
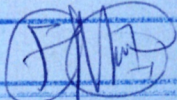


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

 THE NATIONAL ASSEMBLY PAPERS LAID	
<b>REPORT</b>	
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**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA FOREST SERVICE**

**FOR THE YEAR  
ENDED 30 JUNE 2017**



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

- 8 MAY 2019



**KENYA**  
Forest Service

*rees for better lives*

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# **KENYA FOREST SERVICE**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

### **FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017**

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

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## I. KEY SERVICE INFORMATION AND MANAGEMENT

### WHO WE ARE

Kenya Forest Service is a body corporate established under the Forest Conservation and Management Act no 34 of 2016. The Act which was operationalized on 31<sup>st</sup> March 2017, gave the Service's mandate as *"to provide for the development and sustainable management, including conservation and rational utilization of all forest resources for the socioeconomic development of the country and for connected purposes"*

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

### OUR VISION

To be an internationally recognized knowledge-based organisation of excellence in sustainable forest resources development, conservation and management.

### OUR MISSION

Conservation, management, development and sustainable utilisation of forests and allied resources

### OUR MANDATE

The Corporate goal of Kenya Forest Service is to conserve, manage and develop forests in Kenya to achieve and maintain a forest cover of at least ten per cent of the land area by the year 2030.

### CORE VALUES

Our core values form the foundation of how we conduct ourselves when carrying out our duties.

KFS will be guided by the following core values ;-(**T, R, E, E, I, S**):

- **Teamwork:** Embrace mutual support, active participation, collective responsibility, open communication, information sharing and mentoring.
- **Results Oriented.** Allocation of resources based on measured performance to maximize effectiveness.
- **Equity:** Fairness, affirmative action and sensitivity
- **Excellence:** Challenge to the highest level of performance, to create the greatest impact.
- **Integrity:** Conduct our daily business on the basis of accountability and transparency, with a zero tolerance for corruption.
- **Scientific principles and professionalism:** Decision making and practice will be based on current scientific knowledge and best practice.

### Principal Activities

The principal activities of the Service continue to be;

- i. Conserve natural forest for provision of environmental goods and services.
- ii. Develop and manage public forest plantations for wealth and employment creation.
- iii. Increase forest cover outside the public forest areas
- iv. Protect and secure Public forests and other corporate assets.
- v. Strengthen capacity for efficient utilization of resources and effective service delivery.

### Key Management

Kenya Forest Service day-to-day management is under the following key organs:

- Board of Directors;
- CEO; and
- Senior Management Team

### Fiduciary Management

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

No.	Designation	Name
1.	Chief Conservator of Forests (CCF)	- Mr. Emilio N. Mugo
2.	Senior Deputy CCF, Support Services	- Madam Monica Kalenda
3.	Senior Deputy CCF, Field Operations	- Mr. Esau O. Omolo
4.	Senior Manager, Finance & Admin.	- Mr. Patrick Nyaga
5.	Senior Deputy CCF, KFC	- Mr. Peter K. Waweru
6.	Manager, Legal Services	- Madam Esther Keige
7.	Manager, Corporate Services	- Madam Lucy Kiboi
8.	Deputy CCF, Plantation & Enterprises	- Mr. Simiyu B. Wasike
9.	Deputy CCF, Forest Extension Services	- Mr. Patrick Kariuki
10.	Deputy CCF, Forest Conservation & Management	- Madam Charity Munyasya
11.	Deputy CCF, Enforcement & Compliance	- Mr. Alex Lemarkoko
12.	Manager, Finance & Accounting	- Madam Anastasia Muasya
13.	Manager, Human Resources & Admin.	- Madam Juliana Ochieng
14.	Principal Supply Chain Officer	- Mr. Victor Kobia
15.	Principal Internal Audit Officer	- Mr. Stephen Mugi
16.	Principal Corporate Communication	- Madam Anne Muthamia

### Fiduciary Oversight Arrangements

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

#### i) Technical, Planning and Development Committee

The Technical, Planning and Development Committee is responsible for ensuring; policy oversight, operational and legal compliance, advising the board on proposed subsidiary legislation, effective management of forests, effective organisational structures for forest conservancy areas as well as approvals of technical policies, strategies and systems.

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

#### ii) Finance Committee

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

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

**iii) Human Resource and Administration Committee**

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

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

**iv) Audit Committee**

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

<b>NO.</b>	<b>NAME</b>	<b>POSITION</b>
1.	Mr. Bernard Sang	Chairperson
2.	Dr. Christopher Gakahu	Member
3.	Captain John Miriti	Member
4.	Principal Secretary National Treasury	Member
5.	Principal Secretary Water and Irrigation	Member
6.	Director, KEFRI	Member

**Headquarters**

Kenya Forest Service  
P.O. Box 30513 - 00100,  
Karura Forest, off Kiambu Road,  
Nairobi - Kenya.

**Contacts**

Telephone: (254) 020 2014663 / 020 2589055

E-mail: [info@kenyaforestservice.org](mailto:info@kenyaforestservice.org), [director@kenyaforestservice.org](mailto:director@kenyaforestservice.org)

Website: [www.kenyaforestservice.org](http://www.kenyaforestservice.org)



@KeForestService



Kenya Forest Service



Kenya Forest Service

### Bankers

Kenya Commercial Bank  
P.O. Box 14959  
Tel: +254-20-3747576  
Fax: +254-20-3747576  
E-mail: info@kcb.co.ke  
Website: www.kcb.co.ke

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

Co-operative Bank of Kenya  
P.O. Box 48231-00100,  
Tel: +254-20-3276000  
Fax: +254-20-219821  
E-mail:  
customerservice@co-pbank.co.ke  
Website: www.co-opbank.co.ke

Equity Bank  
P.O. Box 75102-00200-Nairobi  
Tel: +254-20-2262000  
Fax: +254-20-2737276  
E-mail: info@equitybank.co.ke  
Website: www.equitybank.co.ke

National Bank of Kenya  
P.O. Box 72866-00200 Nairobi  
Tel: 020-2828000  
Fax: 020-311444/222304  
E-Mail:  
corporateaffairs@nationalbank.co.ke

### Independent Auditors

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

### Principal Legal Adviser

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

## II. THE BOARD OF DIRECTORS

### Mr. Peter Kinyua - Chairman



Mr. Peter Kinyua graduated from Salve Regina University, Rhode Island, SA, in May 1986, with a Bachelor of Arts and Science Degree. He is a coffee trader and has been exporting coffee for over 25 years. He is a member of Mild Coffee Traders Association and the founder Chairman of Kenya Coffee Traders Association. He has also been a Director of the Coffee Board of Kenya. Currently he is a coffee Farmer in Juja, Kenya and has a passion for conservation and is also a board member of the Kenya Wildlife Service. He successfully sourced for substantial funding for conservation through Rhino Ark, a Charitable Trust that helps save Kenya's Black Rhino population.

### Ms. Naomi Apali Mogoria - Vice Chair



Ms. Apali is an urban and regional planner by training, with public sector and practitioner experience as a consultant for both national and county government. Currently she is a lecturer at Jaramogi Oginga University of Science and Technology, Bondo Kenya. Has passion and undertakes consultancies in these fields, gender, social planning, environmental planning, strategic planning and urban and regional planning. She is also a member of the Busia County Land Management Board. As a past time and ploughing back to society, Naomi carries out mentorship programmes in institutions of learning for children and youths.

### Capt. John Miriti



*Provide a concise description of each Director's date of birth, key qualifications and work experience*



### **Dr. Christopher Gakahu**

Dr. Gakahu is the Chairperson of the Technical, Planning & Development Committee of the Board. He holds a BSc. and PhD in Zoology - Biology of Conservation from the University of Nairobi. He has also undertaken post-doctoral studies and research at the Aberdeen University in UK, at Griffith University, Brisbane Australia and at San Diego State University - California. He is an environmental scientist, currently the principal consultant with Oikos Africa Environment Services Ltd. He has served as the Assistant Country Director in charge of programmes in United Nations Development Programme (UNDP) in Kenya where he doubled as the Energy, Environment and Natural Resources advisor and Team Leader for 15 years. Before joining the UNDP, Chris worked as researcher and biodiversity advisor at Wildlife Conservation International (WCI) - now African Conservation Centre (ACC) and the International Union for Conservation of Nature (IUCN). Prior to that, he had a ten years academic tenure at University of Nairobi and Moi University in Kenya. He has published widely and also edited several books.



### **Dr. Gelas Simiyu Muse**

Dr. Gelas holds a Bachelor's Degree in Education Science and Post-Graduate Degrees in Environmental Studies (Environmental Health). He has practical experience in pollution control and environmental conservation.

Currently he is a Senior Lecturer and Head of Department, Environmental Biology and Health, School of Environmental Studies, University of Eldoret, Kenya. He is a Registered Geothermal Association of Kenya member and Registered NEMA Lead EIA/EA Expert. Actively practices in environmental and social impact assessment for wind energy, geothermal power projects, aerial chemical spray projects. He has participated in climate change mitigation; riverine catchment afforestation; and community spring water protection activities through START International Research grant programmes.



**Mr. Benard Sang**

Mr. Sang, is a registered and practicing Quantity surveyor (QS) with experience spanning over 25 years. He has a versatile knowledge in the building industry in quantity surveying and project management. He has served in the past as a director at Kenya Pipeline Company.

He is a graduate of the University of Nairobi with a Bachelor's Degree in Building Economics.



**Mr. John Gethi**

Mr Gethi is the Chairperson of the Finance Committee of the Board. He is currently Director - Milk Procurement - Brookside Africa Ltd & General Manager Gicheha Farms Ltd. He is an Agricultural Economics graduate of University of London. He has been in farming and the agribusiness industry for almost 30 years and has held several agribusiness responsibilities spanning dairy, seed, horticulture, coffee and tea. John has also been involved in several National dairy task forces set up to tackle key issues within the industry.



**Mr. Christopher Musumbu - Rep. PS, MENR**

*Provide a concise description of each Director's date of birth, key qualifications and work experience*



**Ms. Polly Maingi - Rep. CS, National Treasury**

*Provide a concise description of each Director's date of birth, key qualifications and work experience*



**Ms. Irene Kamunge - Rep. DG, NEMA**

*Provide a concise description of each Director's date of birth, key qualifications and work experience*



**Dr. Ben Chikamai - Director, KEFRI**

Dr. Chikamai is currently Director/Chief Executive Officer, Kenya Forestry Research Institute and a Board member of the International Union of the Forestry Research Organisations {President's Nominee} and liaison Officer for Africa. He is also the Regional Coordinator of the Commonwealth Forestry Association (CFA) in Africa. He has a B.Sc. in Forestry from the University of Nairobi, a M.Sc. in Forestry from the University of Toronto, Canada and a Ph.D. from the University of Wales, Bangor, UK. He has extensive working experience in Forestry Utilization, Forestry and Natural Resources Management, Research Management and Networking in Research and Development. Ben is also an Executive Secretary - The Network for Natural Gums and Resins in Africa (NGARA).



**Mr. Patrick Ojwang - Rep. PS, Devolution**

*Provide a concise description of each Director's date of birth, key qualifications and work experience*



**Mr. James Ntabo - Rep. PS, Water & Irrigation**

*Provide a concise description of each Director's date of birth, key qualifications and work experience*



**Dr. Samuel Kasiki - Rep. Director, KWS**

Dr. Kasiki is currently the Deputy Director Biodiversity, Research and Monitoring at Kenya Wildlife Service. He holds a PhD in Ecology, a MSc. in Conservation Biology, and a BSc. in Botany and Zoology.

He has over twenty-eight (28) years of experience.



**Mr. Emilio Mugo - CCF, KFS**

Mr. Mugo is the Chief conservator of forests and sits on the Board of the Kenya Forest Research Institute. He is a career forest officer with a master's degree in teams and financing, a post graduate diploma in project management and a bachelor's degree in forestry with over thirty (30) years' experience in the field and in management. He has also undergone basic training at the National Youth Service and officer's paramilitary course at the Administration Police Training College in addition to being a member and past chairperson of the Forestry Society of Kenya.



**Ms. Esther Keige - Corporation Secretary**

Ms. Keige is the Corporation Secretary/ Head, Legal Services. She holds a Bachelor's Degree in Law (LLB), a Post Graduate Diploma in Law and currently undertaking a Master's degree in Environmental Law.

She is an Advocate of the High Court of Kenya, a Commissioner for oaths and a Certified Secretary. She is a member of the Law Society of Kenya (LSK) and the Institute of Certified Public Secretaries of Kenya (ICPSK), with over twenty (20) years' experience as an advocate.

### III. MANAGEMENT TEAM



#### **Emilio Mugo - Chief Conservator of Forests**

Mr. Mugo is the Chief conservator of forests and sits on the Board of the Kenya Forest Research Institute. He is a career forest officer with a master's degree in teams and financing, a post graduate diploma in project management and a bachelor's degree in forestry with over thirty (30) years' experience in the field and in management. He has also undergone basic training at the National Youth Service and officer's paramilitary course at the Administration Police Training College in addition to being a member and past chairperson of the Forestry Society of chairperson of the Forestry Society of Kenya.



#### **Monica Kalenda - Senior Deputy Chief Conservator of Forests, Support Services**

Mrs Kalenda is in charge of Support Services. She is a career forest officer with a master's degree in Natural Resources Management, post graduate diploma in Corporate Governance, and a bachelor's degree in forestry with over thirty (30) years' experience in the field and in management. She has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya and Kenya Institute of Management.



#### **Esau O. Omolo - Senior Deputy Chief Conservator of Forests, Field Operations**

Mr. Omolo is in charge of Field Operations. He holds a master's degree in geo-information science and earth observation holds a certificate in forestry research and extension as well as a bachelor's degree in land resource studies with over thirty (30) years' experience. He has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya.

### **Patrick Nyaga - Senior Manager Finance and Administration.**



Mr. Nyaga is in charge of Finance and Administration and represents the Director on the Board of Rivatex East Africa Limited. He holds a master's degree in Strategic management, is a certified public accountant (K), holds diplomas in; Supply chain management, financial services and customer service management as well as a bachelor's degree in commerce with over eighteen (18) years' experience. He is a member of; Life Office Management Association (LOMA), Institute of Certified Public Accountants (ICPAK) and associate - Kenya Institute of Supplies and Management (KISM), as well as being a certified retirement benefits trustee.

### **Esther Keige - Corporation Secretary**



Ms. Keige is the Corporation Secretary/ Head, Legal Services. She holds a Bachelor's Degree in Law (LLB), a Post Graduate Diploma in Law and currently undertaking a Master's degree in Environmental Law.

She is an Advocate of the High Court of Kenya, a Commissioner for oaths and a Certified Secretary. She is a member of the Law Society of Kenya (LSK) and the Institute of Certified Public Secretaries of Kenya (ICPSK), with over twenty (20) years' experience as an advocate.

### **Lucy Kiboi - Manager Corporate Services**



Mrs. Kiboi is in charge of Corporate services. She holds a Master's Degree in Business Administration and a Bachelor's of Science Degree and is a Certified Public Accountant (K). She has over twenty-five (25) years' experience. She is a member of Institute of Certified Public Accountants (ICPAK) & Kenya Institute of Management (KIM).



### **Simiyu B Wasike - Deputy Chief Conservator of Forests, Plantation and Enterprise**

Mr. Wasike is in charge of Plantations and Enterprises. He holds a bachelor's degree in forestry with over thirty (30) years' experience. He has undergone strategic management courses at the Kenya School of Government (KSG). He has also undergone basic paramilitary training at the National Youth Service and officers course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya



### **Patrick Kariuki - Deputy Chief Conservator of Forests, Farm and Dryland Forestry**

Mr. Kariuki is in charge of Farm and Dryland Forestry. He holds a Master of Agricultural Studies (Rural Development, Administration and Management), as well as a Bachelor of Science Degree in Forestry with over thirty (30) years' experience in forest management and administration in addition to extensive operational knowledge in project development and management. He pioneered the establishment of farm forestry field schools in the forestry sector in Kenya. He has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College in addition to being a member of the Forestry Society of Kenya.



### **Charity Munyasya - Deputy Chief Conservator of Forests, Forest Conservation and Management**

Ms. Munyasya is in charge of Forest Conservation and Management. She previously held the position of Senior Assistant Director and served as Head of Conservancy-Nairobi. Ms. Munyasya has over twenty-five (25) years' experience in the forestry sector. She holds a Masters of Arts degree in International Studies and is a full member of the Forestry Society of Kenya.



**Anastasia Muasya - Manager Finance and Accounting**

Mrs. Muasya is in charge of Finance and Accounting. She holds a master's degree in Business administration, is a certified public accountant (K), as well as a bachelor's degree in Commerce with over thirty (30) years' experience. She is a member of the Institute of Certified Public Accountants (ICPAK).



