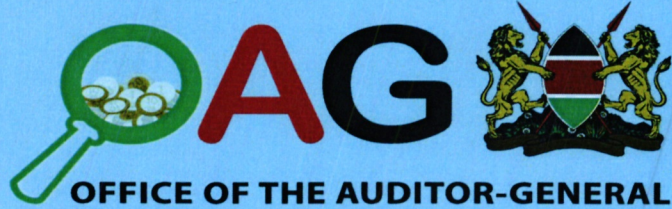



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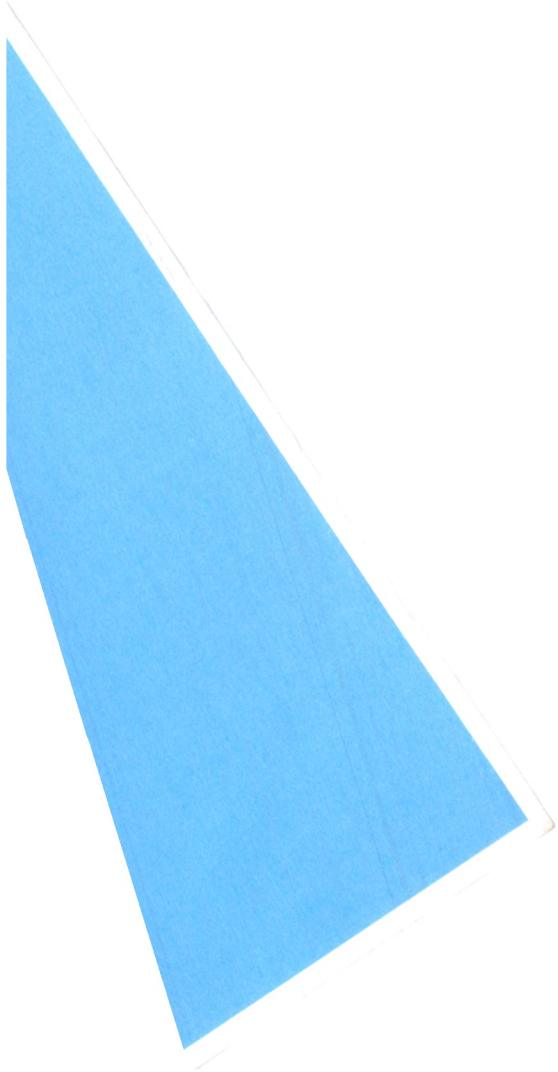
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THE AUDITOR-GENERAL

ON

**KENYA PLANT HEALTH INSPECTORATE
SERVICE**

**FOR THE YEAR ENDED
30 JUNE, 2019**



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

26 JUN 2020

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KENYA PLANT HEALTH INSPECTORATE SERVICE

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2019**

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

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KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

Kenya Plant Health Inspectorate Service (KEPHIS) was established in 1996 through Legal Notice No. 305 until the enactment of Kenya Plant Health Inspectorate Service Bill, 2011 in December 2012. KEPHIS responsibility is to assure the quality of agricultural inputs and produce to prevent adverse impact on the economy, the environment and human health. The organization is domiciled in Kenya and has branches in Mombasa, Nakuru, Kitale, Embu, Kisumu and Naivasha with the Headquarters in Karen, Nairobi.

(b) Principal Activities

Vision:

Healthy plants, safe trade and sustainable aggro-environment for a prosperous Kenya.

Mission:

To provide a science based regulatory service by assuring plant health, quality of agricultural inputs and produce for food security, globally competitive agriculture and sustainable development.

Core values

- Customer focus
- Professionalism and Integrity
- Teamwork
- Results oriented
- Innovation and Creativity
- Corporate social sustainability

The principal mandate of KEPHIS is to:

- (a) Regulate matters relating to plant protection, seeds and plant varieties
- (b) Administer and enforce sanitary and phytosanitary measures
- (c) Support the administration and enforcement of food safety measures
- (d) establish service laboratories to monitor the quality and levels of toxic residues in agro-inputs, irrigation water, plants, soils and produce
- (e) Be the principal advisor to the Government on issues relating to seeds and planting material

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- (f) Implement plant variety protection in Kenya, administer plant breeders' rights and maintain the Plant Breeders' Rights Register
- (g) Undertake plant variety testing and description, seed certification and plant quarantine control
- (h) Undertake inspection and grading of plants and plant produce at the ports of entry and exit
- (i) In consultation with other relevant agencies, develop and implement standards for seed and plant materials
- (j) Implement and enforce national bio-safety regulations on the introduction and use of genetically or living modified species of plants, insects and micro-organisms, plant products and other related species
- (k) Regulate import and export of plants and plant materials
- (l) In consultation with other relevant agencies, regulate the commercial exploitation of naturally occurring plants and plant-related micro-organisms
- (m) Register and license seed merchants, seed growers, agents and any other person who may be required to be registered under the provisions of this Act or any of the laws specified in the First Schedule
- (n) Enter into association with such other bodies or organizations or authorized persons as the Board may consider desirable or appropriate in furtherance of the purposes for which the Service is established
- (o) Be the liaison office for international conventions relating to plant variety protection, plant protection, seed certification and dealing with endangered species or any other related conventions.

(c) Key Management

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

- Board of Directors
- Managing Director
- General Managers

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Managing Director	Dr. Esther Kimani
2.	General Manager - Finance & Administration	Mr. James Ang'awa
3.	General Manager - Phytosanitary Services	Dr. Isaac Macharia
4.	General Manager Quality Assurance	Mr. Simeon Kibet Kogo

(e) Fiduciary Oversight Arrangements

The Corporation has the following fiduciary oversight structures:

- Non-executive Chairman of the Board
- Board of Directors comprising independent non-executive directors
- Board Audit Committee
- Board Finance and Administration Committee
- Board Technical Committee
- Board Human Resource Committee

(f) KEPHIS Headquarters

P.O. Box 49592 -00100
Ooloolua Ridge, Karen
Nairobi, KENYA

(g) KEPHIS Contacts

Telephone: +254 0206618000/0709891000
E-mail: director@kephis.org
Website: www.kephis.org

(h) Corporation Bankers

1. Kenya Commercial Bank Ltd
P.O Box 7206 00100
NAIROBI
2. Commercial Bank of Africa
P. O Box 30437 00100
NAIROBI
3. National Industrial Credit Bank
P.O. Box 44599 00100
NAIOROBI

(i) Independent Auditors

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

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Nairobi, Kenya

(j) Principal Legal Adviser

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

THE BOARD OF DIRECTORS

Mr. Robin Manono Achoki - Chairman



Appointed on 15th May 2019.

Mr. Achoki has over 20 years' experience in public finance having served in the Ministry of Finance and Planning and the Ministry of Planning and National Development. In the Ministries he served as the Head of Economic Unit of Budgetary and Supply Department. He has also served as a member of the Presidential Taskforce on the Coffee Subsector Reforms; as Secretary to the Panel of Experts on the Review of Performance Contracting in the Public Sector; as Alternate Director to the Permanent Secretary/Treasury in the Board of Directors of National Council for Science and

Technology and as Alternate Director to the Permanent Secretary/Treasury in the Board of Director of Kenya Marine and Fisheries Research Institute. Presently he serves as a member of the Kisii University Council. Mr. Achoki holds a post graduate diploma in integrated rural regional development planning from Development study center, Rehovot, Israel, Bachelor of Philosophy in Economics from University of Nairobi and Bachelors of Arts, Honours in Economics from Panjab University, India. He has also undertaken courses in Planning and budgeting among them, Country focused Training in project planning and management for AICAD and JICA in Kyoto University, Hitotsubashi University and other related institutions, Public Budgeting and Fiscal management in Georgia State University, Andrew Young School of Policy Studies, Atlanta, USA and International Course for Budget Officer in Gasgow Caledonian University, Scotland. In addition, he attended a workshop on Budgeting and Financial Management in the Public Sector in Harvard Institute for International Development.

Dr. Esther Kimani – Managing Director



Dr. Kimani has held various positions at KEPHIS: Managing Director, August 2014 to date; General Manager Phytosanitary Services, 2011 to August 2014; Head Phytosanitary and Biosafety Services, 2008 to 2010 and Officer in Charge – Plant Quarantine & Bio Safety Station Muguga, 2001 to 2008. She holds a PhD in Crop Protection, an MSc in Plant Pathology and a BSc in Agriculture from the University of Nairobi. She is pursuing a Masters of Business Administration, (Strategic Management) at Jomo Kenyatta University of Agriculture and Technology. Dr. Kimani has been instrumental in the development of standards under the International Plant Protection Convention (IPPC), where

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she has been serving as a standards committee member since 2012. She coordinated the activities for the establishment and operationalization of a Center for Phytosanitary Excellence (COPE) at KEPHIS, which to date has trained over 1044 participants from the Eastern Africa region.

Prof. Anne W. T. Muigai – Member



Appointed on 14th December, 2018

Prof. Muigai is a molecular population geneticist with over 15 years' experience in the field of Genetics and Biotechnology. She holds a doctorate degree in Biochemistry, and a Master of Science in Genetics. She joined Jomo Kenyatta University of Agriculture and Technology - JKUAT in 1992 as a teaching assistant and has risen to the position of a Professor of Genetics in the Department of Botany. She has held several academic and administrative positions within JKUAT including being the pioneer Chairperson of the Department of

Botany. She has served as the Director of the Institute for Biotechnology Research, member of the JKUAT Senate and has also served in the JKUAT University Council. Currently she is the Editor in Chief of the Journal of Agriculture Science and Technology, and is the Coordinator of the postgraduate programmes in the Department of Botany. She has also served as a Visiting Scientist at the International Livestock Research Institute (ILRI) in Nairobi, Kenya where she was the coordinator of a research project on the characterization of indigenous sheep genetic resources of Kenya. She has carried out several consultancies for ILRI. Currently she is a member of the Technical Advisory Group on Animal Genetics to the African Union Inter-African Bureau on Animal Genetics (AU-IBAR). At the KEPHIS Board, she serves as the Chairperson of the Technical Committee, and as a member of the Audit Committee.

