

The Institute Board operates under the Science and Technology Act (Cap 250), Laws of Kenya and embraces the principles of good governance that is engraved in the culture of integrity, accountability and transparency. The Institute is managed under the direction of the Board of Directors whose responsibility is to supervise the operations of management and ensure that the interest of the organization and all its stakeholders are promoted and protected. The Board which is guided by State Institutes Advisory Committee(Cap 446), Mwongozo and government circulars, through its Committees oversees the corporate governance and determines the strategic direction, goals and objectives as well as evaluating management's performance.

The Board Size, Composition and Independence

The Board of Directors consists of nine (9) directors out of whom five (5) are independent non executive directors. The members are of diverse capacity, skills and competencies, an essential matrix for efficient and effective decision making.

The non-executive directors are independent. Their role is to advise, constructively challenge and monitor the success of management in delivering the agreed strategy within the risk appetite and control framework set by the board.

b) Board Meetings held in the Year

The board normally meets at least once every quarter or more in accordance to the requirement of the business. Furthermore, the board work plan and calendar of meetings is prepared in advance. Adequate notice is given for each board meeting; the agenda and board papers are circulated in good time.

The table below details board membership and attendance as per scheduled board meetings during the year;

No	Board Member	Designation	Meetings attended	Meetings held
1	Robinson Ngethe	Ag. Chairman	9	9
2	Maureen Mwangovya	Chairperson-Audit Committee	10	10
3	Hewson Kabugi	Member- Audit R & D and Finance Committee	11	11
4	Dr. Abdullahi Jillo	Member- R &D Committee	9	9
5	Felix Ateng'	Member- Audit R & D and Finance Committee	9	9
6	Kevin Kihara	Chairperson-Finance & Admin. Committee	6	6
7	Emilio Mugo	Member- R & D	2	2
8	Felix Ateng	Member-Audit and Finance Committee	10	10



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c) Board Structure

The Board operates under a comprehensive structure made up of committees established to assist in discharging its responsibilities and obligations. These committees assist the board in carrying out its functions and ensuring that there is independent oversight of internal controls and risk management.

The Board Committees include: -

i. Research and Development

This committee offers policy guidelines and strategic direction in forestry research and technologies for sustainable development of forestry and allied natural resources for socio-economic development.

ii. Finance and Administration

The committee ensures prudent financial management through reviews of the annual budget and financial reports; offers advice and recommendations on Human Resource strategies, initiatives and policies; monitors the organization's performance and ensure sustainability and ensures availability of adequate resources for the achievement of the organization's objectives

iii. Audit Committee

The committee assist in enhancing internal controls and risk management in order to improve efficiency, transparency and accountability; ensures compliance with regulatory framework and ethical guidelines; reviews audit issues raised by Internal and External Auditors; resolve unsettled and outstanding/unimplemented audit issues; enhance communication between management internal and external audit and fostering effective internal audit function.

d) Roles and Functions of the Board

The Board offers strategic guidance, leadership and control of the Institute by defining the strategic intent of the Institute, its objectives and values; reviews this strategic direction and adopts work plans proposed by Management. With retention of full and effective control over the Institute, the Board monitors Management's implementation of the plans and strategies, ensures ethical behaviour and compliance with relevant laws & regulations, audit and accounting principles, corporate policies & procedures and the Code of Ethics.

The Board evaluates performance of Management against targets and objectives and benchmarks performance of the Institute against best international practices. The Board considers and approves the Institute's overall budget and specific proposals for capital expenditure. It reviews succession planning for the management team and approves senior executive appointments, organisational changes and remuneration.

The Board constitutes and reviews composition of Board Committees and approves reports and performance of each Board Committee. It further approves the quarterly and Annual financial statements.



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e. Induction

Upon appointment to the Board, new Directors embark on a detailed programme to familiarize themselves with the Institute's research activities and operating environment. Corporate literature is provided and meetings arranged with senior management team. Visits to Eco Regions are also organized.

f. Continuous Professional Development

During the year, the Directors undertook various training and development programmes to ensure they update their skills and knowledge, as well as keep abreast of the developments in corporate governance.

g. Board Evaluation

The Board conducts an annual evaluation of its Committees and individual members to gauge performance.

h. Conflict of Interest

The Directors are obligated to disclose to the Board real or potential conflict of interest, which comes to his/her attention, whether direct or indirect. The statutory duty to avoid situations in which they have or may have interests that conflict with those of the Institute has been observed by the Board. All business transactions with all parties, directors or related parties are carried out at an arms' length.

An acknowledgement that should it come to the attention of a Director that a matter concerning the Institute may result in a conflict of interest, it obligates the Director to declare the same and exclude himself/herself from any discussion or decision over the matter in question.

i. Board Remuneration

The non-executive Board members are paid taxable sitting allowances as approved by the Chief of Staff and Head of the Public Service following guidelines from the State Institutes Advisory Committee and SRC. The Chairman is paid honoraria at the approved rate.

Transport expenses are reimbursed on travel for board business at the prevailing AA rates. The members are also entitled to medical cover.

j. Code of Conduct & Ethics

The institute has fully adopted the Code of Ethics that is enshrined in the Mwongozo which is the Code of Governance for State Institutes. The code of ethics entails among other things declaration of Conflict of Interest which must be embraced by both the Board and the employees of the organization. The Board has put in place Anti-Corruption Policy and a Code of Conduct & Ethics that binds both the board and the employees.

k. Succession Planning

The appointing authority ensures that the tenures of the board members are staggered to ensure a phased transition.

l. Appointment and Removal of Directors

Board appointments shall be made in line with Article 27 of the Constitution of Kenya.

The Board should be appointed through a transparent and formal process governed by the overriding principle of merit.



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The appointing authority shall ensure that any person appointed to the board satisfies the fit and proper requirements

The board may recommend the removal of a member based on non-performance, non-attendance of meetings, unethical conduct or as set out in any constitutive documents or applicable law.

During the year, the Chairman of the Board Dr. Sammy Letema resigned. Mr. Robinson Ngethe has been Acting Chairman of the Board as the Institute awaits substantive appointment.



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VII. MANAGEMENT DISCUSSION AND ANALYSIS

a) OPERATIONAL AND FINANCIAL PERFORMANCE

i. Operational Performance

During Financial Year 2016/2017, the Institute implemented various projects and programmes that were mostly focused on development of forest technologies and dissemination of research findings to the stakeholders. The programmes and projects were mainly funded through government grants, development partners and internally generated funds. Funds from the Government were mostly used for personnel emoluments, capital projects and maintenance services. Donor funds were used for development of research technologies as per partnership agreements. Internally generated funds were used to cater for utility bills within the Institute.

During the year the institute undertook the following key activities:

- **Rehabilitation of Water towers**

The institute undertook rehabilitation activities in two water towers (Cherangany and Mt. Elgon) by establishing model demos to, establishing income generating activities for youth and women and developing a framework for potential payment for ecosystem services.

- **Forest Conservation and Management**

High quality tree seeds amounting to 11,900 kg were collected and distributed to stakeholders. The institute built capacity of partners and stakeholders on seed and seedling production; bamboo propagation and management; participatory forest management and Regional training course Established eighteen (18) ha, of seed orchards and twenty five (25) ha of seed stands of various species

Raised 47,000 tree seedlings of difficult-to-propagate tree species that included: *Terminalia kilimandscharica*, *T. brownii* bamboo (30,000), *Osyris* (4000) and *E. urophylla*

Developed and linked various products to SMEs

Registration of the *Vitex payos* flavour powder with KEBS, which is currently in the process of substantive examination for patenting

- **Dissemination of Forestry Technologies**

Participated in ASK Shows in most counties (Nairobi International Show, Mombasa, Nakuru, Kisumu, Kakamega, Kisii, Eldoret, Machakos, Nyeri, Baringo and Kitale) to show case forestry research technologies developed.

Produced over 60 publications which include guidelines, technical notes, information and policy briefs as well as peer reviewed journal papers.

Scientists participated in various national and international fora to share research findings. One of the scientists received the Best Poster Award in the IUFRO Conference in Vancouver, Canada

Provided advisory services on tree pests and diseases countrywide



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

- **Staff capacity and competence development**

Staff underwent capacity development for skills improvement and career progression
Undertook skill gap analysis and executed interventions to identify skill gaps through recruitment, outsourcing and capacity building/training

- **Infrastructural development**

Established and Constructed Taita Taveta Sub Centre
Construction of glass houses in headquarters and Londiani
Installation of water hydrants in Kitui

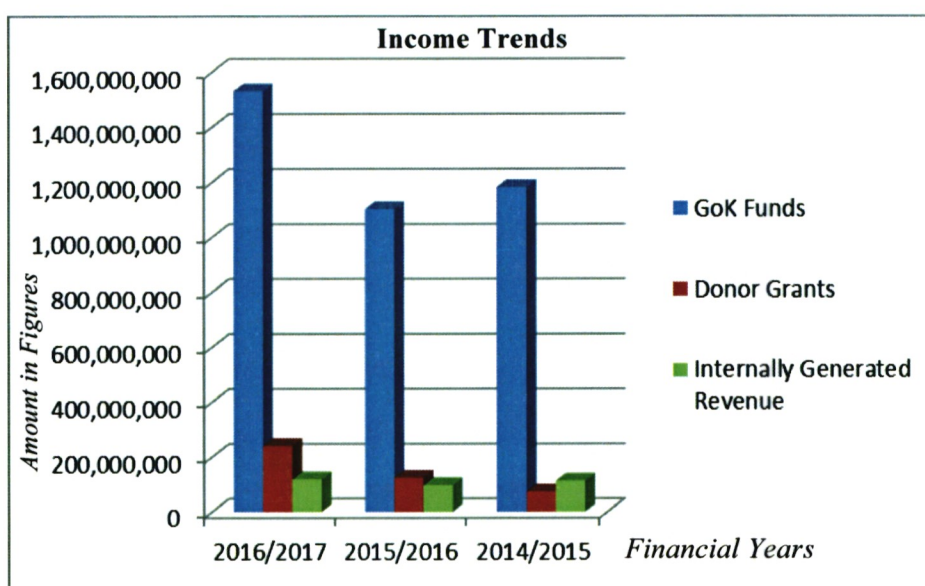
b. Financial Performance

i. Income Trends

Over the years the institute has recorded financial growth in its performance.