**Juliana Ochieng - Manager Human Resource and Administration**

Mrs. Ochieng is in charge of Human Resource and Administration. She holds a master's degree in business administration, a Bachelor's degree in Human Resource Management and an advance Diploma in Human Resource Planning and Development. Other Skills development courses undertaken include Strategic Leadership Development Programme and Senior Management Course. She is a member of the Institute of Human Resource Management.



**Alex Lemarkoko - Deputy Chief Conservator of Forests, Protection & Security**

Mr. Lemarkoko is in charge of Protection & Security. Mr. Lemarkoko has over twenty-five (25) years of experience in forest management and protection. He holds a Masters of Arts degree in International Studies and is a Full Member of the Forestry Society of Kenya



**Peter Waweru - Principal, Kenya Forestry College**

Mr. Peter Waweru is in charge of Kenya Forestry college. The college carries out diploma and certificate courses in Forestry and paramilitary. He holds a master's degree in International studies Science, a post graduate diploma in education as well as two bachelor's degrees in forestry & nature conservation, with over thirty (30) years' experience. He has also undergone basic paramilitary training at the National Youth Service and officer's course at the Administration Police Training College. He is a member of the Forestry Society of Kenya.



**Victor Kobia - Principal Supply Chain Officer**

Mr. Kobia is in charge of Supply chain management. He has over fourteen (14) years' experience in Supply Chain Management in the public sector. He holds a Master's Degree in Procurement and Logistics and is a Full Member of Kenya Institute of Supplies Management (KISM).



**Stephen Mugi - Principal Internal Auditor**

Mr. Mugi is in charge of internal audit and has over nine (9) years of experience in Auditing in the public sector. He holds a Master's of Science Degree in Finance and is a member of Institute of the Internal Auditors (IIA) - Kenyan Chapter and Institute of Certified Public Accountants of Kenya (ICPAK).



**Anne Muthamia - Principal Corporate Communication Officer**

Ms Muthamia is in charge of Corporate Communications. She holds a master's degree in Communication Studies, as well as a bachelor's degree in Communication with over fourteen (14) years' experience. She is a member of Public Relation Society of Kenya (PRSK) and Association of Media women in Kenya (AMWIK).

#### IV. CHAIRMAN'S STATEMENT



*Mr. Peter Kinyua - Chairman, KFS Board of Directors*

Forest development in Kenya is dependent on the rich natural resource base especially with regard to tourism development, energy production, food security, timber production, and provision of a host of non-timber forest products that directly or indirectly contribute to the livelihoods of citizens. In addition, forests support the provision of environmental services including resilience to the impacts of climate change. I joined the Service through a Kenya Gazette Notice No. 1464 of 11<sup>th</sup> March 2016.

2016/2017 was the final year of the second strategic plan 2014-2017 with the Service having substantially achieved its strategic objectives and marked the beginning of its third strategic plan 2017- 2021. The year was also a period of transition for the Service and the national forestry sector following the

repeal of the Forests Act No. 7 of 2005, enactment and operationalization of the Forest Conservation and Management Act of 2016. Over the same period the National Forest Programme 2016 - 2030 was launched which will influence the operations of the Service and the national forest sector going forward.

The national tree cover is at 7.22% up from 6.39% and continues to increase with the aim of reaching the 10% constitutional minimum with the Service being a major player in ensuring the same. Sporadic acts of terrorism continue to affect the country and the Service being part of the National security system, will continue to provide support security operations led by the Kenya Defence Forces in Boni forest.

During the year, the Service grew its internally generated revenues (appropriation in aid) by Kshs 660,226,720/- being an 18% increase. It registered a 176% turnaround from a deficit of Kshs. 676,451,501 to a surplus of Kshs 516,152,411 translating into Kshs 1,192,603,912/- in line with its long-term objective of being financially sustainable. In order to protect the state, county and newly gazetted forests as set out in its mandate, the Service spent a total of Kshs 6,419,062,615/- being a nominal increase of 7% consistent with its cost management strategy.

All this would not have been possible without the support of both the National and county governments, the backing of my fellow Directors, the commitment of the management team and staff as well as contributions by stakeholders. To all of whom I say Asante Sana.

Suffice to say the Service having played a role in the development of the National Forest Policy 2016 - 2030 as well as the Forest Conservation and Management Act of 2016 looks forward to

their implementation. As we move to the next year the Service will aim to grow the forest cover further with an eye on dry land forests, improve service delivery, diversify its revenues and enhance staff welfare.



Mr. Peter Kinyua  
Chairman, Board of Directors

## V. REPORT OF THE CHIEF EXECUTIVE OFFICER



Mr. Emilio Mugo - Chief Conservator of Forests

The impressive financial performance was as a result of our continued focus on the Service's mandate of sustainable development and management of forests as well as conservation and rational utilisation of all forest resources for the social-economic development of the country.

We realigned our operations resulting in increased revenue generation due to putting customers first through faster service delivery, providing relevant services and enhancing operational excellence. Overall, the revenues increased by Kshs 1,602,243,892/- being a 30% growth. This improvement was mainly driven by internally generated revenue streams which increased by Kshs 660,226,720/- (being an 18% increase) to the improved bottom line.

Our expenditure increased marginally by 7% mainly due to employee costs given our operations are labour intensive and the expansive forest estate the Service is entrusted with protecting, conserving and managing that spans over 700,000 hectares in all forty-seven counties. Our cash flows continue to remain healthy while our accumulated revenue reserves have grown by 95% over the period. The asset base continues to be stable and the Service will continue to grow it. All this has enabled the Service realise a surplus of Kshs 516,152,411/-, a large improvement from the previous year's deficit.

The Service as part of enhancing operational excellence has gone cashless in all its offices, introduced alternative payment systems and continues to automate its systems and processes. It is also consolidating its services and products to provide a one stop shop experience for its customers and stakeholders.

The Service marches towards 2017/2018 with renewed optimism following the operationalization of the Forest conservation and management act 2016 which provides a number of opportunities for increasing the forest cover while generating more revenues for the Service.

  
Mr. Emilio Mugo.  
Chief Conservator of Forests

## VI. CORPORATE GOVERNANCE STATEMENT

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

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

### General Responsibilities

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

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

### Specific Responsibilities

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

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

- Assess corporate performance through external evaluations
- Manage, protect and enhance KFS's reputation
- Ensure an efficient and effective functioning Board

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

#### Directors' remuneration

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

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

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

#### Risk Management and Internal Controls

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

#### Corporate Social Sustainability

The Service has put in place a corporate social responsibility strategy to better address its corporate social sustainability initiatives. Consequently, it has adopted a structured approach to social sustainability issues as part of its corporate plan. The Services' initiatives for the focal period are outlined in the corporate social responsibility statement.

### Board Committees

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

### Conflicts of interest

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

### Compliance

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



Mr. Peter Kinyua  
Chair, Board of Directors

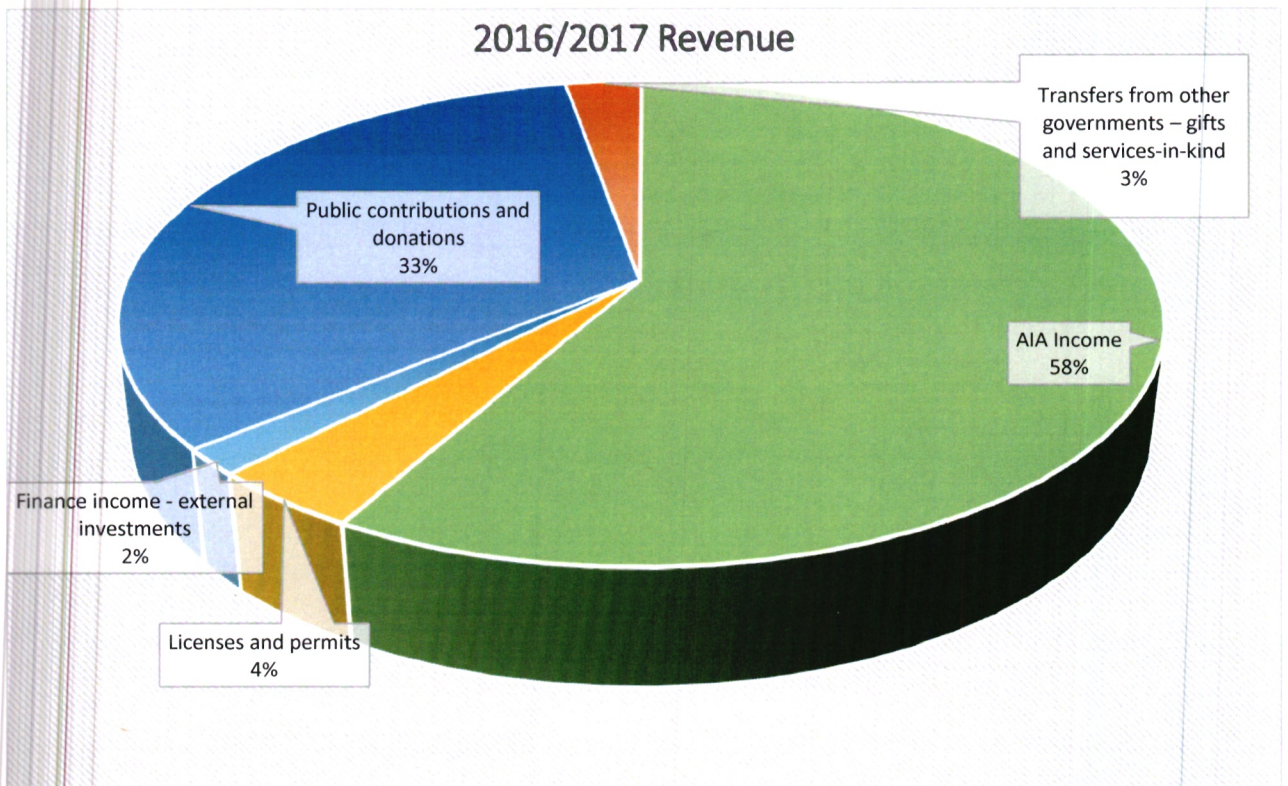
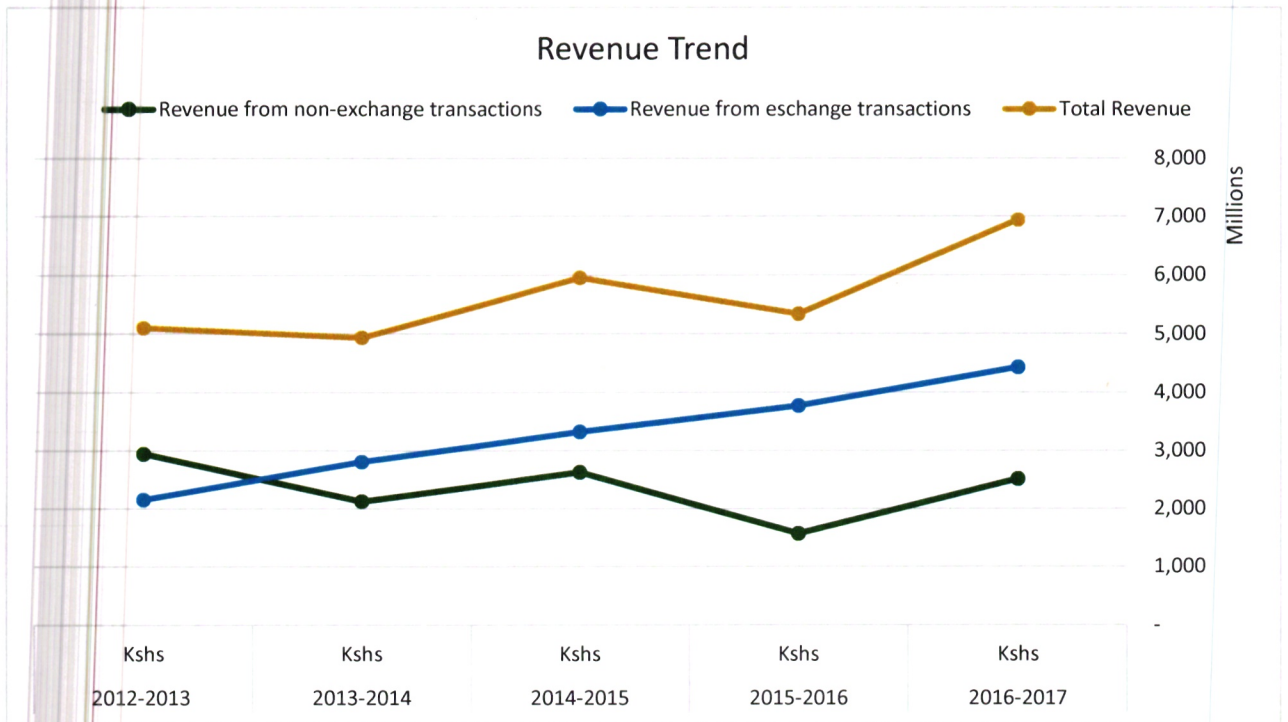


Mr. Emilio Mugo  
Director

## VII. MANAGEMENT DISCUSSION AND ANALYSIS

### FIVE YEAR FINANCIAL PERFORMANCE

	2016-2017	2015-2016	2014-2015	2013-2014	2012-2013
	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
<b>Revenue from non-exchange transactions</b>					
Public contributions and donations	2,313,914	1,547,754	2,168,503	1,626,876	1,847,041
Transfers from other governments - gifts and services-in-kind	194,149	18,728	451,133	492,990	1,094,774
Fines, penalties and levies	1,901	1,465	3,183	1,501	0
	<b>2,509,964</b>	<b>1,567,947</b>	<b>2,622,819</b>	<b>2,121,367</b>	<b>2,941,815</b>
<b>Revenue from exchange transactions</b>					
AIA Income	4,021,549	3,349,466	2,997,926	2,460,466	2,023,114
Licenses and permits	282,562	272,246	257,262	257,717	0
Finance income - external investments	121,299	143,473	67,000	87,720	131,188
Other income	(160)	50	0	0	0
	<b>4,425,250</b>	<b>3,765,235</b>	<b>3,322,188</b>	<b>2,805,903</b>	<b>2,154,302</b>
<b>Total revenue</b>	<b>6,935,214</b>	<b>5,333,182</b>	<b>5,945,007</b>	<b>4,927,270</b>	<b>5,096,117</b>
<b>Expenses</b>					
Employee costs	4,302,539	3,862,421	3,574,811	3,430,105	3,011,067
Use of goods and services	26,707	24,254	25,514	19,208	0
Remuneration of directors	31,904	30,720	7,736	7,225	21,309
Depreciation and amortization expense	296,533	342,999	372,671	479,379	216,785
Repairs and maintenance	321,944	275,945	286,088	316,192	0
Contracted services	55,900	47,244	74,479	122,915	0
Grants and subsidies	720	10,609	17,607	19,640	0
General expenses	1,382,816	1,415,440	1,186,022	1,162,859	1,958,604
<b>Total expenses</b>	<b>6,419,063</b>	<b>6,009,632</b>	<b>5,544,928</b>	<b>5,557,523</b>	<b>5,209,650</b>
<b>Surplus/(Deficit)</b>	<b>516,151</b>	<b>(676,450)</b>	<b>400,079</b>	<b>(630,253)</b>	<b>(113,533)</b>



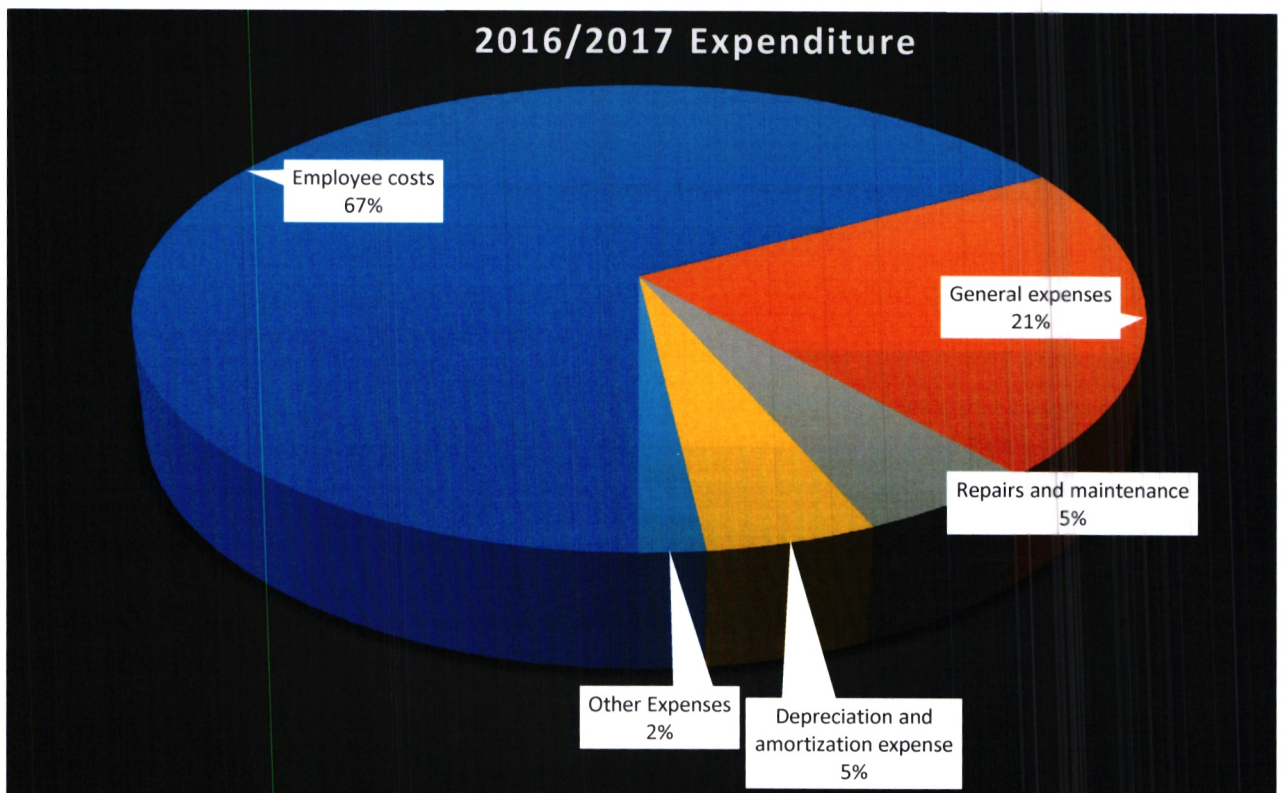
**Kenya Forest Service  
Annual Report and Financial Statements  
For the year ended June 30, 2017**

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There was an increase of revenues from all streams from 2015/16 to 2016/17 of 30%. Attributed in overall improvement of systems of control.

