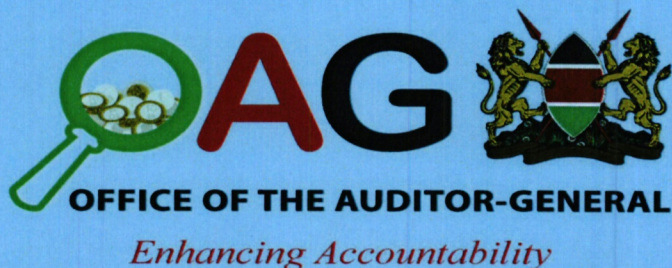


REPUBLIC OF KENYA



REPORT

**THE NATIONAL ASSEMBLY
PAPERS LAID**

DATE: 24 NOV 2021

**DAY:
WED**

OF

**TABLED
BY:**

L.O.M

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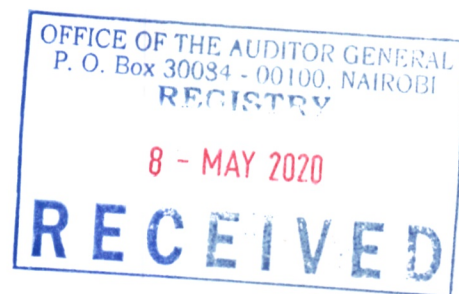
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THE AUDITOR-GENERAL

ON

**KENYA AGRICULTURAL AND LIVESTOCK
RESEARCH ORGANIZATION**

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



**KENYA AGRICULTURAL AND LIVESTOCK RESEARCH
ORGANIZATION
(KALRO)**

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public
Sector Accounting

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ABBREVIATIONS

AIA	Appropriation in Aid
AMRI	Agricultural Mechanization Research Institute
APVC	Agricultural Product Value Chains
ASA	American Society of Agronomy
ASAL	Arid and Semi-Arid Lands
BoM	Board of Management
CBPP	Contagious Bovine Pleuro-Pneumonia
CEO	Chief Executive Officer
CNA	Competence Needs Assessment
CS-APP	Climate Smart Agricultural Productivity Project
DUS	Distinctness Uniformity Stability
EAAPP	East African Agricultural Productivity Project
ECF	East Coast Fever
ERP	Enterprise Resource Planning
ESAMI	Eastern and Southern African Management Institute
FFS	Farmer Field Schools
GAP	Good Agricultural Practices
GCHERA	Global Consortium of High Education for Africa
	German Development Agency
GIZ	Gesellschaft für Internationale Zusammenarbeit
HRI	Horticulture Research Institute
ICWES	International Conference of Women Engineers and Sciences
IPSAS	International Public Sector Accounting Standards (IPSAS)
KALRO	Kenya Agricultural and Livestock Research Organization
KARI	Kenya Agricultural Research Institute
KEPHIS	Kenya Plant Health Inspectorate Services
KSCAP	Kenya Climate-Smart Agriculture Project
MNLD	Maize Lethal Necrosis Disease
NPT	National Performance Trials
MoUs	Memorandum of Understandings
MT	Metric Tons
MTP	Medium Term Plan
NACOSTI	National Commission for Science, Technology and Innovation
NPT	National Performance Testing
PCPB	Pest Control Products Board
PPR	Peste des Petits Ruminants
RVF	Rift Valley Fever
SSSEA	Soil Science Society of East Africa
ToTs	Trainer of Trainers
USAID-FtF	United States Agency for International Development - Feed the Future

Our Vision

Excellence in agriculture and livestock research towards transformed livelihoods.

Our Mission

To conduct agricultural research through application of science, technology and innovation to catalyse sustainable growth and development in agriculture and livestock Product Value Chains.

Organization Goal

To contribute to the growth of the agricultural sector through research coordination and regulation; technology and innovation development; and catalyse transfer and utilization of agricultural research outputs.

Our Guiding Core Values

KALRO will be guided by the following core values in its operations:

a) Customer orientation

The central focus of KALRO is to provide timely and responsive demand-driven research interventions aimed at addressing the needs of the customers within the agricultural sector. KALRO will achieve this by maintaining a culture that promotes responsiveness to customer needs.

b) Professionalism

KALRO will uphold high standards of excellence in the provision of services to their customers. One of the hallmarks of excellence is integrity and ethics in all areas of operation. In this regard, KALRO research outputs and recommendations will adhere to the highest standards of scientific rigour, ethics and sound evidence base.

c) Innovativeness

KALRO recognizes the need for innovation in order to be responsive to the agricultural sector challenges. In this regard KALRO commits to develop flexible and integrated solutions in-tandem with the needs of customers and stakeholders.

d) Collaboration

Given the multi-stakeholder interest that the agricultural sector attracts, KALRO is expected to collaborate and forge partnerships for the development of the sector in Kenya and beyond. KALRO will therefore endeavor to create beneficial opportunities for agricultural research and development.

e) Environmental consciousness

KALRO will ensure that the environment is conserved while discharging its mandate.

f) Integrity

KALRO is committed to ethical delivery of its mandate to all stakeholders.

I. KEY ORGANIZATION INFORMATION AND MANAGEMENT

(a) Background information

The Kenya Agricultural and Livestock Research Organization (KALRO) is a State Corporation established under the Kenya Agricultural and Livestock Research Act, No 17 of 2013, with perpetual succession, the power to sue and be sued in its own name and the ability to own and alienate movable and immovable property. The organization is also governed by the provisions of the State Corporations Act, Chapter 446 of the Laws of Kenya, an Act of Parliament providing for control and regulation of state corporations. KALRO falls under the Ministry of Agriculture, Livestock, Fisheries and Irrigation, and is the country's principal national organization responsible for research and technology generation on crops, livestock, soil and water management and their socio-economics.

(b) Principal Activities

The Organization's mandate is to undertake, streamline, coordinate and regulate all aspects of research in agriculture and livestock development, and promote the application of the research findings, technologies and innovations. Its mission is to conduct agricultural research through application of science, technology and innovation to catalyze sustainable growth and development in agriculture and livestock product value chains. In pursuit of this mission, KALRO seeks to acquire and contribute knowledge and creative solutions that are participatory and client-oriented; holistic and system-oriented; gender-sensitive and affordable to its stakeholders.

(c) Key Management

The organization's day-to-day management is under the following:

1. Director General
2. Deputy Director General (Livestock)
3. Deputy Director General (Crops)

(d) Fiduciary Management

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

No.	Designation	Name
1	Director General	Dr. Eliud K. Kireger
2	Deputy Director General-Livestock	Dr. Joseph Mureithi
3	Deputy Director General -Crops	Dr. Felister Makini
4	Director, Livestock Systems	Dr. Foustine Wandera
5	Director, Socio-Economics & Policy Development	Dr. Festus Murithi
6	Director, Knowledge Management.	Dr. Jack Ouda
7	Director, Crops Systems	Dr. Lusike Wasilwa
8	Director, Natural Resources Management	Dr. David Kamau
9	Director, Partnership & Business Development	Dr. Monicah Waiganjo

No.	Designation	Name
10	Director, Planning & Performance Contract	Dr. Joseph Kimemia
11	Director, Human Resources & Administration	Mr. Sammy Ndei
12	Director, Finance & Accounts	Mr. David Muriithi
13	Director, Supply Chain Management	Mr. Stevens Musewe
14	Director, Information Communication and Technology	Mr. Boniface Akuku
15	Director, Internal Audit	Mr. Francis Langat
16	Principal Legal Officer	Ms. Patricia Ngutu

(e) Fiduciary Oversight Arrangements

- Ministry of Agriculture, Livestock, Fisheries and Irrigation
- The National Treasury

(f) Organization Headquarters

Kaptagat Road, Loresho
P. O. Box 57811-00200
Cellphone. 0709 104 000, 0722 206 986/8/ 0733 333 223/4
Email: directorgeneral@kalro.org
Nairobi, Kenya

(g) Organization Bankers

1. Kenya Commercial Bank
P.O. Box 46950-00100
Nairobi
Tel No. 020-2214878,
2. NIC Bank Limited
P.O. Box 44599- 00100
Nairobi.
Tel No. 020-4450882,
3. Co-operative Bank of Kenya Ltd
P O Box 48231 - 00100
Nairobi
Tel No. 020-2776000
4. CFC Stanbic Bank
P.O Box 30550-00100
Nairobi.
Tel No. 020-3268888.
5. National Bank of Kenya
P.O Box 72866-00200
Nairobi.
Tel No.020-2828000.
6. Stanbic Centre. Chiromo Road. Westlands.

PO Box 30550 - 00100.

Nairobi.

Tel: +254 20 3268 888. Credit Cards. +254 20 3268 888/999.

7. Barclays Westend Building,
Off Waiyaki Way.
PO Box 30120 - 00100.
Nairobi.
Tel: +254 (20) 3900000. Cell: +254 (722) 130120. Cell: +254 (732) 130120.

(h) Independent Auditors

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

(i) Principal Legal Adviser

KALRO Legal Office
P.O. Box 57811 – 00200
Cellphone. 0709 104 000, 0722 206 986/8/ 0733 333 223/4
Email: directorgeneral@kalro.org
Nairobi

II. THE BOARD OF MANAGEMENT

Prof. Moses K. Limo, PhD



Prof. Moses Limo is a Professor of Biochemistry in the Department of Biochemistry and Molecular Biology, Egerton University. Holds BSC (First Class Honors), MSc and PhD from the University of Nairobi. He has a Post Graduate Certificate in Bioethics from the University of Pretoria, South Africa.

At Egerton University, he served as Chairman, Department of Biochemistry and Molecular Biology and Director, Graduate School and Baringo Campus. Prior to joining Egerton University, Moses worked as Research Fellow in International Laboratory for Research on Animal Diseases (ILRAD) now ILRI; Postdoctoral Scholar, University of California ,Davis U.S.A and Research Scientist at International Centre for Insect Physiology and Ecology (ICIPE). He also worked as a Visiting Scientist in Animal Disease Research Institute, Ontario, Canada; Institute of Molecular Biology and Biotechnology, Crete, Greece. and Centre for Biotechnology and Bioinformatics, University of Nairobi.

Prof. Limo has over 30 years research and teaching experience in Biochemistry and Biotechnology during which he won research grant awards; supervised and trained Postgraduate Students and has published widely.

He has a wealth of experience in leadership and management having served for several years in Boards/Committees in African Regional Postgraduate Programme in Insect Science and National Biosafety Authority among others. He has trained in Policy formulation; Corporate Governance; Financial management; Audit and Risk management; Transformative leadership and resource mobilization; Culture change and Quality management.

Prof. Limo is appointed Member, Chairman KALRO BoM.

Dr. Michael Wawire



Dr. Wawire is Doctor of Philosophy (Food Science and Postharvest Technology), Jomo-Kenyatta University of Agriculture and Technology (JKUAT), Kenya (Collaboration between Dept. of Food Science and Postharvest Technology at JKUAT, Kenya and Laboratory of Food Technology, *Katholieke Universiteit*, Leuven, Belgium. He also holds a Master of Postharvest and Food Preservation Engineering, *Katholieke Universiteit Leuven* (Belgium) and Complementary Studies in Postharvest and Food Preservation, *Katholieke Universiteit Leuven* (Belgium).

Dr. Wawire has a Bachelor of Science in Food Science and Postharvest Technology, Jomo-Kenyatta University of Agriculture and Technology, (Kenya). He is currently a Lecturer/Researcher at Jomo-Kenyatta University of Agriculture and Technology, Faculty of Agriculture,

Department of Food Science and Technology.

He is appointed Member, KALRO BoM

Dr. Moses Kipng'eno Rugutt (BVM, MSC, PhD, HSC)



Dr Rugutt is currently the Chief Executive Officer/Secretary of the National Commission for Science, Technology and Innovation (NACOSTI). He holds a PhD in Veterinary Medicine from University of Glasgow, a Master of Tropical Veterinary Science at the University of Edinburgh and a Bachelor of Veterinary Medicine from the University of Nairobi. He is a Member of the Pharmacy and Poisons Board and Board of Management of the National Quality Control Laboratory.

He has over 30 years of experience, having served in senior leadership positions at KARI and Ministry of Higher Education Science and Technology.

Dr Rugutt is a member of KALRO BoM.

Mr. Walter Oselu



Mr Oselu is currently Senior Chief Finance Officer, State Department of Livestock. He has over 23 years of service in the Public Service. Worked in various Ministries and grew through the ranks to the current Grade of Senior Chief Finance Officer.

He is a holder of Bachelor of Education (B. Ed) Arts in Business Studies and Economics, University of Nairobi and MBA-Financial Management (First Class Honours), University of Pune-India.

He represents, PS, State Department of Livestock

Mrs. Anne A. Onyango



Mrs. Onyango is currently Agriculture Secretary, State Department for Crops Development. She is a Development Practitioner with over 39 years of experience working for the Government of Kenya in the Ministry of Agriculture, Livestock, Fisheries and Irrigation.

She holds MSc in Agriculture Extension and Rural Development and BSc in Agriculture. She holds Presidential Award – Moran of the Burning Spear 2010 (MBS) for her contribution to Agricultural Development in Kenya.

She represents, PS State Department of Agriculture

Mr. Kimathi Mugambi



Mr Kimathi is currently Senior Chief Finance Officer, National Treasury. He has over 30 years of service in the Public Service. Worked as Finance Officer for 23 years in various Ministries and grew through the ranks to the current Grade of Senior Chief Finance Officer.