The following is a summary of the income Institute has received in the last three financial years:

Source of Funds	2016/2017	2015/2016	2014/2015
GoK Funds	1,532,380,992	1,104,084,049	1,184,040,000
Donor Grants	242,468,332	125,415,089	74,577,241
Internally Generated Revenue	120,627,413	98,737,388	114,644,254





KENYA FORESTRY RESEARCH INSTITUTE (KEFRDI)

Reports and Financial Statements for the year ended June 30, 2017

ii. Absorption rate

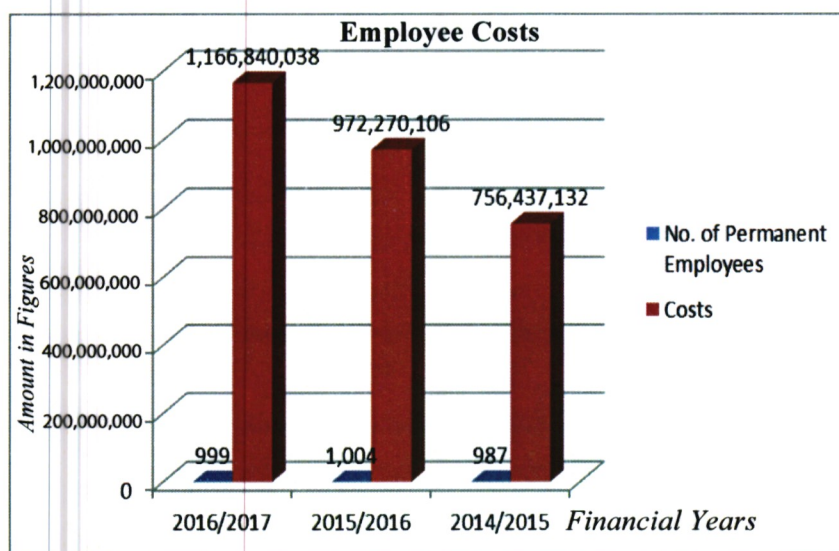
During the year, the Institute absorbed the budgeted and received funds from government grant, donor grant and internally generated revenue at the rate of 95%.

iii. Employee costs

Institute management strategy focuses on driving a culture of performance and creating a productive workforce by developing a strong, skilled and pro active team to sustain the organization. As at 30th June 2017 the institute had 999 employees compared to 1,004. The decrease was as a result of natural attrition. The employees' costs increased during the year from kshs. 972,270,106 to kshs 1,166,840 038 due to implementation of salary structure adjustment as per SRC salary guidelines

The trend is as shown below:

Particulars	2016/2017	2015/2016	2014/2015
No. of Permanent Employees	999	1,004	987
Costs	1,166,840,038	972,270,106	756,437,132



iv. Operating and Maintenance costs

Operating costs cater for purchase of research materials including supplies for production, chemicals and laboratory materials, electricity, water and conservation, telephone, telex and mobile communication expenses, traveling and accommodation, advertising & publicity, training expenses, Insurance of motor vehicles, cost of conference and seminars, clinic drugs and dressings, library expenses, stationery, computers, sanitary and cleaning materials and fuel and lubricants.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

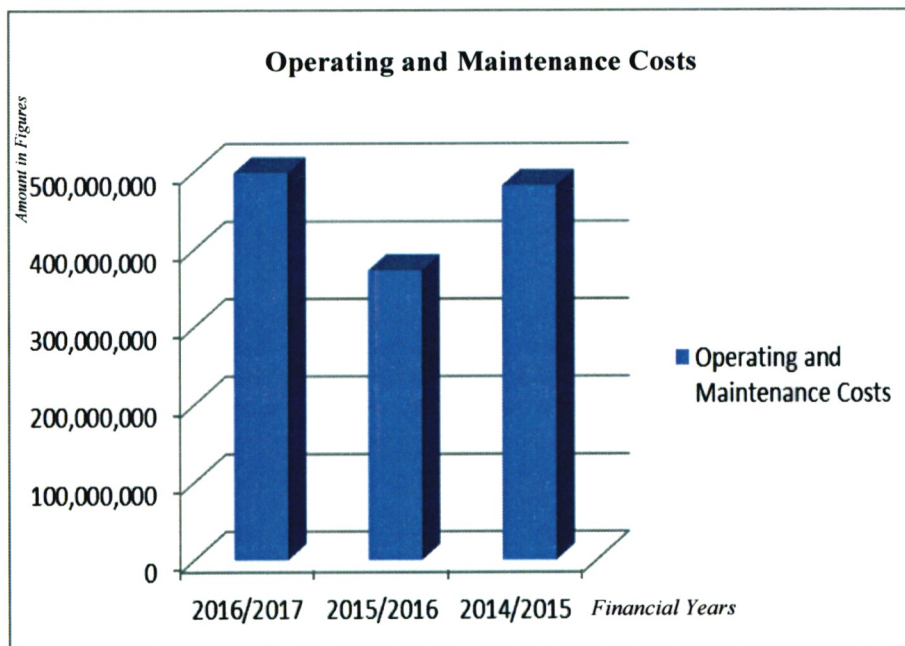
Reports and Financial Statements for the year ended June 30, 2017

Repairs and Maintenance caters for maintenance of laboratory equipment, vehicles, plant and machinery, furniture, offices, roads, minor alterations, computer software, water supplies and sewerage.

These expenses increased from kshs.373,201,088 to kshs. 498,893,806 as a result of increased research activities. The increase in research activities was necessitated by increased donor grants

The trend is as shown below:

Particulars	2016/2017	2015/2016	2014/2015
Operating and Maintenance Costs	498,983,886	373,201,088	482,475,617



v. Board of management expenses

The expenses cater for allowances, meetings expenses, medical insurance and KEFRI Director’s remuneration.

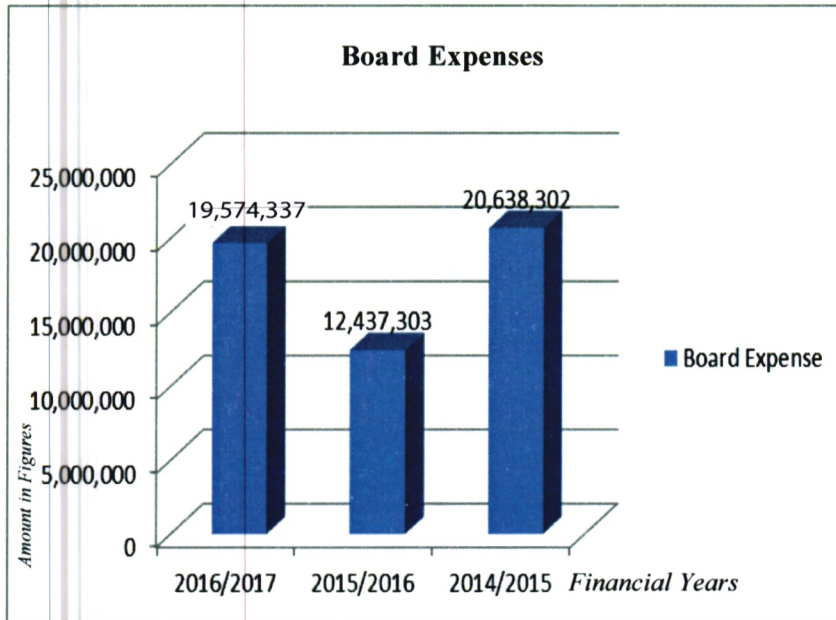
The trend is as shown below:

Particulars	2016/2017	2015/2016	2014/2015
Costs	19,574,337	12,437,303	20,638,302



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017



vi. Surplus/(Deficit)

During the year, the Institute realized a surplus of kshs. 98,480,218. This was as a result of increased donor grant and internally generated revenue.

The trend is as shown below:

Particulars	2016/2017	2015/2016	2014/2015
Surplus/(Deficit)	97,568,503	(154,292,883)	(34,407,184)

c).Supply Chain Management

Supply Chain facilitates the acquisition of goods and services required to meet the needs of achieving corporate and strategic objectives through the procurement process. The supply chain management targets have been attained using a legal framework and industry best practices. This makes supply chain management a significant cost and value driver in the delivery of the best prices, highest quality, and the best availability of requirements through the development of an agile supply base. The strategic focus is on procurement planning, procurement processing, inventory and asset management, logistics management, disposal, contract management and supplier relationship development.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

d). Asset Management

The Institute has continued to make the best use of equipment, machinery, tools, and buildings to maximize value. This has been done through:

i. Inventory Management:

The Institute has an automated system for maintaining and controlling its inventory. As at 30 June 2017, our asset book value was Kshs. 5.8 billion

ii. Repairs

Activities geared towards restoring assets, equipment and tools to usable condition after damage or wear has been expedited.

iii. Disposal of Assets

Disposal at the Institute is done in full conformity with the Public Procurement and Asset Disposal Act 2015 and Environmental Management Act.

e). Institute's compliance with statutory requirements

The Board has continued to make timely remittance of statutory deductions including; Pay As You Earn, National Hospital Insurance Fund, National Social Security Fund, Higher Education Loans Board and Pension scheme in order to protect the welfare of its staff in retirement and hospital Insurance and, fully complied with statutory requirements during the year under review.

In addition, the Institute has adhered to the Public Finance Management Act, 2012 (PFM) and related regulations as well as Treasury Circulars issued from time to time.

f). Key projects the Institute is planning/ implementing

The goal of Kenya Forestry Research Institute (KEFRI) is to contribute to achieving the Vision 2030 Flagship Projects in line with MTP II by developing technologies for sustainable development and utilization of forest and allied natural resources to enhance livelihood of communities and provide clean and healthy environment.

The key projects include:

- Development of Forest Research Technologies
- Construction of Tree seed processing Units
- Construction Glass Houses at Regional Research Centres
- Construction of Farmers Resource Centres in Migori, Rumuruti, Taita Taveta and Garissa,
- Installation of Water Hydrant in Muguga, Kitui& Lamu
- Development of dryland Eco region research programme-Tiva
- KEFRI/JICA-Capacity Development Project for Sustainable Management (CADEP) in Kenya for Tree breeding and social forestry management
- Kenya Water Towers Protection Climate change mitigation and adaptation programme-component 4



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

g) Major risks facing the Institute

The Institute is committed to risk management as an integral part of its corporate governance and operations, developing strategies and systems to minimize risks.