Mr. Julius Mutua – Member (Rep. PS National Treasury and Planning)

Appointed on 16th May 2017.



Mr. Mutua is the Alternate Director to Cabinet Secretary, National Treasury. He is a seasoned civil servant with over 20 years' experience in economic and financial policy formulation at the National Treasury. He has served in the National Fiscal Budget Preparation Team for many years and participated in regional integration issues including the negotiation of the East African Community Monetary Union Protocol. He is currently the Programme Co-ordinator for the Public Finance Management Reforms. Mr. Mutua holds a Bachelor's degree in Economics from Kenyatta University and a

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Master's degree in Economics from the University of Dares Salaam.

He also holds certificates in Fiscal Decentralization and Financial Institutions for Private Enterprise development from Duke and Harvard Universities respectively. He serves the KEPHIS board and is a member of Finance & Administration committee.

Mr. Moses Merkalei Atuko – Member



Appointed on 6th June, 2018

Mr. Atuko is currently a consultant with United Nations. Previously, he worked as County Executive for Health Services and Environment-Mining-Energy, both for Baringo County Government; Country Director for MENTOR Initiative, Kenya; Regional Manager for Kenya Red Cross, North Rift; Deputy Country Director for MENTOR Initiative, Liberia; Emergency Health Manager for Kenya Red Cross, Nairobi; Project Officer with Aga Khan Foundation, Mombasa; and has been a Public Health Consultant for over 6 years. He is a graduate of

Public Health, Moi University, 2004.

Prof. Paul Kimurto – Member



Appointed on 6th June, 2018

Prof. Kimurto is Associate Professor at Egerton University, Faculty of Agriculture and currently the Director of Agro-Science Park (GOK, Vision 2030 Flagship Project) and Head of Egerton University Seed Unit and Team Leaders Seeds of Gold communication Platform. He has over 15 yrs experience in academia and research. He is a Professionally Dryland research and drought stress physiology/Breeding specialist with enormous experiences in dryland development and validation of breeding and variety development techniques, Application of molecular breeding techniques, Irrigation, fertility and water use and management and seed systems in ASALs, Training and curricula development, scientific writing and reporting. He has attended several International courses offered by ICRISAT, CIMMYT, Generation Challenge Program-GCP, International Atomic Energy Agency (IAEA), IFS, BECA/ILRI and Germany-DAAD in breeding, Genetics, Application of molecular breeding techniques, Bio-Saline and Drought Technology and Seed systems. He holds a PhD in Crop Science (Crop Physiology/Breeding), and a Master of Science in Crop Science & a BSc in Agriculture. He has authored/co-authored over 20 papers in refereed journals and over 50 Conference

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proceedings in various fields, production, application of biotechnology and molecular breeding in Agriculture, climate change resilience, modelling among others. He is/has been supervisor of several Msc.& PhD Students in local and other universities. He has won several grants in research in development of resilient high yielding crop varieties of Beans, Chickpea, Finger millet, wheat, Sorghum funded by several International Donors like Gates Foundation AGRA, CIAT, ICRISAT

Ms. Lucky J. Litole – Member



Appointed on 6th June, 2018

Ms. Litole is currently coordinating a woman and youth empowerment programme in West Pokot with Konrad Adenuor Foundation. She was previously with Kenya Utalii College till 2016 when she left to join the Konrad Adenuor Foundation. She is a holder of a Bachelor of Business Administration (Procurement and Supply Chain Management Option) and is currently pursuing a Master's Degree in Logistics and Procurement Management. She also holds certificates in Food and Beverages, Business Management, and Customer Service.

Dr. Rose Njeru – Member



Appointed on 6th June, 2018

Dr. Njeru holds a Doctorate degree in Plant Sciences from Murdoch University, Australia and a Master's degree in Plant Pathology from The University of Nairobi. Dr. Njeru has a wide experience in the field of plant health having served as a senior lecturer at the Faculty of Agriculture, University of Nairobi for over 15 years. She has also served as a Senior Scientist with the Ministry of Agriculture in Rwanda under a World bank funded Rural Sector Support Program for a period of four years. During the subsequent four years, she was a director incharge of

Capacity Building and Technology Deployment with an International Non-Governmental Organisation.

Dr. Njeru has published widely in peer reviewed journals, participated in International conferences and supervised PhD Students in the field of agronomy, plant breeding, biotechnology and plant health in general.

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She has international experience as an; educator, trainer, researcher, in proposal development and capacity development with a focus on plant health, biotechnology, capacity building, documentation, communication, science, technology and innovation systems. Currently, Dr. Njeru is an independent international consultant in the field of plant health with an interest in plant health systems, compliance to international treaties especially the world Trade Organisation Sanitary and Phytosanitary Agreement. She has been a consultant with several organizations including; Food and Agriculture Organization of the United Nations, International Fund for Agriculture Development, Technical Centre for Agricultural and Rural Cooperation, Regional Universities Forum for Capacity Building in Agriculture, a consortium of over 33 Universities in Africa, International Potato Centre and International Centre for Tropical Agriculture among others. She serves the KEPHIS Board, as a member of the Technical Committee.

Mr. Mugambi Angaine – Member



Appointed on 3rd May, 2019

Mr. Angaine is an experienced manager and leader at National and County Government levels with vast experience and exposure in institutional development and growth for social and economic benefits for the Kenyan people and the International Community. Previously, he has worked in the Ministry of Tourism as well as the Ministry of Public Works. He is involved in private business which entails; managing large scale horticultural farming for export; managing zero grazing dairy farming; managing wheat farming for commercial and seed production; and managing petroleum products in partnership with Total Kenya.

In his leadership role, he has participated in management at National and Community levels which entails: planning and development of strategic interventions; educating County employees and the general public on National values and principles stipulated in the Constitution; he has organized and supported youth projects on social and economic empowerment; he has organized and advised women groups for preparation and formulation of project proposals for funding; and he also serves as a Church elder for the Methodist Church of Kenya. Mr. Angaine was awarded by the retired President His Excellency Mwai Kibaki, a Presidential Farmers' Competition award scheme National Large Scale Farm Competition as the Farmer of the year during the Agricultural Society of Kenya Show at Nairobi.

Prof. Julius Wanjohi Mwangi, E.B.S – Member



Appointed on 3rd May, 2019

Prof. Mwangi is a pharmacognosist with well over 20 years' experience in the field of pharmacognosy and pharmacology. He holds a doctorate degree in Pharmacy, and a Master of Science in Pharmacy. He joined the University of Nairobi (UoN) in 1981 as a Graduate Assistant and has since risen to the position of Professor of Pharmacognosy in the Department of pharmacognosy and pharmacology.

Presently he is a Professor of Pharmacognosy and Intellectual Property Coordinator/ Director at UoN. He was listed as one of the IBC Outstanding Scientists of the 21st Century and Outstanding Scientists Worldwide by the International Biographical Centre, England. In addition to the practice of pharmacy and pharmacognosy, he serves a Board member in the Pharmacy and Poisons Board (PPB) and the Kenya Copyright Board. He also serves in various committees at UoN namely the Senate Committee, Dean's Committee and the Health Sciences Academic Board.

He has previously served as a Board member in the Kenya Industrial Property Institute (KIPI) Member of Program Advisory committee where he represented Kenya in East Africa (Kenya, Uganda, Tanzania and Ethiopia).

Mr. George O. Mogaka – Corporation Secretary and Head, Legal Affairs



Appointed on 2nd July, 2018

Mr. Mogaka is a holder of an MBA Degree (Strategic Management), an LLB Degree, and a post graduate Diploma in Law. He is an Advocate of the High Court of Kenya and a registered Certified Secretary of Kenya. He also holds certification in governance audit, corporate governance, board evaluation, strategic leadership, and quality management. He is a member in good standing of both the Institute of Certified Secretaries of Kenya and the Law Society of Kenya. He is also a Kenya Bureau of Standards certified Lead Auditor on Quality Management Systems as well as Certified Trustee on retirement benefits scheme matters. He has over twenty two (22) years post qualification experience having been previously with National Oil Corporation of Kenya, Kenya Sugar Research Foundation, and Kenya Revenue Authority before joining Kenya Plant Health Inspectorate Service in July, 2018.

MANAGEMENT TEAM

Dr. Esther Kimani – Managing Director

Profile on page 9 above

Mr. James Ang'awa - General Manager, Finance & Administration



James joined KEPHIS on 1st April 2017. A Certified Public Accountant of Kenya, he has risen through corporate ranks to become a Senior Finance Executive, Controller, Manager and Trainer. James has extensive experience in corporate governance, strategy formulation, financial control policy development and implementation; intensive Board and Executive Committee contribution; facilitation as well as the administration and coordination of internal and external audits.

His experience spans public and private sectors in various industries and services emphasizing; Higher Education, Research & Technology transfer , FMCGs, Water sector, Manufacturing, Financial Consulting, Professional practice, Automobile Dealerships, Insurance and national budget strategy paper (Bsp) resource allocation. It also includes organization reengineering, development growth and sustainability, executorships of public trust, public sector accounting, staff management, administrative and commercial support. Some of the Companies he's worked for include Jubilee Insurance, Ssangyong Motors (k) Ltd, Kuguru Food Complex Group, KALRO's Sugar Research Institute, and Kisumu Water and Sewerage Company Ltd. James is a holder of a Bachelor's Degree in Accounting and an MBA in Finance and is a member of the institute of Public Accountants of Kenya (ICPAK). He has lectured in Accounting & Finance at Maseno University, and is currently pursuing a PhD at the University of Nairobi.