He is a holder of Business Accounting and Economics Degree, Kenyatta University, MBA-Finance, University of Wales- Cardiff and Advanced Management Programme Strathmore, Business School

He represents, PS National Treasury

Ms. Scholastica S. Matunge



Ms. Matunge is currently pursuing her PhD in Human Resource at the University of Nairobi. She holds an International Diploma (HR). Mrs. Matunge is a holder of MBA HR Option and BED Arts (Second class honors upper division)

Ms. Matunge is appointed Member, KALRO BoM.

Mr. Elijah K. Nguyo



Mr Nguyo is appointed Member, KALRO BoM.

Mr. Harry G. Mwangi



Mr Mwangi holds a Master of Science in Agriculture (Animal Nutrition) and has attended several managerial training courses both locally and overseas. He has over 27 years of experience working for the Government of Kenya in the Ministry of Agriculture, Livestock, Fisheries and Irrigation with vast experience in agricultural extension systems as well as the National Agriculture Research agenda. He joined the service as a subject matter specialist, Head of Department at the present counties, as well as subject matter specialist at the Provincial level. At the provincial level he headed the Research Liaison Division, where he participated in setting the Agriculture Research Agenda. Currently, he is serving as the Director Agriculture Research and Innovation. He is a member of Animal Production Society of Kenya (APSK) and also serves as a livestock judge in the country. Among his many achievements, is the development of the sheep and goats breeding policy and supplying farmers with sheep and goats breeding stock.

He represents, PS State Department for Agricultural Research

III. MANAGEMENT TEAM

**1. Dr. Eliud K. Kireger-B.Sc.; M.Sc.; PhD, OGW
Director General**



Dr. Eliud Kiplimo Kireger is the Director General/CEO of KALRO. Prior to this appointment, he served as the Managing Director/CEO of the Tea Research Foundation of Kenya. Dr Kireger attained his PhD in Plant Eco-physiology from the University of Wales, (UK), MSc in Genetics and Tree breeding from University of Toronto (Canada) and a BSc in Forestry from Moi University (Kenya). He has trained in Conflict Management and Resolution, Strategic Leadership, Company Directorship and Change Management among others. He was an Appointed Member of the board of management of Kenya Agricultural Research Institute (KARI) where he chaired the Audit Committee.

**2. Dr. Joseph G. Mureithi-B.Sc.; MSc; PhD.
Deputy Director General, Livestock**



He holds a Doctorate degree in Forage Agronomy from Reading University, UK; a Master of Science degree in Grassland Science from the same university and a Bachelor of Science in Agriculture from the University of Nairobi.

Prior to this, he served as the Deputy Director in-charge of the Research and Technology at KARI. Dr. Mureithi has held professional positions in local and international bodies and has received reputable awards from the Soil Science Society of East Africa (SSSEA) and the American Society of Agronomy (ASA).

**3. Dr. Felister W. Makini - B. Sc.; M.Sc.; PhD.
Deputy Director General, Crops**



Dr. Felister Makini holds a BSc in Botany and Chemistry from the University of Nairobi, Kenya and an MSc in Plant Pathology from Georgia State University, USA. She also has a PhD in Plant Pathology from the University of Greenwich, UK and has done several short courses in various fields. Prior to her current position, she worked as the Deputy Director in charge of the Department of Outreach and Partnerships at KARI. Recently together with others she published an operational field guide to innovation platforms as the lead author.

IV. CHAIRMAN'S STATEMENT

In the year under review, the KALRO Board of Management (BoM) ensured that the environment for the implementation of the 1st KALRO Strategic Plan (2017-2021) was created and sustained. In addition, the Board spearheaded the implementation of policies that guided the annual activity planning and milestones of the Organization. Subsequently, a performance contract with the Ministry of Agriculture, Livestock, Fisheries and Irrigation was drawn and we committed ourselves to the achievement of the set targets. I am glad to report that we recorded commendable achievements on the targets for the year. Going forward, the Organization will continue to adopt the Agricultural Productivity Value Chain (APVC) approach for all research programmes and projects.

Investment in fundamental research went up during the year under review. Whereas the extended drought during the period under review negatively affected AIA from sale of farm produce, the Organization realized marginal increase in total AIA. Further relief has been realized with the onset of the implementation of USAID FtF, CS –APP and KSCAP Projects and support from the National Government. The BoM ensured that the Organization's innovation programmes were developed and implemented in collaboration with sector, industry and funding stakeholders. This was and remains important for sustainable investments in research to build technical and operational capabilities for KALRO to play a significant role in developing and disseminating technology and innovations that target both the local and global markets.

Although progress has been made towards the achievement of the Organization's strategic objectives, considerable effort still needs to be built to enhance stakeholder awareness and support for agricultural and livestock research initiatives to generate technology and innovation for enhanced productivity in agriculture. This will ensure improved incomes for farmers and attainment of food and nutrition security. The Organization recognizes the need for continual improvement of internal efficiencies in order to respond to challenges facing the agricultural innovation system promptly, effectively and affordably. Management has been tasked to accelerate plans already underway to address these challenges.

I thank the Government of Kenya, development partners, collaborators, farmers, the KALRO Management and the entire staff for working hard to record these commendable achievements. Let us work even harder for we still owe our beloved nation and the Kenyan people even more for next year.



Mr. Wilfred Chacha Rotich
Chairman, KALRO BoM

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

The KALRO Management remained committed to the ideals of Kenya Vision 2030 in the implementation of the projects planned for the year under review. The activities included research, which is KALRO's core business, staff development and welfare, all of which were meant to provide a good working environment, compensate and motivate staff, develop and maintain facilities in line with the country's research priorities. The research projects undertaken during the year were aligned to the first KALRO Strategic Plan (2017-2021), Government Medium Term Plans (2013-2017), the Agriculture Sector Growth and Transformation Strategy (ASTGS) and the Big Four Agenda. Furthermore, research projects focused on the assessment, validation and development of agricultural technologies identified along the Agricultural Product Value Chains (APVC).

Researchers continued conducting various projects activities with funding mainly from the USAID FtF and other development partners. The Organization managed to achieve A.I.A totaling to over Ksh. 938 Million up from Ksh. 889 Million in 2017/18 largely due to gain on change in fair value of the biological assets. The Management continued to apply the best practices by ensuring that funds allocated to the Institutes were utilized for the programmes and activities for which they had been planned. In this regard, the management committed to the application of Enterprise Resource Planning (ERP) system in Procurement, Financial and Human Resource Management.

A major achievement during the year was the submission of 59 promising lines of different crops to KEPHIS for NPT, including 24 maize clones tolerant to Maize Lethal Necrosis Disease (MLND). In 2018/19 FY, testing of 17,218 soil samples was achieved through collaborative linkages with the Counties and International partners. In addition, the Adaptive Research Programme evaluated 21 pesticides for crop pest management including the Fall Army Worm control.

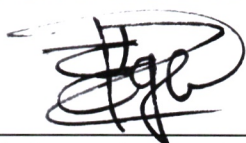
Notable achievements in livestock research included; four (4) vaccines for Contagious Bovine Pleuro-pneumonia (CBPP), Rift Valley Fever, and thermo stable PPR and Camel Mastitis were tested for the third year in the field, and East Coast Fever (ECF) vaccine was rolled out for use by farmers. On research knowledge sharing, over 134 papers from KALRO researchers were published and/or accepted for publication in renowned peer reviewed journals. Another 353 papers were presented in conferences around the world and some 121 technical papers were published with 138 Extension materials developed/updated and availed to users. This offered an opportunity to our researchers to communicate to farmers, the extension workers and other stakeholders on the technologies available. A total of 613 farmer training workshops, field days and demonstrations were held during the period under review.

To ensure that farmers used improved crop varieties and livestock breeds around the country, the Organization produced and sold 2,391 metric tonnes of basic seed and availed to farmers. This also included 2.32 million tea cuttings, 18.35 million coffee seedlings, 15,170 improved coconut seedlings and 22,167 cashew-nut seedlings of improved varieties to enhance crop production. On livestock production side, 136 Breeding Sahiwal bulls and 362,319 indigenous chicks among other technologies were availed to farmers. To ensure availability of quality livestock feed, the Organization tested 1940 feed samples for development of feed rations, produced and availed to farmers 1,338 thousand clean Napier planting materials.

Through the KALRO Training Master Plan, the management continued ensure human resource development by coordinating, monitoring and evaluating staff on PhD and MSc training in both

local and overseas universities as well as identifying potential sponsors for the trainings. KALRO also provided 753 Youth Internships/industrial attachment and Apprenticeships during the period.

On behalf of the Management, I would like to take this opportunity to thank the Government of Kenya and our development partners for the support they accorded to KALRO during the reporting period. This support ensured that the Organization met the set targets leading to a commendable achievement of most of our Performance Contract targets



Eliud Kiplimo Kireger (PhD, OGW)
DIRECTOR GENERAL

VI. CORPORATE GOVERNANCE STATEMENT

Overview

The Kenya Agricultural and Livestock Research (KALR) Act, No 17 of 2013 established the Kenya Agricultural and Livestock Research Organization (KALRO) as a consequence, Kenya Agricultural Research Institute (KARI), Kenya Sugar Research Foundation (KESREF), Tea Research Foundation of Kenya (TRFK) and the Coffee Research Foundation (CRF) were merged. The Organization consists of the Board of Management and a Secretariat which implements Board decisions. The Act further established 16 Research Institutes which focus on different thematic research areas. KALRO complies fully and strictly with all requirements of the regulatory and other non-commercial entities in Kenya including clarity of financial reporting and accountability to the public (citizens and stakeholders) and aims to set best practice standards in agricultural research and fair conduct towards its staff, suppliers and general public.

Organization structure

KALRO is governed by a Board of Management as per the KALR Act No. 17 of 2013, while the day to day management is vested in the Director General who is the secretary to the Board.

The object and function for which the organization is established is to:

- a). Promote, streamline, coordinate and regulate all research in crops, livestock, genetic resources and biotechnology in Kenya;
- b). Promote, streamline, coordinate and regulate research in crops and animal diseases; and
- c). Expedite equitable access to research information, resources and technology and promote the application of the research findings and technology in the field of agriculture.

Appointment of the Board

The Board is appointed pursuant to the provisions of KALR Act No 17 of 2013. The Chairman of the Board is appointed by the President of the Republic of Kenya. Members of the Board are appointed by the Cabinet Secretary, Ministry of Agriculture, Livestock and Fisheries on recommendation of various nominating institutions provided under the KALR Act.

Board Organization and Structures

The composition of the KALRO Board of Management consists of

- a) Chairperson appointed by the President;
- b) The Principal Secretary in the Ministry for the time being responsible for agriculture;
- c) The Principal Secretary in the Ministry for the time being responsible for finance;
- d) The Principal Secretary for the time being responsible for livestock;
- e) The Secretary to the Science Council appointed under paragraph 6 of the Second Schedule to the Science and Technology Act;

- f) Five persons appointed by the Cabinet Secretary, of whom
 - i) One represents the interests of farmers;
 - ii) One shall represent the interest of the general public;
 - iii) One shall be a representative of an institution of higher learning;
 - iv) Two persons co-opted by the Board, who may be non-citizen scientists in the field of agriculture and who possess such knowledge and experience as may be necessary for the better carrying out of the functions of the Board; and
 - v) The Director General appointed in accordance with section 14.

Role of the Board of Management

The Board provides organizational strategic direction and oversight to management as provided in the KALR Act which states that the functions of the Board of Management of KALRO shall be:

- a) Carry out the objects and functions of the Organisation;
- b) Advise the Cabinet Secretary on Matters of policy relating to agricultural research;
- c) Oversee the effective co-ordination of the operations of the Organisation;
- d) Ensure that the activities of the Organisation are consistent with the policy and objectives of the government, and the national priorities relating to agriculture and agricultural research;
- e) Approve, oversee and evaluate on a continuing basis the programs being implemented by the Organization;
- f) Direct strategic research and policy and prioritize and determine the research agenda;
- g) Co-operation with other lead agencies and organizations in carrying out agricultural research;
- h) Development of an economic, efficient and cost effective internal management structure, strategic Annual plan of the Organization;
- i) Implementation and fulfilment of the policies and agreed objectives, performance targets and service standards of the Organization;
- j) Provision of advice as required on all matters within the responsibility of the Organization; and
- k) Perform such other functions as may be necessary for the exercise of its powers under the Act.

Board Meetings

The Board and its Committees' are required to meet not less than four times in any calendar year and not more than four months shall lapse between the date of one meeting and the date of the next meeting. In addition to the regular Board meetings, there may be other special meetings to deal with specific matters. During the financial year under review the KALRO BoM held 5 full board regular meetings.

Other Board information

The KALRO Board of Management is answerable to the Government through the parent Ministry. The board signs a Performance Contract (PC) every financial year with the Government through the same Ministry outlining performance targets in line with the above stated functions. The signed PC is monitored and evaluated periodically and at the end on the contract term.

Board Committees

To effectively discharge its mandate, the Board established committees with specific terms of reference.

The Board appointed into committees, members with requisite skills and competence to discharge allocated responsibilities. In the event that a committee lacked specific skills within its membership, the Board, with the approval of the oversight body, co-opt skilled non-Board members to serve on the committee, provided that the chair of a committee shall not be a co-opted member or the Chairperson of the Board. The Board may, from time to time, rotate Board members between the committees.

The Board remains collectively responsible for the decisions and actions taken by any committee. A committee may only perform the tasks delegated to it by the Board and may not exceed the authority or powers of the Board.

The Chairperson of each committee, in consultation with the Board, determined the frequency of committee meetings as is necessary to fulfill the committee's functions. The Chairperson of each committee, in consultation with management, developed the committee's agenda. The Board however determined the procedure and process within which committees take independent professional advice at the organization's expense.