There was increased government contributions of 29% in 2015/16 to 33% in 2016/17 while the Proportion of Appropriation in Aid in revenue contribution decreased from 63% in 2015/16 to 58% in 2016/17.

There was Sharp increase in transfer from other government i.e. Donors from 0.03% in 2015/16 to 3% in 2016/17.

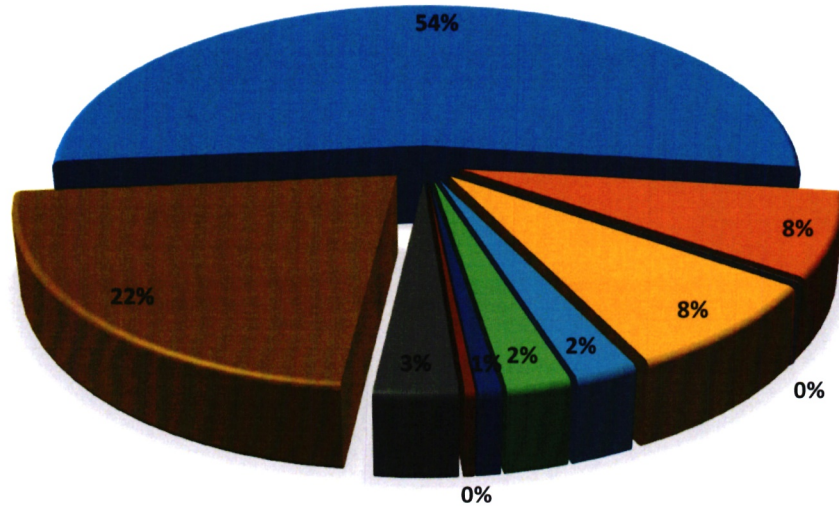


The overall expenditure variance from 2015/16 to 2016/17 was 7% mostly attributed to increased employment costs.

Most of the expenses had insignificance variances except employee's costs which were higher in 2016/17 as compared to 2015/16.

Depreciation costs were higher in 2015/16 as compared to 2016/17. This was mainly attributed to old fleet of motor vehicles.

### PROPERTY PLANT & EQUIPMENT



- Buildings
- Plant and Machinery
- Work in Progress
- Motor Vehicles & Cycles
- Computers & ICT Equipment
- Office Furniture
- Office & Household Equipment
- Tools & Minor Equipment
- Roads, Boreholes & Civil Works
- Aircraft & hoppers

## VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Some of the Corporate Social Responsibilities that the Service undertook in the year 2016/2017

### Tree planting activities

There were tree planting activities and partnerships as follows

1. Korea -Kenya tree planting partnership
2. National Commission for Science, Technology and Innovation
3. Planting by the Presidential Escort Unit
4. Planted with the United Kenya Club
5. Planted with the Retirement Benefits Authority
6. African Banking Corporation
7. Tree planting by the Israel embassy

### Marathons

Kenya Forest Service participated at the following marathons:

1. Mau-Egerton marathon
2. Kakamega Marathon
3. Ndakaini Half marathon
4. Annual Chumususu dam marathon
5. Lari Marathon

### Kenya Forest Service Choir CSR activities

**1<sup>st</sup> June 2017**

Attended and participated at the Madaraka Day celebrations in Kisumu

**March-April 2017**

Attended to charity works in Malindi Kilifi County. (Visiting St Francis Rehabilitation Project and Childrens Remand Home)

**December 2016**

Participated in the Jamhuri Day Celebrations on 12<sup>th</sup> December, 2017 in Mombasa through Permanent Presidential Music Commission (PPMC)

Visiting and donating items at Mji wa Salama Childrens Home in Mombasa and at Little Sisters of the Poor (Nyumba Ya Wazee)

**August 2016**

Visited Central Highlands and Eastern Conservancies: The choir conducted donations at; Hope and Victory Childrens Home, Jerusha Mwiraria Childrens Home and Clovers Childrens Home.

## IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the Kenya Forest Service affairs.

### Principal activities

The principal activities of the Service continue to be;

- i. Conserve natural forest for provision of environmental goods and services.
- ii. Develop and manage public forest plantations for wealth and employment creation.
- iii. Increase forest cover outside the public forest areas
- iv. Protect and secure Public forests and other corporate assets.
- v. Strengthen capacity for efficient utilization of resources and effective service delivery.

### Results

The results of the Service for the year ended June 30, 2017 are set out on page 1 to 42.

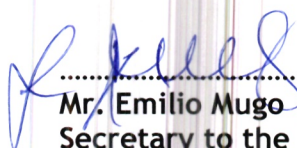
### Directors

The members of the Board of Directors who served during the year are shown on page vii.

### Auditors

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

By Order of the Board

  
.....  
Mr. Emilio Mugo  
Secretary to the Board  
Nairobi

Date: .....  


## X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 26 of the Forest Conservation and Management Act, 2016; section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Kenya Forest Service, which give a true and fair view of the state of affairs of the Kenya Forest Service at the end of the financial year and the operating results of the Service for that year. The Directors are also required to ensure that the Kenya Forest Service keeps proper accounting records which disclose with reasonable accuracy the financial position of the Kenya Forest Service. The Directors are also responsible for safeguarding the assets of the Kenya Forest Service.

The Directors are responsible for the preparation and presentation of financial statements of the Kenya Forest Service, which give a true and fair view of the state of affairs of the Kenya Forest Service for and as at the end of the financial year ended on June 30, 2017. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Kenya Forest Service;
- (iii) Designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Kenya Forest Service;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

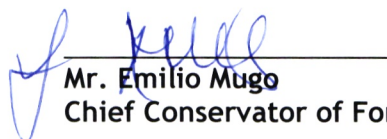
The Directors accept responsibility for the financial statements of Kenya Forest Service, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public-Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The Directors are of the opinion that the financial statements of the Kenya Forest Service give a true and fair view of the state of transactions of Kenya Forest Service during the financial year ended June 30, 2017, and of the financial position of the Kenya Forest Service as at that date. The Directors further confirm the completeness of the accounting records maintained for the Kenya Forest Service, which have been relied upon in the preparation of the financial statements of the Kenya Forest Service as well as the adequacy of the systems of internal financial control. Nothing has come to the attention of the Directors to indicate that the Kenya Forest Service will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The Kenya Forest Service financial statements were approved on 26<sup>th</sup> September 2017 and signed on its behalf by:



Mr. Peter Kinyua  
Chairman, Board of Directors



Mr. Emilio Mugo  
Chief Conservator of Forests

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA FOREST SERVICE FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### **Adverse Opinion**

I have audited the accompanying financial statements of Kenya Forest Service set out on pages 1 to 45, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kenya Forest Service as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

#### **Basis for Adverse Opinion**

##### **1. Accuracy and Completeness of the Financial Statements**

**1.1** The statement of financial performance reflects a surplus of Kshs.516,152,411 while the statement of comparison of budget and actual amounts reflects a balance of Kshs.655,298,513 as at 30 June 2017 resulting in an unreconciled and unexplained difference of Kshs.139,146,102. Further, there was no reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements as required by IPSAS 24.

**1.2** The statement of cash flows reflects a figure of Kshs.294,550,098 (Note 15) for depreciation, while Note 15 reflects a figure of Kshs.296,533,111 resulting in unreconciled difference of Kshs.1,983,013.

**1.3** The Management did not provide supporting schedules for balances of the five listed accounts from where the balances reflected in the financial statements were drawn;

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*Report of the Auditor-General on the Financial Statements of Kenya Forest Services for the year ended 30 June 2017*

No	Particulars	Note No.	Amount Kshs.
1	Refundable deposits from customers	28	13,209,574
2	provisions utilized	29	33,035,637
3	Employee benefits obligations	30	22,381,722
4	Payments received in advance	31	2,709,233
5	Withheld taxes	32	714,131

**1.4** The Management presented financial statements to the Auditor-General for audit within 3 months after the end of the financial year to which they relate to. However, during audit exercise, Kenya Forest Service revised and presented for audit team unsigned financial statements. In addition, financial statements submitted confirmed that the Service did not fully disclose all the prior year audit matters as required by the IPSAS.

Consequently, it has not been possible to confirm the accuracy of the financial statements for the year ended 30 June 2017.

## **2. Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.2,414,669,771 as at 30 June 2017. However, long outstanding receipts in the cash book not in the bank statements for KCB account No. 1106770021 amounting to Kshs.10,824,086 were noted with some dating back to September 2014.

Further, KCB account No. 1106928652, reported payments in the cash book not in the bank statement amounting to Ksh.149,052,070.55 as at 30 June 2017. Audit verification carried out did not reveal subsequent clearance of outstanding payments in the cash book.

Under the circumstances, it has not been possible to confirm the accuracy of the cash and cash equivalents balance of Kshs.2,414,669,771 as at 30 June 2017.

## **3. Plantation**

### **3.1 Omission of Plantation Land**

The statement of financial position reflects plantation balance of Kshs.58,112,352,723 as at 30 June 2017. However, the value of the land on which the plantations grow was not separately disclosed under property, plant and equipment or investment property as required by IPSAS 27 which requires biological assets, other than bearer plants, that are physically attached to the land be measured as biological assets separately from the land. In addition, it is not clear whether the plantations have been treated as investment property, or property, plant and equipment or biological assets. Further, it was observed that the Management did not maintain a detailed register showing the plantations land owned by the Service.

Consequently, the value of plantations of Kshs.58,112,352,723 as at 30 June 2017 could not be confirmed as fairly stated.

### **3.2 Impairment of Plantation**

Note 24 to the financial statements reflects impairment to plantations of Kshs.41,786,050 (2016: Kshs.157,489,380) representing a decrease of 73% or Kshs.115,703,330 from the previous year. However, the impairment has not been recognized as a loss in the statement of financial performance for the year ended 30 June 2017 as required by IPSAS 27.

In addition, the service has not disclosed and or explained the basis (method and assumptions) for the impairment amount as well as the categories and distinction of its biological assets as required by IPSAS 26. Again, no disclosure has been made on changes to the carrying amount of the biological assets. It was not clear if the biological assets were disclosed using fair value measurements as required by IPSAS 27.

Consequently, the total impairment value for plantations amounting to Kshs.41,786,050 as at 30 June 2017 could not be confirmed.

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

- (i) The financial statements as at 30 June 2017 reflects property, plant and equipment balance of Kshs.1,914,476,198 out of which Kshs.1,023,693,578 relates to the value of buildings owned by the Service in various locations. However, contrary to the requirements of IPSAS 17, the land on which these buildings were erected was not valued and disclosed separately.
- (ii) The Kenya Forest Service acquired all the assets of the former forest department including land vide legal notice No.151 of 2008 published in the Kenya Gazette supplement No. 28 of 28 November 2008. However, out of the two hundred sixty-five (265) gazetted forest blocks owned by the Service with an acreage of 2,585,526.44 Ha, only seventy-seven (77) blocks have title deeds while twenty-five (25) other forest blocks are at an advanced stage of title deed acquisition.

Further, an audit review of land documentation availed confirmed that there were ongoing court cases on land ownership between the Service and private parties. It was noted also that there were illegal encroachments and excisions on forest land in various parts of the country of which a total of 555.9 Ha have been illegally acquired by private parties in Kipkabus and Tingwa.

In addition, there are installations in the forest land that are not formally permitted through a license and are operational and some which were licensed but remained unpaid for.

Consequently, it has not been possible to confirm the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.1,914,476,198 reflected in the financial statements.

### **5. Heritage Assets**

Note 23 to the financial statements indicates that the Service has two hundred and sixty-five (265) gazetted forest blocks some of which form part of conservation areas and nature reserves including both the land, the forest and allied forest resources therein and are such

treated as heritage assets as per IPSAS 17. However, the Service did not disclose the specific forest blocks recognized as heritage assets as required by paragraph 9 and 12 of IPSAS 17.

Consequently, the accuracy and completeness of Heritage Assets in the financial statements as at 30 June 2017 cannot be ascertained.

## **6. Receivables from Exchange Transactions**

### **6.1 Inaccurate Disclosure and Presentation of Line Items**

Note 21 to the financial statements, states that receivables from non-exchange transactions 772,149,957 also includes imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year 140,673,505. However, these items have been included as part of revenue from exchange transactions. Further, accounts receivable ledgers were not provided due to inadequacies of Oracle Financial Management System where some previous available reports became obsolete as alleged by Management.

### **6.2 Long Outstanding Receivables**

As similarly reported in 2015/2016 financial year, the receivables from exchange transactions balance of Kshs.772,550,415 (2016 Kshs.496,370,179) as at 30 June 2017 include long outstanding debts of Kshs.159,567,842 out of which debts amounting to Kshs.75,024,727 are largely owed by Government Agencies and Media houses whose transmitters are located within Kenya Forest Services owned sites. The debtors have ignored or refused to pay for the license charges alleging that they make payments to Kenya Broadcasting Corporation. In addition, a review of debtors aging analysis confirmed that some debtors have been outstanding for several years, some since 2010. Further, the receivables balance has increased by Kshs.276,180,236 implying inadequate credit management mechanisms.

In consequence, it has not been possible to confirm the recoverability of the receivables from exchange transactions balance of Kshs.772,550,415 as at 30 June 2017.

## **7. Trade and Other Payables**

The statement of financial position as at 30 June 2017 reported trade and other payables from exchange transactions of Kshs.98,755,113. However, aging analysis, ledgers and documents in support of these payables were not availed for audit review due to inadequacies of Oracle FMS where some previous available reports were alleged to have become obsolete. Further, the nature of the following disclosures in Note 27 to financial statements was not clear:

<b>Particulars</b>	<b>Amount in Kshs.</b>
Employee Liability Account	873,800
Inventory AP Account	8,549,852
Supplies Liability Account	42,934,781
Expense AP Account	37,982,373
<b>Total</b>	<b>90,340,806</b>

In view of the foregoing, it has not been possible to confirm the existence and accuracy of the trade and other payables balance of Kshs.98,755,113 as at 30 June 2017.

## **8. Inappropriate Recognition of Revenue from Non-Exchange Transactions**

The statement of financial performance for the year ended 30 June 2017 reflects revenue from non-exchange transactions of Kshs.2,509,963,563 and surplus for the year of Kshs.516,152,411. The revenue amount of Kshs.2,509,963,563 includes Kshs.194,148,951 reflected as transfers from other governments in Note 7 to the financial statements. Audit review noted that the receipts had related conditions attached that would give rise to a liability to repay the amounts and therefore deferred income would be recognized as required by IPSAS 23. However, the Management has not recognized any deferred income contrary to IPSAS 23, significant accounting policy (a) and Note 7 to the financial statements.

In addition, the statement of changes in net assets for the year ended 30 June 2017 reflects an adjustment of Kshs.1,786,518 made to the revenue reserves which has been described as refunds to different donors after the closure of specific projects in the financial year 2015/2016. Therefore, the donor grants have not been recognized as income over the periods necessary to match them with the related assets which they are intended to compensate on a systematic basis.

In the circumstances, the accuracy of the revenue from non-exchange transactions balance of Kshs.2,509,963,563 and the surplus for the year of Kshs.516, 152,411 for the year ended 30 June 2017 cannot be confirmed.