Mr. Simeon Kibet – General Manager, Quality Assurance



Mr. Kibet joined KEPHIS in October 2000. He has held various senior positions which include; Liaison Officer for Quality Assurance Division, Regional Manager Nakuru and Head Seed Certification & Plant Variety Protection. He has served as the General Manager-Quality Assurance since 2010. The Board of Directors appointed Mr. S. K. Kibet to act as MD with effect from 18th March 2020.

Mr. Kibet holds an MPhil degree in Crop production and Seed Technology from Moi University, and a BSC in Agriculture from The University of Nairobi. He has

extensive experience in seed quality assurance and has been trained in Seed Technology in Japan, Netherlands and South Africa.

Dr. Isaac Macharia – General Manager, Phytosanitary Services



Dr. Isaac Macharia, the General Manager, Phytosanitary Services holds a PhD in Plant Virology from the University of New England in Australia and Masters of Science in Plant pathology from the University of Nairobi. He has worked with KEPHIS since 2002 where he has served in various capacities; Plant Inspector, head phytosanitary laboratories & Deputy Officer in Charge at Plant Quarantine Station and finally as the Regional Manager - KEPHIS Mombasa. He has undergone extensive phytosanitary training on Pest Risk Analysis & Diagnosis from USDA APHIS and Ohio State University in the USA. During the course of his work he has spearheaded diagnostic services, pest risk analysis, surveillance, import certification and development of phytosanitary policies. This has led to significant growth of the institution and has enabled the industry to access and retain foreign markets.

CHAIRMAN'S STATEMENT

The KEPHIS Board of Governors is pleased to present the 2018-2019 financial statement report. During the period under review, KEPHIS focused and aligned its activities towards implementation of the Kenya Government Vision 2030 and Big Four agenda economic blue prints by aligning its 2017/2018-2021/22 Strategic Plan to the MTP III and the Agriculture Sector Transformation Strategy (ASTGS). Key strategic thrusts going forward for the corporation will be geared towards enhanced plant bio-security, strengthened legal and regulatory framework, agricultural productivity, capacity development and enhanced resource mobilization.

The Kenya National Economic survey 2019 (KNBS) indicated growth in agriculture Value Added at constant prices increased to 6.6 per cent in 2018 from 1.8 per cent recorded in 2017. The improved performance was attributable to favourable weather conditions for crop production occasioned by the long rains in 2018. Maize production increased by 26.0 per cent from 35.4 million bags in 2017 to 44.6 million bags in 2018. Similarly, production of tea, coffee and sugarcane increased by 12.1, 7.0 and 10.4 per cent, respectively in 2018. The quantity of horticulture produce exported increased by 6.1 per cent to 322.6 thousand tonnes with the value of the horticulture export increasing by 33.3 per cent to KShs. 153.7 billion in 2018 on account of higher production and improved international prices. However, earnings from tea and coffee decreased by 5.3 per cent and 7.5 per cent to Kshs. 127.7 billion and Kshs. 14.8 billion, respectively, in 2018, despite increased production volumes.

KEPHIS plays a key role in Kenya's agricultural sector through its mandate and regulatory function. Through various activities, the corporation ensured quality assurance of agricultural inputs and produce. Facilitation of agricultural producers to maintain set market requirements and standards has made it possible for Kenya's fresh agricultural produce to sustain its competitiveness of at both local and international markets. This has translated to increased income and wealth for farmers and foreign exchange for the economy.

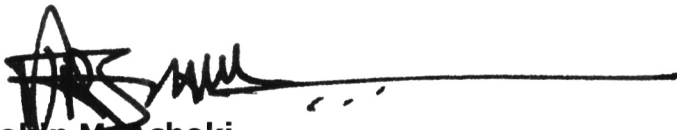
Despite the growth in key indicators mentioned above, the KEPHIS Board is cognizant of the challenges facing the sector and the corporation as well as it executes its mandate. During the period under review, the country experienced challenges on new and emerging pests and diseases that affected productivity and markets for various crops. The False Codling Moth in roses greatly impacted the flower industry and this necessitated concerted effort by KEPHIS and other stakeholders to ensure proper management of the pest. The pest also resulted in new requirements being imposed for producers of chilies. Other pests like the Fall Army Worm in maize and Potato Cysts Nematode in potatoes

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were managed well during the period through a collaborative approach by all stakeholders.

The corporation also made major strides in terms of achievements toward support of the sector. The opening of new markets for Avocado to China was great milestone for Kenya during the year. This is expected to open up new opportunities for our local farmers and enhance trade between Kenya and China. The sustained negotiations with European countries also has ensured that Kenya maintains its strong market presence internationally.

In conclusion, the KEPHIS Board takes this opportunity to thank all our partners and stakeholders who supported the corporation during the year. This made it possible for KEPHIS to fully implement its mandate for the benefit of the Kenyan public and the economy as a whole.



Robin M. Achoki
Chairman, Board of Directors
Kenya Plant Health Inspectorate Service (KEPHIS)

REPORT OF THE CHIEF EXECUTIVE OFFICER

The KEPHIS management takes great pleasure to present to you the KEPHIS Financial statement report for the year ended 30th June 2018. The period experienced both key milestones and challenges as well in the agricultural sector. The declining effect of emerging pests and diseases such as Fall Army Worm (FAW) had impact on local maize output, with the country registering a 26.0 percent increase in production. KEPHIS recognizes the contribution made by its stakeholders, clientele and staff in realizing the major milestones during the period under review. KEPHIS also continues to excel in its effort to provide regulatory services within Kenya's agricultural sector.

The corporation implemented its Strategic Plan (2017/18-2021/22). The corporation Strategy is aligned to the Kenya government's key economic blue prints which include; the Vision 2030 – Medium Term plan (MTP) III, the Big Four Agenda and the Agricultural Sector Transformation and Growth Strategy (ASTGS) among others. The corporation under the umbrella of the Ministry of Agriculture, Livestock, Fisheries and Irrigation (MOALFI) implements its mandate as per the State Corporations Act Cap 446, KEPHIS Act 2012, the Plant Protection Act Cap 324, the Seeds and Plant Varieties Act Cap 326, International Standards for Phytosanitary Measures (ISPMs) and other prevailing laws and treaties.

KEPHIS' key mandate is to ensure quality assurance of agricultural inputs and produce for the Kenyan farmer. In the year under review, the corporation undertook activities in plant variety protection and issued Forty (40) Plant Breeder's Rights as compared to forty-five (45) last year. The floriculture sub-sector leads in number of PBRs issued with flower Roses taking up 50% of PBRs issued.

The seed plays a key role in improving agricultural productivity for local farmers. During the period under review the corporation facilitated release and gazettment of fifty-six (56) varieties for various crops. A majority of the crop varieties released were maize, sorghum, wheat and potato. The varieties also included twenty-nine (29) drought tolerant crop varieties. Demand for resilient crop varieties against a back drop of climate change has led to plant breeders and merchants focusing on drought, pest and disease tolerant varieties. The seed business also grew significantly with the corporation having a total of 159 active seed merchants registered during the period. This is indicative of a robust seed industry and confidence in the regulatory regime.

In the year under review, the corporation issued 6,557 seed sellers' licenses. The corporation also undertook seed testing at its Nakuru and Kitale seed testing laboratories to confirm the quality of seed released to the market. During the period 13,513 seed samples were tested. The enhanced testing was due to more stringent measures on Maize Lethal Necrotic Disease (MLND) testing for seed prior to release in the market. The

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corporation also implemented the self-regulation model for seed certification by developing regulations and training curriculum for private inspectors. During the period, a total of 10 private seed inspectors were trained for the various seed merchants. This is expected to strengthen the seed sector regulatory space and further enhance self-checks among stakeholders in the industry.

During the year, KEPHIS ensured the quality of agricultural produce for both the domestic and export markets. Continued participation in international trade agreements and bodies has ensured that Kenya complies to set international and regional standards. These included OECD Fruit and Vegetable Schemes, the OECD Seed and OECD Forestry Seed Schemes and the Commission on Phytosanitary Measures (CPM) In addition; KEPHIS is also fully engaged in standards setting work under WTO-SPS, IPPC, Codex Alimentarius Commission, COMESA and EAC standard setting and standard harmonization meetings. This guarantees that Kenyan interests are taken into account when setting these standards.

Diagnostic and analytical work by KEPHIS laboratories has made it possible to assure the quality of inputs and produce destined for all markets. The corporation implemented the national residue monitoring program for MRLs and this ensured that Kenyan fresh produce met minimum standards for the export market. In the current period, 2,119 samples were analysed by the Analytical Chemistry Laboratory for pesticide residues in fresh produce, heavy metals and mycotoxins in cereals. To support food safety issues in the country, KEPHIS will also play a facilitative role and undertake surveillance activities for the local produce market in the next financial year.

In terms of enabling trade across our borders, KEPHIS undertook inspection of plant import material consignments at points of entry and issued 44,748 Plant Import Permits (PIPs). The corporation also facilitated export of plant produce by inspecting consignments at exit points and issued 400,501 Phytosanitary certificates in the year.