The committees promptly reported to the Board any actions taken for ratification and any major developments that they become aware of. The Board as set out in the terms of reference of the respective committees, received reports of the committee's findings and actions.

The Board established the following standing committees:-

- i. Audit, Risk and Governance,
- ii. Finance and Administration,
- iii. Research, Technical and Innovation

The Organization may establish any other ad hoc committees to handle any special business. The above committees permit and facilitate more in-depth deliberations on issues that would otherwise, not be possible in a normal full Board Meetings. The Committees undertake preliminary discussions of the business of the board and prepare their resolutions for deliberations and adoption by the full Board Meetings. A decision of any of the Committees only becomes effective after it has been approved and confirmed by the full board.

Communication

The Board receives management reports in advance of all scheduled meetings and in turn formally, communicates to staff through the Director General. Informal communication to staff may be made during Board meetings while in the Organization. Board members cannot commit the Board in any way when having informal communication with staff.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

a) Operational performance

During the Financial Year 2018/19, KALRO implemented various projects and programmes under the Crops and Livestock Research as discussed in detail in the report of the directors. The Programmes were mainly funded through Government grants, Development partners and internally generated funds.

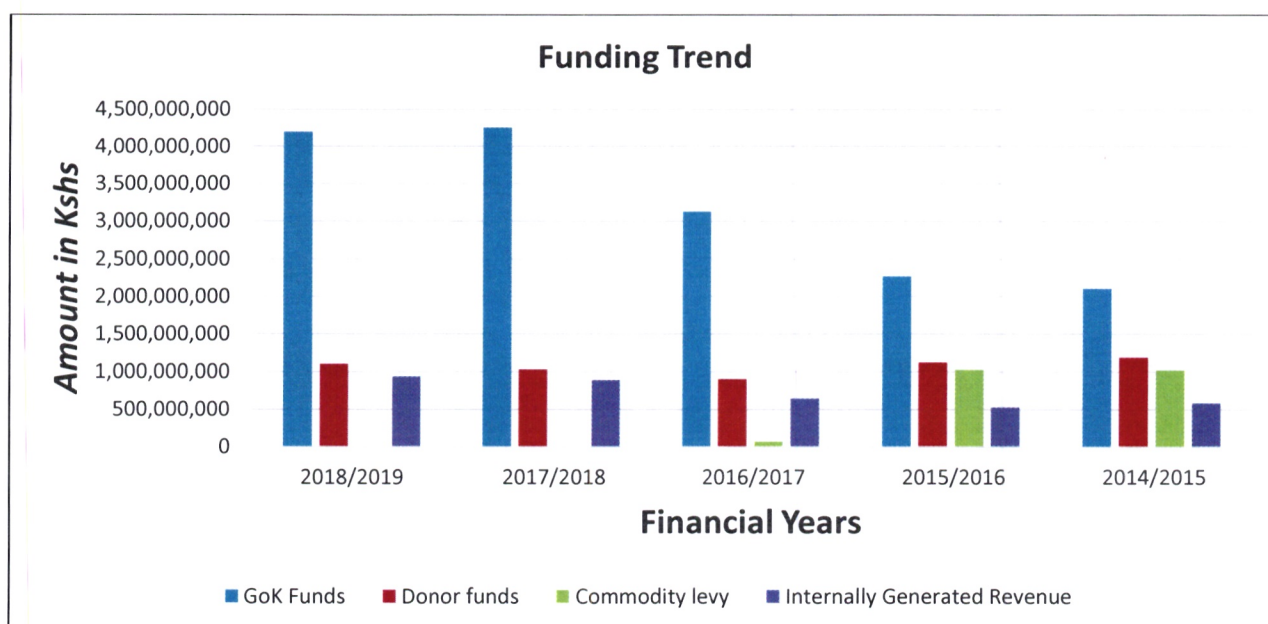
Government grants were mainly used for personnel emoluments, operations and maintenance. Donor funds were used for research technologies in line with partnership agreements. Internally generated funds were used to cater for utility bills and ploughed back to generate revenue

b) Financial performance

i. Funding trends

The following is a summary of the income organization received in the last five years;

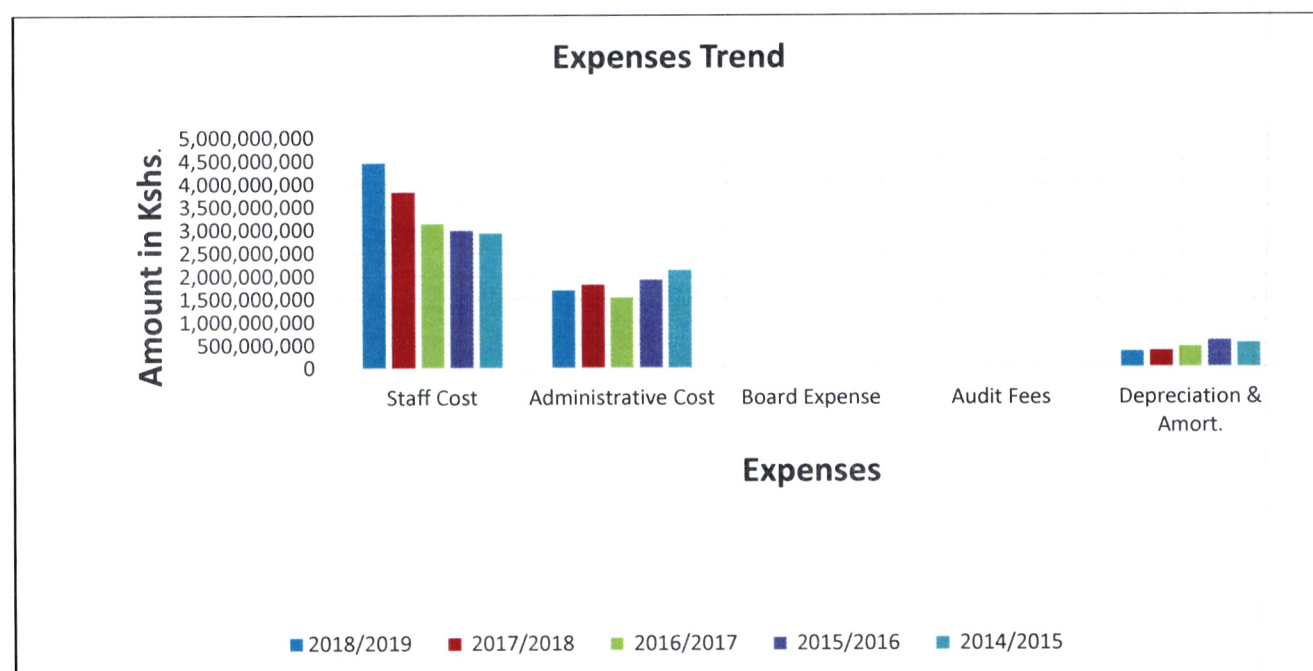
Source of Funds	2018/2019 (Kshs.)	2017/2018 (Kshs.)	2016/2017 (Kshs.)	2015/2016 (Kshs.)	2014/2015 (Kshs.)
GoK Funds	4,199,461,130	4,253,740,000	3,128,261,405	2,267,431,333	2,099,625,000
Donor funds	1,103,777,575	1,028,292,514	901,441,578	1,120,371,629	1,187,868,608
Commodity levy	-	-	73,976,211	1,026,395,079	1,023,232,119
Internally Generated Revenue	938,341,409	888,673,027	646,020,904	529,007,550	581,412,334
Total Revenue	6,241,580,113	6,170,705,540	4,749,700,098	4,943,205,591	4,892,138,061



ii. Expenditure trends

The following is a summary of the expenditure in the last five years;

Expenses	2018/2019 (Kshs.)	2017/2018 (Kshs.)	2016/2017 (Kshs.)	2015/2016 (Kshs.)	2014/2015 (Kshs.)
Staff Costs	4,468,850,596	3,839,385,842	3,145,121,525	2,987,846,387	2,934,253,114
Administrative Costs	1,704,613,365	1,820,038,861	1,543,984,176	1,930,490,838	2,134,784,624
Board Expenses	13,408,978	5,827,027	4,693,830	2,409,366	8,593,043
Audit Fees	3,800,000	6,749,844	6,490,355	7,952,992	3,713,430
Depreciation & Amortization expense	360,221,967	369,254,021	464,166,620	598,811,028	537,816,527
Total	6,550,894,905	6,041,255,595	5,164,456,507	5,527,510,612	5,619,160,739



The staff costs increased during the year under review due to implementation of the harmonized staff salaries as per SRC salary guidelines and approval.

Administrative costs caters for research materials, travelling and accommodation, farm development, fuel and lubricants supplies for production, laboratory materials, utilities cost, repairs and maintenance, contracted services, finance costs, property & staff insurance, purchase of animals & seeds, farmer grants, office running expenses, cafeteria expenses, security expenses, legal dues and provision for bad debts.

Board expenses caters for sitting allowances, travelling and accommodation and honoraria.

c) Compliance with statutory requirements

During the current financial year, KALRO complied with all the statutory requirements and remitted all taxes due in good time. There was no penalty for failure to comply with the statutory requirements.

d) Material arrears in statutory and other financial obligations

During the financial year 2017/18, the Court of Appeal Civil Application No.272 of 2017, Dinesh Construction Vs KESREF case was determined in favour of the claimant and a decretal award of Kshs. 164.621million given. KALRO has partly paid the award and the outstanding amount as at the end of 2018/19 Financial year was Kshs. 83.621million and is recognized in the financial statement as a liability.

Also, KALRO is faced with liability relating to NSSF penalty for the period January 1998 to January 2008 which amounted to Ksh. 206.49million. KALRO continues to pay the obligation and the amount outstanding as at 30th June 2019 was Kshs.69.4 million. This is recognized in the financial statement as a liability.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

KALRO is committed to contribute to the economic development of the country while improving the quality of life of our employees and uplifting the general wellbeing of the society by integrating Corporate Social Responsibilities (CSR) in its values, culture, operations and decisions at all levels.

Kenya Agricultural and Livestock Research Organization has endeavored to give support through:

- Social/Community Development oriented activities by promoting education, sponsoring primary schools at Kericho, Kisii, Njoro and Ruiru to enhance their education standards;

KALRO through Food Crops Research Institute participated in the following:

- KALRO Njoro
 - Environmental Conservation - tree planting exercise at Utafiti Primary School and along River Njoro.
 - Cleanup exercise within the Lake Nakuru ecosystem/park.
 - Visited the catholic sisters' home to provide customized advisory services on horticultural farming skills as well as environmental conservation within their landscape.
 - Deployed casuals to work in Utafiti Primary School to perform duties of a day security guard and a cook respectively
 - Provided clean water for use by staff and Utafiti Primary School and assisted in completion of two class rooms – Fixing of windows and Doors.
 - Participated in the 2018/19 Nakuru National show in Technology transfer to the Community and entire Nation.
- KALRO Kisii
 - Contributed bananas for use by the children of Church of Christ Messisita, Kisii School for the deaf.

KALRO through Coffee Research Institute:

- Assisted the Jacaranda primary school with 5 balls and 54 sets of sports uniform
- Provided Jacaranda primary school with 3 trailers of murram soil for compound upgrading and some timber for repair of a computer room
- Provided coffee beverage during the issuance of bursaries to Jacaranda Primary Pupils and during Ruiru Coffee Trade Fair
- Facilitated a public health checkup during the Ruiru trade fair at Coffee Research Institute, Ruiru Centre
- Provided free Health Care clinic for staff, farm workers and visiting public.

KALRO through Dairy Research Institute:

- Ol Joro Orok Centre
 - Constructed a watering point for community livestock downstream from the Ol Joro Orok water source in the Olborosat forest being a Community livestock water reservoir
 - Provided Christmas gift: 50 litres of milk to St Martin, Talitha Kum children's home for orphaned children, Nyahururu being a community welfare.

- Naivasha Centre
 - Provided a house for community dispensary at the Top Farm Naivasha, to cater for health and improved livelihood of neighboring communities.

KALRO Tea Research Institute:

- Sponsored Utafiti Primary school
 - On educational benchmarking trips to Litein, Nandi, Asumbi and Kipchimchim
 - By paying monthly stipend to two Parent Association teachers and Electricity bill for the School.
- Provided Health talk, testing and treatment for the community.
- Donated 800 tree seedlings to Bomet County during the National Tree Planting day

KALRO through Industrial Crop Research Institute provided a vehicle and a driver to Gatundu North for the National Polio Immunization Campaign.

IX. REPORT OF THE DIRECTORS

TECHNICAL RESEARCH PROGRAMME ACHIEVEMENTS: FY/2018/2019

The year recorded significant achievements in various projects under Crops and Livestock Research. Presented below is the summary of the key achievements for the FY 2018/2019 as per the set Performance Contracting document.

Improved crop production, productivity and utilization

Soil Analysis and Recommendations

In alignment to the 'Big Four' agenda on Food and Nutrition Security, KALRO undertook soil analysis to enhance food productivity through targeted fertilizer application to specific soil requirement. In 2018/19 FY, 27,000 soil samples were targeted for analysis. During the period 17,218 samples were analyzed and recommendations given.

Development of improved crop varieties

Fifty nine (59) promising lines of different crops were submitted to KEPHIS for NPT evaluation during the year against forty six (46) targeted, and thirteen (13) varieties were released from this lot.