## **9. Unsupported Appropriations in Aid (AIA)**

Disclosed under Note 9 to the financial statements are proceeds from AIA amounting to Kshs.4,021,549,302. However, there was;

- (i) An unexplained variance between AIA reported at KFS and AIA reported at the Ministry amounting to Kshs.107,679,919 as at 30 June 2017.
- (ii) No budget for each compartment or acreage, or an estimate of harvests and revenue to be generated from each compartment or acreage.
- (iii) No revenue target reports made available for audit, although KFS provided revenue collected per county.
- (iv) unexplained huge drops and increments in the various classes of revenue.

Consequently, it has not been possible to confirm the accuracy and completeness of Appropriation in Aid balance of Kshs.4,021,549,302 for the year ended 30 June 2017.

## **10. Unaccounted for Plantation Harvesting Revenue**

The Kenya Forest Service receives the bulk of its appropriation in aid from its commercial plantations; this arises from royalties awarded to the saw millers from the chief conservator of forests with instructions that no harvesting should take place on any allocations unless the royalty is paid for in full and within 30 days. However, this practice is in contrast to the requirements of the Public Procurement and Asset Disposal Act of 2015 Part IX Section 92 and the previous practice of bidding for forest materials which are deemed to be goods and services as provided.

Further, review of plantation management in Meru Forest confirmed that thirty (30) saw millers were awarded to remove forest materials within the forest compartments and blocks during the financial year under review. However, it was noted that a substantial number of the saw millers. ( see attached schedule) had not paid the royalty in full amounting to Kshs.126,081,805 yet had harvested the forest material. In addition, some of the saw millers' names could also not be traced in the revenue ledgers submitted for audit. Consequently, the revenue due was not accounted for.

## **11. Employee Costs**

### **11.1 Unexplained Employees Costs Variance of Kshs.30,663,010**

Note 12 to the financial statements reflects employee costs of Kshs.4,302,538,881 for the year ended 30 June 2017. This represents an increase of Kshs.440,118,322 from the previous year figure of Kshs.3,862,420,559. However, it was noted that the total number of employees reduced by 108 employees from 5,136 for the year ended 30 June 2016 to 5,028 for the year ended 30 June 2017. The significant increase in employee cost despite the reduction in the number of employees has not been explained. In addition, the ledger schedule availed for audit review reflects a figure of Kshs.4,333,201,891 while the financial statements reflects a figure of Kshs.4,302,538,881 resulting in an unreconciled difference of Kshs.30,663,010.

### **11.2 Gratuity Understated and or unreported**

Employees cost reports gratuity of Kshs.12,357,630 in the prior year and nil balance on the current year. This indicates 100% change on staff gratuity. No explanation was provided to support the huge drop on gratuity payments during the year. Further, there were current staff on contract entitled to gratuity payments. However, no provision for gratuity was provided as short term liability that is due to be settled within 12 months after the reporting date contrary to the requirements of IPSAS 1.

### **11.3 Wrongly Classified and Charged Employee Costs**

Note 19 to financial statements reflects general expenses of Kshs.1,382,815,810 as at 30 June 2017 which includes payments for casual labour of Kshs.269,373,121, staff welfare costs of Kshs.20,618,924 and, staff uniform and clothing of Kshs.40,384,490 all totaling to Kshs.330,376,535. These amounts have wrongly been classified as general expenses instead of employee costs.

### **11.4 Unsupported Instructors Allowance**

Included in the employee costs of Kshs.4,302,538,881 is an amount of Kshs.3,518,244 relating to instructor's allowances. However, no documented and approved rates and work done were provided for audit review to ascertain the validity of the expenditure.

Consequently, it has not been possible to confirm the accuracy and completeness of employee costs balance of Kshs.4,302,538,881 as at 30 June 2017.

## **12. Unsupported and Incomplete Casual Labour Expenditure**

Note 19 to the financial statements reflects general expenses of Kshs.1,382,815,810 which includes payments for casual labour of Kshs.269,373,121 representing a significant increase

of 199% from 2015/2016 balance of Kshs.122,815,899. Audit review of ledgers provided disclosed the casual labour balance of Kshs.269,373,121 excludes casual wage costs from the roads and building units. It was also noted that the casual wages were split into several vouchers when payments were being made. However, no explanation was provided for the split payments nor the muster rolls for work done. There appears to be no proper structures in place by the Service to control the rapid increase in the expenditure.

In consequence, the completeness, validity and accuracy of the casual labour costs of Kshs.269,373,121 could not be ascertained as at 30 June 2017.

### **13. Aircraft Operations Cost**

Kenya Forest Service acquired a caravan aircraft and helicopter to enhance its accessibility to forested areas and other transport related needs. During the year under review, the Service incurred Aircraft operating costs of Kshs.10,053,052 maintenance of aircraft costs of Kshs.22,160,887 and fueling cost of Kshs.7,884,154 all totaling Kshs.40,098,093. Further, the aircraft and helicopter were leased out for private functions and earned the Service Kshs.15,503,509. However, no travel logs of the aircraft and helicopter were provided to indicate the journeys the two had been used for and the rates applied in order to verify the revenue generated.

Consequently, it was not possible to determine whether the aircrafts were being utilized for official duties, the completeness of the revenue earned of Kshs.15,503,509 and validity of the total aircraft costs of Kshs.40,098,093 for the year ended 30 June 2017.

### **14. Board Expenses**

Note 14 to the financial statements reflects remuneration of director's figure of Kshs.31,903,564. However, Board allowance schedules showing aggregated board member allowances and budget amounts were not provided for audit review.

Included in the remuneration of Board figure of Kshs.31,903,564 is an amount of Kshs.7,694,981 which relates to daily subsistence allowances given to senior management to support non-board activities. The amount has been wrongly charged to the remuneration of board expenses.

Consequently, it has not been possible to confirm the accuracy and completeness of the remuneration of directors' balance of Kshs.31, 903,564 as at 30 June 2017

### **15. Unsupported Special Operations Expenditure**

Note 19 to the financial statements reflects special operations expenditure of Kshs.107,868,181. However, during the year under review, this expenditure was incurred on imprests issued to various District Forest Officers and Regional Commandants for purchase of goods and services and also allowances to forest rangers when undertaking their normal duties. In addition, no report was availed to support special activities handled out of the normal duties relating to forest protection.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Forest Service in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI

and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse opinion

### Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the audit of the financial statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
1.	<b>Provisions</b>	
	<p>The statement of financial position reflects provisions for the current year of Kshs.91,899,093 which reduced by Kshs.37,515,637 from Kshs.129,414,730 in the previous year due to an adjustment of Kshs.33,035,636 representing provision of bad debts in previous years but now recovered.</p> <p>We considered this to be a key audit matter since provision involves a lot of judgement. Provisioning is a credit risk management practice that helps an entity to evaluate accounts receivable and to estimate the percentage of bad debt. IPSAS 29 on financial instrument measurement and recognition requires debtor balances significant in size to be tested individually while the other debtor accounts will need to be assessed collectively for impairment. However, the measure of significance is purely a matter of judgment.</p> <p>In KFS provisions were raised and determined by management as an estimate based on the information available. Provisions reported were measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.</p>	<p>The following audit procedures were performed in response to this matter:</p> <p>Reviewed the KFS finance manual to determine whether the entity has established consistent policies, methodologies, and processes for estimating allowances.</p> <ul style="list-style-type: none"> <li>• Comparing current year provision level with prior period at lowest level of detail.</li> <li>• Examined the Minutes of the meeting of the board of directors regarding the provisions to be made.</li> <li>• Verified all provisions are made by debiting the statement of financial performance</li> <li>• Checked that the provisions are utilized only for the purpose for which they are created.</li> </ul>

	<p>There is therefore a risk of bad debts are watered down by the existence of newer debts which obviously carry the same credit risk relating to the debtor. This can result in poor working capital management and cash flow issues.</p>	<ul style="list-style-type: none"> <li>• Verified that all the provisions are properly disclosed in the financial statements.</li> <li>• Inquiring about provision for doubtful debts utilized during the year and appropriate cutoff procedures.</li> </ul>
<p><b>2.</b></p>	<p><b>Valuation and Revenue from Commercial plantations</b></p>	
	<p>Kenya Forest Service maintains commercial tree plantations for sale. The value of public plantation as at 30 June 2017 was Kshs.58,112,352,723 under total area of stocked plantations of 140,000 Ha.</p> <p>We considered this to be a key audit matter since there is public outcry and recent media reports that commercial forest plantations managed by Kenya Forest Service are characterized by poor quality planting materials, delayed re-planting, poor silvicultural and management regime, inefficient harvesting operations, inaccurate forest stocks valuation and disposal process. Significant assumptions made in the estimation of the fair value of the trees in 2017 include:</p> <ol style="list-style-type: none"> <li>The transformation of the un-matured plantations is based on the current age of tree species</li> <li>Cash inflows and outflows accrue evenly throughout the useful life; and</li> <li>15% of the trees planted will not attain maturity due to natural factors.</li> </ol> <p>We also noted public interest on direct allocation process to award forest materials to saw millers which was initiated from 2017. The direct allocation procedure being practiced by KFS is may be prone to corruption and inadequacies.</p> <p>As disclosed in note 9 to the financial statements, revenue from plantations was Kshs.3,595,957,480 which accounted for 52% of the total revenue of Kshs.6,935,374,531. Since there does not exist an active market for arms-length transactions for sale of plantations, it is difficult to estimate the revenue that should be recognized. There is a risk of under-reporting revenue collected.</p>	<ul style="list-style-type: none"> <li>• The following audit procedures were performed in response to this matter:</li> <li>• Reviewed the forest management plans for selected forests to ensure existence</li> <li>• Evaluated management's judgements and assumptions used in determining benefits/sales expected from forest cover and ensured they are appropriate.</li> <li>• Evaluated inventory of seedlings, location, species, size and age as at 30 June 2017.</li> <li>• Requested for summary of areas/plantation where seedlings were planted during financial year 2016/2017</li> <li>• Reviewed reports of plantation harvested during financial year 2016/2017</li> <li>• Obtained a list of saw millers licensed by KFS as at 30 June 2017.</li> <li>• Reviewed the felling plans for selected forest blocks to ensure accuracy.</li> <li>• Reviewed the inventory Computation on volume increment to confirm the volume recorded for the financial year.</li> <li>• Obtained summary of plantation inventory as at 30 June 2017.</li> <li>• Reviewed report of burnt, stolen and depleted plantation</li> </ul>

		<ul style="list-style-type: none"> <li>• Evaluated how valuation of plantation was arrived at as at 30 June 2017.</li> <li>• Analyzed value of plantation impairment as at 30 June 2017.</li> <li>• Performed detailed testing on a sample of revenue earned to supporting documents.</li> <li>• Audit marked verification of KFS plantations and issues raised in the task force regarding various plantation cost centers as a keep in view (KIV) item in 2017/2018 audit.</li> </ul>
<b>3.</b>	<b>Valuation of Forest Land</b>	
	<p>The Kenya Forest Service acquired all assets of the former forest department vide legal notice No.151 of 2008 published in the Kenya Gazette Supplement No. 28 of 28th November 2008. Currently the service has 265 gazetted forest blocks, 77 of which have titles and 25 other blocks totaling 168,725.2 Ha are at an advanced stage of title deed processing. The total acreage of the gazetted forest blocks is 2,585,516.44 Ha. Due to the non-availability in the active, open and orderly market of gazetted forest land, it presents a challenge in valuation the land.</p> <p>We considered this to be a key audit matter since the Service uses forest land in its operations. In addition, although the land is not used for commercial purposes (non-cash-generating asset), it generates income through fees and licenses and extraction of minerals. As such, Parliament and the public may need information on the forest land for decision making on the Service's operational capacity and cost of services.</p> <p>Note 23 to the financial statements indicates that management considers some gazetted forest blocks which form part of conservation areas and nature reserves as heritage assets. According to IPSAS 17, management has to identify an appropriate measurement basis and depreciation method for heritage assets which are highly subjective since they depend on management's best estimates.</p>	<ul style="list-style-type: none"> <li>• Evaluated the service's listing of all the land ownership and total acreage.</li> <li>• Evaluated the land with title deeds.</li> <li>• Evaluated the land whose title deed processing is at an advanced stage or ongoing.</li> <li>• Reviewed whether consideration of forest and allied forest resources treated as heritage assets is sufficient.</li> <li>• Evaluated the resource capacity of the service with a view to establish if they are able to secure their land.</li> </ul>
<b>4.</b>	<b>Information Technology Systems and Controls</b>	

<p>In line with Article 2 of the good governance Charter on creativity and innovation, KFS - Finance department were using the ORACLE (ERP) responsive Ledger software for their day to day duties. The system currently has all Finance modules integrated. KFS also has other IT systems that are not integrated like the GIS, Forest Calc, VIO for monitoring and management of forests and IPPD for the payroll management. From the PPE, over kshs.50m has been invested on ICT physical and Intangible assets as at 30 June, 2017. We considered this to be a key audit matter since oracle system could not show related parties or payee details on expenditure, receivables and payables</p>	<ul style="list-style-type: none"> <li>• Our planned audit approach assumed reliance on the IT Control environment and therefore our audit procedures to address the matter included:</li> <li>• Examining the framework of governance over IT controls, access to programs and data and IT operations, where required;</li> <li>• Assessing and testing the design and operating effectiveness of the controls over the continued integrity of the systems that were relevant to financial accounting and reporting during the year;</li> <li>• Assessment and testing of the general IT control environment, including IT access and segregation of duties, as well as IT dependent controls within critical business processes;</li> <li>• Carrying out direct tests of certain aspects of the security of the IT systems including access management and segregation of duties;</li> <li>• Re-performing selected automated computations and compared our results with those from the systems and the general ledger and trial balance; and</li> <li>• Testing the significant system interfaces to ensure accuracy and completeness of the data transfer.</li> </ul>
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**Other Matter**

**1. Public Participation in Kenya Forest Service Budget Implementation**

Article 201(a) of the Constitution requires that there should be openness and accountability, including public participation in financial matters. Further, Section 36 (3) (d) of the Public Finance Management Act, 2012 provides for public participation in the budget process. There is no evidence of public participation during budget formulation.

## **2. Utilization of Information Technology (IT)**

The financial statement under review indicates the NBV of Computers and ICT Assets as Kshs.35,205,660 and the value of Intangible Assets as Kshs.16,010,070 all totaling Kshs.51,216,070. Interview with staff members confirmed that KFS was still experiencing inadequate IT infrastructure in terms of suitable systems (Software), ICT literate personnel and appropriate devices. The interview further deduced that there was slow adaptation of ICT services despite having invested over Kshs.51M on computerization. The use of Geographical Information System (GIS) is still not effective in the surveillance and monitoring of forests in case of activities such as illegal logging, theft of firewood or forest fires. This is because they are not linked to any devices positioned in the forests for prompt surveillance. GIS is therefore not interfaced with the core object of protecting the forest.

## **3. Procurement Matters**

### **3.1 Procurement and Installation of Asset Tagging, Bar Coding and Management System**

The Kenya Forest Service procured services for the installation of asset tagging, bar coding and management system through Tender No.KFS/06/2016-2017 that was advertised on 19 August 2016. Seven bids were received and after evaluation M/S Crystal Africa Consulting Limited was awarded the tender to provide the services at a tender sum of Kshs.5,393,960.00. However, this was not the lowest evaluated bidder. A review of the documents provided revealed that the lowest evaluated bidder was M/s Elrons Limited that had placed a bid of Kshs.3,662,120 and had met the pass mark on evaluation of 75%. It is not clear why the lowest evaluated bidder was not awarded the tender to supply the Services. As a result of the award, Kenya Forest Service lost Kshs1, 731,840.

### **3.2 Unjustified Cost of Refined Fuels**

Kenya Forest Service has a contract for fuel supplies with Total Kenya and Flamex Petroleum Ltd for provision of fuel for motor vehicles, machineries, aircraft and chopper amounting to Kshs.90,405,946. A review of ledgers provided for audit revealed that the Service continues to issue accountable imprest to DFOs and regional Commandants for purchase of fuel for motor vehicles, in complete disregard to the contract between the Service and Total Kenya Ltd.

### **3.3 Tree Planting**

The Service incurred Kshs.94,893,744 on tree planting and tree seedlings during the financial year. However, a review of expenditure revealed that Kshs.94,893,744 was spent on various items such as daily subsistence allowances (DSA), lunches and publicity among others. Similarly, payment of DSA to casuals under tree planting was noted to be at the rate higher than stipulated rate.

Further, examination of the vouchers revealed that there were no issue notes for the supplied trees seedlings, inspection and acceptance certificates for the tree seedling purchased was not also availed.

Consequently, it was not possible to confirm whether value for money was obtained from this exercise.

#### **4. Road Maintenance**

During the year under review, the Service released Kshs.138,588,781 to Londiani, Eldoret, Nyeri and Kinale road units. However, work plans and activities carried out in the roads units revealed that, road maintenance and improvements were not done based on the work plan available. Further, for activities carried out payments were at a higher cost than what was estimated in the work plan. It was also ascertained that the Service doesn't have specific guidelines to be followed to ensure quality and standards of works done on the roads was appropriate. The costs incurred to purchase building materials for roads were expensed yet the works carried out are capital in nature. Moreover, no photographic evidence on review and inspection of works carried by the casuals was availed.