Management of emerging pests and diseases was also a major focus for KEPHIS this year. The corporation collaborated with other partners in the sector on management of Fall Army Worm (FAW) in maize, False Codling Moth (FCM) in chili and roses and PCN in potatoes. During the period, more efforts were also direct towards capacity building for farmers and market players to ensure management practices are adopted and market requirements are also understood. In addition, KEPHIS undertook surveillance activities for pests and diseases to check on prevalence and map out affected areas. A total of 22 surveillances were completed during the period across the country.

As a regulator, the corporation values working with its stakeholders. During the year, the corporation partnered with the Government through the Ministry of Agriculture, Livestock, Fisheries and Irrigation, other government bodies and international partners that included the European Union (EU), USAID (United States Agency for International Development), UNIDO, CABI, the International Potato Centre (CIP), among others. KEPHIS also implemented a number of projects i.e. USAID Foodscap under the Feed the Future

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Programme, COMESA RIIP and CIP/GIZ. The projects mainly focused on capacity building within the sector, equipment purchases, surveillance and creation of awareness on current and emerging market requirements.

KEPHIS also developed linkages and partnerships with the private sector to ensure effective delivery of its services. Umbrella organizations in the seed and horticultural sub-sectors were engaged and participated in KEPHIS key activities. These included Seed Traders Association of Kenya, Kenya Flower Council and Fresh Produce Exporters Association of Kenya. One major collaborative effort pursued during the year was the Horticulture Competent Authority Structure (HCAS) comprising of both the private and public sector (KEPHIS, PCPB, FPEAK, HCD/AFFA, KALRO, KFC) that met every two weeks to deliberate on the issues affecting horticulture under the leadership of KEPHIS.

Under the new constitutional dispensation of devolved governments, KEPHIS partnered with county governments in various stakeholder forums to ensure local farmers benefited from its services. Stakeholder engagements included farmer trainings, field days, conferences and exhibitions. Interventions at the county level include capacity development of County extension staff and farmers, support of the horticultural crops value chain for select crops and enhanced seed certification systems for potato.

The corporation recognizes the important role played by its staff and has put up measures to ensure staff productivity is enhanced and maintained. An employee satisfaction survey carried out during the period resulted in overall Employee Satisfaction Index of 72%. This level has been made possible through consistent efforts towards staff motivation, development and growth.

In summary, on behalf of the KEPHIS management and staff I take this opportunity to thank all our partners for the support given during the year. The corporation commits to continue delivering its regulatory mandate and facilitate players in the agricultural sector towards attaining its vision of "***safe trade and sustainable agro-environment for a prosperous Kenya***"



**Simeon K. Kibet
Ag. Managing Director
Kenya Plant Health Inspectorate Service (KEPHIS)**

CORPORATE GOVERNANCE STATEMENT

The Kenya Plant Health Inspectorate Service (KEPHIS) is a state corporation established under the Kenya Plant Health Inspectorate Service Act, 2012 (Act) as a regulatory body whose responsibility is to assure the quality of agricultural inputs and produce to prevent adverse impact on the economy, the environment and human health. Its mission is to provide a science based regulatory service by assuring plant health, quality of agricultural inputs and produce for food security, globally competitive agriculture and sustainable development.

Section 8(1) of the Act provides that there shall be a Board of Directors for the Service which shall, subject to the Act, be responsible for the policy, control and management of the Service, and which shall consist of:

- a) A non-executive chairperson appointed by the President;
- b) The Principal Secretary to the Treasury or a designated representative;
- c) The Principal Secretary in the Ministry responsible for agriculture or a designated representative; and
- d) Not more than seven other persons, not being employees of the Service, and of whom not more than three shall be public officers, appointed by the Cabinet Secretary, with due regard to gender parity, as follows—
 - i. one who shall have knowledge and experience in matters relating to agriculture and research;
 - ii. one who shall have knowledge, and experience in matters relating to the horticultural sector;
 - iii. one who shall have knowledge and experience in matters relating to the seed sector, and
 - iv. four who shall have knowledge and experience in matters relating to the functions of the Service;
- e) The managing director, who shall be secretary.

During the 2017/2018 financial year, composition of the Board was as follows:

Former Chairman	- Mr. Wycliffe Murwayi (up to 14 th June, 2019)
Current Chairman	- Mr. Robin Achoki (from 15 th June, 2019)
Members	- Mr. John Mwaniki (up to 30 th April, 2019)
	- Mr. William K. Ngelechei (up to 1 st October, 2018)
	- Ms. Teresa Muthoni Muchira (up to 31 st May, 2019)
	- Eng. M'Mwenda Kailu Joseph (up to 1 st October, 2018)
	- Eng. Khamis Chome Abdi (up to 1 st October, 2018)
	- Mr. Julius Mutua
	- Prof. Anne W. T. Muigai
	- Prof. Paul Kimurto
	- Prof. Julius Mwangi
	- Ms. Lucky Litole
	- Mr. Moses Atuko
	- Dr. Rose Njeru
	- Mr. John Angaine
	- Dr. Esther Kimani

Board Committees

Pursuant to section 11(2) of the Act the following Committees were in place during the financial year:

- 1) Technical Committee
- 2) Finance Committee
- 3) Human Resource and Administration Committee
- 4) Audit Committee

The committees were formed so as to assist the board to effectively and efficiently carry out its functions under well-defined terms of reference set by the board.

During the 2018/2019 financial year, Board and Committee meetings held thirty one (31) meetings as follows:

- 1) Technical Committee – Six (6) No.
- 2) Finance Committee – Five (5) No.
- 3) Human Resource and Administration Committee – Five (5) No.
- 4) Audit Committee - Four (4) No.
- 5) Ad-Hoc Committee – One (1) No.
- 6) Board – Ten (10) No.

Attendance to those meetings by members was as follows:

Board Member	Technical Committee Meetings (6 No.)	Finance Committee Meetings (5 No.)	Human Resource & Administration Committee Meetings (5 No.)	Audit Committee Meetings (4No.)	Board Meetings (9 No.)	Ad-Hoc Committee	Total No. of Meetings Attended
Mr. Robin Achoki	-	-	-	-	2	1	3
Mr. Wycliffe O. Murwayi	-	-	-	-	7	-	7
Eng. Khamis Chome Abdi	-	2	1	-	4		7
Prof. Anne W. T. Muigai	3	-	-	2	5	1	11
Eng. Kailu M'Mwenda Joseph	-	2	1	-	3	-	6

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Board Member	Technical Committee Meetings (6 No.)	Finance Committee Meetings (5 No.)	Human Resource & Administration Committee Meetings (5 No.)	Audit Committee Meetings (4No.)	Board Meetings (9 No.)	Ad-Hoc Committee	Total No. of Meetings Attended
Mr. William Kisorio Ngelechei	1	2	-	-	4	-	7
Ms. Teresa Muthoni Muchira	6	-	5	4	9	-	24
Mr. Julius Mutua	4	4	1	1	6	-	16
Prof. Paul Kimurto	3	4	-	4	9	1	21
Prof. Julius Mwangi	-	-	-	-	2	-	2
Ms. Lucky Litole	-	5	5	-	10	1	21
Mr. Moses Atuko	-	-	5	4	10	1	20
Dr. Rose Njeru	6	-	3	-	9	-	18
Mr. John Angaine	-	-	-	-	2	-	2
Mr. John Mwaniki	1	-	-	1	3	-	5
Dr. Esther Kimani	6	5	5	-	9	-	25

Succession Planning

Appointment of Board members as provided for under the Act has been staggered in such a way that there is retention, continuity and transfer of institutional memory.

Existence of a Board Charter

There exists a Board Charter that sets out the mandate of the Board and the respective roles of the Chairperson and members as well as provisions on orientation, training, and board evaluation.

Induction and training

Induction training for Board members undertaken in February and June, 2018.

Board and Member Performance

Evaluation of the Board, Chairperson, Individual Board Members, and Chief Executive Officer undertaken in August, 2018.

Declaration of Interest

Conflict of Interest is a standing agenda item in all Committee and Board Meetings. A register is also maintained and duly filled during all the Committee and Board meetings.

Board Remuneration

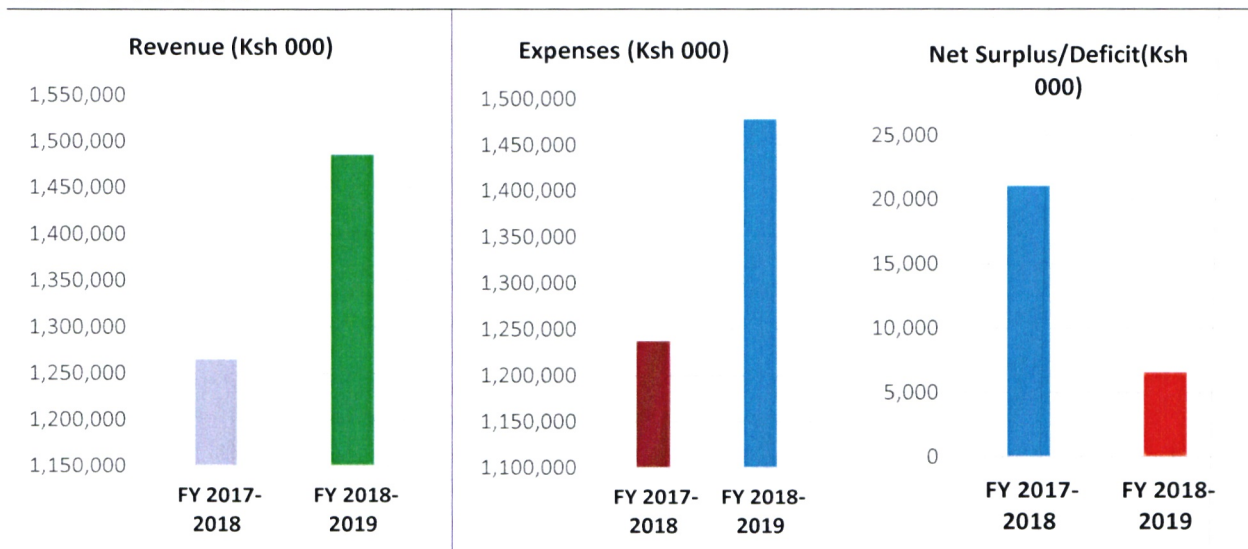
Currently governed under the 2004 Guidelines on Terms and Conditions of Service for State Corporations' Chief Executive Officer, Chairmen and Board Members, Management and Unionisable Staff.