Production of crops' planting materials

During the FY KALRO produced planting materials of various crops species and availed to farmers and seed companies for planting, multiplication and commercialization is as shown in the table below;

Planting material	Achievement
i) Basic seed (cereals, potatoes, and grain legumes) (MT),	2,391
ii) Tea plants and cuttings (Millions),	2.329
iii) Coffee planting material (No. Millions),	18.35
iv) Seed cane production (No.'000' MT),	3.18
v) Cassava (No. Million),	1.81
vi) Sweet Potato vines (No. Million),	2.369
vii) Coconut production (No.),	15,170
viii) Production of cashew nut seedlings (No.)	22,167

Improve and maintain crop health and food safety

Evaluation of maize clones tolerant to Maize Lethal Necrosis Disease (MLND)

During the contract period the following were undertaken:

- 542** maize germplasm were evaluated for MLN tolerance; DH lines-168, Single Crosses- 290 and DH test crosses were 86;
- 224** hybrids were put under Performance Field Trials (PYT) at Kiboko, Katumani, Njoro and Embu;
- Five (5)** advance clones were put under NPT i.e. two (**2**) from AMRI and three (**3**) (FRCI).

Awareness creation and development of control measures for Fall Armyworm (FAW)

The Fall Armyworm (FAW) is an insect pest that invaded the country in March 2017 and has adversely affected maize production. Currently, it has been reported in 42 counties and if not controlled on time it can lead to total loss of the maize crop. KALRO created awareness on the importance of timely identification of the pest and conduct research to develop effective control strategies for the FAW as Follows;

- i) KALRO contributed to development of a brochure by FAW-MITT, **46,000** copies were printed, KALRO distributed **5,000** copies;
- ii) KALRO contributed to development of a poster by FAW-MITT, **13,000** copies were printed, KALRO distributed **2,000** copies;
- iii) Quarterly updated and reviewed one (1) FAW mobile digital application to include reporting of FAW occurrence;
- iv) **Two (2)** insecticides evaluated and recommended to PCPB for registration;
- v) **Nineteen (19)** chemicals products for control of FAW evaluated (a paper was presented in the 1st National Conference on FAW in Kenya);
- vi) Identified and recommended **two (2)** biological control agents against FAW -a fungal entomopathogen (*Metarhizium sp.*) isolated from FAW larvae, 2 biopesticides from RealIPM (*Beauveria bassiana* & *Bacillus thuringiensis*) evaluated for efficacy (a paper was presented in the 1st National Conference on FAW in Kenya);
- vii) **300** promising maize germplasm lines assembled and screened for resistance/tolerance at KALRO Kiboko;
- viii) **Evaluated two (2)** Integrated Pest Management (IPM) formats for ecosystem-based FAW management measures i.e. Intercropping and push-pull technology trials set up in 4 sites;
- ix) Evaluated and recommended **three (3)** botanical extracts and a pre-mix of the 3 for FAW control to stakeholders (a paper was presented in the 1st National Conference on FAW in Kenya).

Production of Aflasafe KE01

Aflatoxin is a poisonous substance produced by fungi, *Aspergillus flavus*. Aflasafe KE01 is a biological control of aflatoxin developed to prevent the contamination of food produce by the fungi at the farm level. During the FY the organization produced 212.75MT of aflsafe and had a short fall of **58.25MT** due to financial constraints. The reason for the short fall during the period is attributed to insufficient funds to run the production processes due to low uptake of the product by the farmers.

Evaluation of Pesticides for crop pest management

KALRO is accredited by Pest Control Products Board (PCPB) to undertake pesticide efficacy trials. During 2018/19 FY KALRO evaluated all pesticides submitted by PCPB during Long rains and Short rains seasons.

Capacity Building on Crop Health Services

Through interaction with farmers and extension officers, KALRO has noted there is a limited number of a crop health officer at farm level with skills for diagnosing crop pests and diseases and prescribing solutions for their control.

During the contract period, KALRO undertook the following:

- i) Trained **34** crop protection officers and this included 14 KALRO staff;
- ii) Established **24** Plant Clinics against a target of **22**.

Develop and promote emerging crops

These underutilized fruits (guava, Cape gooseberry, sour soup, custard apple, loquat, pitanga and pomegranate) are increasingly becoming important because they are high in nutrients and medicinal value, but they have been neglected despite their benefits. Following sensitization of their usefulness, the demand for their planting materials is growing.

During the quarter,

- i) Collected and conserved **2,000** underutilized fruit species i.e. 10 blackberry; 1,800 gooseberries (Loitokitok, Mt Kenya, Mt. Elgon, Koibatek Forest, Timboroa Forest); 2 raspberry; 4 pomegranate (Hurlingham, Katumani, SA, Egypt, Emali), 3 loquats (Muguga, Katumani, Kitui, Meru, and Limuru); 2 sour soup (Kibos, Naivasha, Busia,, Bungoma, Makindu); 100 guava; 3 strawberry guava (Kamiti Prison, Nairobi); 3 pitange (Kamiti Prison); 5 custard apple (Naivasha, Voi, Toi Market, Ngara Market); 3 jackfruit; tamarind 1; date palm 1; 2 jaboticaba; mulberry (2); tamarinda (Busia, coast);
- ii) Established seedling nurseries of these fruits in Schools and Agriculture Training Centres (ATCs) in 22 Counties;
- iii) Propagated **211,318** against target of 200,000 seedlings of underutilized fruits in the 22 Counties;
- iv) Developed **five (5)** value added products from Cape gooseberry and guava ie guava sweets; guava jam; guava cheese; guava chutney; guava relish; gooseberry raisins;
- v) Submitted registration of **six (6)** products of value added products of the **two (2)** fruits with KEBs.

Conservation of Plant Genetic Resources

KALRO maintains a gene bank with 46,000 accessions of different crop species collected all over the country. In addition, the gene bank preserves the world simsim and finger millet germplasm collection. These national and international germplasms require regular rejuvenation to maintain their viability.

During the contract period, 400 seeds were collected, **1576** accessions were tested for viability, and **400** accessions planted for rejuvenation.

Improve livestock production, productivity and product utilization

Breeding Bulls

In 2018/19 FY KALRO undertook the following activities and availed **one hundred and thirty six (136)** bulls to farmers:

- i) Evaluated and selected dams and sires based on breeding values;
- ii) Participated in performance evaluation and pedigree recording of selected dams and sires by Kenya Stud Book;
- iii) Carried out two (2) assessments to approve bulls for availing to farmers;
- iv) Followed a structured strategy to ensure equity disposal of 136 breeding bulls to farmers.

Breeding Bucks and Rams

Goats and sheep are critical livestock in Arid and Semi-Arid Lands (ASAL) areas of the country. Over the years KALRO has provided high quality breeding bucks and rams to the farmers. During the FY **102** breeding rams and bucks were availed to farmers against a target of **100**.

Improved indigenous chicken

- i) KALRO has a programme for enhancing capacity for indigenous chicken production.
- ii) Installed a new hatchery system but not commissioned as the compatible chiller that is to operationalize it is yet to be fixed.
- iii) Produced and availed to farmers **362,319** indigenous chicken against a target of **528,000** chicks a short of **165,681** chicks because the new hatchery is yet to operate.

Improved honey production

Established a functional research apiary unit at ARI- Perkerra;

The short fall of **36%** under this performance indicator is because a study on characterization of honey was done in **one** county against **10** counties targeted due to financial constraints.

Develop and promote forages, improved feeds and feeding systems

During the quarter KALRO:

- i. Participated in performance evaluation of **Three (3)** *Bracharia brizantha* cultivars (Xares, Piata and MG4) and one *Bracharia decumbens* cultivar Basilik Brachiaria cultivars submitted for NPT.
- ii. Analyzed **1940** feed samples for their nutritive values and feedback provided to livestock farmers;

Improve and maintain livestock health

Vaccine development, testing and strategic use are key factors in maintenance of animal disease-free zones. During the 2018/19 FY research will continue on the remaining four vaccines for the third year (Contagious Bovine Pleuro-pneumonia-CBPP), Rift Valley Fever, thermostable PPR and Camel Mastitis). In addition a multivalent Lumpy Skin Disease vaccine will be included alongside with the others. During the FY the vaccine

development and testing fell short of the target due to technical, financial and institutional problems. KALRO carried out the following activities:

- i. Initiate field trials to test the efficacy of thermostable CBPP sub-unit vaccine: The vaccine was developed but the funding for field testing was not available. Negotiations with a development partner (IDRC) are at an advanced stage to provide the necessary funds for this. It will take about 18 months to have the required results. The results will enable the final product to be registered by the Veterinary Medicines Directorate (VMD) for commercial use.
- ii. Develop camel mastitis vaccine by identifying protective proteins for *Streptococcus agalactiae* and test for protection in laboratory models:
The *Streptococcus agalactiae* bacterium was isolated from camel milk. Identification of the proteins that can elicit a protective immune response in camels is ongoing using modern molecular tools. This activity was delayed because sequencing of the bacterium genome had to be outsourced. The contract was awarded about a month ago.
- iii. Conduct efficacy trial for both, Contagious Caprine Pleuro-pneumonia (CCPP) and heartwater vaccines:
The vaccine is multivalent that is, it is a combined CCPP and heartwater vaccine in one. Procurement of experimental animals (goats) has just been concluded and the trials will be carried out in the next financial year.
- iv. Complete on-station and field evaluation of PPR thermostable vaccine:
This activity has not been done. The arrangement was to have KEVEAPI produce a new pre-commercial batch of a thermostabilized vaccine (the initial batch was produced jointly with KALRO) and have it tested on-station and in the field. This activity will be carried out with funding from the CS-APP project that kicked off early in the year.
- v. Test multivalent Lumpy Skin Disease – RVFV-PPR recombinant vaccine in containment– This was not done. It ran into technical, financial and institutional problems.

Develop robust and sustainable forage seed systems

KALRO continues to develop and promote improved feeds and feed systems. During the FY the targeted production of clean napier grass cuttings and rangelands grass seed was attained as shown in the table below:

Activity	Achievement
Napier grass cuttings (No.'000'), (50%)	1,338
Rangelands grass seed (kg), (50%)	4,580

There was a short fall in grass seed production due to the prolonged drought hence poor performance of planted seed.

Develop appropriate agricultural machinery and equipment/implements

During the contract period:-

- i) One legume (green gram) seed thresher was developed at KALRO Katumani workshop;
- ii) Mechanization index of maize and Sorghum production value chains completed.

Knowledge, information and technologies on agricultural products value chains research collated, stored and shared

Promotion of knowledge, information and technologies

Low adoption of knowledge, information and technologies (KITS) by various value chain actors is attributable to many factors including weak relationships and linkages coupled with ineffective approaches and methods used to manage and share KITS. KALRO therefore recognizes the need for innovative mechanisms for management and sharing the requisite knowledge. During the FY the following were achieved:

- i) **613** stakeholder trainings sessions on various crops and livestock husbandry practices were conducted, against a target of **600** have be conducted;
- ii) Held **122** consultative fora against a target of **120**.

Research Proposals and Publications

To enhance research funding and ensure research findings are shared with stakeholders on timely basis KALRO undertook the following activities;

- i) Established scientific and technical editorial research committees at the headquarter and in all institutes;
- ii) Developed and submitted to donors **42** mega research proposals (two per institute) for funding;
- iii) **134** internally reviewed papers were submitted for publications in peer reviewed refereed journals against a target of **250**
- iv) **121** internally reviewed technical papers were submitted for publications against a target of **250** papers;
- v) **138** extension materials, that include policy briefs, technical bulletins, pamphlets, leaflets and online library were published against a target of **325**;
- vi) **353** internally reviewed papers were submitted to scientific conferences against a target of **250** papers.

Review of KALRO Strategic Plan (SP)

KALRO strategic plan was reviewed and aligned to MTP III, the 'Big Four' national development agenda and other national priorities. The following activities will be undertaken:

- i) Initiated review and incorporated the 'Big Four' initiatives, Blue Economy and the Green strategy and other national priorities;
- ii) Implementation framework was developed;
- iii) Finalized the SP ;
- iv) Reviewed the annual work plans

X. STATEMENT OF DIRECTOR'S RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the organization's financial statements, which give a true and fair view of the state of affairs of the organization for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the organization; (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 organization; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the organization's financial statements, which have been prepared in accordance with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the organization's financial statements give a true and fair view of the state of organization's transactions during the financial year ended June 30, 2019, and of the organization's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the organization, which have been relied upon in the preparation of the organization's financial statements as well as the adequacy of the systems of internal financial control.

With effect from 1st July 2014, Kenya Agricultural Research Institute (KARI), Kenya Sugar Research Foundation (KESREF), Tea Research Foundation (TRF) and Coffee Research Foundation (CRF), were dissolved in pursuant to the Kenya Agricultural and Livestock Research Act 2013. Its newly acquired name is Kenya Agricultural and Livestock Research Organization (KALRO). This will not affect the organization going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

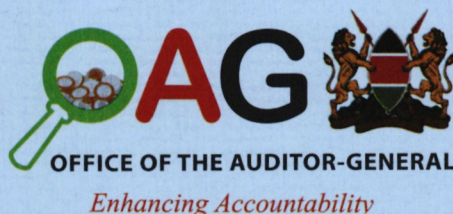
The KALRO financial statements were approved by the Board on 30/09/2019 and signed on its behalf by:


Mr. Wilfred Chacha Rotich
Chairman, KALRO BoM


Eliud K. Kireger (PhD, OGW)
Director General

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REPORT OF THE AUDITOR-GENERAL ON KENYA AGRICULTURAL AND LIVESTOCK RESEARCH ORGANIZATION FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Agricultural and Livestock Research Organization set out on pages 1 to 22, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Agricultural and Livestock Research Organization as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Agricultural and Livestock Research Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Receivables from Non-Exchange Transactions

1.1. Debt Recovery

As previously reported, the statement of financial position reflects an amount of Kshs.387,244,000 under receivables from non-exchange transactions which, as disclosed in Note 24 to the financial statements, includes an amount of Kshs.124,496,000 due from the Kenya Planters Co-operative Union (KPCU) – (in receivership) and Kshs.23,445,000 due from the Coffee Board of Kenya relating to the Coffee Research Institute. Although the Management has made a full provision of Kshs.124,496,000 in respect of KPCU debt and forwarded a claim to the receiver manager, no meaningful progress has been reported towards recovery of this debt as at the date of this report.