In addition, payment vouchers raised to pay casuals did not disclose roles or purpose of engagement hence were not clear on how the supervision was completed to ensure that work carried out was according to expectations. Instances of fictitious signatures on the supporting documentations such as (master roll, original/copies of ID attached) were noted. Also, the support documentation (master roll of engaged casuals) could not be matched with the budget requisition. There was no evidence that the human resource department was engaged in hiring the casuals.

#### **5. Recovery of Funds**

An audit review of personal files of officers with disciplinary cases during the financial year 2016/2017 revealed one case involving an officer No. KFS 00618 who failed to comply with guidelines leading to KFS incurring a debt of Kshs.12,012,965 arising from irregular deals with timber merchants. Although it was observed that the officer was surcharged Kshs.1,201,296 being 10% of the loss, no details or explanations were availed to ascertain whether the balance of Kshs.10,811,668.40 was either recovered or being pursued.

#### **6. Additions to Buildings**

During the year under review, the Kenya Forest Service constructed new ranger houses at a cost of Kshs.58,005,856 which was awarded to Mustard Group and Pinnie Agency. A review of documents revealed that there were no completion certificates for rangers' flats in Karura and Nakuru. Although there was a six months' completion period for all the tenders, each of them were further granted at no cost extension period of six months, therefore prolonging the projects delivery periods.

In addition, capitalization of buildings was carried out before end of defects liability period and is therefore erroneously included in the property, plant and equipment balance of Kshs.1,914,476,198

#### **7. Legal and Arbitration**

The financial statements reflects legal and arbitration expenses amounting to Kshs.9,893,272. The audit noted that various lawyers or law firms were engaged to carry out legal services on behalf of KFS. However, it was not clear which selection methods were used to procure the law firms. Further, reports of pending and finalized litigations as at 30 June 2017 were not availed for audit review.

## **8. Outstanding Imprest**

During the year under review, Kenya Water Towers Project advanced imprest totaling Kshs.40, 352,917 to partners in the project and various Ecosystem Conservators. As at the time of the audit, Kshs.27,704,339 or 69% of the total sum has remained outstanding, of this outstanding amount, Kenya Water Towers Agency holds Kshs.9, 479,540. No explanation was provided for the delayed accountability of the advanced imprest by the project partners and Ecosystem Conservators impacting negatively on project implementation and achievements.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Kenya Forest Service ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting.

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

Those charged with governance are responsible for overseeing Kenya Forest Service's financial reporting process.

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

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

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


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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of Kenya Forest Service's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Kenya Forest Service'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 Kenya Forest Service's 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 Kenya Forest Service's 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.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements and internal control of the current period and are therefore the key audit matters. These matters are described in my auditor's report.



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

**Nairobi**

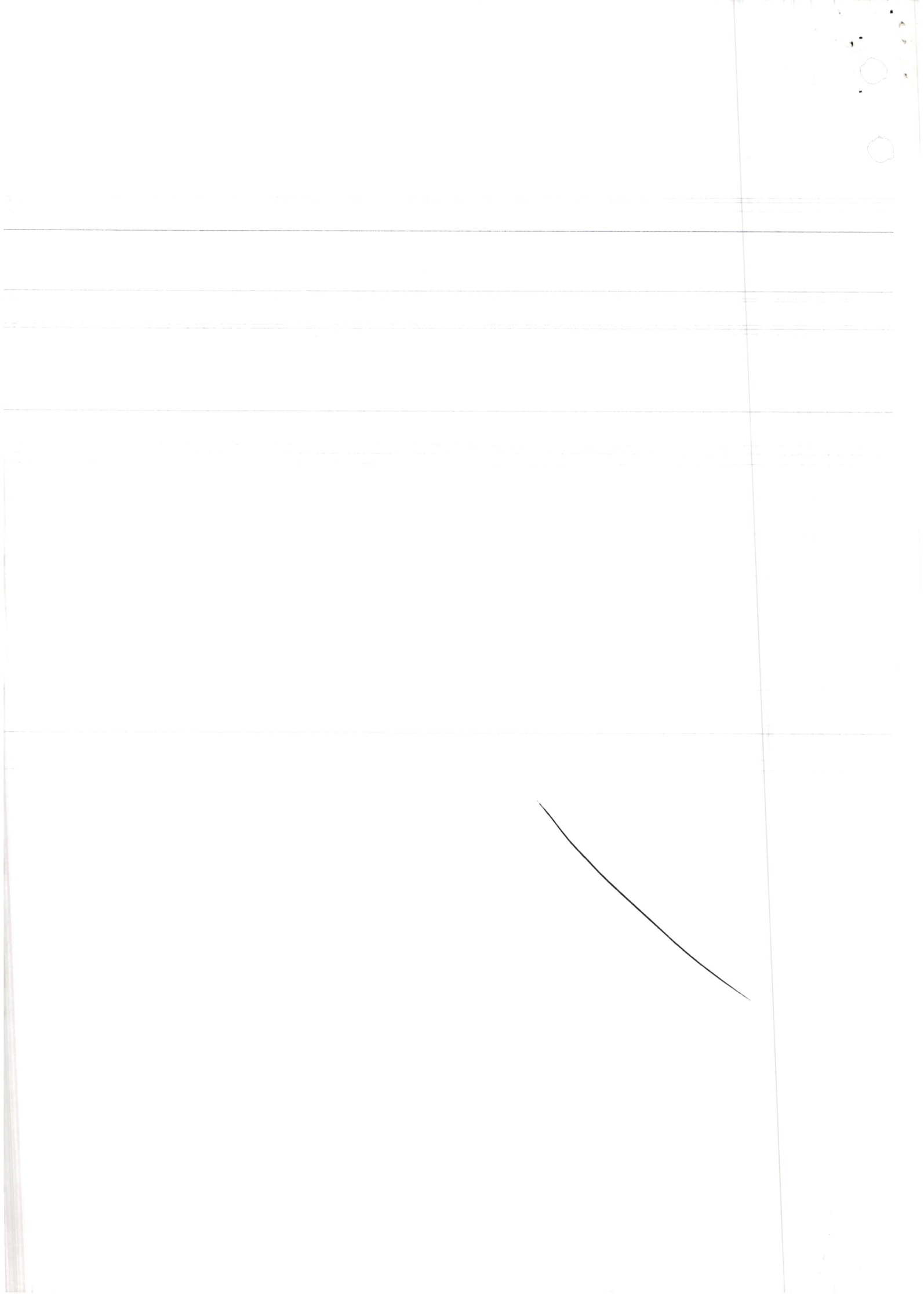
**12 March 2019**

## APPENDIX 7-MERU FOREST BLOCK

SUB-COMPARTMENT	SAW MILLER	AMOUNT	STATUS
Muchene 4H	Benkim Timber	2,523,172	Not traced in the ledgers
Ontuli 4C	Mwangi Kihia	687,803	Not traced in the ledgers
Ontuli 4C	Alpine Sawmill	635,875	Not traced in the ledgers
Ontuli 4C	Namaan Mworja & Sons	801,729	Not traced in the ledgers
Ontuli 4C	Jokiki Saw Mill	700,349	Not traced in the ledgers
Ontuli 4C	Capital Imaging Ltd	961,456	Not traced in the ledgers
Kiangondu 1D	Munjus Timber & Furniture	1,120,161	Not traced in the ledgers
Kiangondu 1C	Kamweru Autoshop	643,426	Not traced in the ledgers
Muchene 4F	Kiirua Sawmill	1,165,065	Not traced in the ledgers
Muchene 4F	Benkim Timber Sawmill	1,165,126	Not traced in the ledgers
Muchene 4F	Alfad Agencies	1,165,084	Not traced in the ledgers
Muchene 4F	Tonbridge Enterprises	1,165,063	Not traced in the ledgers
Muchene 4F	Daraja Fakili Timber Sales	1,161,756	Not traced in the ledgers
Meru 1	Woodtech Sawmills	654,473	Not traced in the ledgers
Meru 1	Oak Timber	311,473	Not traced in the ledgers
Meru 4(s)	Woodtech Sawmill	1,473,554	Not traced in the ledgers
Meru 4(s)	Kamburi Timber Sawmills	1,546,784	Not traced in the ledgers
Muchene 5(A)	Paja Sawmills	2,917,248	Not traced in the ledgers
Muchene 5(A)	Mauro Sawmills	2,917,136	Not traced in the ledgers
Muchene 5(A)	Woodtech Sawmills	2,916,200	Not traced in the ledgers

Muchene 5(A)	Oak Timber	2,917,633	Not traced in the ledgers
Muchene 10(A)	Oak Timber	2,373,499	Not traced in the ledgers
Muchene 10(A)	Woodtech Sawmills	4,097,798	Not traced in the ledgers
Sirimon 2(R)	Oak Timber	1,381,961	Not traced in the ledgers
Sirimon 2(R)	Nyaki Enterprises	2,848,899	Not traced in the ledgers
Sirimon 2(R)	Alpine Sawmill	3,011,900	Not traced in the ledgers
Sirimon 2(U)	Wood Tech Sawmill	2,648,138	Not traced in the ledgers
Ontuli	Mwangi Kihia Sawmill	1,739,485	Not traced in the ledgers
Ontuli	Namaan Mworja & Sons	1,727,300	Not traced in the ledgers
Ontuli	Chanual Sawmills	1,733,816	Not traced in the ledgers
Ontuli 3(K)	Chanua Sawmills	1,247,683	Not traced in the ledgers
Ontuli 3(K)	Wema Timber Manufacturers	1,530,885	Not traced in the ledgers
Muchene 15(i)	Woodtech Sawmills	2,822,902	Not traced in the ledgers
Muchene 15(L)	Kisima Sawmills	2,910,925	Not traced in the ledgers
Muchene 15(L)	Mugambi Mbogori	2,910,286	Not traced in the ledgers
Muchene 15(L)	J.M M'Muriithi Sawmills	3,018,681	Not traced in the ledgers
Sirimon 2(K),2(F),2(V),Ontuli-10(a),1(j),10(B)	Jedan Associates	11,229,686	Not traced in the ledgers
Muchene1(Q),8(G) 13(A),Marimba 1(J)	Wood Tech Sawmills	6,910,552	Not traced in the ledgers
Sirimon2(m),Marania 5(B),Marimba 1(H),Sirimon 2(j),Marania 1(B),Ontuli1(J),Marania 6(B)	Oak Timber	12,736,960	Not traced in the ledgers

Sirimon 2(C), Ontuli 10(C), Ontuli 10(A), Muchene 8(G), Sirimon 2(V), Muchene 13(A), Marania 6(H), 6(B), Ontuli, 10(B)	Chanua Sawmills	23,590,728	Not traced in the ledgers
Kibaranyeki 1(L)	Kanyari Master Sawmills	1,286,002	Not traced in the ledgers
Kibaranyeki 1(L)	Mutethia Sawmills	2,217,949	Not traced in the ledgers
Muchene 3(H)	Mugambi Mbogori	2,555,209	Not traced in the ledgers
	<b>TOTAL</b>	<b>126,081,805</b>	



**XII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017**

	Note	2016-2017 Kshs	2015-2016 Kshs
<b>Revenue from non-exchange transactions</b>			
Public contributions and donations	6	2,313,913,954	1,547,754,020
Transfers from other governments - gifts and services-in-kind	7	194,148,951	18,727,530
Fines, penalties and levies	8	1,900,658	1,464,841
		<b>2,509,963,563</b>	<b>1,567,946,391</b>
<b>Revenue from exchange transactions</b>			
AIA Income	9	4,021,549,302	3,349,465,520
Licenses and permits	10	282,562,436	272,245,578
Finance income - external investments	11	121,299,230	143,473,150
		<b>4,425,410,968</b>	<b>3,765,184,248</b>
<b>Total revenue</b>		<b>6,935,374,531</b>	<b>5,333,130,639</b>
<b>Expenses</b>			
Employee costs	12	4,302,538,881	3,862,420,559
Use of goods and services	13	26,706,999	24,254,370
Remuneration of directors	14	31,903,564	30,719,618
Depreciation and amortization expense	15	296,533,111	342,999,463
Repairs and maintenance	16	321,944,450	275,944,990
Contracted services	17	55,899,800	47,244,404
Grants and subsidies	18	720,000	10,608,879
General expenses	19	1,382,815,810	1,415,439,733
<b>Total expenses</b>		<b>6,419,062,615</b>	<b>6,009,632,015</b>
<b>Other gains/(losses)</b>		-	-
Gain on sale of assets		-	-
Gain on foreign exchange transactions		(159,505)	49,875
<b>Surplus/(Deficit) before tax</b>		<b>516,152,411</b>	<b>(676,451,501)</b>
Taxation		-	-
<b>Surplus/(Deficit) for the period</b>		<b>516,152,411</b>	<b>(676,451,501)</b>
Attributable to:			
<b>Surplus/(Deficit) attributable to owners of the controlling entity</b>		<b>516,152,411</b>	<b>(676,451,501)</b>

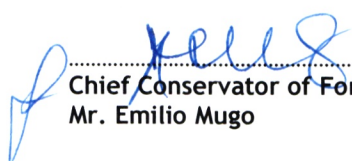
The notes set out on pages 6 to 37 form an integral part of these Financial Statements

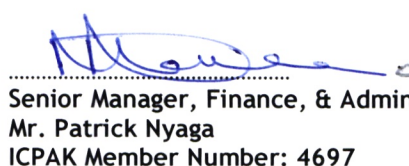
Kenya Forest Service  
Annual Report and Financial Statements  
For the year ended June 30, 2017

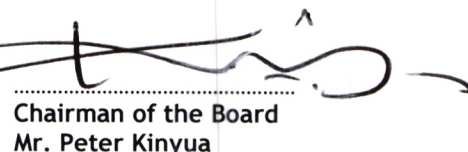
**XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017**

	Note	2016-2017 Kshs	2015-2016 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	20	2,414,669,771	1,964,533,726
Receivables from exchange transactions	22	772,550,415	496,370,179
Receivables from non-exchange transactions	21	140,673,505	116,584,025
		<b>3,327,893,691</b>	<b>2,577,487,930</b>
<b>Non-current assets</b>			
Plantation	24	58,112,352,723	59,240,505,439
Property, plant and equipment	25	1,914,476,198	2,062,526,465
Intangible assets	26	16,010,410	7,263,409
		<b>60,042,839,331</b>	<b>61,310,295,313</b>
<b>Total assets</b>		<b>63,370,733,022</b>	<b>63,887,783,243</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	27	98,755,113	156,716,577
Refundable deposits from customers	28	13,209,574	11,875,146
Provisions	29	91,899,093	129,414,730
Employee benefit obligation	30	22,381,722	18,557,548
Payments received in advance	31	2,709,233	6,071,536
Withheld Taxes	32	714,131	878,877
		<b>229,668,866</b>	<b>323,514,414</b>
<b>Total liabilities</b>		<b>229,668,866</b>	<b>323,514,414</b>
<b>Net assets</b>		<b>63,141,064,156</b>	<b>63,564,268,829</b>
Reserves		62,018,710,379	62,989,316,581
Accumulated surplus		1,122,353,777	574,952,248
<b>Total net assets and liabilities</b>		<b>63,141,064,156</b>	<b>63,564,268,829</b>

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:

  
Chief Conservator of Forests  
Mr. Emilio Mugo

  
Senior Manager, Finance, & Administration  
Mr. Patrick Nyaga  
ICPAK Member Number: 4697

  
Chairman of the Board  
Mr. Peter Kinyua

Date.....

Date.....

Date.....

**XIII. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017**

	Capital Funds	Revenue Reserves	Total
Balance b/f As at 01.07.2015	62,956,791,498	1,286,923,140	64,243,714,638
Adjustment for the year		(35,519,390)	(35,519,390)
Additions for the Year	32,525,083		32,525,083
Surplus/Deficit for the year		(676,451,502)	(676,451,502)
<b>Balance C/F as at 30.06.2016</b>	<b>62,989,316,581</b>	<b>574,952,248</b>	<b>63,564,268,829</b>
Balance b/f As at 01.07.2016	62,989,316,581	574,952,248	63,564,268,829
Adjustment for the year		31,249,118	31,249,118
Additions for the Year	(970,606,202)		(970,606,202)
Surplus/Deficit for the year		516,152,411	516,152,411
<b>Balance C/F as at 30.06.2017</b>	<b>62,018,710,379</b>	<b>1,122,353,777</b>	<b>63,141,064,156</b>

\* The Service creates and maintains reserves in terms of specific requirements. The service classifies its reserves as either capital or revenue in nature. Capital reserve is the replacement development reserve that will help the service to replace assets as they age. Revenue reserve is the accumulated surplus over the years.

\*An adjustment of Kes 1,786,518 has been done on the Revenue Reserves to adjust on the funds refunded to different donors after the closure of specific projects in year 2015-2016. An Extra Kes 33,035,636.73 has been adjust to recognise bad debts provision done in previous years but now recovered.