The Institute is committed to:

- Developing a 'risk aware' culture in which people are encouraged to identify risks and respond to them quickly and effectively
- Ensuring our key stakeholders recognize that we manage risks responsibly
- Developing consistent risk management practices
- Organizational growth and cognizant of the inherent risks associated with strategy execution.

Key risks the organization is exposed to;

i. Financial Risk

The Institute's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Institute's overall risk management policies are set out by the board and implemented by the management and focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Institute's performance by setting acceptable levels of risk. The Institute does not hedge against any risks.

- **Credit risk** refers to the risk that counter-party will default on its contractual obligations resulting in financial loss to the Institute. The Credit risk also arises from bank balances, trade receivables and amounts due from related parties.
- **Market risk** is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises two types of risk: currency risk and interest rate risk. The institute is exposed to market risk as a result of transactions in foreign exchange
- **Liquidity risk** is the risk that the Institute will not be able to meet its financial obligations when they fall due. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the Institute's reputation. The Institute ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

ii. Operational Risk

Operational risk is the risk of indirect loss arising from a wide variety of causes associated with the Institute's processes, personnel, technology and infrastructure, external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

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

iii. Political/Legislation Risk

This affects service delivery due to the uncertainty caused in every election cycle

Change in Government legislation and policies affects organizations in implementing strategic objectives.

h).Material arrears in statutory/financial obligations

The Institute did not have any material statutory pending obligation as at the end of the financial year.

i). The Institute financial probity and serious governance issues

The Institute did not have any serious governance issues as at the end of the financial year.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

a). CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is a concept in which the management of an organization undertakes an obligation to integrate decisions and actions that will contribute towards the community and benefit the organization. CSR reflects an organization's commitment towards improving the society's wellbeing and it also serves to enhance the organization's image.

Objectives of CSR Activities

- To enhance KEFRI's image and services to the public.
- Position KEFRI as a responsible government agency paving the way for a clean and healthy environment.
- Give back to the communities that KEFRI works with.
- To support ongoing government initiatives.

CSR Activities

In line with its vision, mission and core values the Institute will focus its CSR activities along initiatives that seek to promote a clean and healthy environment.

i. Tree Planting

In partnership with local communities and schools, KEFRI seeks to increase tree cover in the country through tree planting initiatives. The Institute donates seeds and seedlings and technical expertise towards this activity.



Community members planting seedlings donated by KEFRI



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

ii. Supply of clean water to neighboring communities

KEFRI provides safe and clean water to the community and donations to public institutions.



iii. Provision of health services to staff and their extended families

The Institute has well equipped clinics manned by trained health officers who look after the wellbeing of staff and their extended families. The neighboring communities are also welcome to receive treatment at these facilities.





KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

iv. Participation in environmental awareness activities

KEFRI joins the rest of the world in marking global environmental days such as World Environment Day, World Food Day and International Day of Forests amongst others.



KEFRI staff joins community members in cleaning up Gacuthi forest during World Environment Day.

v. Visits and donations to children's homes and the elderly

The Institute staff gives back to the less fortunate in society by donating firewood, clothes and food stuff.



KEFRI choir members giving food donations to children from Teresiah ECD centre.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

vi. Participation in Charity Events

KEFRI also participates in charity events such as marathons and walks to raise funds to help the less fortunate in society.



KEFRI staff display their medals upon completion of 21kilomteres of the 2016 Standard Chartered Nairobi Marathon



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

b) SUSTAINABILITY REPORTING

The Institute maintains its focus on operational excellence with an emphasis on process improvement, development of operational standards, improved service delivery and quality and quality audits across all functions.

Areas of focus are:

- Quality Management ISO 9001:2008 Recertification
- Environment Management ISO 14001:2004
- Safety and Health
- Awareness and Training
- Safety Promotions and Campaigns
- Safety and Health Inspections and Audits
- Business Continuity and Disaster Preparedness Planning
- Emergency Preparedness and Response

The institute has a responsibility to harness natural resources in a sustainable manner. It has actively supported environmental programmes aimed at conserving the water towers. The institute also employs environment conservation; environmental and social Impact Assessment Studies; Strategic Environmental Assessment and Environmental rehabilitation and conservation activities.



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

IX. REPORT OF THE DIRECTORS

The Director's submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the Institute's affairs.

Principal activities

The principal activities of the Institute are to conduct research in forestry and allied natural resources, disseminate research findings and establish partnerships and collaborate with research organizations and institutions of higher learning in joint research and training.

Results

The results of the Institute for the year ended June 30, 2017 are set out on page 1-2.

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the Institute in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year ended June 30th 2017.

By order of the Board


.....

J.W. Njuguna (PhD)

Ag. Board Secretary

Date: ...21/12/17...



KENYA FORESTRY RESEARCH INSTITUTE (KEFRI)

Reports and Financial Statements for the year ended June 30, 2017

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 and 15 of the State Corporation Act 446, require the Directors to prepare financial statements in respect of that Institute, which give a true and fair view of the state of affairs of the Institute at the end of the financial year and the operating results of the Institute for that year. The Directors are also required to ensure that the Institute keeps proper accounting records which disclose with reasonable accuracy the financial position of the Institute. The Directors are also responsible for safeguarding the assets of the Institute.

The Directors are responsible for the preparation and presentation of the Institute's financial statements, which give a true and fair view of the state of affairs of the Institute for and as at the end of the financial year ended on June 30th 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Institute; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Institute; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Institute's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS) and in the manner required by the PFM Act 2012 and the State Corporations Act. The Directors are of the opinion that the Institute's financial statements give a true and fair view of the state of Institute's transactions during the financial year ended June 30th 2017, and of the Institute's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained in the Institute, which have been relied upon in the preparation of the Institute's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the Financial Statements

The Institutes financial statements were approved by the Board on 28.1.9...2017 and signed on its behalf by:

.....

Mr. Robinson Ng'ethe
For: Chairman, KEFRI Board of Directors

Date. 21/12/17

.....

J.W. Njuguna (PhD)
Ag. Director - KEFRI

Date. 21/12/17

REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA FORESTRY RESEARCH INSTITUTE FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Forestry Research Institute set out on pages 1 to 30, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Forestry Research Institute as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Science and Technology Act (Cap 250) of the laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Under Estimation of Land figure under Property, Plant and Equipment

The property, plant and equipment balance of Kshs. 5,783,614,743 excludes a value of various parcels of land totaling to 2735 hectares across the country on which the institute has put up developments including buildings that are owned by Kenya Forest Service, Maseno University, Ministry of Agriculture, Kitui and Lamu County Governments. It also excludes value of land on which the Institute headquarters is build which is under the name of the Ministry of Environment and Natural Resources.

The completeness, accuracy, ownership and valuation of the property, plant and equipment could therefore not be confirmed. This has led to underestimation of the balance of Kshs.5,783,614,743 as reflected in the financial statements.

Report of the Auditor-General on the Financial Statements of Kenya Forestry Research Institute for the year ended 30 June 2017

2. Abscondment from Duty and Irregular Salary Payments

Three officers absconded duty and were irregularly paid salaries amounting to Kshs.2,739,360 in the year 2015/2016. They had been sponsored for overseas training. To date the Institute has not recovered that money from the concerned officers but the Institute has made effort to try and recover the money as they visited the Ministry of Foreign Affairs, Diaspora Directorate on 2 November, 2017 and they were informed that the three officers; had been contacted through their respective Foreign Missions; however, they have not shown any commitment to repay the money. The recoverability of the irregularly paid salaries is therefore doubtful.

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

Key Audit Matters

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

Other Matter

Information Technology

The Institute was found not to have embraced IT in that it did not employ any software in the maintenance and production of its accounting records, specifically, the Ledger and/or Trial Balance but relied on the use of manual records.

Responsibilities of Management and Those Charged with Governance 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.

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

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

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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

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

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

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Institute's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Institute's to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

17 October 2018



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2017

	Note	2016-2017 Kshs.	2015-2016 Kshs.
REVENUE			
Revenue from non-exchange transactions:			
Government Grants	3	1,487,423,344	1,035,719,692
External Grant for Research	4	242,468,332	125,415,089
Deferred Income from Donors	5(b)	34,536,462	39,835,101
Revenue from exchange transactions:			
Interest on TB, FDR and Savings A/c	6	854,760	2,427,099
Other Income	7	116,557,389	95,607,172
TOTAL REVENUE		1,881,840,287	1,299,004,153
EXPENSES			
Employee Costs	8	(1,166,840,038)	(972,270,106)
Operating Expenses	9	(499,983,886)	(373,201,088)
Board of Management Expenses	10	(19,574,337)	(12,437,303)
Establishment Cost(Sinking Fund)	11(a)	(6,000,000)	-
Depreciation	5(a)	(90,262,597)	(91,433,744)
Amortization on Intangible Asset	12	(4,826,191)	(4,657,912)
TOTAL EXPENSES		(1,787,487,048)	(1,454,000,153)
OTHER GAINS/(LOSSES)			
Gain on Sale of Fixed Assets	13	-	-
Exchange Gain/(Loss)	13(b)	3,215,264	703,117
		3,215,264	703,117
Surplus/(Deficit) for the Year		97,568,503	(154,292,883)




KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2017

		2016-2017	2015-2016
		Kshs.	Kshs.
ASSETS	Notes		
CURRENT ASSETS			
Cash and cash equivalents	14(a)	296,988,922	196,423,833
Receivables from exchange transactions	15(a)	7,410,472	4,653,152
Receivables from non- exchange transactions	15(b)	2,060,451	1,341,697
Inventories	16	88,554,825	83,170,453
		395,014,670	285,589,135
NON-CURRENT ASSETS			
Property, Plant & Equipment	5(a)	5,783,614,743	5,773,811,211
Intangible Assets	12	19,304,763	18,631,650
		5,802,919,506	5,792,442,861
TOTAL ASSETS		6,197,934,176	6,078,031,996
LIABILITIES			
CURRENT LIABILITIES			
Payables from exchange transactions	17	11,231,236	11,449,040
Auditor General- accrued audit fee	17(c)	1,320,000	1,320,000
Unexpended External Donor Grants	4	273,715,134	238,840,351
Medical Scheme Funds	18	742,883	28,742,883
		287,009,253	280,352,274
NET ASSETS			
Government Grants for capital assets	19(a)	888,244,669	843,287,021
Deferred Income on Donated Assets	6(b)	617,078,471	651,614,932
Sinking Fund	11(b)	17,209,165	11,953,651
Revaluation Reserves	19(b)	4,467,199,488	4,467,199,488
Revenue Reserves	19(e)	(78,806,870)	(176,375,372)
		5,910,924,924	5,797,679,720
TOTAL NET ASSETS & LIABILITIES		6,197,934,176	6,078,031,996

The Financial Statements set out on pages 1-30 are signed on behalf of the Board of Management by:

Mr. Robinson Ng'ethe: 
 For: Chairman, KEFRI Board of Directors
 Date 21/12/17

Jane W. Njuguna (PhD) 
 Senior Deputy Director (R&D)
 Date 21/12/17



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2017

	Deferred Income on Government Grants for Capital Assets	Deferred Income on Revenue Reserves	Revaluation Reserves	Sinking Fund Kshs.	Total Kshs.	
Balance as at 1st July 2015	774,922,665	691,450,034	(22,082,489)	4,467,199,488	18,401,477	5,929,893,174
As restated	774,922,665	691,450,034	(22,082,489)	4,467,199,488	18,401,477	5,929,893,174
Surplus/(Deficit) for the year	-	(39,835,101)	(154,292,883)	-	-	(154,292,883)
Revaluation gain	-	-	-	-	-	-
Sinking Fund expenses	-	-	-	-	(10,158,578)	(10,158,578)
Additions during the year	73,510,000	-	-	-	3,710,751	77,220,751
Income & Expenditure	(5,145,643)	(39,835,101)	-	-	-	(5,145,643)
Deferred Income for the year	-	(39,835,101)	-	-	-	(39,835,101)
Balance as at 30th June 2016	843,287,021	651,614,932	(176,375,372)	4,467,199,488	11,953,651	5,797,681,720
Balance as at 1st July 2016	843,287,021	651,614,932	(176,375,372)	4,467,199,488	11,953,651	5,797,681,720
As restated	843,287,021	651,614,932	(176,375,372)	4,467,199,488	11,953,651	5,797,681,720
Surplus/(Deficit) for the year	-	97,568,503	-	-	-	97,568,503
Revaluation gain	-	-	-	-	-	-
Sinking Fund expenses	-	-	-	-	(818,814)	(818,814)
Additions during the year	76,500,000	-	-	-	6,074,329	82,574,329
To Income & Expenditure	(31,542,352)	-	-	-	-	(31,542,352)
Deferred Income for the year	-	(34,536,462)	-	-	-	(34,536,462)
Balance as at 30th June 2017	888,244,669	617,078,471	(78,806,870)	4,467,199,488	17,209,165	5,910,926,924



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2017

		2016-2017	2015-2016
	NOTES	Kshs.	Kshs.
Cash Flows from Operating Activities			
Surplus(Deficit) for the Year		97,568,503	(154,292,883)
Adjustment for:			
Depreciation	5(a)	90,262,597	91,433,744
Amortization for Intangible Asset	12	4,826,191	4,657,912
Deferred Income	5(b)	(34,536,462)	(39,835,101)
KEFRI Surcharge		(251,044)	(233,928)
Commission Income		(220,823)	(200,202)
Adjusted Surplus		157,648,961	(98,470,458)
Working Capital Changes:			
Decrease (Increase) in Debtors	15	(3,476,074)	2,930,081
Decrease (Increase) in Stock	16	(5,384,372)	(24,335,020)
Increase (Decrease) in Creditors	17	6,656,979	807,395
Net Cash from operating activities		(2,203,467)	(20,597,543)
Cash Flows from Investing Activities:			
Purchase of Assets	5(a)	(100,066,129)	(101,899,583)
Purchase of Intangible	12	(5,499,304)	(7,717,427)
Establishment Cost(Sinking Fund)	11(a)	(6,000,000)	-
Interest from FDR/Savings A/C -received	6	-	2,427,099
Proceeds from sale of assets		-	809,240
Net Cash from Investing activities		(111,565,432)	(106,380,670)
Cash Flows from Financing Activities:			
Development capital grants	3	44,957,648	68,364,357
Research Grants Received	4	270,296,075	345,943,394
Transfers/Adjustments		(16,100,363)	16,532,514
Research Grants Paid	4	(242,468,332)	(130,340,190)
Net Cash from Financing activities		56,685,028	300,500,075
Net Increase (Decrease) in Cash & Cash Equivalent		100,565,090	75,051,403
Opening Cash & Cash Equivalent		196,423,833	121,291,766
Closing Cash & Cash Equivalent		296,988,922	196,343,171
Cash & Cash Equivalent			
Bank balance	14(a)	296,988,922	196,423,833
Investment in FDR	14(b)	-	-
Closing Cash & Cash Equivalent		296,988,922	196,423,833



KENYA FORESTRY RESEARCH INSTITUTE

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2017

	Original budget	Adjustments	Full budget	Actual on	Performance	Budget Vs	Notes
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	%	
	Kshs	Kshs	Kshs	Kshs	Kshs		
Revenue							
Recurrent Grants	1,455,880,992	-	1,455,880,992	1,455,880,992	-	100	
Development Grants	153,000,000	(76,500,000)	76,500,000	76,500,000	-	100	1
Research Grants	242,468,332	-	242,468,332	242,468,332	-	100	
Interest Income(savings bank/FDR)	854,760	-	854,760	854,760	-	100	
Hire of Training Facilities -Training	39,500,000	2,267,000	41,467,000	41,467,749	749	100	
Sale of Forestry Produce	53,500,000	300,000	53,800,000	53,794,560	(5,440)	100	
Sale of Seeds	8,000,000	820,000	8,820,000	8,813,750	(6,250)	100	
Other Revenue	12,400,000	80,000	12,480,000	12,481,330	1,330	100	
Deferred Income from donors	34,536,462	-	34,536,462	34,536,462	-	100	
Exchange Gain	-	3,215,264	3,215,264	3,215,264	-	100	
Sub-Total	2,000,140,546	(69,817,736)	1,930,022,810	1,930,013,199	(9,611)		
Less:Development Grants capitalized (Note 3)			(45,000,000)	(44,957,648)			
Total Income	2,000,140,546	(69,817,736)	1,885,022,810	1,885,055,551	(9,611)		
Expenses							
Employees Costs	1,166,880,000	(30,000)	1,166,850,000	1,166,840,038	9,962	100	
Insurance of Property and Motor vehicles Expenses	8,950,000	35,000	8,985,000	8,975,742	9,258	100	
Operation Expenses	423,850,000	-	423,850,000	423,848,087	1,913	100	
Contracted Professional Services	18,750,000	4,000	18,754,000	18,753,997	3	100	
Audit Fee	1,000,000	737,746	1,737,746	1,737,746	-	100	
Repairs & Maintenance Expenses	42,100,000	(41,000)	42,059,000	42,058,178	822	100	
Research Expenses	4,000,000	(203,500)	3,796,500	3,796,564	(64)	100	
Bank Service Commission and Charges	800,000	13,600	813,600	813,572	28	100	
Board Expenses	10,000,000	566,337	10,566,337	10,566,337	-	100	
KEFRI Chief Executive Officer's(CEO) Remuneration	9,090,000	(82,000)	9,008,000	9,008,000	-	100	
Establishment Cost(Sinking Fund)	6,000,000	-	6,000,000	6,000,000	-	100	
Depreciation & Amortization Expenses	96,560,000	(1,472,000)	95,088,000	95,088,787	(787)	100	
Capital Expenditure	100,000,000	67,000	100,067,000	100,066,129	871	100	2
Total Expenditure	1,887,980,000	(404,817)	1,887,575,183	1,887,553,177	22,006		
Suplus/(Deficit) for the period with capital assets	112,160,546	(69,412,919)	(2,552,373)	(2,497,626)	(31,617)		
Less:Capital Expenditure	(100,000,000)	(67,000)	(100,067,000)	(100,066,129)	(871)		
Suplus/(Deficit) for the period without capital assets	212,160,546	(69,345,919)	97,514,627	97,568,503	(30,746)		

Notes.

1. GoK budget reduced in the Supplementary Budget:Development Vote had a budget cut of Kshs.76,500,000

	Kshs.
GoK (DEVELOPMENT)	
Grants Received	76,500,000
Recognised Income	
Development Grants: Deferred Income Recognised	31,542,352
Deferred Income -GoK Development Grants for capital assets	44,957,648
Totals	76,500,000

2. Capital Expenditure costs represent the assets the Institute acquired in the Financial Year 2016/2017



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTE 1: GENERAL INFORMATION

a. Incorporation

Kenya Forestry Research Institute (KEFRI) is a state Institute established in 1986, under the Science and Technology Act (Cap 250) of the laws of Kenya, which has since been repealed by Science, Technology and Innovation Act No. 28 of 2013. It is wholly owned by the Government of Kenya and is domiciled in Kenya. The Institute's principal activity is Forestry Research

b. Statement of compliance and basis of preparation - IPSAS 1

The Institutes financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Institute. The accounting policies have been consistently applied to all the years presented. The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the in-direct method. The financial statements are prepared on accrual basis.

c. Adoption of new and revised standards

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard	Impact
IPSAS 33:	(Effective for annual periods beginning on or January 1, 2017)
First time adoption of Accrual Basis IPSAS	In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.

The Institute adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the Institute.