1.2 Commodity Levy

The receivables from non-exchange transactions balance of Kshs.387,244,000 includes an amount of Kshs.314,473,000 in respect of commodity levy, which increased by Kshs.85,000 from the amount of Kshs.314,388,000 reported as at 30 June, 2018. The increase has not been explained. Further, the commodity levy also includes an amount of Kshs.7,073,687 from Nyambene Mills (under receivership). Management did not disclose steps taken to recover the debts. In addition, no provision for bad and doubtful debts in respect of commodities levy, whose recovery remains doubtful, was made in these financial statements.

Under the circumstances, the accuracy and completeness of the receivables from non-exchange transactions balance of Kshs.387,244,000 could not be confirmed.

2.0 Receivables from Exchange Transactions

The statement of financial position reflects a balance of Kshs.93,147,000 under receivables from exchange transactions which, as disclosed in Note 23 to the financial statements, includes amounts of Kshs.12,649,000 and Kshs.19,945,000 owed by various debtors and the Kenya Seed Company, respectively which have remained outstanding for over six (6) years. Further, the receivables balance also includes long outstanding debts of Kshs.537,700 owed by former Members of Parliament. In addition, the other receivables balance decreased from Kshs.1,027,000 reported as at 30 June, 2018 to Kshs.302,000 as at 30 June, 2019. However, supporting documentation for the decrease were not provided for audit review.

Under the circumstances, the accuracy and completeness of the receivables from exchange transactions balance of Kshs.93,147,000 could not be confirmed.

3.0 Property, Plant and Equipment

3.1 Property, Plant and Equipment Without Title Documents

- (i) As previously reported, included in the property, plant and equipment balance of Kshs.24,389,002,000 as at 30 June, 2019 is an amount of Kshs.2,932,785,960 in respect of six parcels of land relating to the former Kenya Agricultural Research Institute for which the Organization has no ownership documents.
- (ii) Further, part of the Organization's land at Manera and Olmagogo farms in Naivasha-Mai Mahiu Road and another property in Katumani Centre measuring approximately 100 hectares were illegally acquired by private developers in the year 2000. In addition, part of this land is being used as a dumping site by the County Government of Machakos and construction of a power station is taking place on the same land.
- (iii) Similarly, in January, 2011, some individuals invaded the Organization's land in Naivasha, claiming ownership. The organization filed a case in court to have them evicted, and a ruling in favour of the Organization was made on

29 March, 2012 and their title documents were revoked by the Chief Registrar on 22 February, 2019 as per the Kenya Gazette Notice No.1716. However, a review of the position revealed that the invaders had not vacated the land.

- (iv) As reported in the previous years, 56 parcels of land including LR Nos.654/6, 654/6A, 654/II and 654/7 all under Sugar Research Institute in Kibos area did not have ownership documents.
- (v) The property, plant and equipment balance of Kshs.24,389,002,000 as at 30 June, 2019 excludes undetermined value of parcels of land located in Azani and Koru measuring 99 ha and 127 ha respectively which the Coffee Research Institute uses for farming. The titles to the parcels of land are in the name of the Coffee Board of Kenya (CBK) which has since merged to form the Agricultural Food Authority.
- (vi) The Agricultural Mechanization Services (AMS) - a Department within the Ministry of Agriculture-occupies a portion of the Organization's land at Rukera and has set up its own buildings. Although Management clarified that the value of the constructions/improvements by the AMS are not included in the assets balance, and that AMS was devolved from the National Government to the County Government, the County Government had not signed any lease agreement and has not paid any rent to the Kenya Agricultural and Livestock Research Organization.
- (vii) The property, plant and equipment figure of Kshs.24,389,002,000 also excludes the value of twenty acres' piece of land developed by the Tea Research Institute in Kirinyaga County with an estimated value of Kshs.8,430,634.
- (viii) The property, plant and equipment net book value of Kshs.24,389,002,000 includes an amount of Kshs.81,650,080 representing the value of buildings allocated to the Kenya Plant Health Inspectorate Service in 1998. The net book value of Kshs.24,389,002,000 is, therefore overstated by Kshs.81,650,000.
- (ix) The property, plant and equipment balance of Kshs.24,389,002,000 also includes the value of an office block completed in the year 2012/2013 at a cost of Kshs.663,772,203 in respect of the Sugar Research Institute. However, as previously reported, the valuation report on the building placed the value as Kshs.447,992,751 resulting in an unexplained difference of Kshs.215,779,453. No explanation was provided on how the value of a new building dropped below the actual construction cost with such a high margin.
- (x) As reported in the previous year, the Organization's residential building at Kisii Sub-Centre of Coffee Research Institute has been taken over by the Kisii County Government with no benefit accruing to the Organization.
- (xi) The additions for the 2016/2017 financial year of Kshs.253,798,000 included an amount of Kshs.109,765,000 under building in respect of an arbitration award to a company arising from disputed values of certificates of completion of the new

office block at the Sugar Research Institute. The balance, however, differed with the amount of Kshs.122,920,000 in respect of the award. The resulting difference of Kshs.13,155,000, between the arbitration amount and the amount reflected in the financial statements was not explained.

- (xii) Included in the cost of land of Kshs.17,808,626,000 is an amount of Kshs.117,000,000 being the cost for LR No.116/3 Ruiru – Jacaranda where the Coffee Research Institute is located. Although Management indicated that the title deed was misplaced, efforts being made to replace the title deed was not disclosed.
- (xiii) Available information indicates that title deed for a parcel of land at Muguga was released to the Ministry of Lands, Housing and Urban Development to facilitate the excision of a portion of land allocated to the Kenya Plant Health Inspectorate Service at the time of its inception. However, the title deed got lost while in the custody of the Ministry exposing the land to the risk of alienation, unlawful excision, and subdivision.
- (xiv) KALRO owns 142.06 ha of land in Matuga for which it has a title deed. However illegal informal settlers have encroached on this land making it impossible for the Organization to utilize the land for the purposes of agricultural research.
- (xv) Included in the cost of land of Kshs.17,808,626,000 is a beach plot in Mtwapa valued at Kshs.56,734,160 whose land registry number was given as MN/111/2945. However, the Organization does not have a title deed for the land. The Management explained that the land was illegally subdivided into five plots but the Commissioner of lands revoked the allotments. A private developer filed a suit in court to affirm ownership of the beach plots. The matter had not been determined as at 30 June, 2019 and ownership of the plots could not be confirmed.
- (xvi) KALRO also owns five buildings on its Kitale Lower Farm Block LR No.13/82 which were part of the L.R. No.2049R but they were excluded from the title deed. In Kakamega, staff houses belonging to the Non-Ruminant Centre have been constructed on 20 acres of land that were left out during allotment of this land to the Organization. These issues were still outstanding as at 30 June, 2019.
- (xvii) Further included in the cost of land of Kshs.17,808,626,000 are 1418 Ha of land in Lanet where the National Beef Research Centre is located. Records held at the Organization indicate that in 1984 a farmer surrendered two hundred and thirty acres of his land to the government and it was agreed that he would be compensated with an equivalent acreage of vacant land at the Beef Research Institute. However, the farmer was instead allotted two hundred and seventy acres, an excess of forty acres. Further, the farmer violated the conditions of the land exchange and occupied the developed part of the land leading to destruction of property belonging to KALRO. The said part of the land has since been subdivided into plots for sale to the public. In addition, records availed indicate

that another farmer agreed to surrender three hundred and twenty acres of his land in Nakuru but during exchange and transfer of the land he irregularly acquired an extra one hundred and fifty-two acres of KALRO's land. Additionally, informal settlers have been trying to encroach the land since 2014. There is therefore a high risk that the Organization may lose the disputed parts of its land in Lanet.

- (xviii) The value of land of Kshs.17,808,626,000 does not include the value of the parcels of land listed below whose title deeds are not in the custody of the Organization;

Farm/Details	Land Parcel No.	Location	Measurement
Kitale Lower Farm	Block 13/82	Kitale	10.00 Ha
NDFRC, Katumani	LR No.4937	Machakos	274.8 Ha
Msabaha	LR No.25044	Kilifi	34.11 Ha
KARI, Njoro	LR No.27319	Nakuru	163.8 Ha
KARI, Limuru	LR No.28085	Kiambu	0.8092 Ha
KARI, Limuru	LR No.28086	Kiambu	0.8097 Ha
KARI, Limuru	LR No.28087	Kiambu	0.8093 Ha
KARI, Limuru	LR No.28088	Kiambu	0.8569 Ha
KARI, Limuru	LR No.28089	Kiambu	3.599 Ha
Alupe Sub-Centre	LR No. South Teso/Angoromo/8486	Busia	81 Ha

- (xix) Included under property, plant and equipment are motor vehicles, motor cycles and other machinery owned by KALRO. However, the logbooks of the motor vehicles, motor cycles, tractors and trailers were not kept in one central place, which is prone to misplacement and other possible defalcations.

3.2 Work in Progress

As previously reported, despite completion of the tea research and development factory at the Tea Research Institute in Kericho and the Government having spent Kshs.304,505,436.29 on the project, the facility is yet to be commissioned and lies idle owing to lack of funds to purchase machinery for operationalization of the venture.

Under the circumstances, the accuracy, completeness and ownership, and completeness of property, plant and equipment balance of Kshs.24,389,002,000 as at 30 June, 2019 could not be confirmed.

4.0 Trade and Other Payables

As previously reported, the trade and other payables balance of Kshs.359,556,000 as at 30 June, 2019 includes an amount of Kshs.3,771,786 owed to various hospitals that has remained unpaid for a long time. The balance also includes an amount of Kshs.4,547,866

due to the Kenya Revenue Authority being penalty imposed by unremitted Pay As You Earn (PAYE).

No explanation has been provided for failure to settle the long outstanding liabilities.

5.0 Investments

The statement of financial position reflects an investments balance of Kshs.2,149,000 which, as disclosed in Note 31 to the financial statements, includes an unsecured loan stock of Kshs.40,000 and redeemable ordinary shares of Kshs.2,092,000 both in Kenya Planters Co-operative Union (KPCU). The investments has a Nil fair value as KPCU has been liquidated by the Government.

In the circumstances, it is not possible to confirm whether the investments amount of Kshs.2,149,000 is fairly stated.

6.0 Unaccounted for Cash

As previously reported, the cash and cash equivalents' balance of Kshs.843,540,000 as at 30 June, 2019 excludes cash withdrawals totalling Kshs.6,914,345 made in financial year 2009/2010 in respect to the Sugar Research Institute against which the related supporting documents were not provided for audit verification. Although Management had indicated that the missing documents are a subject of investigation by the Sugar Research Institute and other arms of Government, the amount of Kshs.6,914,345 remains unaccounted for and the status of investigations was not disclosed.

Under the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.843,540.000 as at 30 June, 2019 cannot be confirmed.

7.0 Deferred Income

The statement of financial position reflects a balance of Kshs.251,463,000 under deferred income which, as disclosed in Note 34 to the financial statements, relates to grants received from donors for specific projects. The grants are classified as non-current liabilities and carried in the books net of amortization based on the life of the project. The deferred income of Kshs.251,463,000 is net of Kshs.170,741,000 relating to the expenditure incurred during the year, which should have been recognized as income in the statement of financial performance. No explanation was provided for the omission.

Under the circumstances, the accuracy of the financial statements could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else

has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Kenya Agricultural and Livestock Research Act, 2013

As previously reported, the Kenya Agricultural and Livestock Research Act, 2013 had set 1 August, 2014 as the commencement date for the operation of the Organization. The Act repealed the Science and Technology Act, 250, Coffee Act (No.9 of 2001), Sugar Act (2001) and the Tea Act, Cap 343 which had established the Kenya Agricultural Research Institute (KARI), the Coffee Research Foundation (CRF), the Kenya Sugar Research Foundation (KESREF and the Tea Research Foundation (TRF), respectively.

However, other than the Kenya Agricultural Research Institute, which was operating under the Science and Technology Act Cap. 250 of the Laws of Kenya, the other Parastatals were operating under the Companies Act, Cap 486 of the Laws of Kenya. According to Section 221(1) of the then Companies Act, Cap. 486, "An application to the court for winding up of a company shall be by petition presented, subject to the provisions of this section, either by the company, by any creditor or creditors (including any contingent or prospective creditor or creditors), contributory or contributories, or by all or any of those parties, together or separately".