\*An amount of KSh. 1,128,152,716 relating to the decrease in value of plantation and Ksh. 157,546,514 relating to assets added during the year have been adjusted to the capital reserves.

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**XIV. STATEMENT OF CASH FLOWS AS AT 30 JUNE 2017**

	Note	2016/2017 Kshs.	2015/2016 Kshs.
<b>Cash Flows from operating activities</b>			
Net operating Surplus		516,152,411	(676,119,002)
<b>Adjustment</b>			
Depreciation	15	294,550,098	337,925,292
Net book value Retired		316,669	-
Amortisation of Intangible Assets	26	1,983,013	5,074,172
Increase in Provision for Audit Fees	29	(4,480,000)	4,000,000
Increase in Provision for doubtful debts	29		50,651,235
<b>Net Cash generated from operating activities before Changes in working Capital</b>		<b>808,522,191</b>	<b>(278,468,303)</b>
<b>Changes in Working Capital</b>			
Increase in Trade and other receivables	21, 22, 27, 28, 30, 31,	(300,269,716)	54,384,828
Increase in trade and other payables	32	(56,329,911)	16,424,619
<b>Net Cash generated from operating activities</b>		<b>451,922,564</b>	<b>(207,658,856)</b>
<b>Cash Flows from investing activities</b>			
Sale of investments		-	-
Purchase of fixed assets	25	(157,546,514)	(107,196,292)
<b>Net cash used in investing activities</b>		<b>(157,546,514)</b>	<b>(107,196,292)</b>
<b>Cash Flows from Financing activities</b>			
Development Grants Received	6	157,546,514	107,196,292
Development Grants Refunded		(1,786,518)	(35,851,891)
<b>Net cash used in Financing activities</b>		<b>155,759,996</b>	<b>71,344,401</b>
<b>Net increase in cash &amp; cash equivalents</b>		<b>450,136,045</b>	<b>(243,510,746)</b>
Cash & cash equivalents at the beginning of the period	20	1,964,533,726	2,208,044,472
<b>Cash &amp; cash equivalents at the end of the period</b>		<b>2,414,669,771</b>	<b>1,964,533,726</b>

**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2017**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	
	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Revenue</b>						
Public contributions and donations	3,379,000,000	(903,000,000)	2,476,000,000	2,313,913,954	(162,086,046)	-7%
Transfers from other governments - gifts and services-in-kind	282,000,000	(57,316,000)	224,684,000	194,148,951	(30,535,049)	-14%
Sale of goods	3,200,000,000	314,300,000	3,514,300,000	4,306,012,396	791,712,396	23%
Finance Income	-	-	-	121,299,230	121,299,230	100%
<b>Total income</b>	<b>6,861,000,000</b>	<b>(646,016,000)</b>	<b>6,214,984,000</b>	<b>6,935,374,531</b>	<b>720,390,531</b>	<b>12%</b>
<b>Expenses</b>						
Compensation of employees	4,287,621,615	32,635,652	4,320,257,267	4,302,538,881	17,718,386	0%
Goods and services	2,159,340,722	(596,799,120)	1,562,541,603	1,788,087,059	(225,545,457)	-14%
Board Expenses	31,796,750	-	31,796,750	31,903,564	(106,814)	0%
Acquisition of Assets	382,240,913	(81,852,532)	300,388,380	157,546,514	142,841,866	48%
<b>Total expenditure</b>	<b>6,861,000,000</b>	<b>(646,016,000)</b>	<b>6,214,984,000</b>	<b>6,280,076,018</b>	<b>(65,092,019)</b>	<b>-1%</b>
<b>Surplus for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>655,298,513</b>	<b>785,482,550</b>	<b>100%</b>

**Budget notes**

1. Transfers from other governments had a total negative variation of Kes 30 Million which represents 14% of the projected income. This is due to African Development bank sponsored project which did not start as projected.
2. Sale of Goods had a positive variance of Kes 791 Million representing 23%. This was due to enhanced revenue collection methods like M-pesa.
3. Finance income had a 100% positive variation due to the current agreement with banks where all balances in the bank accounts earn interest.
4. Acquisition of assets had a positive variation of Kes 142 Million representing 48%.
5. The budget adjustment is as a result of the supplementary budget approved by the board.

## XVI. NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Kenya Forest Service is established by and derives its authority and accountability from the Forest conservation and Management Act, 2016. The Service is wholly owned by the Government of Kenya and is domiciled in Kenya. The Service's principal activity is conservation and management of state forests.

### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Service's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Service. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

### 3. ADOPTION OF NEW AND REVISED STANDARDS

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

STANDARD	IMPACT
<b>IPSAS 33:</b> First time adoption of Accrual Basis IPSAS	The Service adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the Service.
<b>IPSAS 34:</b> Separate Financial Statements	The Service does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
<b>IPSAS 35:</b> Consolidated Financial Statements	The Service does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
<b>IPSAS 36:</b> Investments in Associates and Joint Ventures	The Service does not have investments in associates or joint ventures.
<b>IPSAS 37:</b> Joint Arrangements	The Service does not have an interest in a joint arrangement and therefore the standard does not apply.
<b>IPSAS 38:</b> Disclosure of Interests in Other Entities	The Service does not have an interest in other entities and therefore the standard does not apply.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

- ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

<b>STANDARD</b>	<b>EFFECTIVE DATE AND IMPACT:</b>
<b>IPSAS 39:</b> Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> 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.
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019:</b> 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 Service did not early-adopt any new or amended standards in year 2017.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

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

**Public Contributions and Donations**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**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 Service and can be measured reliably.

**Fees, taxes and fines**

The Service recognizes revenues from fees, taxes and fines 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 Service and the fair value of the asset can be measured reliably.

**ii) Revenue from exchange transactions**

***Rendering of services***

The Service 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 Service.

***Interest income***

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

***Rental income***

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**b) Budget information**

The original budget for FY 2016-2017 was approved by the National Assembly on 8<sup>th</sup> June 2016. 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 Service upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Service recorded additional appropriations of Kes. 646,016,000 on the 2016-2017 budget following the governing body's approval.

The Service'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. A comparison of budget and actual amounts 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 schemes adopted for the presentation of the financial statements and the approved budget.

**c) Taxes**

***Current income tax***

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

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

***Deferred tax***

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

***Deferred tax (Cont.)***

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Service and the same taxation authority.

**d) Investment property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Investment property (Cont.)**

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

**e) Plantation**

The service plantations are recognized in the books of account under IPSAS 27 where the fair value of the plantation is based on current quoted market prices and is not adjusted to reflect the actual price in a binding sale contract that provides for delivery at a future date. Fair value is defined as the price that would be received to sell the plantation in an orderly transaction between market participants at the measurement date.

A hybridized approach developed from four methods (Historical cost valuation, Realisation / liquidation value, Net Present Value (NPV) or Net Discounted Revenue (NOR) Value and Transaction based approach) focusing on the fair value of the products from the commercial plantations and the establishment costs is used in the valuation of the service plantations. In this method, plantations are measured on initial recognition and at subsequent reporting dates at fair value less costs to sell. For new & immature plantations where fair value cannot be measured reliably, the establishment cost is applied.

**f) 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 Service 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.

**g) Leases**

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Service. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Service also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Leases (Continued)**

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Service will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

**h) Intangible assets**

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

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

**i) Research and development costs**

The Service expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Service can demonstrate:

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**j) Provisions**

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

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

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

***Contingent liabilities***

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

***Contingent assets***

The Service does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Service 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.

**k) Nature and purpose of reserves**

The Service creates and maintains reserves in terms of specific requirements. The service classifies its reserves as either capital or revenue in nature. Capital reserve is the replacement development reserve that will help the service to replace assets as they age. Revenue reserve is the accumulated surplus over the years. At the close of the financial year, the Service had an accumulated fund of Sixty-three billion, ninety-eight million, forty-five thousand, six hundred and ninety-seven shillings (Kes 63,098,045,697) as compared to Sixty-three billion, five hundred and sixty-four million, two hundred and sixty-eight thousand, eight hundred and twenty-nine shillings (Kes 63,564,268,829) cumulated as at end of 2015/2016 financial year.

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**m) Employee benefits**

**Retirement benefit plans**

The Service provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which the Service pays fixed contributions into a separate Entity (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 in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**n) Foreign currency transactions**

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

**o) Related parties**

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

**p) Cash and cash equivalents**

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

**q) Comparative figures**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Service'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 Service based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Service. Such changes are reflected in the assumptions when they occur. 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 Service
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 29.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

A provision for payment of ongoing contracted professional works in Assets tagging and financial systems upgrade has been made due to the budget considerations.  
*Refer to note 38*

**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, 2017.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**6. Transfers from Government (Public Contributions and Donations)**

These are funds from the exchequer to finance the Services recurrent and development activities in the following core programmes: Natural Forest Conservation and Management, Farm and Dryland Forests Conservation and Management, Plantation, and Enterprise Development.

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
GOK Subventions-Recurrent	1,879,760,468	1,582,950,312
GOK-Development	591,700,000	72,000,000
Less: Grants received for financing activities	(157,546,514)	(107,196,292)
<b>Total public contributions and donations</b>	<b>2,313,913,954</b>	<b>1,547,754,020</b>

**6b) Transfers from Ministries, Departments and Agencies**

Name of the Service Sending the Grant	Amount Recognized to Statement of Comprehensive Income Kes	Amount Deferred Under Deferred Income Kes	Amount Recognised in Capital Fund. Kes	Total Grant Income During the Year Kes	2015-2016 Kes
Ministry of Environment & Natural Resources	2,313,913,954	-	157,546,514	2,471,460,468	1,654,950,312
<b>Total</b>	<b>2,313,913,954</b>	<b>-</b>	<b>157,546,514</b>	<b>2,471,460,468</b>	<b>1,654,950,312</b>

*The details of the reconciliation have been included under appendix XX)*

**7. Transfers from other governments**

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

- Partners donations**

The Service partners with different stakeholders on forest conservation and management. These includes embassies like the Korean Embassy and other corporates who support tree planting in designated areas.

- European Union (WaTER Programme)**

This is a grant from the European Union with an objective to support Kenya eradicate poverty through enhancing the productivity of ecosystem services of Kenya's critical ecosystems and enhance resilience to climate change of her water sources. The purpose is to improve the quality and quantity of ecosystem

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

services provided by Kenya's water towers through increased forest cover, improved landscape and natural resource management, and waste management systems leading to increased benefits to rural communities from forest, agriculture and agro-forestry land use systems.

- **FAO-NFPF**

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

- **GOVERNMENT FINLAND - ICFRA (Metla)**

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

- **Centres for Disease Control (CDC)**

These are funds from the USAID through Centres for Disease control (CDC) that are meant to support Aids Control unit within the service.

- **United Kingdom - Ecometrica Ltd**

These are funds from the United Kingdom through Ecometrica Ltd a space agency firm that are meant to support forestry development in Kenya.

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Partners Donations	14,625,862	8,149,783
FAO-NFPF	800,000	6,656,120
GOVT of FINLAND - ICFRA(Metla)	-	2,790,510
Centres for Decease Control (CDC)	3,214,044	1,131,117
European Union - EU	174,031,114	-
United Kingdom (UK)	1,477,931	-
<b>Total transfers from other governments - gifts and services-in-kind</b>	<b>194,148,951</b>	<b>18,727,530</b>

### 8. Fines and Surcharges

These are penalties levied to uniformed staff on disciplinary cases.

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Fines and Surcharges	1,900,658	1,464,841
<b>Total fines, penalties and levies</b>	<b>1,900,658</b>	<b>1,464,841</b>

### 9. Appropriation in aid

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

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**9. Appropriation in aid (cont'd)**

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Plantations	3,595,957,480	2,664,220,893
Mangrove	5,500,175	5,291,545
Transmission Poles	15,540	255,814
Mangrove Poles	1,808,550	6,447,523
Small Poles	163,220	935,543
Bamboo Stems	397,979	235,548
Professional fees	467,266	1,130,888
Tuition Fees	10,407,732	8,480,150
Boardwalk Fees	70,000	4,000
Water charges-Water easements	9,130,091	8,114,209
Aircraft Usage	15,503,509	5,417,071
Poles	6,413,593	7,887,401
Fuel wood	31,577,528	38,830,141
Quarrying, Soil, Sand	25,159,975	19,380,135
Resin	625,700	1,403,876
Ecotourism sites	265,816	1,868,579
Grazing Fees	31,337,351	32,948,444
Other Forest Incomes	4,872,474	67,279,139
Recreation	23,117,791	6,554,227
Grass	1,992,936	1,446,629
Withies	662,872	591,042
Assessment Fees	-	166,113
Application Fees	1,000	1,000
Accommodation	210,300	152,790
Fallen tree Materials	32,735	6,294,683
Staff Quarters	7,168,368	1,934,583
Leases	76,126,036	259,964,189
Land Rent	133,202,529	172,573,668
PELIS/Shamba Rent/Land Rent	20,653,720	12,971,320
Ground Rent	1,144,967	4,543,319
Bonded Items	922,420	1,228,958
Seedlings & Cuttings	7,146,820	8,397,207
Third Party Commissions	1,710,842	1,728,430
Unapplied Receipts	(159,160)	-
Unidentified Receipts	31,617	-
Other Miscellaneous Receipts	429,780	17,152
Proceeds from Disposal of Assets	7,422,480	-
Sale of Tender Documents	57,270	769,311
<b>Total AiA income</b>	<b>4,021,549,302</b>	<b>3,349,465,520</b>

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**10. Licenses & Permits**

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Movement Permits	244,706,432	235,739,108
Monthly Fuel Licenses	18,125,696	23,829,039
Saw millers Licenses	19,730,308	12,677,431
<b>Total licenses and permits</b>	<b>282,562,436</b>	<b>272,245,578</b>

**11. Finance Income - External Investments**

This relates to interest earned from interest bearing current accounts during the financial year.

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Holding Account Interest-KCB	4,612,109	35,916,567
Holding Account Interest-Equity	37,451,606	8,274
Holding Account Interest - Coop	52,026,947	56,808,387
Holding Account Interest - National Bank of Kenya	27,197,587	50,730,159
Holding Account Interest - NIC	10,981	9,763
<b>Total finance income - external investments</b>	<b>121,299,230</b>	<b>143,473,150</b>

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**12. Employee costs**

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

Description	30-Jun-17	30-Jun-16
<b>Number of Employees</b>	<b>5,028</b>	<b>5,136</b>
Basic Salaries	2,761,746,327	2,480,023,362
Acting Allowance	2,023,016	1,585,317
Transfer Allowance	16,383,724	10,816,093
Commuting Allowance	274,951,295	244,691,224
Hardship Allowance	65,181,288	38,072,208
Medical Allowance	88,612	94,662
Special Duty Allowance	616,282	1,407,639
Leave Allowance	74,556,505	53,740,099
Extraneous Allowance	3,131,216	3,351,267
Telephone Allowance	4,902,258	4,902,313
Refund of Medical Expenses - Ex-Gratia	-	1,187,131
Staff Medical Insurance	309,375,970	298,958,733
House Allowance	365,535,211	331,482,010
Non-Practice Allowance	660,000	660,000
Entertainment Allowance	494,516	365,806
Instructor's Allowance	3,518,244	3,597,713
Uniform Allowance	-	26,916
GPA/GLA	5,144,849	-
Risk Allowance	-	23,100
Contributions to National Social Security	12,410,382	12,403,647
Staff Pension- KFS Contributions	401,819,186	362,673,689
Staff Gratuity	-	12,357,630
<b>Total employee costs</b>	<b>4,302,538,881</b>	<b>3,862,420,559</b>

**13. Use of Goods and Services**

Description	30-Jun-17	30-Jun-16
Electricity	15,479,889	14,612,873
Water and Sewerage Charges	8,337,323	8,121,214
Membership Fees, Dues and Subscriptions	2,889,787	1,520,283
<b>Total goods &amp; services</b>	<b>26,706,999</b>	<b>24,254,370</b>

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**14. Remuneration of Directors**

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Boards and Committees	25,833,789	25,212,654
Board Secretary's Remuneration	6,069,775	5,506,964
<b>Total remuneration of directors</b>	<b>31,903,564</b>	<b>30,719,618</b>

**15. Depreciation and Amortization Expenses**

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Depreciation: Motor Vehicles	108,798,474	145,968,096
Depreciation -Furniture & Fittings	25,099,628	27,117,833
Depreciation - Computers	14,018,061	22,142,634
Depreciation -Air Conditioners, Fans and Heating Equipment	1,629,656	1,341,916
Depreciation - Non-Residential Buildings	51,582,505	46,964,230
Depreciation- Residential Buildings	9,128,005	9,037,376
Depreciation - Roads & Civil works	10,297,954	11,494,399
Depreciation - ICT, Exchanges and Other Communication Equipment	3,213,774	5,464,419
Depreciation - Photocopiers and other Office Equipment	7,151,580	9,457,672
Depreciation - Tools, Spares & Small Equipment	2,479,253	841,830
Depreciation - Power Generators	22,295,035	22,244,970
Depreciation - Perimeter Fences	1,146,603	1,281,687
Depreciation - Household & Institutional Appliances	701,865	651,793
Depreciation - Aircraft & Hoppers	37,840,377	37,840,377
Depreciation - Boreholes	1,150,341	1,150,231
<b>Total depreciation expenses</b>	<b>296,533,111</b>	<b>342,999,463</b>

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16. Repairs & Maintenance

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Maintenance Expenses - Motor Vehicles	60,807,089	77,926,494
Maintenance of Plant, Machinery and Equipment	1,979,676	1,929,468
Maintenance of Office Furniture and Equipment	1,611,432	3,611,620
Maintenance of Buildings - Residential	62,179,026	8,646,381
Maintenance of Buildings and Stations - Non-Residential	25,965,004	21,562,190
Maintenance of Civil Works	4,488,404	34,695,793
Maintenance of Roads	138,588,781	96,531,559
Maintenance of Computers, Software, Network	4,164,151	4,518,463
Maintenance of Aircraft	22,160,887	26,523,022
<b>Total repairs and maintenance</b>	<b>321,944,450</b>	<b>275,944,990</b>

17. Contracted Services

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Contracted Professional Services	53,365,133	30,370,532
Contracted Technical Services	2,534,667	16,873,872
<b>Total contracted services</b>	<b>55,899,800</b>	<b>47,244,404</b>

18. Grants & Subsidies

The service through the WaTER towers project supported partner institutions, Kenya water towers agency, Kenya Wildlife service and Climate Change Directorate with some equipment funded by the EU.