IPSAS 34: **(Effective for annual periods beginning on or January 1, 2017)**

Separate Financial Statements	In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an Institute prepares separate financial statements.
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The Institute does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

IPSAS 35:	Effective for annual periods beginning on or January 1, 2017)
Consolidated Financial Statements	<p>In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p> <p>Its power over the other entity</p> <p>Its exposure or rights to variable benefits from involvement with the other entity</p> <p>Its ability to control the nature, timing and amount of benefits from the other entity.</p> <p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.</p> <p>The Institute does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</p>
IPSAS 36:	(Effective for annual periods beginning on or January 1, 2017)
Investments in Associates and Joint Ventures	<p>In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.</p> <p>The Institute does not have investments in associates or joint ventures.</p>
IPSAS 37:	(Effective for annual periods beginning on or January 1, 2017)
	<p>In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.</p> <p>The Institute does not have an interest in a joint arrangement and therefore the standard does not apply.</p>
IPSAS 38:	(Effective for annual periods beginning on or January 1, 2017)
Disclosure of Interests in Other Entities	<p>In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an Institute to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.</p> <p>The Institute does not have an interest in other entities and therefore the standard does not apply.</p>
ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017	
Standard	Effective date and impact:
IPSAS 39:	Applicable: 1st January 2018
Employee Benefits	<p>The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.</p>
IPSAS 40:	Applicable: 1st January 2019:
Public Sector Combinations	<p>The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p>
iii. Early adoption of standards	
The Institute did not early – adopt any new or amended standards in year 2017.	



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Pronouncements from the Public Sector Accounting Standards Board (PSASB)

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the Institute has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements. The Financial Statements have therefore been prepared in accordance with the Accrual basis of Accounting method under the International Public Sector Accounting Standards (IPSAS)

(b) Property, Plant and Equipment- IPSAS 17

i) All categories of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. It is the policy of the Institute to capitalise major renovation and refurbishment expenses incurred on buildings. The Institute undertakes revaluation of its property (land, buildings and heavy machines including heavy vehicles) after every five years per category of property, plant and equipment subject to funds availability.

ii) Depreciation on property, plant and equipment is recognised in the income statement on a reducing balance basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

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

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



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iii) Donated Assets - IPSAS 23

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

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

(c) Intangible Assets - IPSAS 31

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

(d) Income Recognition - IPSAS 23

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

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

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

iii) Interest income

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

KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Inventories - IPSAS 12

i) Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

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

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

ii) The Institute's Forests Plantations are for research purposes (experiments) and not for commercial use.

The plantations are harvested at the end of the experiment hence the provision of IPSAS 27 are not applicable

iii) Seed & Seedlings

The change in the seed and seedlings within the year is taken as cost of sale and netted to the expense account on purchase of research materials.

(f) Employees Benefit Obligation: IPSAS 25

i) The Institute operates a defined contribution Retirement Benefit Scheme for all its employees on permanent and pensionable terms. The assets of the scheme are held in a separate trustee fund which is administered by the scheme's trustees. It is funded by contributions from both the Institute (sponsor) and employees.

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

(g) Taxation

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

(h) Foreign Currency Transaction

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

(i) Receivables

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

(j) Trade payables : Trade payables are not interest bearing and are stated at their fair value.

(k) Currency

The financial statements are presented in Kenya Shillings which is the functional and reporting currency of the Institute and all values are rounded to the nearest Shilling.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Cash and Cash Equivalent

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

m) Financial risk management objectives: IPSAS 30

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

i) Credit and market risk management

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

Classification of credit risk bearing assets

The table below represents company's maximum exposure to credit risk as at 30th June 2017

	Fully performing	Past due
Cash at banks	296,988,922	-
Receivables from exchange transactions	2,445,456	4,965,016
Investment in FDR	-	-
Total	299,434,378	4,965,016

ii) Liquidity risk management

Liquidity risk is the risk that the Institute will not be able to meet its financial obligations when they fall due. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the Institute's reputation. The Institute ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the board of Management. All capital expenditures are funded by general reserves, grants from Government and our development partners.

The table below provides a contractual maturity analysis of the Institute's financial liabilities:

	At 30 June 2017	1-6 months	6-12 months
Financial liabilities			
Trade payables		3,706,308	7,524,928

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

o) Impairment of cash-generating assets - IPSAS 26

An impairment loss of cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount. An impairment loss shall be recognized immediately in surplus or deficit of the year and all other treatments shall be as permitted by the IPSAS.

p) Impairment of non-cash-generating assets - IPSAS 21

An impairment loss of non-cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable serviceable amount. An impairment loss shall be recognized immediately in surplus or deficit of the year and all other treatments shall be as permitted by the IPSAS.

KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Budget information: IPSAS 24

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

(r) Significant judgments and sources of estimation uncertainty: IPSAS 1

The preparation of the Institute's financial statements in conformity with IPSAS 1 requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

i) Judgments

In the process of applying the Institute's accounting policies, management has made judgments, which have the most significant effect on the amounts recognized in the financial statements.

ii) Estimates and assumptions

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

s) Comparative figures

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

t) Provisions: IPSAS 19

(i) Contingent liabilities

The Institute 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.

(ii) Contingent assets

The Institute 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 Institute in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

u) Subsequent events: IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016-2017	2015-2016
	Kshs.	Kshs.
NOTE 3: GOVERNMENT GRANTS RECEIVED		
Recurrent Grants	1,455,880,992	1,030,574,049
Development Grants	76,500,000	73,510,000
Totals	1,532,380,992	1,104,084,049
(b) Recognised Income		
Recurrent : Income & Expenditure	1,455,880,992	1,030,574,049
Development Grants: Income Recognised	31,542,352	5,145,643
To Income & Expenditure	1,487,423,344	1,035,719,692
Deferred Income -GoK Development Grants for capital assets	44,957,648	68,364,357
Totals	1,532,380,992	1,104,084,049



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
NOTE 4: EXTERNAL DONOR GRANTS FOR RESEARCH 2016-2017

	Various Projects (KSHS)	USAID/WFP PROJECT (KSHS)	MSB-UJP (KSHS)	IT/KIRED-GEDE (KSHS)	EURO A/C PROJECT (KSHS)	IT/KIRED PROJECT A/C HOTS (KSHS)	US DOLLAR (KSHS)	KCDP-IDA (KSHS)	KCDP-GEF (KSHS)	KERRI REGIONAL TRAINING (KSHS)	KERRI PALMCO PROJECT A/C (KSHS)	CLIMATE INITIATIVE-SLEEK PROJECT (KSHS)	KERRI CIFOR PROJECT A/C (KSHS)	KENYA WATER TOWERS PROJECT HOTS (KSHS)	ADAPTATION FUND PROJECT (KSHS)	KENYA WATER TOWERS PROJECT LONDIAHI (KSHS)	MAS PEER PROJECT (KSHS)	GEZ PROJECT - LODWAR (KSHS)	KENYA WATER TOWERS PROJECT MASENO (KSHS)	TOTAL (KSHS)	
Balance b/f July 2016	8,421,420	-	1,969,492	327,549	5,889,621	402,101	6,993,976	827,206	2,483,068	129,954	35,790	58,518	64,082	140,512,411	10,239,637	23,387,641	10,687,990	-	27,142,781	239,447,208	
Adjustment	2,970,881	-	-	-	-	-	-	-	-	-	-	-	-	(368,822)	-	-	-	-	-	2,602,059	
Received during the Year	19,489,421	-	-	206,000	172,802,040	-	6,931,065	1,431,796	1,974,533	9,167,813	-	11,000	-	-	53,982,007	-	-	-	4,500,000	270,298,075	
Related to the Donor	-	-	-	-	-	-	-	-	-	(17,567)	-	-	-	-	-	-	-	-	-	(17,567)	
Inter account transfers	-	-	-	1,900,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,182,880	
Transfer from Dollar A/C	210,812	6,133,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transfer from Euro A/C	18,137,180	-	-	3,204,044	(24,778,123)	3,438,919	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Available during the Year	49,229,666	6,133,000	1,969,492	5,637,593	153,893,538	1,939,020	1,390,569	2,259,002	4,458,001	9,280,290	35,790	69,518	64,082	140,143,889	64,235,644	23,387,641	16,859,650	4,500,000	27,142,781	512,328,076	
Spent during the Year	(44,338,640)	(5,822,344)	(1,049,278)	(4,033,921)	(469,506)	(1,483,484)	(199,340)	(1,749,056)	(4,466,712)	(8,562,980)	(8,020)	(4,807)	(5,519)	(82,340,884)	(27,308,792)	(23,381,237)	(5,331,202)	(4,496,118)	(27,036,398)	(242,468,332)	
Adjustment-Exchange gain	-	-	-	-	3,836,011	-	19,379	-	-	-	-	-	-	-	-	-	-	-	-	-	3,855,390
Balance c/f	4,891,055	310,657	920,114	1,603,672	157,870,044	455,535	1,218,608	509,946	1,289	317,220	27,740	64,711	58,566	57,803,005	36,928,851	6,404	11,519,448	3,883	6,383	273,715,134	



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NOTE 5(a): FIXED ASSETS SCHEDULE AS AT 30TH JUNE 2016

(a) Depreciation

ACCOUNT	3128101 LAND	3110201 BUILDINGS	3110902 WATER EQUIP & PLANTS	3111113 LOOSE TOOLS	3111004 TELEPHONE EQUIP	3111107 LAB. EQUIP APPARATUS & ELECT. EQUIP.	3110901 FURNITURE AND FITTINGS	3110704 BICYCLES	3110705 HEAVY VEHICLE AND TRACTORS	3110701 MOTOR CARS & CYCLES	1310 COMPUTERS OFFICE AND ICT EQUIPMENT	3111101 MEDICAL & DENTAL EQUIP.	3110209 PROGRESS WORK-IN- PROGRESS	TOTAL
	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)
As at 1st July 2015	4,123,365,000	1,726,413,668	53,694,933	4,528,691	8,682,253	318,383,039	190,310,066	177,430	39,461,147	247,334,615	187,646,343	36,317	56,188,095	6,653,450,997
Acquisition during the Year	-	61,127,260	4,111,451	-	116,295	2,289,934	1,658,841	-	230,000	-	5,568,158	-	26,597,643	101,899,943
Donated Assets	-	-	-	-	-	-	-	-	-	-	-	-	(53,342,603)	-
Elimination on revaluation Transfer to completed buildings	-	53,342,603	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal during the Year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 30th June 2016	4,123,365,000	1,834,882,931	57,206,384	4,528,691	8,798,548	320,672,973	192,168,908	177,430	39,461,147	247,334,615	187,646,343	36,317	29,443,135	6,955,450,990
Depreciation	-	422,686,697	32,918,904	3,116,210	5,387,796	199,610,621	80,994,722	164,655	38,570,114	172,764,706	148,667,278	24,112	-	1,090,205,625
Disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Elimination on revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charge for the Year	-	35,304,906	3,148,435	176,560	426,344	16,257,788	2,646,773	1,672	311,637	18,642,462	14,515,641	1,526	-	91,433,744
As at 30th June 2016	-	457,991,603	35,167,339	3,292,770	5,614,140	206,868,659	83,641,695	165,726	38,881,752	191,467,228	158,383,219	25,638	-	1,191,639,269
Net Book Value	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 30th June 2016	4,123,365,000	1,378,891,238	22,039,044	1,235,921	2,984,409	113,864,314	18,527,413	11,764	519,395	55,927,387	29,031,282	10,679	29,443,135	5,773,811,211
As at 30th June 2015	4,123,365,000	1,297,726,371	21,076,028	1,412,461	3,294,458	127,772,368	19,315,345	13,375	831,033	74,339,849	37,978,765	12,205	56,188,095	5,763,345,373