Governance Audit

The Board has embarked on building in-house capacity in readiness for the 1st Governance Audits during the 2019/2020 financial year upon accreditation of Governance Auditors by the State Corporations Advisory Committee.

MANAGEMENT DISCUSSION AND ANALYSIS

2019 Overview



Financial Overview

We generated consolidated revenue of Kshs. 1.485 billion in 2019, compared to Kshs. 1.265 billion in 2018. The year-over-year change reflects a 17% increase in the revenue which majorly was contributed by an increase in the public contributions and donations from Kshs. 97,237Million to Kshs. 179,984Million.

The organization increased participation in farmers and stake holder’s sensitization in the last financial year. Activities directly funded by COMESA/RIIP and USAID Foodscap were a major contributor to a 19% increase in the expenses in the financial year ending 2019. The overall 19 % increase in expenses was represented by surge from Kshs.1.24 billion in the year ended 2018 to Kshs. 1.48 billion in the year ended 2019.

Though there was commendable increase in the overall revenue in the financial year ended 2019, an increase in the expenses lead to 69% decline in the surplus of Revenue over expense from Kshs.21.036 Million to Kshs. 6.612 Million in the financial year ended 2019. Consequently in the financial year ending 2019 there was a notable increase in the current assets by 10%.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

1. Lunza Primary School, Butere Sib-County, Kakamega County

KEPHIS Kisumu Region was tasked by the CSS Committee to undertake the above activity as per our PC and work plan for 2018/2019 financial year. In line with this, Lunza Primary school in Butere Sub County, Kakamega County was identified for this year's CCS activity. The primary school has an active 4K Club with 120 members who have been practicing small scale crop production in the school farm.

A greenhouse complete with piping water system and storage main water tank (5000 litres capacity) was donated to the school and two hybrid tomato seedlings (Tylca F1 and Proster F1) were planted, maintained and developed to harvesting stage. Additionally, during the onset of rains several maize varieties, Beans, Soya beans, Sweet potatoes, and Upland rice varieties were planted by KEPHIS Kisumu staff together with 4K club pupils and several seed merchants. KEPHIS also donated 15 *hass* avocado variety seedlings all of which were planted by invited distinguished guests during the handover ceremony; by the time of handing over the CSS donation to the school, the 4K club, through the patron had harvested and sold 3 crates of tomatoes amounting to Kshs. 7,000. The money will be used to fund 4K Club activities.

Through the CSS activity, capacity building of 24 teachers, 812 pupils and over 300 parents of Lunza Primary school and neighbouring communities on new farming technologies and use of certified seeds was enhanced.



Tomatoes inside the greenhouse and right: the multi-talented members of the Lunza Primary School 4K Club

2. Mukuria Primary School, Embu County

KEPHIS donated eight windows, water harvesting gutters, a 2,500 litres water tank, one complete green house and planting one acre of Avocado seedlings during the year. Additionally, KEPHIS established 2 hectares of maize, orange fleshed sweet potato, Cassava and Potatoes at the school to boost the school's lunch program and demonstrate suitable crop varieties for the area to farmers. The demonstration emphasized the

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importance of using clean planting material, improved inputs and protecting crops from pests and diseases. Area Member of Parliament Hon. Eric Muchangi and the area MCA participated in the event. The school's Head teacher appreciated the assistance from KEPHIS and requested that KEPHIS continue to support the school. The CSS activities had a positive impact on all students and teachers. This is a total of **225** pupils and **13** teachers. For the ECD pupils, KEPHIS managed to install windows and fit window panes thus preventing them from contracting pulmonary diseases occasioned from winds and cold.

The pupils were also engaged in all activities at the demonstration farm. This included planting, weeding, watering, thinning, etc. This was a hands on experience in Good Agricultural Practices (GAP). It is hoped that the pupils will guide their parents in proper crop husbandry for improved productivity as a result of what they have learned from the CSS activities.

The harvest from the demonstration farm was donated to the school for its feeding program thus improving nutrition and food security for the students and teachers.



Runyenjes MP Hon. Eric Muchangi and GM Quality Assurance Mr. Simeon Kibet planting an avocado seedling at the CSS Activities at Mukuria Primary School.



Fitted windows for ECD classes

Loresho Primary School, Nairobi

At Loresho Primary School, KEPHIS donated 100 seedlings which were planted by the 4K Club. The club was taught about the spacing requirements, how to place the grafted seedlings in dug out holes, pest and disease management and how to identify a mature crop.



Teachers and students planting avocado seedlings at Loresho Primary School, Nairobi

Uthiru Girls High School, Nairobi

KEPHIS donated 50 avocado seedlings to the school which were planted by the 4K Club.



Students being taught how to plant avocado seedlings and right: practicing what they have learned

Karai Children's Home: Report on Continued Sustainability

KEPHIS Headquarters undertook the sustainability initiative during the 2017-2018 financial year. In the 2018-2019 financial year, KEPHIS has continued to support the home in the following ways:

- Repairs have been done to the greenhouse and it is in good working condition. The repairs include pipe connections, greenhouse entrance and torn spaces that let in white flies and fruit flies.

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- Through monitoring, scouting and use of pest traps such as pheromone traps and yellow sticky traps, the farm manager has been able to overcome challenges of fruit flies and moths, thereby reducing the impacts of the pests on tomatoes.

KEPHIS has also tested soil and water for the home in a bid to boost nutrition and food security through planting appropriate crops. KEPHIS is in the process of donating avocado seedlings as a tool to teach the children how to manage fruit trees and sell the surplus for sale.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the corporation's affairs.

Principal activities

The principal activities of the Corporation are as expounded in the KEPHIS legal framework i.e. Plant Variety Protection, Seed Certification, Analytical Chemistry Laboratory Services and Phytosanitary Services; others include Corporate Nature Activities, Project implementation and Support services.

Results

The results of the entity for the year ended June 30, 2019 are set out on pages 1 to 5.

Directors

The members of the board of directors who served during the year are shown on page vii and 5. During the year, 6 directors retired and 6 more were appointed.

Surplus Remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. This year KEPHIS shall remit Kshs. 8.11million

Auditors

The Auditor General is responsible for the statutory audit of the corporation in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Secretary to the Board of Directors, KEPHIS

Date: 21/05/2020

I. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 16 of the KEPHIS Act No.54 of 2012, require the Directors to prepare financial statements in respect of KEPHIS, which give a true and fair view of the state of affairs of the corporation at the end of the financial year and the operating results of the corporation for the period. The Directors are also required to ensure that the corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the corporation. The Directors are also responsible for safeguarding the assets of the corporation.

The Directors are responsible for the preparation and presentation of the corporation's financial statements, which give a true and fair view of the state of affairs of the corporation for and as at the end of the financial year ended on June 30, 2019. 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 entity; (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 corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the KEPHIS Act. The Directors are of the opinion that the corporation's financial statements give a true and fair view of the state of corporation's transactions during the financial year ended June 30, 2019, and of the corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the corporation, which have been relied upon in the preparation of the corporation'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 corporation 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 corporation's financial statements were approved by the Board on _____
2019 and signed on its behalf by:



Director



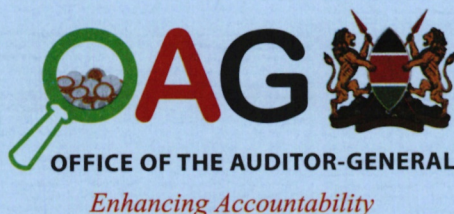
Director



Director

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA PLANT HEALTH INSPECTORATE SERVICE FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Plant Health Inspectorate Service set out on pages 1 to 34, which comprise of the statement of financial position as at 30 June, 2019, 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Plant Health Inspectorate Service as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Plant Health Inspectorate Service Act, 2012, Public Finance Management Act, 2012 and the State Corporations Act, Cap 446 of the laws of Kenya.

Basis for Qualified Opinion

1. Lack of Land Title Deeds

As disclosed in Note 25 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.1,110,521,000. The balance includes eleven (11) parcels of land valued at Kshs.264,666,000 situated in Nakuru, Muguga, Kitale, Kabete, Embu, Karen and Kisumu. However, the Service does not possess ownership documents for three parcels of land.

As reported previously, about 125.3 hectares of land in Kitale were held by third parties. Management has recovered 34.09 hectares leaving a balance of 91.21 hectares. However, although the Management has initiated the process of transferring the ownership of Nakuru and Muguga parcels of land from KARLO (formerly KARI) to KEPHIS, the exercise had not been concluded by the time of concluding the audit.

In view of the above, it has not been possible to confirm the accuracy and completeness of land balance of Kshs.1,110,521,000 reflected in the statement of financial position as at 30 June, 2019.

2. Inaccuracies in Receivables from Exchange Transactions

As disclosed in Note 21 to the financial statements, the statement of financial position reflects receivables from exchange transactions balance of Kshs.105,134,000. The balance is net of Kshs.14,667,000 indicated as impairment allowance. However, the gross amount differs with the supporting schedules balance of Kshs.117,058,754 by Kshs.2,743,246 which has not been reconciled.