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Capital Grants and Transfers	720,000	5,590,635
Capital Transfers Non-Profit Organization	-	5,018,244
<b>Total grants and subsidies</b>	<b>720,000</b>	<b>10,608,879</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**19. General Expenses**

This comprises of administrative costs as set out below:

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Casual Labour	269,373,121	122,815,899
Staff Welfare Costs	20,618,924	12,373,401
Supplies for Production	-	1,726,450
Telephone, Telex, Facsimile, Computer	9,106,036	12,453,473
Courier and Postal Services	8,504,711	7,805,642
Leased Communication Lines	2,745,875	3,682,627
Supplies of Accessories for Computers & Printers	17,055,077	20,863,870
Travel Costs (airlines, bus, railway, mileage)	4,243,030	7,536,826
Accommodation - Domestic Travel	8,085,900	42,883,299
Daily Subsistence Allowance	202,417,568	206,027,436
Passage and Transfer Expenses	-	61,050
Field Operational Allowance	2,364,200	7,136,213
Travel Cost-International (Overseas)	28,170,163	41,845,988
Publishing and Printing Services	31,036,315	30,141,380
Newspapers, Magazines and Periodicals	911,970	1,329,877
Advertising, Awareness and Publicity Campaigns	14,058,413	21,259,217
Training	76,013,975	113,306,020
Remuneration of Instructors	348,900	-
Production and Printing of Training Materials	376,860	2,227,700
Hire of Training Facilities and Equipment	12,810,410	22,974,812
Training Accommodation Allowance	32,500	-
Group Personal Insurance	24,593,325	27,751,732
Buildings Insurance	2,737,699	2,806,902
Plant, Equipment and Machinery Insurance	1,414,538	1,290,368
Motor Vehicle Insurance	24,991,743	27,174,989
General Insurance	-	5,768
Aircraft Insurance	11,031,748	7,647,620
Fungicides, Insecticides and Sprays	860,202	-
Education and library Supplies	77,440	128,475
Production of photographic and Audio-Visual Materials	92,000	2,160
Paramilitary Small Equipment and Supplies	1,542,800	6,214,950
Laboratory Materials, Supplies and Small	7,550	-
General Office Supplies (papers, pencils etc)	14,983,487	20,471,400
Cleaning Materials, Supplies and Services	3,677,223	5,063,746
Catering services	12,046,203	12,315,577
Refined Fuels and Lubricants for Transport	90,405,946	90,826,341

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Refined Fuels and Lubricants for --Other	250,000	-
Firebreaks	27,847,525	-
Bank Service Commission and Charges	1,559,239	1,952,099
Contracted Guards and Cleaning Services	3,068,556	1,614,684
Forest Conservation Committees Expenses	13,123,426	8,067,346
Legal dues, Arbitration and Compensation Packages	9,893,272	15,890,130
Confidential Expenditures	-	5,200
Special Operations	107,868,181	88,521,443
Write Offs/Bad Debt Expenses	-	50,651,235
Food and Rations	23,820,547	15,490,845
Events and Celebrations	74,190,899	50,417,638
Tree seeds and seedlings.	69,374,850	137,329,532
Supplies for production	29,887,366	51,075,556
Net Book Value Retired	316,669	-
Rounding off Difference Account	-	33,771
Partner Donation Expenses	-	728,162
Seminars and Conferences	48,041,816	613,816
Tree Planting	25,518,894	57,717,289
Land Levies	881,176	-
Aircraft Operating Costs	10,053,052	13,031,960
Staff Uniforms and Clothing	40,384,490	18,348,299
Trainees Uniforms and Clothing	-	19,799,520
Audit Fee	-	4,000,000
<b>Total general expenses</b>	<b>1,382,815,810</b>	<b>1,415,439,733</b>

**20. Cash and Cash Equivalent**

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Cash at bank	2,414,003,647	1,963,879,127
Cash in hand	346,124	334,599
Short term deposits	320,000	320,000
<b>Total cash and cash equivalents</b>	<b>2,414,669,771</b>	<b>1,964,533,726</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**21. Receivables from Exchange Transactions**

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Receivables	756,239,741	479,150,036
Suppliers Prepayments	15,974,474	17,170,143
Safaricom Deposits	50,000	50,000
Aquamist Ltd	286,200	-
<b>Total receivables from exchange transactions</b>	<b>772,550,415</b>	<b>496,370,179</b>

**22. Receivables from Non Exchange Transactions**

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Zonal Control Account - Development	65,539,875	55,960,590
Zonal Control Account Recurrent	31,476,664	27,662,751
Temporary Imprest	35,619,180	23,768,944
Standing Imprest	1,461,164	1,459,164
Salary Advances	6,576,622	7,732,576
Surcharges	-	-
<b>Total receivables from non - exchange transactions</b>	<b>140,673,505</b>	<b>116,584,025</b>

*For the purposes of these financial statements, receivables from non-exchange transactions 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.*

**23. Forest Land**

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

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**24. Commercial plantations**

Kenya Forest Service maintains commercial tree plantations for sale as per the gazetted Field Service General Orders provisions.

The value of public plantation as at 30<sup>th</sup> June 2017 is as under:

Total area of stocked plantations = 140,000 Ha.

Species composition of public plantation forests in Kenya; -

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

M.A.I for the growing species

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

Description	2016-2017	2015-2016
	Kes.	Kes.
Balance c/f as at 1st July	59,240,505,439	59,315,176,647
Add; new stands	257,845,000	258,321,000
	<b>59,498,350,439</b>	<b>59,573,497,647</b>
Less sales	(3,634,160,096)	(2,718,424,476)
Add increase in value due to growth	2,289,948,430	2,542,921,647
Less impairment		
: Poaching	(618,000)	(3,084,000)
: Forest Fires	(20,696,064)	(80,179,492)
: Diseases	(20,471,986)	(74,225,888)
<b>Total Impairment</b>	<b>(41,786,050)</b>	<b>(157,489,380)</b>
<b>Amount Recognized as at 30th June</b>	<b>58,112,352,723</b>	<b>59,240,505,439</b>

Significant assumptions made in the estimation of the fair value of the trees in 2017 include:

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

\*The difference between the value of commercial plantation as at 30th June 2016 and 30th June 2017 of KSh. 1,128,152,716 represent a decrease in the value of the capital base and has since been adjusted in the statement of changes in Net Assets under capital reserves.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**25. PROPERTY, PLANT AND EQUIPMENT**

	Buildings Kes.	Plant and Machinery Kes.	Work in Progress Kes.	Motor Vehicles & Cycles Kes.	Computers & ICT Equipment Kes.	Office Furniture Kes.	Office & Household Equipment Kes.	Tools & Minor Equipment Kes.	Roads, Boreholes & Civil Works Kes.	Aircraft & hoppers Kes.	Totals Kes.
Cost As at 01-07-2015	1,158,784,946	233,676,625	88,916,146	885,990,068	205,677,220	149,995,263	68,012,171	106,036,016	90,962,721	569,028,219	3,557,079,396
Adjustment											-
Total as at 01-07-2015	1,158,784,946	233,676,625	88,916,146	885,990,068	205,677,220	149,995,263	68,012,171	106,036,016	90,962,721	569,028,219	3,557,079,396
Additions (cost)	111,280,551	1,021,220	(88,916,146)	56,909,709	4,708,615	9,675,075	3,813,150	2,436,400	5,475,958	-	106,404,532
Revaluation											-
Cost Adjustment											-
Disposal											-
Total Cost as at 30-06-2016	1,270,065,497	234,697,845	-	942,899,777	210,385,835	159,670,338	71,825,321	108,472,416	96,438,679	569,028,219	3,663,483,928
Accumulated Depreciation Acc. Dep. Adjustment	190,264,626.90	52,683,808.14	-	565,371,700.20	152,647,293.97	69,986,496.63	36,616,278.86	100,734,213.95	19,003,860.70	75,723,891.04	1,263,032,170.39
Total as at 30-06-2015	190,264,627	52,683,808	-	565,371,700	152,647,294	69,986,497	36,616,279	100,734,214	19,003,861	75,723,891	1,263,032,170
Charge for the year	56,001,607	22,244,970	-	145,968,096	22,532,881	27,117,833	11,451,381	841,830	13,926,318	37,840,377	337,925,292
As at 30th June 2016	246,266,234	74,928,778	-	711,339,796	175,180,175	97,104,330	48,067,660	101,576,044	32,930,179	113,564,268	1,600,957,463
<b>NBV 30th June 2016</b>	<b>1,023,799,264</b>	<b>159,769,067</b>	<b>-</b>	<b>231,559,981</b>	<b>35,205,660</b>	<b>62,566,008</b>	<b>23,757,661</b>	<b>6,896,372</b>	<b>63,508,500</b>	<b>455,463,952</b>	<b>2,062,526,465</b>
<b>NBV 30th June 2015</b>	<b>968,520,320</b>	<b>180,992,817</b>	<b>88,916,146</b>	<b>320,618,368</b>	<b>53,029,926</b>	<b>80,008,766</b>	<b>31,395,892</b>	<b>5,301,802</b>	<b>71,958,860</b>	<b>493,304,328</b>	<b>2,294,047,225</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**PROPERTY, PLANT AND EQUIPMENT(cont.)**

	<b>Buildings</b> Kes.	<b>Plant and Machinery</b> Kes.	<b>Work in Progress</b> Kes.	<b>Motor Vehicles &amp; Cycles</b> Kes.	<b>Computers &amp; ICT Equipment</b> Kes.	<b>Office Furniture</b> Kes.	<b>Office &amp; Household Equipment</b> Kes.	<b>Tools &amp; Minor Equipment</b> Kes.	<b>Roads, Boreholes &amp; Civil Works</b> Kes.	<b>Aircraft &amp; hoppers</b> Kes.	<b>Totals</b> Kes.
Cost As at 01-07-2016	1,270,065,497	234,697,845	-	942,899,777	210,385,835	159,670,338	71,825,321	108,472,416	96,438,679	569,028,219	3,663,483,928
Adjustment											-
Total as at 01-07-2016	1,270,065,497	234,697,845	-	942,899,777	210,385,835	159,670,338	71,825,321	108,472,416	96,438,679	569,028,219	3,663,483,928
Additions (cost)	60,604,825	10,094,541	1,228,313	30,588,188	24,424,769	7,252,908	2,376,681	3,157,100	7,089,175	-	146,816,500
Revaluation											-
Cost Adjustment											-
Disposal				(6,333,372)							(6,333,372)
Total Cost as at 30-06-2017	1,330,670,322	244,792,386	1,228,313	967,154,593	234,810,604	166,923,246	74,202,002	111,629,516	103,527,854	569,028,219	3,803,967,055
Accumulated Depreciation	246,266,233.58	74,928,778.12	-	711,339,795.75	175,180,174.93	97,104,329.76	48,067,659.99	101,576,044.07	32,930,178.72	113,564,267.61	1,600,957,464.20
Acc. Dep. Adjustment				(6,016,704)							-
Total as at 30-06-2016	246,266,234	74,928,778	-	705,323,092	175,180,175	97,104,330	48,067,660	101,576,044	32,930,179	113,564,268	1,594,940,760
Charge for the year	60,710,510	22,295,035	-	108,798,474	15,248,821	25,099,628	9,483,101	2,479,253	12,594,898	37,840,377	294,550,097
As at 30th June 2017	306,976,744	97,223,813	-	814,121,566	190,428,996	122,203,958	57,550,761	104,055,297	45,525,077	151,404,645	1,889,490,857
<b>NBV 30th June 2017</b>	<b>1,023,693,578</b>	<b>147,568,573</b>	<b>1,228,313</b>	<b>153,033,027</b>	<b>44,381,608</b>	<b>44,719,288</b>	<b>16,651,241</b>	<b>7,574,219</b>	<b>58,002,777</b>	<b>417,623,574</b>	<b>1,914,476,198</b>
<b>NBV 30th June 2016</b>	<b>1,023,799,264</b>	<b>159,769,067</b>	<b>-</b>	<b>231,559,981</b>	<b>35,205,660</b>	<b>62,566,008</b>	<b>23,757,661</b>	<b>6,896,372</b>	<b>63,508,500</b>	<b>455,463,952</b>	<b>2,062,526,465</b>

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26. Intangible Assets

	30-Jun-17	30-Jun-16
Cost	Kes.	Kes.
At beginning of the year	83,680,170	82,888,410
Additions	10,730,014	791,760
<b>At end of the year</b>	<b>94,410,184</b>	<b>83,680,170</b>
Additions-internal development	-	-
<b>At end of the year</b>	<b>94,410,184</b>	<b>83,680,170</b>
<b>Amortization and impairment</b>		
At beginning of the year	76,416,761	71,342,589
Amortization	1,983,013	5,074,172
<b>At end of the year</b>	<b>78,399,774</b>	<b>76,416,761</b>
Impairment Loss	-	-
<b>At end of the year</b>	<b>78,399,774</b>	<b>76,416,761</b>
<b>Net Book Value(NBV)</b>	<b>16,010,410</b>	<b>7,263,409</b>

27. Trade and other payables from exchange transactions

Description	30-Jun-17	30-Jun-16
	Kes.	Kes.
Employee Liability Account	873,800	65,400
Inventory AP Accrual Account	8,549,852	6,861,466
Expense AP Accrual Account	37,982,373	35,818,508
Suppliers Liability Account	42,934,781	106,391,683
Tricon Works Kenya Ltd-Retention	1,516,987	1,516,987
Thunder Plumbing	1,024,020	1,024,020
Pinnie Agency Limited-Retention	2,225,460	655,533
Balesa Building Contractor-Retention	1	1
Three N International- Retention	1	1
Olegise Inventory Limited-Retention Acct	1,170,671	1,170,671
Mareka Enterprises Limited-Retention Acc	5,056	545,454
Atlas Plumbers & Builders (K) Limited	(0)	2,666,853
Mustard Group	1,043,067	-
Centric Ltd	935,245	-
Intermass Technologies	370,968	-
Jemily Construction Ltd	122,831	-
<b>Total trade and other payables from exchange transactions</b>	<b>98,755,113</b>	<b>156,716,577</b>

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28. Refundable deposits from customer

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Tender Refundable Deposits	346,928	62,500
Performance Bonds	12,862,646	11,812,646
<b>Total refundable deposits from customers</b>	<b>13,209,574</b>	<b>11,875,146</b>

29. Provisions

Description	Provision for Audit Fee Kes	Provision for Doubtful Debts Kes	Total Kes
Balance at the beginning of the year	9,000,000	120,414,730	129,414,730
Additional Provisions	-	-	-
Provision utilised	(4,480,000)	(33,035,637)	(37,515,637)
<b>Total provisions</b>	<b>4,520,000</b>	<b>87,379,093</b>	<b>91,899,093</b>

30. Employee Benefits Obligations

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Net Salary Account	20,047	-
NSSF	400	-
NHIF	40,490	36,040
HELB	27,768	27,732
SAYE	9,140	9,140
Sacco Deductions Account	117,121	450,315
Commercial Banks Deductions	1,004,232	246,004
Insurance Deductions	717,711	201,364
Hire Purchase Deductions	368,457	352,880
Family Maintainance	51,960	39,960
Training Levy	10,516	10,516
House Rent Utility Charges	4,605,432	1,994,184
Staff Pension Contributions	7,659,530	7,440,495
Staff Gratuity	7,748,918	7,748,918
<b>Total employee benefits obligations</b>	<b>22,381,722</b>	<b>18,557,548</b>

31. Payments Received in Advance

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Imprest Clearing Account	2,709,233	6,071,536
<b>Total advance receipts</b>	<b>2,709,233</b>	<b>6,071,536</b>

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32. Withheld Taxes

Description	30-Jun-17 Kes.	30-Jun-16 Kes.
Income Tax(PAYE)	19,050	-
Value Added Tax	15,898	147,527
Withholding Tax	664,104	680,993
Pay Master General-PAYE	-	35,278
Paymaster General - WCPS	15,079	15,079
<b>Withheld taxes</b>	<b>714,131</b>	<b>878,877</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**33. Financial Risk Management**

The Service's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company'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 company 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 company's financial risk management objectives and policies are detailed below:

**(i) Credit risk**

The Service 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 are net of allowances for doubtful receivables, estimated by the company'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 Service's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount Kes	Fully performing Kes	Past due Kes	Impaired Kes
<b>At 30 June 2017</b>				
Receivables from exchange transactions	772,550,415	612,982,573	159,567,842	-
Receivables from non-exchange transactions	140,673,505	140,673,505	-	-
Bank balances	2,414,003,647	2,414,003,647	-	-
<b>Total</b>	<b>3,327,227,567</b>	<b>3,167,659,725</b>	<b>159,567,842</b>	<b>0</b>
<b>At 30 June 2016</b>				
Receivables from exchange transactions	496,370,179	259,208,358	237,161,821	-
Receivables from non-exchange transactions	116,584,025	116,584,025	-	-
Bank balances	1,963,879,127	1,963,879,127	-	-
<b>Total</b>	<b>2,576,833,331</b>	<b>2,339,671,510</b>	<b>237,161,821</b>	<b>0</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
Financial Risk Management (Continued)

(i) Credit risk (Continued)

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 company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Service has significant concentration of credit risk on amounts due from government institutions.