Management has, however, not provided evidence that this provision of the Companies Act, Cap 486 was complied with in the establishment of KALRO. Although the Management has stated that the entities were not wound up but merged, this explanation seems to be in contradiction with Section 56 of the KALRO Act, 2013 which states that, "Any reference to the former institution in any written law or in any contract, document or instrument of whatever nature shall, on the commencement of this Act, be read and construed as a reference to the Organization". In the absence of such evidence therefore, the Coffee Research Foundation (CRF), the Tea Research Foundation (TRF) and the Kenya Sugar Research Foundation (KESREF) are still legally in existence.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and the Board

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability 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 Organization to cease sustaining 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 Organization to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

08 November, 2021

XI. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2019

	Notes	2018-2019 Kshs'000	2017-2018 Kshs'000'
Revenue from exchange transactions			
Goods	6	621,163	630,753
Services	7	115,600	116,608
Interest Received	8	13,457	16,110
Other Receipts	9	188,122	125,202
		938,341	888,673
Revenue from non-exchange transactions			
GoK Recurrent	10	4,173,562	3,942,990
GoK Development	11	25,899	310,750
World Bank	12	80,000	-
Other Grants	13	1,023,778	1,028,293
		5,303,239	5,282,033
Total Revenue		6,241,580	6,170,706
Expenses			
Staff Costs	14	4,468,851	3,839,386
Administrative Costs	15	1,570,816	1,668,333
Board Expenses	16	13,409	5,827
Audit Fees	17	3,800	6,750
Depreciation & Amortization expense	18	360,222	369,254
Repairs and Maintenance	19	114,617	118,686
Contracted Services	20	12,068	23,928
Finance cost	21	7,113	9,093
Total Expenses		6,550,895	6,041,256
Surplus/(Deficit)		(309,315)	129,450

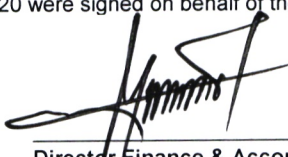
The notes set out on pages 6 to 20 form an integral part of the financial statements.

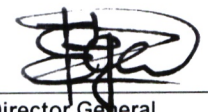
XII. STATEMENT OF FINANCIAL POSITION
As at 30th June 2019

	Notes	2018-2019 Kshs'000	2017-2018 Kshs'000'
Assets			
Current Assets			
Cash and Cash equivalents	22	843,540	1,056,456
Receivables from Exchange Transactions	23	93,147	109,385
Receivables from Non-exchange Transactions	24	387,247	363,906
Prepayments	25	95,266	83,013
Inventories	26	291,848	160,624
Deposits	27	2,585	52,331
		<u>1,713,635</u>	<u>1,825,714</u>
Non-Current Assets			
Property, Plant and Equipment	28	24,389,002	24,492,888
Intangible Assets	29	25,144	19,956
Biological Assets	30	634,190	568,094
Investments	31	2,149	2,149
		<u>25,050,485</u>	<u>25,083,087</u>
Total Assets		<u>26,764,120</u>	<u>26,908,801</u>
Liabilities			
Current liabilities			
Bank overdraft	32	3	720
Trade & Other Payables	33	359,556	281,112
		<u>359,560</u>	<u>281,831</u>
Non-Current liabilities			
Deferred Income*	34	251,463	192,557
Total Liabilities		<u>611,022</u>	<u>474,389</u>
Net assets		<u>26,153,097</u>	<u>26,434,412</u>
General Reserve*	35	862,523	1,171,838
Capital Fund	36	5,425,197	5,397,197
Revaluation Reserve	37	19,865,377	19,865,377
Total Net Assets and liabilities		<u>26,153,097</u>	<u>26,434,412</u>

The Financial Statements set out on pages 1 to 20 were signed on behalf of the Board of Directors by:


Chairman, KALRO BoM
Date: 30/09/2019


Director, Finance & Accounts
ICPAK Member Number: 9703
Date: 30/09/2019


Director General
Date: 30/09/2019

*The prior year audited figures have been restated. See note 35

XIII STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2019

	Capital Fund	Revaluation Reserve	General Reserve	Totals
	Kshs'000'	Kshs '000'	Kshs'000'	Kshs'000'
At 1st July 2017	5,397,197	19,865,377	1,057,763	26,320,337
Surplus/(Deficit) for the period	-	-	129,450	129,450
Prior year adjustments*	-	-	(15,375)	(15,375)
At 30 June 2018	5,397,197	19,865,377	1,171,838	26,434,412
At 1st July 2018	5,397,197	19,865,377	1,171,838	26,434,412
Surplus/(Deficit) for the period	28,000	-	(309,315)	(281,315)
At 30 June 2019	<u>5,425,197</u>	<u>19,865,377</u>	<u>862,523</u>	<u>26,153,097</u>

The notes set out on pages 6 to 20 form an integral part of the financial statements.

*The prior year audited figures have been restated. See note 35

XIV STATEMENT OF CASHFLOW

As at 30th June 2019

	Notes	2018-2019 Kshs'000	2017-2018 Kshs'000
Cash Flow from Operating Activities			
Cash generated from/(used in) operations	37	27,800	567,691
Net cash generated from/(used in) operating activities		27,800	567,691
Cash flow from Investing Activities			
Revaluation of Biological assets		(66,096)	(256,727)
Purchase of property, plant & equipment	28	(245,931)	(147,867)
Purchase of intangible assets	29	(15,594)	(15,622)
Proceeds from sale of Assets		-	-
Cash generated from/(used in) investing activities		(327,621)	(420,216)
Cash flow from Financing Activities			
Capital Grant		28,000	-
Deferred Income(Capital)		58,906	54,185
Cash generated from/(used in)Financing activities		86,906	54,185
Increase in Cash and Cash Equivalent for the Year		(212,915)	201,661
Cash and Cash Equivalent at the Start of the Year		1,056,456	854,795
Cash and Cash Equivalent at the End of the Year	32	843,540	1,056,456

The notes set out on pages 6 to 20 form an integral part of the financial statements.

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final Budget	Actual on comparable basis	Performance difference
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019
	Kshs'000	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Revenue from exchange transactions					
Goods	515,000		515,000	621,163	106,163
Services	100,000	-	100,000	115,600	15,600
Interest Received	10,000	-	10,000	13,457	3,457
Other Receipts	90,000		90,000	188,122	98,122
Sub total	715,000	-	715,000	938,341	
Revenue from non-exchange transactions					
GOK Personal Emoluments	4,387,000	(213,438)	4,173,562	4,173,562	0
GOK Development	316,000	(290,101)	25,899	25,899	0
World Bank	1,200,000	-	1,200,000	80,000	(1,120,000)
Other Grants	1,333,600	-	1,333,600	1,023,778	(309,822)
Sub total	7,236,600		6,733,061	5,303,239	
Total Revenue	7,951,600		7,448,061	6,241,580	
Expenses					
Staff Costs	4,352,581	120,000	4,472,581	4,468,851	3,730
Administrative Costs	2,181,820	(119,000)	2,062,820	1,570,816	492,004
Board Expenses	40,000		40,000	13,409	26,591
Audit Fees	5,800		5,800	3,800	2,000
Depreciation & Amortization expense	485,037		485,037	360,222	124,815
Repairs and Maintenance	180,000		180,000	114,617	65,383
Contracted Services	150,000	0	150,000	12,068	137,932
Finance cost	6,400	1,000	7,400	7,113	287
Total Expenses	7,401,638		7,403,638	6,550,895	852,743
Surplus/(Deficit)	549,962		44,423	(309,315)	

The notes set out on pages 6 to 20 form an integral part of the financial statements.

Budget notes

- 1.Change between original and final budget is as a consequence of budget adjustment from exchequer
- 2.Low revenue received from WorldBank against the projection was as a result of the delay in the take off of the Kenya Climate Smart Project(KCSAP)
- 3.The % increase in revenue from goods against the budget was a result of increase in stock
- 4.The % increase in revenue from services against the budget was a result of collection of royalties and increased demand for laboratory services
- 5.The % increase in revenue from services against the budget was a result of interest earned from the interest bearing bank accounts
- 6.The % decrease in revenue from other receipts against the budget was a result of loss in valuation of the biological assets
- 7.The decrease in revenue from other grants against the budget was a result of fewer competitive grants won from small donor agreements and the drop in funding from National Research Fund (NRF) in year 2
- 8.Board expenses underutilization against the budget was a result of postponement of Corporate Governance training that were to be conducted to the Board Members
- 9.Repairs and maintenance decrease was as a result of the delay in the take off of the Kenya Climate Smart Project
- 10.Contract services difference was as a result of the delay in the take off of the Kenya Climate Smart Project

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

KALRO is established by and derives its authority and accountability from Kenya Agricultural and Livestock Research Act, No 17 of 2013. The organisation is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to undertake, streamline, coordinate and regulate all aspects of research in agriculture and livestock development, and promote the application of the research findings, technologies and innovations.

2. Statement of compliance and basis of preparation – IPSAS 1

The organization's financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the organization and all values are rounded to the nearest thousand (Kshs. 000). 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 direct 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 2019

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard	Impact
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations. interpretations that are not applicable to the entity).

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

Standard	Impact
IPSAS 41: Financial Instruments	Applicable: 1st January 2022: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in
IPSAS 42: Social Benefits	Applicable: 1st January 2022 The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess: (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions - IPSAS 23

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 organization and can be measured reliably.

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

The organization recognizes revenue from rendering of services only when it is probable that the economic benefits or service potential associated with the transaction will flow to the organization. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized only to the extent of the expenses recognized that 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 organization.

Interest income

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

Rental income

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

b) Budget information – IPSAS 24

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

c) Property, plant and equipment – IPSAS 17

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. 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 fairvalue.

Biological assets are measured on initial recognition and at the end of each reporting period at fair value less costs to sell in accordance with IPSAS 27,

Bearer plant are "a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. This includes Coffee and Tea plants .

Before maturity, bearer plants are measured at their accumulated cost. After the bearer plants matures, KALRO measures the bearer plants using either the cost model or the revaluation model.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation is calculated to write off the cost or valuation of fixed assets using the straight-line method at the following annual rates

Buildings	2.00%
Bearer Plants	2.00%
Motor vehicles and Motor cycles	25.00%
Tractors	12.50%
Plant and machinery	12.50%
Office equipment	12.50%
Computers & Electronics	33.33%
Furniture & fittings	12.50%
Laboratory equipment	12.50%
Infrastructural Assets	25.00%

Depreciation will be charged in the year of acquisition and not charged in the year of disposal of the asset.

d) Intangible assets–IPSAS 31

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 finite and amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the reporting date.

e) Research and development costs

The organization expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the organization 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.

f) Inventories – IPSAS 12

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

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

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

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

g) Nature and purpose of reserves

The organization creates and maintains reserves in terms of specific requirements. organization to state the reserves maintained and appropriate policies adopted.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

h) Employee benefits – IPSAS 25

Retirement benefit plans

The organization provides retirement benefits for its employees. The retirement scheme is contributory with employee and employer contributing as below on the basis of the Basic Salary. The entity's obligation under the scheme is limited to employee and employer contributions

Employee	Employer
10%	20%

The entity also contributes to the statutory National Social Security Fund (NSSF). The entity's obligation under the scheme is limited to a liability for sale and measured at cost. The fair value of KPCU is estimated at zero as the Government has.

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at various commercial banks at the end of the financial year net of bank overdrafts. In the Statement of Financial Position, bank overdrafts are included as borrowings under current liabilities.

j) Comparative figures

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

k) Foreign currency transactions IPSAS 4.

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

l) Subsequent events – IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

m) Related Parties – IPSAS 20

The Organisation 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 Organisation, or vice versa. The Government of Kenya is the principal shareholder of the entity, holding 100% of the entity's equity interest. Other related parties include the Parent Ministry (Ministry of Agriculture, Livestock, Fisheries and Irrigation) and Board of Management. Members of key management are regarded as related parties and comprise senior managers. No related party contracts or dealings were exchanged during the year except for earnings as employees. Further, the key management do not hold any specific interests. Allowances to members of the Board of Management are as shown (see Note 16), while the three key management emoluments for the year were Kshs 20.989million. This is included in the staff costs.

n) Taxes – IAS 12

The Organisation is only liable to income tax payable on interest and dividends received which are payable at source. The organisation is exempt from paying corporation tax.

o) Leases – IPSAS 13

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the Organization as the lessee. All other leases are classified as operating leases. Where the Organization is the lessee, the total payments made under operating leases are charged to the statement of financial performance on a straight line basis over the period of the lease.

p) Changes in accounting policies and estimates – IPSAS 3

The Organisation 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)

q) Financial Risk Management Objectives and Policies

The Board has initiated and facilitated the process that will see the enhancement of risk management. The Board has an integrated risk management strategy. The Board's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement, monitoring and reporting. The risk management policies and systems are reviewed regularly to ensure that they are in tandem with the micro and macro environment, regulatory guidelines, industry practice, market conditions as well as the services offered. The Board recognizes the critical role the risk management will continue to play in its endeavor to carry out its business in a dynamic environment. The Board is committed to ensure that corporate governance and risk management are deeply entrenched in the Organisation and culture.

i) Liquidity risk

Liquidity risk is the risk that the Board will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive costs. This risk can arise from mismatches in the timing of cash flows from revenue and capital/operational outflows, assets and liabilities according to their maturity profiles and can occur where cash flow streams have been discontinued, etc. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be met at expected terms and when required. The objective of the liquidity and funding management is to ensure that all foreseeable operational and capital commitment expenditure can be met under both normal and stressed conditions and the mismatch is controlled in line with allowable risk levels.