As a result, the accuracy of receivables from exchange transactions gross balance of Kshs.105,134,000 as at 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Plant Health Inspectorate Service Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe 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 judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Inspectorate's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Service or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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.

- 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 applicable 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 Inspectorate's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Inspectorate to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Service to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

15 October, 2021

Kenya Plant Health Inspectorate Service
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STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2018-2019	2017-2018
		Kshs '000'	Kshs '000'
Revenue from non-exchange transactions		Shs '000'	Shs '000'
Public contributions and donations	6	179,984	97,237
Transfers from other governments—gifts and services-in-kind	7	245,914	271,633
		425,898	368,870
Revenue from exchange transactions			
Rendering of services	8	1,046,911	883,468
Hire of Facilities	9	7,386	5,726
Finance income-external investments	10	3,404	1,491
Other income	11	1,471	5,639
		1,059,172	896,324
Total revenue		1,485,070	1,265,194
Expenses			
Employee costs	12	634,293	524,784
Board Expenses	13	26,124	17,726
Depreciation and amortization expense	14	88,654	86,847
Repairs and maintenance	15	80,911	74,240
Grants and subsidies	16	125,178	80,082
General expenses	17	523,184	457,158
Total expenses		1,478,344	1,240,837
Other gains/(losses)			
Gain on sale of assets	18	1,080	-
Gain on foreign exchange transactions	19	304	378
Increase/Decrease in provision for doubtful debts	28	904	(3,699)
Total other gains/(losses)		2,288	(3,321)
Surplus/Deficit for the period		9,015	21,036

The notes set out on pages 6 to 27 form an integral part of these Financial Statements

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Notes	2018-2019 Kshs '000'	2017-2018 Kshs '000'
Assets			
Current assets			
Cash and cash equivalents	20	125,748	104,258
Receivables from exchange transactions	21	105,134	118,047
Receivables from non-exchange transactions	22	6,876	3,860
Inventories	23	44,692	36,072
Prepayments	24	56,668	44,287
Total Current Assets		339,119	306,524
Non-current assets			
Property ,plant and equipment	25	1,110,521	1,086,717
Investments	26	60,000	60,000
Total non - current assets		1,170,521	1,146,717
Total assets		1,509,640	1,453,241
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	27	88,692	78,444
Provisions	28	961	961
Deferred income	29	190,626	152,352
Payments received in advance	30	7,388	8,526
Total current liabilities		287,667	240,283
Net assets		1,221,972	1,212,958
Reserves		451,194	451,194
Accumulated surplus		770,778	761,763
Total net assets and liabilities		1,221,972	1,212,958

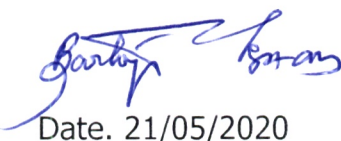
The Financial Statements set out on pages 1 to 32 were signed on behalf of the Board of Directors by:

Ag. Managing Director
Mr. Simeon K. Kibet



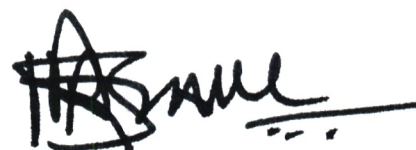
Date. 21/05/2020

Ag. GM Finance & Administration
Mr. Bartonjo Cheptarus
CPAK Member No. 4391



Date. 21/05/2020

Chairman of the Board
Mr. Robin M. Achoki



Date.21/05/2020

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STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2019

	Revaluation reserve	Retained earnings	Total
	Kshs '000'	Kshs '000'	Kshs '000'
At July 1, 2017	451,194	740,727	1,191,921
Surplus/Deficit for the period		21,036	21,036
At June 30, 2018	451,194	761,763	1,212,957
At July 1, 2018	451,194	761,763	1,212,957
Surplus/Deficit for the period		9,015	9,015
At June 30, 2019	451,194	770,778	1,221,972

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2018-2019	2017-2018
		Kshs '000'	Kshs '000'
Cash flows from operating activities			
Receipts			
Public contributions and donations	6	218,258	94,166
Transfers from other governments—gifts and services-in-kind	7	245,914	271,633
Rendering of services	8	1,046,911	886,539
Hire of Facilities	9	7,386	5,726
Finance income-external investments	10	2,251	1,491
Other income	11	1,471	11,365
		1,522,191	1,270,920
Payments			
Employee costs	12	634,293	524,784
Board Expenses	13	26,124	17,726
Repairs and maintenance	15	80,911	74,240
Grants and subsidies	16	125,178	80,082
General expenses	17	523,184	478,408
		1,389,690	1,175,240
Net cash flows from operating activities		132,500	95,680
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	25	(112,866)	(19,452)
Proceeds from sale of property, plant and Equipment		1,410	-
Decrease/(increase) in current receivables		12,258	(54,801)
Decrease/(increase) inventories		(8,620)	11,400
Decrease/(Increase) in prepayments		(12,381)	(17,035)
(Decrease)/Increase in payables		10,327	54,710
(Decrease)/Increase Payment received in advance		(1,138)	4,356
Net cash flows used in investing activities		(111,010)	(25,178)
Cash flows from financing activities			
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Increase in deposits		-	-
Net cash flows used in financing activities			
Net increase/(decrease) in cash and cash equivalents		21,462	70,502
Cash and cash equivalents at 1 July 2019		104,258	33,756
Cash and cash equivalents at 30 June 2019		125,748	104,258

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Explanation of material variances
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019	
Revenue	Kshs,000	Kshs,000	Kshs,000	Kshs,000	Kshs,000	
Revenue						
Public contributions and donations	174,804	0	174,804	179,984	5,180.00	(a)
Transfers from other governments- gifts and services-in-kind	250,933	0	250,933	245,914	(5,019.00)	(b)
Rendering of services	1,033,785	0	1,033,785	1,046,911	13,126.00	(c)
Other income	15,649	0	15,649	14,517	(1,132.00)	(d)
Total income	1,475,171	0	1,475,171	1,487,326	12,155	
Expenses		0				
Employee costs	624,164	0	624,164	634,293	(10,129.00)	(e)
Board Expenses	29,503	0	29,503	26,124	3,379.00	(f)
Depreciation and amortization expense	131,064	0	131,064	88,658	42,406.00	(g)
Repairs and maintenance	70,654	0	70,654	80,911	(10,257.00)	(h)
General expenses	619,787	0	619,787	523,184	(28,575.00)	(i)
Total expenditure	1,475,172	0	1,475,172	1,478,348	(8,613.00)	
Surplus for the period				8,978		

Explanation of material variance in statement of variance and actual comparison

- a) Budget met as planned
- b) The difference arose due to revision of the allocation downwards by the government within the year
- c) The budget revenue from rendering of services was met with a positive margin
- d) Target met
- e) The target was met with a 2 percent variance relating to increase in medical insurance and staff performance bonus
- f) Expenditure controlled within the budget
- g) Expenditure level commensurate with
- h) More repair work was done on stations maintenance that had been envisaged. The expenditure is cyclical and is expected to reduce in 2019/2020
- i) The general expenditure comprises of core mandate expenses, contracted services, direct donor support and administrative expenses. The expenses increased in line with increased inspection activity. Deferred income relating to donor funded projects was also utilized to achieve the set milestones

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Kenya Plant Health Inspectorate Service (KEPHIS) was established in 1996 through Legal Notice No. 305 until the enactment of Kenya Plant Health Inspectorate Service Bill, 2011 in December 2012. KEPHIS is domiciled and is a regulatory body for the protection of plants, seeds and plant varieties.

2. Statement of Compliance and Basis of preparation

The financial statements have been prepared on a historical cost basis unless stated otherwise. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the corporation's accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the corporation and all values are rounded to the nearest thousand (Ksh000).

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. Adoption of new and revised Standards

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

Standard	Impact
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 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.

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 40: Public Sector Combinations	Applicable: 1st January 2019: 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.

iii. **Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2018.

4. **Summary of significant accounting policies**

a) **Revenue recognition**

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

Fees

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

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

ii) Revenue from exchange transactions

Rendering of services

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

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

Sale of goods

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

Interest income

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

b) Budget information

The original budget for FY 2017-2018 was approved by the National Assembly on 30th March 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the corporation upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity did not record any additional appropriation on the 2018-2019 budget.

The corporation's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification

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schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section five of these financial statements.

c) Taxes

Government grant is not subject to tax. The Corporation just like the Ministries of Government, operates on non-commercial basis. Surpluses are necessarily already utilized on purchase of assets. In addition surplus relates to GOK grant.

d) Property, plant and equipment

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

The depreciable amounts of assets (cost or valuation amount less residual value) are allocated over the estimated useful life of the assets. Depreciation is calculated on the straight-line method. Depreciation is applied on pro rata basis for assets acquired i.e. from month of acquisition. Assets disposed of during the year are not depreciated.