The board of directors sets the service'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 Service's directors, who have built an appropriate liquidity risk management framework for the management of the Service's short, medium and long-term funding and liquidity management requirements. The Service manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Service 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.

	Up to 1 month KShs	1 - 3 Months KShs	3 - 12 months KShs	Over 1 year KShs	Total KShs
<b>At 30 June 2017</b>					
<b>Financial assets</b>					
Trade receivables	485,941,734	57,733,990	69,306,848	159,567,842	772,550,415
Other receivables and prepayments	140,673,505	-	-	-	140,673,505
Amount due from related parties	-	-	-	-	-
Bank balances and cash deposits	2,414,669,771	-	-	-	2,414,669,771
<b>Total financial assets</b>	<b>3,041,285,010</b>	<b>57,733,990</b>	<b>69,306,848</b>	<b>159,567,842</b>	<b>3,327,893,691</b>
Financial liabilities	(137,769,773)	-	-	-	(137,769,773)
<b>Total financial liabilities</b>	<b>(137,769,773)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(137,769,773)</b>
<b>Net liquidity gap</b>	<b>2,903,515,237</b>	<b>57,733,990</b>	<b>69,306,848</b>	<b>159,567,842</b>	<b>3,190,123,918</b>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)  
Financial Risk Management (Continued)

	Up to 1 month KShs	1 - 3 Months KShs	3 - 12 months KShs	Over 1 year KShs	Total KShs
<b>At 30 June 2016</b>					
<b>Financial assets</b>					
Trade receivables	259,208,358	-	-	237,161,821	496,370,179
Other receivables and prepayments	116,584,025	-	-	-	116,584,025
Amount due from related parties	-	-	-	-	-
Bank balances and cash deposits	1,964,533,726	-	-	-	1,964,533,726
<b>Total financial assets</b>	<b>2,340,326,109</b>	<b>-</b>	<b>-</b>	<b>237,161,821</b>	<b>2,577,487,930</b>
Financial liabilities	(194,099,683)	-	-	-	(194,099,683)
<b>Total financial liabilities</b>	<b>(194,099,683)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(194,099,683)</b>
<b>Net liquidity gap</b>	<b>2,146,226,426</b>	<b>-</b>	<b>-</b>	<b>237,161,821</b>	<b>2,383,388,247</b>

(iii) **Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the Service 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 Service'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 Service 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 Service's exposure to market risks or the manner in which it manages and measures the risk.

**a) Foreign currency risk**

The Service has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other 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 Service's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**Financial Risk Management (Continued)**

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

	Ksh Kes	Other currencies Kes	Total Kes
<b>At 30 June 2017</b>			
Financial assets (investments, cash, debtors)	3,296,323,344	31,570,347	<b>3,327,893,691</b>
<b>Liabilities</b>			
Trade and other payables	98,755,113	-	<b>98,755,113</b>
Borrowings	-	-	-
<b>Net foreign currency asset/(liability)</b>	<b>3,197,568,231</b>	<b>31,570,347</b>	<b>3,229,138,578</b>
<b>At 30 June 2016</b>			
Financial assets (investments, cash, debtors)	2,577,487,930		<b>2,577,487,930</b>
<b>Liabilities</b>			
Trade and other payables	156,716,577	-	<b>156,716,577</b>
Borrowings	-	-	-
<b>Net foreign currency asset/(liability)</b>	<b>2,420,771,353</b>	-	<b>2,420,771,353</b>

**b) Interest rate risk**

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

**c) Capital Risk Management**

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

	2016-2017 Kes	2015-2016 Kes
Revenue Reserves	1,122,353,777	574,952,248
Capital reserve	62,018,710,379	62,989,316,581
<b>Total funds</b>	<b>63,141,064,156</b>	<b>63,564,268,829</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**34. Related Party Balances**

**a) Nature of related party relationships**

Entities and other parties related to the Service 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.

The Service is related to;

- i) The National Government;
- ii) The Ministry of Environment & Natural Resources;
- iii) Key management;
- iv) Board of directors;

	Kes.	Kes.
<b>b) Related party transactions</b>		
Transfers from related parties'	2,313,913,954	1,547,754,020
Transfers to related parties	-	-
	<b>2,313,913,954</b>	<b>1,547,754,020</b>
<b>c) Key management remuneration</b>		
Directors'	6,069,775	5,506,964
Key management compensation	68,953,308	
	<b>75,023,083</b>	<b>5,506,964</b>
<b>d) Due from related parties</b>		
Due from Parent Ministry	469,327,157	-
<b>e) Due to related parties</b>		
Due to the parent Ministry	-	-

**35. Contingent assets and contingent liabilities**

CONTINGENT LIABILITIES	2016-2017	2015-2016
	Kes	Kes
Ongoing Contracted Professional Services	20,893,960	-
<b>Total</b>	<b>20,893,960</b>	<b>-</b>

A provision for payment of ongoing contracted professional works in Assets tagging and financial system upgrade has been made due to the budget considerations.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**36. Capital Commitments**

<b>CAPITAL COMMITMENTS</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kes</b>	<b>Kes</b>
Authorised and contracted for System Upgrade	15,500,000	-
<b>Total</b>	<b>15,500,000</b>	<b>-</b>

A provision for payment of ongoing contracted professional works in financial system upgrade has been made due to the budget considerations.

**37. Events after the reporting period**

There were no material adjusting and non- adjusting events after the reporting period.

**38. Ultimate and Holding Service**

The Service is a State Corporation under the Ministry of Environment & Natural Resources. Its ultimate parent is the Government of Kenya.

**39. Currency**

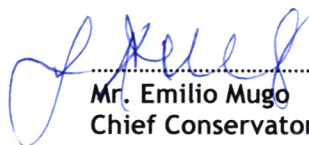
The financial statements are presented in Kenya Shillings (Kes).

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**XVII. 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)
1	Property Plant and Equipment- Exclusion of 188 unvalued parcels of land without title deeds	As previously stated, the service asked for assistance from the Ministry of lands for Valuation of the Gazetted land and got a response advising against the valuation as the land is not available for sale in the open market. A copy of the correspondence from the ministry is attached. The service is also in pursuit of the title deeds with the Ministry of Lands and the process is in different stages for different parcels of land.	Mr. Esau Omolo Senior Deputy Chief Conservator of Forest- Field Operations	Not Resolved	Continuous
2	Receivables from Exchange Transaction	Long outstanding debts by government agencies and Media houses. The service has continued to monitor the debt balances and improved on the debt recovery strategies by creating a debts section within finance department. This has had a positive effect on the recovery of debts and as well, the service continues to make provision for doubtful debt based on their ages.	Mrs. Anastasia Muasya - Manager, Finance and Accounting & Mr. Esau Omolo Senior Deputy Chief Conservator of Forest- Field Operations	Not resolved	Continuous

  
Mr. Emilio Mugo  
Chief Conservator of Forests

Date.....

  
Mr. Peter Kinyua  
Chairman of the Board

Date.....



## XVIII. Appendix 1: PROJECTS IMPLEMENTED BY THE SERVICE

### Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1. WaTER Programme	FED/2016/375-958	European Union (EU)	2016 - 2020	EUR 4,000,000	Yes	Yes
3. Capacity Development for Sustainable Forest Management	5553	JICA	2016 - 2021	KES. 2,700,000,000	Yes	Yes
3. KFS - ZUIA (Zuia Ukimwi Imarisha Afisa) Project	CK-02-9-170-03806-5-00	Centres for Disease Control (CDC)	2014 - 2019	KES. 9,000,000	Yes	Yes

### Status of Projects completion

(Summarise the status of project completion at the end of each quarter, i.e. total costs incurred, stage which the project is etc)

Project	Total project Cost (Kes)	Total expended to date Kes	Completion % to date	Budget Kes	Actual Kes	Sources of funds
1 WaTER Programme	400,000,000	79,671,479	20%	100,000,000	79,671,479	EU
2 Capacity Development for Sustainable Forest Management	2,700,000,000	20,836,234	1%	500,000,000	20,836,234	JICA
3 KFS - ZUIA (Zuia Ukimwi Imarisha Afisa) Project	9,000,000	3,846,901	43%			CDC

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**XIX. Appendix 2: INTER-SERVICE TRANSFERS**

**SERVICE NAME: KENYA FOREST SERVICE**  
Break down of Transfers from the State Department of Environment & Natural Resources

<b>FY 16/17</b>	<b><u>Bank Statement Date</u></b>	<b><u>Amount (Kes)</u></b>	<b><u>FY to which the amounts relate</u></b>
<b>a. Recurrent Grants</b>		<b>Kes</b>	
	6-Jul-16	48,225,840	2015/2016
	7-Oct-16	384,327,157	2016/2017
	18-Nov-16	584,327,157	2016/2017
	18-Apr-17	469,327,157	2016/2017
	4-Jul-17	469,327,157	2016/2017
	<b>Total</b>	<b>1,955,534,468</b>	
<b>b. Development Grants</b>		<b>Kes</b>	
	30-Sep-2016	170,500,000	2016/2017
	6-Jul-2016	14,226,000	2016/2017
	6-Jul-2016	65,000,000	2016/2017
	18-Nov-2016	170,500,000	2016/2017
	12-Apr-2017	85,700,000	2016/2017
	<b>Total</b>	<b>505,926,000</b>	
<b>C. Donor Receipts</b>			
European Union (EU)	10-Jul-2017	174,480,889	2016/2017
Centre for Disease Control (CDC)		2,523,581	2016/2017
	<b>Total</b>	<b>177,004,470</b>	

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The above amounts have been communicated to and reconciled with the Ministry of Environment & Natural Resources as below:



**Kenya Forest Service Hqs  
Karura, Off Kiambu Rd  
P. O. Box 30513 - 00100  
Nairobi, Kenya.**

Ref: No. AIES/1/KFS/309

Date: 22<sup>nd</sup> September 2017

The Principal Secretary  
State Department for Environment  
NHIF Building-Upper hill  
NAIROBI

ATT: Principal Accountant

RE: **CONFIRMATION OF PUBLIC CONTRIBUTION FROM STATE DEPARTMENT OF NATURAL RESOURCES TO KENYA FOREST SERVICE FOR FINANCIAL YEAR 2016/2017**

Kenya Forest Service received Kshs. ~~1,955,534,467.00~~ <sup>127,451,840.00</sup> for Recurrent expenditure during the 2016/2017 financial year from the State Department of Environment Natural Resources as indicated below:-

**DEVELOPMENT FUNDS**

Receipt Date	Receipt Amount	Financial Year
06-Jul-16	14,226,000.00	2015-2016
06-Jul-16	65,000,000.00	2015-2016
<b>TOTAL</b>	<b>79,226,000.00</b>	

**RECURRENT FUNDS**

Receipt Date	Receipt Amount	Financial Year
06-Jul-16	48,225,840.00	2015-2016
<b>TOTAL</b>	<b>48,225,840.00</b>	

This is therefore to request for your concurrence by signing below so as to include the above figure in our financial statement as per the requirement of the Office of the Auditor General (OAG).

A.N. Muasya  
Manager-Finance & Accounting

Head of Accounting Unit  
State Department for Environment

**Trees for better lives**

Tel: (254) 020-3754904/5/6, (254) 020-2014663, (254)020-2020285, Fax: (254)020- 2385374  
Email: info@kenyaforestservice.org, Website: www.kenyaforestservice.org



**Kenya Forest Service  
Annual Report and Financial Statements  
For the year ended June 30, 2017**



**Kenya Forest Service Hqs  
Karura, Off Kiambu Rd  
P. O. Box 30513 - 00100  
Nairobi, Kenya.**

State Department for Natural Resources  
P.O. Box 30513  
751 25 SEP 2017

Ref. No. AIES/1/KFS/308

Date: 22nd September 2017

The Principal Secretary  
State Department for Natural Resources  
NSSF Building-Upper hill  
NAIROBI

ATT: Principal Accountant

**RE: CONFIRMATION OF PUBLIC CONTRIBUTION FROM STATE DEPARTMENT OF NATURAL RESOURCES TO KENYA FOREST SERVICE FOR FINANCIAL YEAR 2016/2017**

Kenya forest service received Kshs.1,955,534,467.00 for Recurrent expenditure during the 2016/2017 financial year from the State Department of Natural Resources as indicated below:-


**DEVELOPMENT FUNDS**

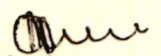
RECEIPT DATE	RECEIPT AMOUNT	FINANCIAL YEAR
30-Sep-16	170,500,000.00	2016-2017
18-Nov-16	170,500,000.00	2016-2017
12-Apr-17	85,700,000.00	2016-2017
	<b>426,700,000.00</b>	

**RECURRENT FUNDS**

RECEIPT DATE	RECEIPT AMOUNT	FINANCIAL YEAR
07-Oct-16	384,327,157.00	2016-2017
18-Nov-16	584,327,157.00	2016-2017
18-Apr-17	469,327,156.50	2016-2017
04-Jul-17	469,327,157.00	2016-2017
	<b>1,907,308,627.50</b>	

This is therefore to request for your concurrence by signing below so as to include the above figure in our financial statement as per the requirement of the Office of the Auditor General (OAG).

  
A.N. Muasya  
Manager-Finance & Accounting

  
Head of Accounting Unit  
Statement Depart. of Natural Resources

**Trees for better lives**

Tel: (254) 020-3754904/5/6, (254) 020-2014663, (254)020-2020285, Fax: (254)020- 2385374  
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**XX. Appendix 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

NAME OF THE MDA/DONOR TRANSFERRING THE FUNDS	DATE RECEIVED	Nature: Recurrent/ Development /Others	WHERE RECORDED/RECOGNIZED						Total Transfers during the Year Kes
			Total Amount - Kes	Statement of Financial Performance Kes	Capital Fund Kes	Defer red Inco me Kes	Receivables Kes	Others - must be specific Kes	
Ministry of Environment & Natural Resource	6-Jul-2016	Recurrent	48,225,840	2,313,913,954	157,546,514	-	-	-	2,471,460,468
	7-Oct-2016	Recurrent	384,327,157						
	18-Nov-2016	Recurrent	584,327,157						
	18-Apr-2017	Recurrent	469,327,157						
	4-Jul-17	Recurrent	469,327,157						
	30-Sep-2016	Development	170,500,000						
	6-Jul-2016	Development	14,226,000						
	6-Jul-2016	Development	65,000,000						
	18-Nov-2016	Development	180,500,000						
	12-Apr-2017	Development	85,700,000						
<b>Total</b>			<b>2,471,460,468</b>	<b>2,313,913,954</b>	<b>157,546,514</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,471,460,468</b>
European Union	10-Jul-2017	Donor Fund	174,480,889	174,480,889	-	-	-	-	174,480,889
Centre for Disease Control (CDC)		Donor Fund	580,168	580,168	-	-	-	-	580,168
	26-Oct-2016	Donor Fund	632,935	632,935	-	-	-	-	632,935
	13-Jan-2017	Donor Fund	1,310,478	1,310,478	-	-	-	-	1,310,478
<b>Total</b>			<b>2,648,464,938</b>	<b>2,490,918,424</b>	<b>157,546,514</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,648,464,938</b>