5(b): Deferred Income Schedule on Donated Assets (See Note 22 (a) (ii))

ACCOUNT	3128101 LAND	3110201 BUILDINGS	3110902 WATER EQUIP & PLANTS	3111113 LOOSE TOOLS	3111004 TELEPHONE EQUIP	3111107 LAB. EQUIP APPARATUS & ELECT. EQUIP.	3110901 FURNITURE AND FITTINGS	3110704 BICYCLES	3110705 HEAVY VEHICLE AND TRACTORS	3110701 MOTOR CARS & CYCLES	1310 COMPUTERS OFFICE AND ICT EQUIPMENT	3111101 MEDICAL & DENTAL EQUIP.	3110209 PROGRESS WORK-IN- PROGRESS	TOTAL
	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)
As at 1st July 2015	-	-	7,862,589	38,426	99,718	94,900,692	3,783,683	13,719	4,873	52,736,290	8,134	-	-	691,450,633
Additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income	-	-	7,862,589	38,426	99,718	94,900,692	3,783,683	13,719	4,873	52,736,290	8,134	-	-	691,450,633
To income & expenditure for the year	-	13,297,775	895,324	4,803	11,340	11,862,675	472,960	1,715	1,825	13,184,073	2,711	-	-	39,835,101
As at 30th June 2016	-	518,613,224	6,967,265	33,623	79,278	83,038,027	3,310,723	12,864	3,048	39,552,218	5,422	-	-	651,614,932



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Notes	2016-2017 Kshs.	2015-2016 Kshs.
NOTE 6: INTEREST ON FDR & SAVINGS A/C		
Interest Income from FDR	831,781	2,132,852
Interest from Savings Bank A/c	22,980	294,247
Totals	854,760	2,427,099
NOTE 7(a): OTHER INCOME		
Sale of Forestry Produce	62,608,310	45,206,629
Nominal Income (Rent, Water & Electricity)	5,548,445	6,633,185
Surcharges	251,044	233,928
Commission Income	220,823	200,202
Bus Charges (Income)	1,181,900	1,219,469
Other Income/Tenders and Hire of Grounds	706,500	830,000
Hire of KEFRI Facilities	41,467,749	35,549,599
Lab Analysis	2,308,780	3,570,195
Clinic Revenue	1,052,525	1,354,725
Sale of Stores	1,000	809,240
Insurance Compensation	161,714	-
Project Administration Fees	1,048,598	-
Totals	116,557,389	95,607,172
NOTE 7(b): ANALYSIS OF FOREST PRODUCE INCOME		
Sale of Forestry Produce	6,067,547	6,542,079
Sale of Seeds	8,813,750	11,179,604
Karura Revenue	13,494,964	11,736,045
Londiani Income	5,420,472	2,748,075
Gede Income	953,672	2,863,599
Turbo Income	4,705,459	1,420,931
Kibwezi Income	929,690	656,670
Kakamega Revenue	259,749	339,903
Nyeri Income	2,177,993	597,800
Lodwar Revenue	12,347,222	4,422,904
Marigat Revenue	7,054,522	2,622,430
Kuja River Revenue	11,000	24,490
Ramogi Revenue	21,000	52,100
Garissa Revenue	2,000	-
Migori Revenue	304,950	-
Lamu Revenue	44,320	-
Total	62,608,310	45,206,629
NOTE 7(c): HIRE OF TRAINING FACILITIES		
Hire of Training Facilities - Training[Muguga]	3,786,750	471,500
Kitui Revenue	29,020,210	22,412,289
KEFRI House Income	8,660,789	12,665,810
Total	41,467,749	35,549,599
NOTE 7(d): LAB ANALYSIS		
Muguga Laboratory Revenue	85,380	143,920
Maseno Revenue	2,223,400	3,426,275
Total	2,308,780	3,570,195



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2016-2017	2015-2016
		Kshs.	Kshs.
NOTE 8: EMPLOYEE COSTS			
Salaries and Wages	8(b)	736,051,789	588,478,723
Gratuity Costs		9,807,049	4,664,156
Staff Pension Cost/Administration Costs	8(c)	127,579,870	101,430,643
House Allowances		129,027,047	117,237,940
Medical Allowance N/A		162,611	22,920
Other Personal Allowances	8(d)	104,437,196	100,677,412
Staff Medical Costs (In-Patient)		460,826	248,601
Compensation & Ex-gratia		165,000	300,500
Leave & Passage Expenses		5,560,000	5,720,050
Transfer Expenses		3,561,503	3,099,716
Group Life Insurance Premium		2,102,233	2,596,757
Group Personal Accident		907,996	1,176,659
Group Personal Accident Premium- Casuals		163,076	308,966
Medical Insurance Cover for Staff		46,853,842	46,307,063
Total		1,166,840,038	972,270,106
NOTE 8(b): SALARIES & WAGES			
Basic Salaries		687,581,805	542,132,872
Contractual Employee		4,070,860	2,779,260
Casual Labour		44,399,123	43,566,590
Total		736,051,789	588,478,723
The number of employees as at the end of the year		999	1,004
NOTE 8(c): STAFF PENSION COST			
Pension Employer Cost		125,994,330	100,497,882
Pension Employer Cost - Individual Vouchers		-	113,850
Pension Element 27.5%		1,109,740	210,862
NSSF Employer		475,800	608,049
Total		127,579,870	101,430,643



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016-2017	2015-2016
	Kshs.	Kshs.
NOTE 8(d): OTHER ALLOWANCES		
Honoraria	3,094,068	3,406,287
Acting Allowance	110,721	278,842
Hardship Allowance	5,601,228	4,485,871
Special Duty Allowance	638,166	422,331
Incentive Allowance	19,096,797	2,395,750
Incentive Allowance - Individual Vouchers	-	7,342,516
Entertainment Allowance	4,448,328	4,706,519
Responsibility Allowance	7,395,626	9,135,187
Other Allowances	9,850,703	9,493,451
Other Allowances (Individual Vouchers)	-	1,104,275
Risk Allowances	-	5,220
Commuter Allowance	54,201,560	57,901,164
Total	104,437,196	100,677,412
NOTE 9: OPERATING EXPENSES		
Electricity Expenses	16,176,523	16,117,687
Water & Conservancy	2,571,666	3,229,852
Telephone, Telex & Mobile Phone	4,169,624	3,073,465
Internet Costs	4,494,608	6,156,465
Postal Courier & Telegrams	886,007	1,344,886
Travelling & Accommodation Expenses	176,903,861	128,444,531
External Travelling Costs	9,541,134	8,548,442
Printing & Publishing	2,745,339	3,333,988
Subscription, Newspapers & Periodicals	963,610	958,477
Advertising & Publicity	13,025,649	8,045,100
Trade Show and Exhibitions	1,814,976	1,953,708
Training Expenses and Attachment fee	6,579,088	6,679,453
Cost of Conference & Seminars	414,000	-
Purchase of Coffin	437,751	220,000
Insurance of Buildings & Equipment	7,026,216	1,073,209
Insurance of Motor Vehicles	1,949,526	5,962,138
Supplies of medical Drugs	1,527,074	1,477,416
Supplies of Dressings	-	123,453



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: OPERATING EXPENSES (Continued)	2016-2017	2015-2016
	Kshs.	Kshs.
Fungicides & Insecticides	208,369	225,905
Purchase of Utensils and Cutlery	582,797	412,750
Purchase of Research Materials 9(b)	3,796,564	4,967,638
Library Expenses	116,911	93,475
Food & Ration	35,036,855	26,887,473
Staff Uniform Expenses	1,513,467	1,356,771
Purchase of Supplies for Production	84,378,180	32,049,165
Stationery Expenses	7,748,229	7,597,657
Computer Expenses	4,275,037	5,315,734
Sanitary & Cleaning Material	1,485,894	2,183,935
Fuel & Lubricants Expenses 9(c)	30,826,024	29,782,082
Bank Charges 9(d)	813,572	772,605
Membership Fees to Statutory Organization	3,735,916	4,281,329
Legal Dues, Arbitration and Compensation Payments	522,000	62,120
Contracted Professional Services 9(e)	18,753,997	12,158,178
Audit Fees	1,737,746	660,000
Security Operations	9,954,981	11,323,164
Write Offs/Bad Debts Expenses	190,600	102,250
Maintenance Expenses 9(f)	42,058,179	31,789,105
Land Rent & Rates	724,000	155,999
Withholding Tax on Interest Accounts	128,214	451,804
Donations	50,000	-
Team Building Activities/Station Launching/Re-branding	119,700	3,670,429
Choir and Sports exp	-	159,250
Total Operating Expenses	499,983,886	373,201,088
NOTE 9(b): PURCHASE OF RESEARCH MATERIALS		
Chemicals & Industrial Gases	1,396,360	1,495,747
Laboratory Materials	1,482,105	3,039,766
Workshop Materials	705,843	233,719
Photographic & Audio Visual Material	212,256	198,407
Total	3,796,564	4,967,638