The table shows the undiscounted cash flows on the Organisation financial assets and liabilities on the earliest possible maturity date. The liquidity ratio in FY 2018/19 is 3.68(FY 2017/18: 5.44)

	Note	2018-2019 Kshs '000	2017-2018 Kshs '000
Financial Assets			
Bank and Cash Balances	19	843,537	1,055,736
Receivables	20&21	480,391	473,291
Total Financial Assets		1,323,928	1,529,027
Financial Liabilities			
Payables	30	359,556	281,112
Total Financial Liabilities		359,556	281,112
Net Liquidity		964,372	1,247,915
Liquidity Ratio		3.68	5.44

ii) Currency Risk

Currency risk arises primarily from purchasing and sales of goods and services from/to overseas or indirectly via local supplies. The currency risk is minimal as cash and cash equivalents held with banks are dominated in Kenya Shillings and there are minimal dealings in foreign currency.

iii) Operational risk

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

The Organisation seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor and report such risks. The Organisation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Organisation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

iv) Compliance and Regulatory Risk

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements. The Organisation has complied with all externally imposed requirements throughout the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5) Significant judgments and sources of estimation uncertainty – IPSAS 1

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on the directors' knowledge of current events and actions, actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The key areas of judgments and sources of uncertainty in estimation are as set out below:

i) Useful lives of Property, Plant and Equipment

The Board make estimates in determining the depreciation rates for property and equipment. The rates used are set out in the accounting policy (c) above for property and equipment. The Board reviews the estimated useful lives of plant and equipment at the end of each reporting period. During the financial year, no changes to the useful lives were identified by the Board.

ii) Contingent Liabilities

As disclosed in these financial statements, the Board is exposed to various contingent liabilities in the normal course of business. The Board evaluate the status of these exposures on a regular basis to assess the probability of the Board incurring related liabilities. However, provisions are only made in the financial statements where, based on the Board's evaluation, a present obligation has been established.

iii) Provision for Doubtful Debts

The organization reviews its receivables portfolio to assess the likelihood of impairment. Provision for impairment of receivables is established when there is a objective evidence that the Board will not be able to collect all amounts due. Where necessary, an estimation of the amounts irrecoverable is made in that year. Provision for impairment shall be recognized upon approval by the Board of Management.

iv) Other provisions

Other provisions are recognized when the Board has legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

6 Goods

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Sheep & Goats	2,483	1,687
Pigs	60	
Camels	25	
Cows	16,065	19,431
Poultry	25,359	18,163
Maize	6,044	3,657
Sorghum & Millets	470	567
Rice	520	13
Root and Tuber	1,748	9,489
Vegetables	2,281	1,526
Herbs	176	244
Beans	640	543
Fruits	685	536
Bananas	669	614
Wheat	8,245	5,548
Seeds	95,280	198,844
Seedlings	76,959	60,768
Trees and Plants	281	886
Manure	681	868
Sand & Ballast	239	88
Firewood	947	237
Flowers	54	96
Pyrethrum	7	4
Cotton	128	0
Fodder	27,737	10,264
Beef	77	16

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Milk	28,769	25,475
Eggs	3,315	3,425
Tomatoes	234	340
Hay	195	306
Water	397	202
Other Farm produce	40,995	38,398
Increase/Decrease in Stock	145,656	85,530
Coffee, Milling Cane and Tea Sales	133,744	142,988
Total	621,163	630,753

7. Services

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Soil Analysis	12,662	11,014
Other Lab Services	1,482	1,906
Sale of Journals Periodicals	1,310	587
Hire-Ground/Conference Facilities	21,552	7,529
Royalties	12,825	10,759
Rent	61,479	79,352
Other services	4,290	5,461
Total	115,600	116,608

8. Interest Received

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Interest Received	13,457	16,110
Total	13,457	16,110

9. Other Receipts

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Cafeteria Income	90,651	61,457
Guest House Income	24,887	13,572
Bus Income	2,445	2,282
Utilities Income	3,129	3,420
Sale of Tender Documents	62	4
Grazing Fee	795	884
Commission Received	-	56
Library coffee	8	9
Gain/(Loss) on Foreign exchange	(3,671)	4,009
Gain/(Loss) on Biological assets	67,159	39,508
Gain/(Loss) on Sale of Fixed Assets	2,658	-
Total	188,122	125,202

10. GoK Personnel Emoluments

This represents GoK funds received from the Government for payment of staff costs

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Grants-Personal Emoluments	4,173,562	3,942,990
Total	4,173,562	3,942,990

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. GoK Development Funds

This represents GoK funds received from the Government for development of research activities.

	2018-2019 Kshs '000	2017-2018 Kshs '000
Development Grant -GoK	25,899	310,750
Sub-Total	25,899	310,750

10 & 11. Transfers from Ministries

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income Kshs '000	Amount deferred Kshs '000	Amount recognised in capital fund Kshs '000	Total grant income during the year Kshs '000	2018-2019	2017-2018
Ministry of Agriculture, Livestock, Fisheries and Irrigation	4,173,562	-	-	4,173,562	4,173,562	3,942,990
Ministry of Agriculture, Livestock, Fisheries and Irrigation	25,899	-	-	25,899	25,899	310,750
Total	4,199,461	-	-	4,199,461	4,199,461	4,253,740

12 World Bank

	2018-2019 Kshs '000	2017-2018 Kshs '000
Development Fund - KCSAP	80,000	-
Total	80,000	-

13. Development Funds - Other Donors

These represent grants received from various donors for research activities.

	2018-2019 Kshs '000	2017-2018 Kshs '000
Development Grant - EU	(1,177)	118,317
Development Grant - USAID	214,496	167,165
Development Grant - Rockefeller	-	2,396
Development Grant - CIP	77,715	30,748
Development Grant - CIAT	7,042	1,242
Development Grant - ICRAF	2,831	901
Development Grant - FAO	7,522	4,764
Development Grant - ILRI	598	3,550
Development Grant - ICRISAT	2,799	3,816
Development Grant - CIMMYT	37,899	61,905
Development Grant - NRF	196,496	40,435
Development Grant - IDRC	4,281	-
Development Grant - KCEP	62,387	-
Development Grant - Other Grants	410,890	593,054
Total	1,023,778	1,028,293

14. Staff Costs

	2018-2019 Kshs '000	2017-2018 Kshs '000
Basic Salary	2,198,085	1,914,989
House Allowance	729,195	588,241
Other Personal Allowance	104,587	121,152

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Commuter Allowance	201,689	205,881
Transfer Allowance	3,503	1,373
Passage & Leave Expenses	14,380	19,724
Gratuity & Pension Contribution	438,830	372,275
Medical Expenses	299,352	268,444
Contractual Employee	181,553	100,386
Casual Labour	297,675	246,921
Total	4,468,851	3,839,386

15. Administrative Costs

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Fuels, Oils and Lubricants	67,867	73,722
Vehicle Insurance	19,961	18,639
Road Tax & Licenses	585	451
Hire of Transport	5,599	1,144
Freight, Clearing & Shipping	1,438	200
Purchase of Supplies Production	104,550	137,811
Purchase of Drugs	4,204	3,924
Purchase of Sierra & Vaccines	1,974	2,605
Farm Development	21,901	25,871
Purchase of Fungi Insecticide & Sprays	5,181	3,359
Purchase of Farm Input	44,995	40,580
Purchase of Laboratory Stores	40,145	37,944
Research Materials	23,501	11,845
Purchase of Animals	3,919	5,336
Purchase of Dressing & Non Pharmaceutical	87	-
Purchase of Consumables Stores	4,453	3,564
Miscellaneous. Operating Expenses	5,180	758
Hire Machinery & Equipment's	2,080	1,391
Purchase of Workshop Tools, Spares & Equipment	253	675
Farmer Grants (CIGs/CBOs)	19,036	33,376
Purchase of seed	56,698	85,380
Office Running Expenses	3,839	2,544
Office Stationery	25,072	20,665
Computer Expenses	4,195	5,636
Printing and Publishing	9,753	9,697
Advertising and Publicity	12,296	6,792
Library Expenses	909	879
Show Expenses	16,016	24,565
Cafeteria Expenses	47,539	28,026
Food and Ration	19,944	13,896
Official Entertainment	1,234	2,283
Conference and Seminars	32,103	24,356
Rent and Rates	4,729	2,995
Security Expenses	127,746	82,002
Insurance - Property	17,882	15,733
Uniforms and Clothing	1,865	4,243
Miscellaneous Charges	12,654	9,583
Subscriptions to Newspapers	386	252
Insurance - GPA & GL	22,239	20,020
Daily Subsistence Allowance	536,220	604,895
External Travels and Per Diem	19,949	16,972
Travel Costs (Air & Bus) Mileage	15,039	12,968
Training	16,674	42,851
Water Expenses	6,043	3,685
Electricity Supplies	80,984	91,697
Gas Expenses	1,658	986
Telephone Expenses	8,654	12,404
Postage and Courier Expenses	3,033	3,464

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Provision for bad debts	116	3,139
Internet Connections	42,466	37,532
Membership Fees & Subscription	5,404	3,397
Legal Dues, Arbitration & Compensation	40,572	71,605
Total	1,570,816	1,668,333

16. Board Expenses

Board	2018-2019	2017-2018
	Kshs '000	Kshs '000
Board and Committees	13,409	5,827
Total	13,409	5,827

17. Audit Fees

These are fees incurred by the Institute during external audits.

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Audit Fees	3,800	6,750
Total	3,800	6,750

18. Depreciation & Amortization Expense

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Buildings	136,626	130,305
Plant and Machinery	25,043	25,485
Motor Vehicles	37,898	26,877
Motor Cycles & Bicycles	0	114
Lab & Scientific Equipment	87,502	75,019
Office & Computer Equip.	11,582	59,336
Office Furniture & Fittings	35,646	21,764
Infrastructure (G/hses, fences, streetlighting)	10,658	3,458
Amortization -Bearer Plants	4,861	5,030
Amortization-Software	10,405	21,866
Total	360,222	369,254

19. Repairs and maintenance

These refers to repairs and maintenance on the various assets of the organisation

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Repairs & Maintenance of Vehicles	44,525	46,924
Repairs & Maintenance of Motor Cycles	140	301
Repair & Maintenance of Buildings & Stations	47,891	51,747
Repair & Maintenance of Water Supplies and Pumps	5,842	2,962
Repair & Maintenance of Office Equipment	4,429	3,257
Repairs & Maintenance Laboratory Equipment	1,395	517
Repairs & Maintenance Furniture	128	347
Maintenance of Plant and Machinery	7,588	11,445
Maintenance of Roads	2,166	-
Minor Alteration & Maintenance of Works	514	1,186
Total	114,617	118,686

20. Contracted Professional Services

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Contracted Professional Services	12,068	23,928
Total	12,068	23,928

21 Finance cost

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Bank Charges	7,113	9,093
Total	7,113	9,093

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 Cash and cash equivalent

	2018-2019 Kshs '000	2017-2018 Kshs '000
Bank Balances	843,540	1,056,456
Bank overdraft (Note 32)	(3)	(720)
Total	843,537	1,055,736

Cash and cash equivalent are held as per below:

Kenya Commercial Bank	715,654	648,591
NIC Bank	37,292	331,389
Barclays Bank	11,831	17,410
National Bank of Kenya	22,858	9,248
Cooperative Bank of Kenya	27,477	39,199
Stanbic Bank	23,968	5,633
MPESA	3,815	4,086
Cash	645	899
Total	843,540	1,056,456

23 Receivables from Exchange Transactions

	2018-2019 Kshs '000	2017-2018 Kshs '000
Trade Debtors	72,363	75,302
Kenya Seed	19,945	33,287
Prepayments	1,592	1,592
Rent dues	3,381	2,816
Bungoma Union	746	746
Mugama Co-op Union	1,863	1,863
Other Receivables	302	1,027
Former staff debtors	663	663
Provision for Doubtful Debts	(7,708)	(7,913)
Total	93,147	109,385

24 Receivables from Non-exchange Transactions

	2018-2019 Kshs '000	2017-2018 Kshs '000
Commodity Levy	314,473	314,388
Staff Imprest	10,909	21,160
Staff advances	1,157	1,335
Transfers to other Institutions	41,047	7,366
Coffee Board of Kenya	23,445	23,445
KPCU	124,496	124,496
Provision for Doubtful Debts	(128,283)	(128,283)
Total	387,244	363,906

25 Prepayments

These are prepayments on insurance covers taken by KALRO with commencement date of 1st October 2018 and expiring on 30th September 2019

	2018-2019 Kshs '000	2017-2018 Kshs '000
Insurance Premium	95,266	83,013
Total	95,266	83,013

26 Inventories

	2018-2019 Kshs '000	2017-2018 Kshs '000
Consumables	289,220	156,835
Livestock	-	-
Crop	2,969	4,131
Provision for obsolete stock	(341)	(341)
Total	291,848	160,624

27 Deposits

	2018-2019 Kshs '000	2017-2018 Kshs '000
Deposits	2,585	52,331
Total	2,585	52,331

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. Property, plant and Equipment

	LAND	BEARER PLANTS	BUILDINGS	MOTOR VEHICLES	PLANT & MACHINERY	OFFICE EQUIP.	FURNITURE & FITTINGS	LAB EQUIPMENT	MOTOR CYCLES & BICYCLES	INFRASTRUCTURE (G/hses, fences, streetlighting)	WORK IN PROGRESS	TOTAL
	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Cost												
As at 1 st July 2017	17,863,143	-	6,458,325	569,473	252,436	446,709	247,063	773,752	7,748	113,731	316,415	27,048,795
Addition for the period	-	-	3,672	28,061	6,801	54,160	2,856	25,129	-	-	27,188	147,867
Reclassification of assets categories	(54,518)	214,670	-	-	-	-	-	-	-	-	-	160,153
Transfer from WIP	-	-	-	-	-	-	-	-	-	-	-	-
At 30th June 2018	17,808,626	214,670	6,461,997	597,534	259,237	500,869	249,919	798,881	7,748	113,731	343,603	27,356,815
Addition for the period	-	525	61,222	74,138	6,951	21,019	9,500	68,254	-	4,323	-	245,931
Transfer from WIP	-	-	269,811	-	-	-	43,109	-	-	30,684	(343,603)	-
Reclassification of assets categories	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from Biological assets	-	-	-	-	-	-	-	-	-	-	-	-
At 30th June 2019	17,808,626	215,195	6,793,029	671,672	266,188	521,887	302,528	867,136	7,748	148,738	(0)	27,602,746
Depreciation												
At 1 st July 2017	-	5,030	790,833	559,711	184,308	495,770	159,420	573,781	7,748	87,328	-	2,863,927
Prior Year Adjustment on b/f Depreciation	-	-	-	-	-	-	-	-	-	-	-	-
	-	5,030	790,833	559,711	184,308	495,770	159,420	573,781	7,748	87,328	-	2,863,927
At 30th June 2018	-	4,861	136,626	37,898	25,043	11,582	35,646	87,502	-	10,658	-	349,817
Charge for the period	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation on disposal	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation on reclassification	-	-	-	-	-	-	-	-	-	-	-	-
At 30th June 2019	-	9,892	927,469	597,609	209,350	507,352	195,065	661,283	7,748	97,986	-	3,213,744
Net book values												
At 30th June 2019	17,808,626	205,303	5,865,571	74,063	56,837	14,535	107,462	205,853	0	50,752	(0)	24,389,002
At 30th June 2018	17,808,626	209,640	5,671,164	37,823	74,929	5,098	90,499	225,101	0	26,403	343,603	24,492,888