The Corporation applies the following rates of depreciation:

- Freehold land - nil
- Buildings 2%
- Plant and Machinery 12.5%
- Motor Vehicles 25%
- Office Equipment 12.5%
- Furniture and fixtures 12.5%
- Laboratory Equipment 12.5%
- Computers & Accessories 33.33%

The following residual values have been adopted:

- Plant and Machinery 10%
- Motor Vehicles 10%
- Furniture and Fixtures 5%
- Laboratory Equipment 5%
- Computers and Accessories 5%
- Office Equipment 5%

e) Leases

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

f) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Corporation determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

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

Impairment of financial assets

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

that can be reliably estimated. Evidence of impairment may include the following indicators:

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

g) Inventories

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

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

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

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

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

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

Provisions

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

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

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

Contingent liabilities

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

Contingent assets

The Corporation 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 Corporation 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.

i) Nature and purpose of reserves

The Corporation creates and maintains reserves in terms of specific requirements. The corporation maintains two reserves namely, retained earnings reserve revaluation reserve and. Revaluation reserves of Kshs. 451,194,344.00 reflected in the financial statements arose out of revaluation of corporation assets while the retained earnings reserve have a balance of Kshs. 770,777,991.11 arising out of accumulated surplus since inception.

Changes in accounting policies and estimates

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

j) Employee benefits

Retirement benefit plans

The Corporation provides defined contribution plan under which it pays fixed contributions into a separate Corporation (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income as employee emoluments in the year in which they become payable.

k) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. The US Dollar closing rate as at 30 June was Kshs. 102.3. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

l) Related parties

The Corporation regards a related party as a person or an entity with the ability to exert control individually or jointly or exercise significant influence over it, or vice versa. Members of the Board or Directors are regarded as parties.

m) Cash and cash equivalents

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

and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

n) Comparative figures

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

o) Subsequent events

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

5. Significant judgments and Sources of estimation uncertainty

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

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

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

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Provisions

Provisions were determined on consideration of relevant factors affecting receivables and in line with the organizational policies and procedures. General provision for doubtful debts was maintained at 7.5% and 100% for debts over three years.

6. Public contributions and donations

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Project grant COPE	6,662	8,152
COMESA/RIIP	9,000	20,000
SASHA II/Prebasic seed revolving fund	1,605	675
EU-SMAP	9,305	65
CIP Pre-Basic revolving Fund	0	827
CIP Ralstonia	0	494
USAID foodscap	191,440	61,800
Natural History Museum	245	0
IITA cassava Rap	0	2,153
Total Transfers and sponsorship	218,258	94,166
Reconciliation of public contribution and donations		
Balance unspent at the beginning of the year	152,352	153,573
Current year receipts	218,258	96,016
Condition met-transferred to revenue	(179,984)	(97,237)
Condition to be met -remain liabilities	190,626	152,352

These funds are received from various development partners and stakeholders.

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7. Transfers from other governments

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Unconditional grants		
Operational grant	245,914	271,633
Other		-
	245,914	271,633
Conditional grants		
Development Grant		-
Total government grants and subsidies	245,914	271,633

7b)

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognized in capital fund.	Total grant income during the year	2018-2019
	Kshs	Kshs	Kshs	Kshs	Kshs
Ministry of Agriculture Livestock and Fisheries/State department of Research	245,914	-	-	-	245,914
Total	245,914	-	-	-	245,914

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8. Rendering of services

Description		2018-2019	2017-2018
Department	Section	KShs	KShs
Phytosanitary	JKIA Plant Inspection Unit	274,933	264,278
	Plant Quarantine Station Muguga Muguga	11,084	18,846
	Namanga Boarder Post	61,606	51,291
	Loitoktok Boarder Post	15,648	11,812
	Headquaters Phytosanitary	43,560	15,839
	Headquaters Molecular Laboratory	4,534	3,995
	Mombasa Chief Grader	221,399	209,823
	Lungalunga Boarder Post	8,939	8,607
	Taveta Boarder Post	17,662	6,826
	Bura Station	1,375	1,487
	Naivasha	10,816	11,030
	Total Phytosanitary Revenue	671,556	603,834
	Seed Certification	Headquaters Seed Section	37,761
Nakuru Main Office		39,079	46,310
Kitale Main office		66,459	81,484
Malaba Boarder Post		38,738	15,868
Eldoret Station		5,854	3,941
Swam		444	0
Kisumu Main Office		4,564	5,247
Busia Boarder Post		75,159	23,932
Isebania Boarder Post		5,137	3,052
Embu Regional Office		10,469	14,064
Moyale Boarder Post		9,624	4,731
Timau Station		1,788	1,041
Nyeri		341	0
Total Seed Certification Revenue	295,417	231,866	
Plant Variety Services	All Stations	39,847	23,532
Analytical Laboratory Services	Headquaters	40,091	18,077
Other Incomes		-	6,159
	Total revenue from the rendering of services	1,046,911	883,468

9. Rental revenue from facilities

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Conference and Accommodation	7,386	5,726
Total rentals	7,386	5,726

The revenue is generated from fees charged for use of the corporation's conference and accommodation facility at the headquarters.

10. Finance income

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Interest from Mortgage Deposit	3,404	1,491
Total finance income – external investments	3,404	1,491
Interest Received	2,251	0
Interest receivable	1,153	1,491
Total Interest receivable	3,404	1,491

This is revenue from staff mortgage fund and interest negotiated current account

11. Other income

	2018-2019	2017-2018
	Kshs 000	Kshs 000
Miscellaneous receipts	1,471	5,639
Total other income	1,471	5,639

12. Employee costs

	2018-2019	2017-2018
	Kshs 000	Kshs 000
Basic Salary	302,539	242,822
Casual Labour	47,752	32,732
Gratuity and Pension	47,333	36,691
House Allowance	117,517	103,939
Transfer Allowance	2,515	952
Other Personal Allowances	54,241	45,822
Overtime Allowance	2,943	3,189
Passage & Leave Expenditure	4,721	4,372
Medical Expenses	39,705	42,241
Training Expenses (staff)	15,027	12,024
Total employee cost	634,293	524,784

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13. Remuneration of directors

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Medical Expenses	717	760
Board Committees and Seminars	24,363	15,922
Chairman's Honoraria	1,044	1,044
Total director emoluments	26,124	17,726

14. Depreciation and amortization expense

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Property, plant and equipment	88,654	86,847
Total depreciation and amortization	88,654	86,847

15. Repairs and maintenance

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Maintenance of Motor Vehicle	31,743	16,428
Maintenance of Plant Machinery & Equipment	26,069	24,214
Maintenance of Buildings and stations	23,099	33,598
Total depreciation and amortization	80,911	74,240

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16. Grants and subsidies

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Project grant COPE	6,483	6,685
EAPP	-	3
ASSIP -K	-	3
EU SMAP	7,063	1,499
COMESA/RIIP	13,441	24,690
SASHA II/Prebasic seed fund	2,336	1,744
IITA BGMF		1,050
STDF/COMESA	-	30
KFC/KAVES	-	612
Prebasic seed fund	-	459
CIP Ralstonia	-	498
Agri experience	-	1,163
IITA Cassava Rap	-	1,503
CIMMYT	-	1,529
USAID Foodscap	95,609	38,616
Natural History Museum	245	-
Assets Depreciation		
Total Transfers and sponsorship	125,177	80,082

17. General expenses

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Electricity	24,324	17,403
Water & Conservancy	2,119	1,655
Telephone	2,519	3,302
Postal & Courier	3,776	3,749
Internet Services	17,356	16,947
Local travel & Accommodation	125,657	106,717
External Travel	24,152	16,059
Publishing & printing	56,111	64,496
Advertising & publicity	5,221	3,146
Trade shows & Exhibitions	30,806	19,933
Rents & Rates	7,827	5,184
Hire of transport	2,384	2,042
Training (stakeholders)	15,748	11,910
Catering services	4,931	6,659
Insurance premiums - vehicles & other assets	6,905	6,481
Laboratory stores	29,318	29,544
Education & library	1,891	1,914
Uniform & clothing	5,811	5,113
Purchases of NPT DUS PC and farm inputs	19,517	9,206

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Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
General office supplies and Stationery	12,368	9,471
Supply and accessories for computers and Printers	22,049	21,539
Fuel & lubricants	32,858	25,784
Bank Charges	3,085	1,272
Guards & cleaning services	27,214	26,837
Contracted professional services	9,523	11,470
Others	493	258
Contribution to private and international organisations	5,308	5,741
Farmers demos & field day food & ration	22,410	20,163
Audit fees	961	961
Compensation and ex-gratia	315	1,726
Corporate social responsibility	226	473
Total General Expenditure	523,184	457,158

18. Gain on sale of Assets

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Motor Vehicles	887	-
Office Equipment	3	-
Furniture & Fitting	190	-
Total gain	1,080	-

19. Gain on foreign exchange

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Realised Exchange Gain/loss	304	378

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20. Cash and cash equivalents

Institution	Description	Account Number	2018-2019	2017-2018
			Kshs 000	Kshs 000
Current accounts				
CBA	KEPHIS USAID	6523810022	30,806	29,731
KCB	KEPHIS	1108285430	17,830	25,563
KCB	KEPHIS(Dollar)	1104843269	2,560	10,882
KCB	KEPHIS	1108285678	104	1,488
KCB	Kephis-Assip	1138298948	292	294
KCB	Kephis-Cope	1130043959	2,401	2,504
KCB	Kephis sinking Fund	1128368366	53,350	1,082
KCB	Kephis EAAPP Project	1121039685	262	263
NIC	EU Smap	1001569364	5	1,531
KCB	Kephis Kisumu	1104038307	56	492
KCB	Kephis Kitale	1108814093	142	858
KCB	Kephis Chief Grader	1101574712	69	9
KCB	Kephis Naivasha	1121954359	310	22
KCB	Kephis Nakuru	1101844876	651	(2)
KCB	Kephis Plant Quarantine	1107093724	1,341	401
KCB	JKIA		483	2
CBA	Kephis JKIA	6523810017	2,732	11,526
KCB	Kephis Embu	1102966649	185	644
Others				
	MPESA		8,094	16,198
	Un-deposited funds		4,076	771
Total cash and cash equivalents			125,748	104,258