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: OPERATING EXPENSES (Continued)	2016-2017	2015-2016
	Kshs.	Kshs.
NOTE 9(c): FUEL EXPENSES		
Fuel & Lubricants Expenses	29,889,379	29,137,521
Other Fuels (wood, charcoal, gas etc.)	330,745	540,785
Fuel for Generators	605,900	103,775
Total	30,826,024	29,782,082
NOTE 9(d): BANK CHARGES		
Recurrent	448,339	495,168
Development	36,781	15,520
Various Projects	22,803	38,895
IFRI project	-	9,745
Sinking Fund	4,965	7,161
Gold Plus Savings	3,646	1,304
Gold Plus Revenue	41,774	56,937
KEFRI US Dollar Account	15,364	2,536
EURO A/C	3,355	3,197
KCDP-IDA	22,384	10,483
KCDP-GEF	15,180	23,380
KEFRI-MSB/UPP PROJECT -Millenium Seed for Life	5,291	9,981
KEFRI ITK/IIED PROJECT A/C-GEDE	14,047	9,606
KEFRI ITK/IIED PROJECT A/C-HQTS	14,856	6,113
KAPP Prosopis	-	330
MMMB GOF Project	-	5,306
GIZ Project Lodwar	11,788	-
KEFRI/REGIONAL TRAINING	7,835	-
KEFRI PALWECO PROJECT A/C	8,020	6,280
CLINTON CLIMATE INITIATIVE-SLEEK PROJECT	4,807	4,703
KEFRI CIFOR PROJECT A/C	5,516	11,350
KENYA WaTER TOWERS PROJECT HQTS	33,511	15,210
ADAPTATION FUND PROJECT	13,112	11,148
KENYA WaTER TOWERS PROJECT LONDIANI	35,782	10,155
NAS PEER PROJECT	11,016	10,933
KENYA WaTER TOWERS PROJECT MASENO	30,986	7,165
USAID/WTP Project	2,417	-
Totals	813,572	772,605



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: OPERATING EXPENSES (Continued)	2016-2017	2015-2016
	Kshs.	Kshs.
NOTE 9(e): CONTRACTED PROFESSIONAL SERVICES		
Contracted Prof. Services- Valuation	-	-
Contracted Prof. Services- Others	8,635,254	6,135,915
Contracted Prof. Services- Consultancy	9,803,731	231,000
Contracted Professional Services - EMS surveillance Audit	-	886,383
Technical Services	315,013	4,904,880
Total	18,753,997	12,158,178
NOTE 9(f): MAINTENANCE EXPENSES		
Vehicle Maintenance Expenses	16,632,256	16,434,198
Maintenance of Plant & Machinery	2,751,986	4,047,913
Maintenance of Furniture	493,645	280,640
Maintenance of Buildings - Residential	1,642,015	552,162
Maintenance of Buildings and Stations	7,065,000	5,515,691
Maintenance of Roads	769,491	231,603
Minor Alterations	1,435,679	507,605
Maintenance of Computer Software	10,982,646	3,912,450
Maintenance of Water Supplies & Sewage	285,463	306,844
Total	42,058,179	31,789,105
NOTE 10: BOARD OF MANAGEMENT EXPENSES		
Board Costs	9,165,040	4,747,303
Conferences	1,084,777	600,000
KEFRI Chief Executive Officer's Remuneration	9,008,000	7,090,000
Medical Insurance Cover for Board Members	316,520	-
Total	19,574,337	12,437,303



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016-2017	2015-2016
NOTE: 11(a) ESTABLISHMENT COST	Kshs.	Kshs.
Sinking Fund	6,000,000	-

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

NOTE 11(b): SINKING FUND

Balance b/f	11,953,651	18,401,477
Received during the Year	6,074,329	3,710,751
Available during the Year	18,027,979	22,112,228
Spent during the Year	(818,814)	(10,158,578)
Balance c/f	17,209,165	11,953,651

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

NOTE 12: INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2016-2017	2015-2016
Cost	Kshs.	Kshs.
At the beginning of the year-Net	18,631,650	15,572,135
Additions for the year	5,499,304	7,717,427
Amortization on Intangible Assets - Software	(4,826,191)	(4,657,912)
At the end of the year	19,304,763	18,631,650

This represents costs related to the acquisition of computer software and expenditure incurred towards enhancing and extending the benefits and lives of computer software programs beyond their original specifications.

NOTE 13: GAIN ON SALE OF FIXED ASSETS

	2016-2017	2015-2016
Cost	Kshs.	Kshs.
Sale Proceeds	-	-
Value at Cost	-	-
Less: Accumulated Depreciation	-	-
Net Book Value	-	-
Gain on Disposal	-	-

NOTE 13(b): EXCHANGE GAIN/(LOSS)

Exchange Gain	3,855,390	703,117
Exchange Loss	(640,126)	-
Total	3,215,264	703,117

NOTE 14(a): CASH AND CASH EQUIVALENT -CASH AT BANK

Name of Bank Account	Account Number	Bank		2016-2017	2015-2016
				Kshs.	Kshs.
Recurrent	1106971361	KCB		9,393,587	13,901,847
Development	1106749944	KCB		260,775	4,245,121
Various Projects	1106750012	KCB		3,329,405	8,141,029
IFRI project	1107094151	KCB		-	23,797
Sinking Fund	1106972643	KCB		15,209,165	1,955,651
Gold Plus Savings	1107063272	KCB		507,010	509,245
Gold Plus Revenue	1107063558	KCB		240,435	6,621,357
KEFRI US Dollar Account	1107182867	KCB		1,218,609	6,993,976
EURO A/C	1106972619	KCB		157,070,044	5,869,621
KCDP-IDA	0102004852800	Standard		509,946	827,206
KCDP-GEF	0102004852801	Standard		1,288	2,483,068



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 14(a): CASH AND CASH EQUIVALENT -CASH AT BANK (Continued)			2016-2017	2015-2016
			Kshs.	Kshs.
KEFRI-MSB/UPP PROJECT -Millenium Seed	01136151733100	Co-op	920,114	1,969,492
KEFRI/REGIONAL TRAINING	6433340016	CBA	317,219	129,954
KEFRI ITK/IIED PROJECT A/C-HQTS	01136151733101	Co-op	455,535	402,100
KEFRI CIFOR PROJECT A/C	0180081003	KCB	58,566	64,082
KEFRI PALWECO PROJECT A/C	1142007049	KCB	27,740	35,760
CLINTON CLIMATE INITIATIVE-SLEEK	1144980720	Co-op	64,711	58,518
KEFRI ITK/IIED PROJECT A/C-GEDE	01136151733103	Co-op	1,603,672	327,549
KEFRI/NAS PEER PROJECT	01136151733104	Co-op	11,190,427	10,667,990
KEFRI WATER TOWER PROJECT-HQTS	1176894080	KCB	57,494,005	70,512,411
KEFRI ADATATION FUND	1178886956	KCB	36,926,852	10,253,637
KEFRI WATER TOWER PROJECT-	1178145298	KCB	6,404	23,387,641
KEFRI WATER TOWER PROJECT-MASENO	1178145298	KCB	6,383	27,042,781
KEFRI USAID/WTP PROJECT	1198759054	KCB	173,147	-
GIZ Project Lodwar	1183017367	KCB	3,883	-
Totals			296,988,922	196,423,833

NOTE 14(b): Investment in Fixed deposit account

The Institute had no short term Investments by 30/6/2017

NOTE 15: DEBTORS SCHEDULE (RECEIVABLES)

(a) RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2016-2017	2015-2016
	Kshs.	Kshs.
Water and Electricity Debtors	1,653,155	2,571,402
FAO Kenya	179,100	-
World Vision	422,000	-
Sundry Debtors	34,000	362,400
Kitui County Government	792,600	1,308,400
State Department fo East African Affairs	-	355,500
NEMA	11,000	52,250
Action Aid Mwingi	-	3,200
Teachers Service Commission	418,500	-
Ministry of Energy, Turkana	681,437	-
Kenya Water Institute	56,400	-
Tanathi	110,000	-
Kitui County Assembly	38,800	-
GAIN KENYA	98,000	-
National Land Commission	122,500	-
Kenya National Highway Authority	16,000	-
Safaricom Ltd	14,400	-
Turkwel CIP	30,200	-
Ministry of Water-Turkana	900,000	-
GIZ SIF Programme	69,600	-
Ministry of Lands	240,500	-
Kiwash	55,900	-
IEBC	93,500	-
Groots Kenya	22,800	-
CDF Baringo	18,900	-
Kenya Red Cross	337,500	-
Marie Loreto	18,720	-
Friends of Lake Turkana-FOLT	48,000	-
Save the Children	860,000	-
Lopuu E Ltd	66,960	-
Total	7,410,472	4,653,152
(b) RECEIVABLES FROM NON- EXCHANGE TRANSACTIONS		
Travelling Imprest	972,280	317,700
Station/Special Imprest	633,890	462,200
Salary in Advance	-	139,302
Salary Advance	454,281	422,495
Total	2,060,451	1,341,697
Total Debtors	9,470,923	5,994,849



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)		2016-2017	2015-2016
NOTE 16: INVENTORIES		Kshs.	Kshs.
Stationery/Computer Accessories		1,105,914	1,315,127
Motor Vehicle Spare Parts & Fuel		158,183	240,958
Uniforms and Clothings		-	9,320
Food Stuff		64,841	21,357
Hardware, Electricals & Cleaning Materials		2,955,535	2,895,703
Seeds & Seedlings		53,956,929	53,063,326
Forest Plantations	1. (e)(ii)	29,848,199	25,413,432
Drugs & Dressings		422,785	156,236
Fungicides & Sprays/Chemicals		42,437	33,300
Utensils and cutlery		-	21,695
Total		88,554,825	83,170,453

NB: Note 1. (e) ii) The Institute's Forests Plantations are for research purposes (experiments) and not for commercial use.

The plantations are harvested at the end of the experiment hence the provision of IPSAS 27 are not applicable.