Motor vehicles and motorcycles with a gross carrying amount of Ksh. 450,861,000 and Ksh. 6,606,660 respectively, had been fully depreciated during the year ending 30th June 2019 and are still in use

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 Intangible Assets

	2018-2019 Kshs '000	2017-2018 Kshs '000
Cost		
At beginning of the year	247,162	231,539
Addition	15,594	15,622
At end of the year	262,756	247,162
Amortization		
At beginning of the year	227,206	205,339
Amortization	10,405	21,866
At end of the year	237,611	227,206
Net Book Value	25,144	19,956

30 Biological Assets

	2018-2019 Kshs '000	2017-2018 Kshs '000
As at 1st July	568,094	471,519
Reclassification of assets category	0	18,384
Loss in value due to reclassification	0	0
Sold during the year	-	-
Gain in Value during the year	66,096	78,190
As at 30th June	634,190	568,094
Total	634,190	568,094

31 Investments

	2018-2019 Kshs '000	2017-2018 Kshs '000
Quoted Investments:		
1,672 B A T Kenya PLC shares-	17	17
Other Investments:		
KPCU Unsecured Loan Stock	40	40
KPCU Redeemable Ordinary shares	2,092	2,092
Fairvalue is Kshs 0 (2017/2018:Kshs 0)		
Total	2,149	2,149

The Kenya Planters Co-operative Union unsecured loan stock and redeemable ordinary shares are unquoted investments classified as available for sale and measured at cost. The fair value of KPCU is estimated at zero as the Government has liquidated KPCU.

For investments in equity share listed under note 31 above, the equity investments is under the following categories:

Name of entity where investment is held	No of shares			Nominal value of shares	Fair value of shares	Fair value of shares
	Direct shareholding	Indirect shareholding	Effective shareholding		Current year	Prior year
	%	%	%	Kshs '000	Kshs '000	Kshs '000
British American Tobacco Kenya PLC	0.0000167	-	0.0000167	17	1,003	1,341
	0.0000167	-	0.0000167	17	1,003	1,341

The fair value of BAT shares is determined by reference to published price quotation in the active market (NSE). On 30th June 2019, the shares traded at Ksh 600 per share.

32 Bank Overdraft

	2018-2019 Kshs '000	2017-2018 Kshs '000
Bank overdraft	3	720
Total	3	720

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 Trade and Other Payables

	2018-2019 Kshs '000	2017-2018 Kshs '000
Trade Creditors	143,542	26,725
Statutory Deductions	74,611	88,442
Other Creditors	57,968	577
Rent Deposits	814	747
Provision for Liabilities(Arbitration - Dinesh Construction)	82,621	164,621
Total	359,556	281,112

34 Deferred income

Grants received from donors for specific projects are classified as non-current liabilities. They are carried at amortized cost of which amortization is recorded as other grants in proportion to expenditure incurred on the project over the life of the project.

Description	2018-2019 Kshs '000	2017-2018 Kshs '000
National Government	-	-
International funders	251,463	16,666
Prior Year Adjustments-International funders*	-	15,375
Public contributions and donations	-	160,516
Total deferred income	251,463	192,557

The deferred income movement is as follows:

	National government Kshs '000	International funders Kshs '000	Public contributions and donations Kshs '000	Total Kshs '000	Total Kshs '000
Balance brought forward	0	32,041	160,516	192,557	122,992
Prior year adjustment*				-	15,315
Additions		229,646		229,646	208,799
Transfers to Capital fund				-	-
Transfers to income statement		(10,225)	(160,516)	(170,741)	(154,549)
Other transfers				-	-
Balance carried forward	-	251,463	-	251,463	192,557

35 General reserve

	2018-2019 Kshs '000	2017-2018 Kshs '000
Balance Brought Forward as at 1 July	1,171,838	1,057,763
Surplus/(Deficit) for the Year	(309,315)	129,450
Prior year adjustments*	-	(15,375)
Balance Carried Forward as at 30 June	862,523	1,171,838

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 Capital fund

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Capital Funds Brought Forward as at 1st July	5,397,197	5,397,197
Capital Funds received during the year	28,000	-
Balance Carried Forward as at 30th June	5,425,197	5,397,197

37 Reconciliation of operating profit/(loss) to cash generated from/(used in) operations

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Cash Flow from Operating Activities		
Surplus/(Deficit)	(309,315)	129,450
Adjustment for;		
Depreciation and Amortisation	360,222	369,254
Operating profit/(loss) before working capital changes	50,907	498,704
Working Capital adjustments		
Decrease /(Increase) in Inventories	(131,224)	127,679
Decrease /(Increase) in Receivables-Exchange	16,237	23,613
Decrease /(Increase) in Receivables-Non-Exchange	(23,341)	7,016
Decrease /(Increase) in Prepayments	(12,254)	(10,495)
Increase/(Decrease) in Current liabilities	77,728	(28,827)
Decrease /(Increase) in Deposits	49,746	(50,000)
Net changes in Working Capital	(23,107)	68,987
Cash generated from/(used in) operations	27,800	567,691

38 Revaluation reserve

	2018-2019	2017-2018
	Kshs '000	Kshs '000
Balance Brought Forward as a 1st July	19,865,377	19,865,377
Balance Carried Forward as at 30th June	19,865,377	19,865,377

39 Provisions for contingent liabilities

(i) During the financial year under review, liability relating to actual deficit as per the report on actuarial valuation of the Kenya Agricultural and Livestock Research Organization Staff retirement benefits Scheme indicated a valuation figure of Kshs.427 million. It is worth noting that this figure keep on changing every year and could not be disclosed under trade payables as it would materially affect the working capital of the Institute.

40 Events after the reporting period

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

41 Ultimate and holding entity

KALRO is a Semi- Autonomous Government Agency under the Ministry of Agriculture ,Livestock,Fisheries and Irrigation. Its ultimate parent is the Government of Kenya.

42 Currency

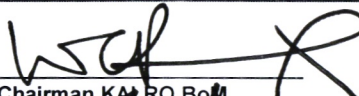
The financial statements are presented in Kenya Shillings (Kshs).

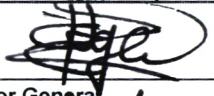
APPENDIX I.PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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	Status: (Resolved / Not Resolved)	Timeframe:(Put a date when you expect the issue to be resolved)
1.1	Long Outstanding imprests	New ERP system being implemented to assist in aging	H-Finance	Resolved	Dec-18
1.2	Debt Recovery	Sought for the Public Investment Committee (PIC) assistance during the Parliamentary summons	H-Finance	Not Resolved	Continuous
1.3	Commodity Levy	To seek authority for write off	H-Finance	Not Resolved	Sep-19
1.4	Transfer to other Institutions	Investigate the cause	H-Finance	Not Resolved	Sep-19
2	Receivables from exchange Transactions	To seek authority for write off. Since then,Kenya seed has paid Kshs.14.044million(Gross)	H-Finance	Partially Resolved	Sep-19
3.1	Property Plant & Equipment without Title Deed	Follow up on acquisition of ownership documents	H-Finance	Partially Resolved	Continuous
3.2	Procurement of Egg Setter Machine	Follow up on full installation of the machine	H-Supplies Chain Management	Partially Resolved	Sep-19
3.3	Work in Progress	Follow up on equipping of the completed Tea factory Building	H-Finance	Partially Resolved	Continuous
4	Trade and other payables	Investigate the long unpaid debts with view of write-back. On the outstanding debt to a Contractor,Kshs.82million has been paid	H-Finance	Partially Resolved	Dec-19
5	Investments	Proper disclosure done	H-Finance	Resolved	Resolved
6	Cash and cash equivalents	Matter under investigation by the EACC and National Police Service. Long outstanding unrepresented cheques matter resolved	DG	Not Resolved	Continuous
7	Inventories	To comply with IPSAS 27	H-Finance	Resolved	Resolved
8	Differed Income	To comply with IPSAS 27	H-Finance	Resolved	Resolved
9	Deposits	Documentation given to confirm validity	H-Finance	Resolved	Resolved

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe:(Put a date when you expect the issue to be resolved)
10	Prepayments	Reason given to explain the increase	H-Finance	Resolved	Resolved
11	Statement of changes in net assets	Prior year adjustment entry explained	H-Finance	Resolved	Resolved
12	Unreconciled differences between the Financial Statements and Ledger Balances	Variance reconciled and explained	H-Finance	Resolved	Resolved
13	Presentation and Disclosure of the Financial Statements	Description amended from gain on revaluation of assets to gain/loss on valuation of biological assets Development funds not differed	H-Finance	Resolved	Resolved
14	Budget Control and Performance	Budget approval, execution and purpose to ascertain the additional Ksh.500m explained and supported	H-Finance	Resolved	Resolved


Chairman, KALRO Board
Date: 30/09/2019


Director General
Date: 30/09/2019

APPENDIX II: PROJECTS IMPLEMENTED BY KALRO

Projects

Major projects implemented by KALRO and funded by development partners

	Project title	Project Number	Donor	Period/ duration	Donor commitment (Kshs'000')	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements(Yes/No)
1	Kenya Climate-Smart Agriculture Project (KCSAP)	Project I.D. P154784	World Bank	60months	5,000,000	YES	YES
2	Integrated Agricultural Research for Development	AID-615-F-16-00001	USAID	36months	790,059	YES	YES
3	Support to improvement of added value to coffee	CKE 1060.01 E	Agence Française de Développement (AFD)	60months	140,000	YES	YES
4	AGRIFI- Climate Smart Agricultural Productivity Project (CS-APP)	FED/2018/398-876	EU	60months	567,780	YES	YES

Status of Projects completion

	Project	Total project Cost ¹ (Kshs'000')	Total expended to date (Kshs'000')	Completion % to date	Budget (Kshs'000')	Actual (Kshs'000')	Sources of funds
1	Kenya Climate-Smart Agriculture Project (KCSAP)	5,370,000	80,000	1%	1,200,000	80,000	WORLD BANK
2	Integrated Agricultural Research for Development	926,496	616,749	67%	219,300	214,496	USAID
3	Support to improvement of added value to coffee	140,000	6,293	4%	38,000	-	Agence Française de Développement (AFD)
4	AGRIFI- Climate Smart Agricultural Productivity Project (CS-APP)	738,115	229,531	31%	298,000	3	EU

1. The project total cost is the total financing for both the Donor and counterpart(GoK)

APPENDIX III: INTER-ENTITY TRANSFERS (Ksh'000')

	ENTITY NAME:	KALRO		
	Break down of transfers from the State Department for Agricultural Research			
	FY 2018/19			
a.	Recurrent Grants			
		Bank Statement Date	Amount (Kshs'000')	FY to which the amounts relate
		Aug-18	860,603	2018/19
		Oct-18	860,603	2018/19
		Jan-19	1,652,357	2018/19
		Jun-19	800,000	2018/19
		Total	4,173,562	
b.	Development Grants			
		Oct-17	12,950	2018/19
		Jan-19	12,950	2018/19
		Total	25,899	

The above amounts have been communicated to and reconciled with the Parent Ministry

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES (Ksh'000')

Name of the MDA Transferring the funds	Date received as per bank statement	Nature	Total Amount	Statement of Financial Performance	Where Recorded/recognized				Total Transfers during the Year
					Capital Fund	Deferred Income	Receivables	Others	
Ministry of Agriculture, Livestock, Fisheries and Irrigation	Appendix III	Recurrent	4,173,562	4,173,562	-	-	-	-	4,173,562
	Appendix III	Development	25,899	25,899	-	-	-	-	25,899
	Jun-19	Research Funds	21,624	21,624	-	-	-	-	21,624
	Jun-19	Research Funds	229,531	3	-	229,528	-	-	229,531
Ministry of Education, Science and Technology - National Research Fund(NRF)	Jul-18	Research Funds	5,521	5,521	-	-	-	-	5,521
	Jul-18	Research Funds	4,560	4,560					4,560
	Aug-18	Research Funds	3,500	3,500					3,500
	Sep-18	Research Funds	4,261	4,261	-	-	-	-	4,261
	Nov-18	Research Funds	3,848	3,848	-	-	-	-	3,848
	Dec-18	Research Funds	14,290	14,290	-	-	-	-	14,290
Kenya Seed Company Ltd	Jul-18	Royalties	13,342	-	-	-	13,342	-	13,342
	Jan-19	Royalties	2,396	2,396	-	-	-	-	2,396
	Oct-18	Research Funds	4,750	4,750	-	-	-	-	4,750
Total			4,507,083	4,264,214	-	229,528	13,342	-	4,507,083