21. Receivables from exchange transactions

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Current receivables		
Service debtors	119,802	133,618
Less: impairment allowance	(14,667)	(15,571)
Total current receivables	105,134	118,047

22. Receivables from non-exchange contracts

Description	2018-2019	2017-2018
	Kshs	Kshs
Current receivables		
Staff advances	12	20
Interest receivable	2,645	1491
Medical Advance	4,220	2349
Total current receivables	6,876	3,860

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23. Inventories

Description	2018-2019	2017-2018
Inventories as per region	Kshs 000	Kshs 000
KEPHIS Naivasha	319	-
KEPHIS EMBU	515	-
Stores-HQ	25,404	27,924
Mombasa	776	-
Kitale	4,016	262
kisumu	242	-
jkia	1,381	-
Nakuru	2,017	1,255
Lab Stores	10,021	6,631
Total Inventories	44,692	36,072

24. Prepayments

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Prepayment Supplies	38,049	27,264
Deposit Supplies	6,228	7,470
Travel Imprest	12,391	9,553
Total Prepayments	56,668	44,287

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Property, plant and equipment

Cost Or Valuation	Land	Buildings	Plant and Machinery	Motor Vehicles	Computers and Accessories	Office Equipment	Furniture and Fittings	Laboratory Equipments	Totals
Cost: Shs.'000'									
July 1st 2017	264,666	639,699	75,560	188,623	79,392	23,729	14,041	369,081	1,654,791
Additions	-	-	480	1,850	10,568	3,729	1,441	2,664	20,732
Transfer	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-	-	-
At 30th June 2018	264,666	639,699	76,040	190,473	89,961	27,458	15,482	371,745	1,675,524
July 1st 2018	264,666	639,699	76,040	190,473	89,961	27,458	15,482	371,745	1,675,524
Additions	-	-	5,040	61,685	13,993	5,672	3,579	22,818	112,787
Transfer	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	(3,143)	-	(54)	(313)	-	(3,510)
At 30th June 2019	264,666	639,699	81,080	249,015	103,954	33,077	18,748	394,563	1,784,801
Depreciation									
July 1st 2017	-	73,784	37,625	162,121	59,024	13,738	9,503	146,166	501,960
Charge for the year	-	12,794	8,997	7,607	8,739	2,924	1,742	44,044	86,847
Disposal	-	-	-	-	-	-	-	-	-
Accumulated at 30th June 2018	-	86,577	46,621	169,728	67,763	16,662	11,245	190,209	588,807
July 1st 2018	-	86,577	46,621	169,728	67,763	16,662	11,245	190,209	588,807
Charge for the year	-	12,794	6,580	13,575	14,152	2,326	993	38,234	88,654
Disposal	-	-	-	(2,831)	-	(51)	(298)	-	(3,180)
Accumulated at 30th June 2019	-	99,371	53,202	180,472	81,916	18,937	11,940	228,443	674,280
Net Book Value at 30th June 2019	264,666	540,328	27,879	68,543	22,038	14,140	6,807	166,120	1,110,521
Net Book Value at 30th June 2018	264,666	553,122	29,419	20,745	22,197	10,796	4,237	181,536	1,086,717

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26. Investment

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
At beginning of the year	60,000	60,000
Additions	-	-
Depreciation	-	-
At end of the year	60,000	60,000

27. Trade and other payables from exchange transactions

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Trade Creditors	65,289	59,601
Sundry Creditors	19,545	14,586
Tax Liability	2,542	4,257
WIBA insurance proceeds	1,316	-
Totals	88,692	78,444

28. Current provisions

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Statement of financial performance		
Balance at the beginning of the year	961	961
Additional Provisions	-	-
Provision utilised	-	-
Change due to discount and time value for money	-	-
Transfers from non-current provisions	-	-
Balance at the end of the year	961	961
Statement of financial performance		
Balance at the beginning of the year	15,571	11,872
Provision utilised	(904)	3,699
Change due to discount and time value for money		
Balance at the end of the year	14,667	15,571

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29. Deferred income

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Public contributions and donations	91,645	35,973
Donated assets	98,981	116,379
Total deferred income	190,626	152,352

The deferred movement is as follows

Public contributions and donations	
Balance brought forward	152,352
Additions	218,258
Transfers to Capital fund	(37,408)
Transfers to income statement	(125,178)
Transfer to depreciation	(17,398)
Balance carried forward	190,626

30. Payment Received in Advance

Description	2018-2019	2017-2018
	Kshs 000	Kshs 000
Prepayment Liability	7,388	8,526

31. Financial Risk Management

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

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

(i) Credit risk

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position

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are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

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

	Total amount Kshs. '000'	Fully performing Kshs. '000'	Past due Kshs. '000'	Impaired Kshs. '000'
At 30 June 2019				
Receivables from exchange transactions	105,134	98,769	6,365	14,667
Receivables from non-exchange transactions	6,876	6,876	-	-
Total	112,010	105,645	6,365	14,667
At 30 June 2018				
Receivables from exchange transactions	133,618	127,618	6,000	15,571
Receivables from non-exchange transactions	3,860	3,860	-	-
Total	137,478	131,478	6,000	15,571

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

The board of directors sets the entity's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

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

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

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	Less than 1 month	Between 1-3 months	Between 3-5 Months	Over 5 months	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
At 30 June 2019					
Trade payables	63,520	24,918	144	110	88,692
Provisions	961	-	-	-	961
Deferred income	190,626	-	-	-	190,626
Employee benefit obligation	13,344	-	-	-	13,344
Total	268,451	24,918	144	110	293,623
At 30 June 2018					
Trade payables	53,856	16,305	2,674	2,393	75,228
Provisions	961	-	-	-	961
Deferred income	152,352	-	-	-	152,352
Employee benefit obligation	10,877	-	-	-	10,877
Total	218,046	16,305	2,674	2,393	239,418

(iii) Market risk

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

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

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

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

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other

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than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

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

	Ksh	Other currencies	Total
	Kshs 000	Kshs 000	Kshs 000
At 30 June 2019			
Financial assets			
Cash	123,188	2,560	125,748
Debtors	91,347	28,455	119,802
Total financial assets	214,535	31,015	245,550
Financial Liabilities			
Trade and other payables	87,639	1,053	88,692
Total financial liabilities	87,639	1,053	88,692
Net foreign currency asset/(liability)	126,896	29,962	156,858

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

	Ksh	Other currencies	Total
	Kshs 000	Kshs 000	Kshs 000
At 30 June 2018			
Financial assets			
Investments	60,000	-	60,000
Cash	93,376	10,882	104,258
Debtors	86,604	47,014	133,618
Total financial assets	239,980	57,896	297,876
Financial Liabilities			
Trade and other payables	74,187	-	74,187
Total financial liabilities	74,187	-	74,187
Net foreign currency asset/(liability)	165,793	57,896	223,689

Foreign currency sensitivity analysis

The following table demonstrates the effect on the entity's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant

Foreign currency sensitivity analysis (Continued)

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs 000	Kshs 000	Kshs 000
2019			
USD	10%	±3101	±3101
2018			
USD	10%	±5790	±5790

b) Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Kshs 1,485m (2018: Kshs 1,265M). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs 74.25M (2018 – KShs63.25M)

iv) Capital Risk Management

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

	2018-2019	2017-2018
	Kshs 000	Kshs 000
Revaluation reserve	451,194	451,194
Retained earnings	770,746	740,727
Total funds	1,221,940	1,191,921
Total borrowings	287,830	240,283
Less: cash and bank balances	(125,748)	(104,141)
Net debt/(excess cash and cash equivalents)	162,082	136,142
Gearing	1	1

32. RELATED PARTY BALANCES

Nature of related party relationships

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

Government of Kenya

The Government of Kenya is the principal shareholder of KEPHIS holding 100% of equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include:

- i) The National Government;
- ii) Ministry of Agriculture Livestock and Fisheries;
- iii) Key management;
- iv) Board of directors

	2018-2019	2017-2018
	Kshs 000	Kshs 000
Transactions with related parties		
a) Grants from the Government		
Grants from National Govt	245,914	271,633
Total	245,914	271,633


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b) Key management compensation		
Directors' emoluments	26,124	17,726
Compensation to the CEO	7,170	5,727
Compensation to key management	13,077	10,990
Total	46,372	34,443

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR
RECOMMENDATIONS**

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved /Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Lack of ownership titles for parcels of land in Muguga, Nakuru and Kitale. Large part of land in Kitale is in the hands of grabbers	<p>Muguga and Nakuru land are not in dispute and are part of larger parcels held by KALRO. The Corporation obtained letters of no objection from KALRO to process sub-division and titles for the two parcels. The process is still ongoing.</p> <p>In regard to Kitale land, the Corporation has over the years made a lot of effort to obtain title for the land and recover the encroached portion. These efforts can only succeed with full support of the Government.</p>	Mr. Simeon Kibet Ag. Managing Director	Not resolved by the date of submitting this report to the Office of the Auditor General	Not possible to project due to the fact that there are other key stakeholders involved in the process.


Ag. Managing Director
Simeon K. Kibet

Date: 21/05/2020

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APPENDIX II: INTER-ENTITY TRANSFERS

ENTITY NAME:				
Break down of Transfers from the State Department of Agricultural Research				
FY 17/18				
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>Indicate the FY to which the amounts relate</u>
		22/08/2018	41,822	FY 2018/19
		17/10/2018	62,733	FY 2018/19
		09/10/2018	20,911	FY 2018/19
		05/02/2019	58,969	FY 2018/19
		17/05/2019	61,479	FY 2018/19
		TOTAL	245,914	