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 17: CREDITORS SCHEDULE (PAYABLES)	2016-2017 Kshs.	2015-2016 Kshs.
Sundry Creditors - Merchants	9,027,687	8,899,840
Accruals - (KPLC)	1,725,695	1,629,288
Insurance Compensation	6,750	275,769
Miscellaneous Recovery (Unpaid June BTLs) 17(b)	471,104	644,143
Totals	11,231,236	11,449,040
NOTE 17(b): MISCELLANEOUS RECOVERIES		
Family Remittance	21,650	23,550
Sheria Coop	-	20,613
Blue Shield	-	4,850
Pioneer Insurance	35,608	-
Cooperative Ins (C.I.C.)	14,053	3,955
Corporate insurance	12,253	-
ICEA INSURANCE	33,486	-
Saham Assurance	81,235	-
Britam Insurance	94,624	-
S.A. Y.E.	-	68,000
Attachment fees	62,500	63,000
Mhasibu Sacco	28,900	-
Ukulima Fosa - Advances	-	347,289
Lomu Welfare	-	38,705
Kenya Professional Association of Women in Agriculture	-	4,800
KANASA	-	8,400
Marigat Welfare Society	53,795	8,390
Imarisha SACCO	-	23,400
Elimu SACCO	-	12,296
Kakamega Staff Welfare Group	-	5,895
Admin Staff Welfare	33,000	11,000
Total	471,104	644,143
NOTE 17(c): Auditor General- accrued audit fee		
Auditor General- accrued audit fee	1,320,000	1,320,000



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 18: KEFRI MEDICAL SCHEME FUND ACCOUNT A/C

	2016-2017	2015-2016
	Kshs.	Kshs.
Items contributing to Fund balance:		
Income: Interest from FDR	180,822	314,103
Contribution to the Fund	180,822	314,103
Items Reducing Fund balance:		
Bank charges	5,070	5,940
Withholding Tax on Interest Accounts	27,123	104,514
Reduction to the Fund	32,193	110,454
Fund Surplus	148,629	203,649
Current Assets:		
Cash at Bank	29,177,837	1,029,208
Debtors: GoldPlus Savings Account	345,205	345,205
Recurrent	397,678	28,397,678
Fund Net Assets	29,920,720	29,772,091
Fund Balance as at 01.07.2016	29,772,091	29,568,442
Surplus for the year	148,629	203,649
Fund Balance as at 30.06.2017	29,920,720	29,772,091



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19: CAPITAL GRANTS/DEFERRED INCOME & RESERVES

Nature and Purpose of Reserves

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

(a)(i) Deferred Income from Government Grants for Capital Government Grants for Capital Assets /Donations	2016-2017 Kshs.	2015-2016 Kshs.
	Note	
Balance b/fwd	843,287,022	774,922,665
Additions	3 44,957,648	68,364,357
Transfer from/ to Deferred Income/ Donated Assets	-	-
Balance C/d	888,244,670	843,287,022
(a) (ii) Deferred Income from External Donors on Donated Assets		
Balance b/fwd	651,614,933	691,450,034
Deferred Income/ Donated Assets	5(b) -	-
Deferred Income	5(b) (34,536,462)	(39,835,101)
Balance C/d	617,078,471	651,614,933

(b) Revaluation Reserves

The Revaluation Reserves cater for the revalued amount in the cost of Property, Plant and Equipment. The amount in the Reserve Account includes revalued amount of the Institute's land and buildings as indicated below:

REVALUATION SURPLUS RESERVE

LAND PARCEL NO.	Date	Date
23877	29/03/1999	29/03/1999
23879	29/03/1999	29/03/1999
23883	29/03/1999	29/03/1999
TOTAL		
BUILDINGS ON LAND PARCEL NO.		
23877	29/03/1999	29/03/1999
23879	29/03/1999	29/03/1999
23883	29/03/1999	29/03/1999
TOTAL		
Total Gain on revaluation		
Revaluation on heavy vehicles	30/6/2013	30/6/2013
Balance b/f 1/7/2013		
Revaluation gain on Land		
Nos. 23877/23879/23883	Muguga 30/6/2014	30/6/2014
Nos. 24600	Kitui-Tiva 30/6/2014	30/6/2014
Block 11/127	Kitui-Hqts 30/6/2014	30/6/2014
Revaluation gain on Buildings		
Muguga Hts/Seed Centre	30/6/2014	30/6/2014
Kitui-Hqts/Kitui-Tiva	30/6/2014	30/6/2014
Revaluation gain for the year 2014		
Balance c/f 30/6/2014		

The institute has the following title deeds:

Location	L.R. No.	Hectares
North West of Kikuyu Township	23879 IR 77468	122.90
North West of Kikuyu Township	23883 IR 79467	46.66
North West of Kikuyu Township	23877 IR79471	134.60
Kyangwithya/Misewani-Kitui	1414	0.20
Kitui Municipality-Kitui	Leasehold land ref	6.06
Kitui-Tiva	Leasehold land ref	1,150.90
Total		1,461.32

The institute does not have ownership documents for the land amounting to 2735 hectares where the institute has put up developments though pursuing through KFS to the National Land Commission as tabulated below:

Region	Size in Hectares
Rift Valley	954.00
Central Highlands	752.00
Coastal Region	900.00
Lake Basin	101.00
Drylands	28.00
Grand Total	2,735.00



KENYA FORESTRY RESEARCH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 19: CAPITAL GRANTS/DEFERRED INCOME & RESERVES (Continued)

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

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

Sinking Fund	2016-2017 Kshs.	2015-2016 Kshs.
Balance b/f	11,953,651	18,401,477
Received during the Year	6,074,329	3,710,751
Available during the Year	18,027,979	22,112,228
Spent during the Year	(818,814)	(10,158,578)
Balance c/f	17,209,165	11,953,651

(d) External Grants Reserve

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

(e) Accumulated Surplus / (Deficit)

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

Balance b/f	(176,375,373)	(22,082,489)
Surplus/(Deficit) for the Year	97,568,503	(154,292,883)
Balance c/f	(78,806,870)	(176,375,373)

NOTE 20: IPSAS 20 Related Party Disclosures

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

RELATED PARTY TRANSACTIONS	Note	2016-2017 Kshs.	2015-2016 Kshs.
Remuneration and other costs of Board of Management	10	19,574,337	12,437,303
Transfers from GoK- Ministry of Environment and Natural Resources	3	1,532,380,992	1,104,084,049
Salaries and other staff employment benefits of Senior Management	8	56,201,388	57,530,388
Staff receivables	15	2,060,451	-
Total		1,610,217,168	1,174,051,740



KENYA FORESTRY RESEARCH INSTITUTE

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

a) Reference No. on the external audit report b) Issue/Observation from Auditor	Management Comments	Focal Point person to resolve the issue	Status -Resolved/Not Resolved	Remarks/Time frame
2015/2016 Report. a) Property, Plant and Equipment	A joint task force committee was established by the two institutions (KEFRI&KFS) on Asset sharing. The committee is at advanced stage of completing the exercise. A letter, dated 11th September 2017 was written to the Chief Conservator of Forests at KFS so as to engage the National Land Commission for Title Deeds processing	The joint task force committee	Not yet resolved	Until the National Land Commission issues KEFRI with these title deeds
b) Abscondment from duty and irregular salary payment	b) The Institute is in the process of instituting recovery mechanism through the office of State Counsel in the Attorney General (AG) Chambers Demand letters have been issued through the State Counsel office	M/S Everlyn Oroni , Deputy Director Human Resource	Not yet resolved	Awaiting communication from the AG's office

Mr. Robinson Ng'ethe: 

For: Chairman, KEFRI Board of Directors

Date 21/12/17

Jane Njuguna (PhD) : 

Ag. Director, KEFRI

Date 21/12/17



KENYA FORESTRY RESEARCH INSTITUTE

XVIII Appendix 1: PROJECTS IMPLEMENTED BY KEFRI IN THE FINANCIAL YEAR 2016-2017

Projects

Projects implemented by the Institute Funded by development partners

No	Project title	Donor	Period/ duration	Donor Commitment	Separate donor reporting(Yes/no)	Designated Bank Account(Yes/no)
1	VARIOUS PROJECTS	ICRAF/ BAT/ APC/ PCPB ORBIT	3 YEARS	50,797,623	Yes	No
2	USAID - WTP	USAID	3 YEARS	6,133,000	Yes	Yes
3	MSB/UPP	Royal Botanic (KEW)	5 YEARS	1,969,492	Yes	Yes
4	IIED/ITK	International Institute for Environment & Development	6 YEARS	7,576,613	Yes	Yes
5	KENYA COAST DEVELOPMENT PROGRAMME - IDA PROJECT	WORLD BANK	5 YEARS	2,259,002	Yes	Yes
6	KENYA COAST DEVELOPMENT PROGRAMME - GEF PROJECT	WORLD BANK	5 YEARS	4,458,001	Yes	Yes
7	REGIONAL TRAINING-JICA	JICA	6 YEARS	9,280,200	Yes	Yes
8	KENYA CLIMATE CHANGE ADAPTATION PROGRAMME	WORLD BANK - GLOBAL FUND	6 YEARS	64,235,644	Yes	Yes
9	KENYA WATER TOWERS PROJECT	EUROPEAN UNION	5 YEARS	344,267,849	Yes	Yes
10	NAS PEER PROJECT	USAID	2 YEARS	16,850,650	Yes	Yes
11	GIZ PROJECT	GERMANY TECHNICAL COOPERATION	3 YEARS	4,500,000	Yes	Yes



KENYA FORESTRY RESEARCH INSTITUTE

Appendix 2: TRANSFER FROM MINISTRY OF ENVIRONMENT & NATURAL RESOURCES IN THE FINANCIAL YEAR 2016-2017

NAME: KENYA FORESTRY RESEARCH INSTITUTE		
Break down of Transfers from the Ministry of Environment & Natural Resources		
	FY 16/17	
a. Recurrent Grants		
Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
27/09/2016	363,970,248	2016/2017
07/11/2016	363,970,248	2016/2017
23/02/2017	343,970,248	2016/2017
3/23/17	20,000,000	2016/2017
5/5/17	363,970,248	2016/2017
Total	1,455,880,992	
b. Development Grants		
Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
27/09/2016	38,250,000	2016/2017
07/11/2016	38,250,000	2016/2017
Total	76,500,000	