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HON. JIMMY ANGWENI, MP

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REPORT

Perpetual Karani.

OF

THE AUDITOR-GENERAL

ON

KENYA PLANT HEALTH INSPECTORATE
SERVICE

FOR THE YEAR ENDED
30 JUNE, 2020



KENYA PLANT HEALTH INSPECTORATE SERVICE

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2020**

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

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KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

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

(b) Principal Activities

Vision:

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

Mission:

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

Core values

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

The principal mandate of KEPHIS is to:

- a) Regulate matters relating to plant protection, seeds and plant varieties
- b) Administer and enforce sanitary and phytosanitary measures
- c) Support the administration and enforcement of food safety measures
- d) Establish service laboratories to monitor the quality and levels of toxic residues in agro-inputs, irrigation water, plants, soils and produce
- e) Be the principal advisor to the Government on issues relating to seeds and planting material
- f) Implement plant variety protection in Kenya, administer plant breeders' rights and maintain the Plant Breeders' Rights Register

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

(c) Key Management

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

1. Board of Directors
2. Managing Director
3. General Managers

(d) Fiduciary Management

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

No.	Designation	Name
1.	Ag. Managing Director	Mr. Simeon Kibet Kogo
2.	Ag. General Manager - Finance & Administration	Mr. Bartonjo Cheptarus
3.	General Manager - Phytosanitary Services	Dr. Isaac Macharia
4.	Ag. General Manager Quality Assurance	Mr. Simon Maina
5.	Managing Director (up to 18, March 2020)	Dr Esther Kimani
6.	General Manager Finance and Administration (up to 18, March 2020)	Mr. James Angawa

(e) Fiduciary Oversight Arrangements

The Corporation has the following fiduciary oversight structures:

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

(f) KEPHIS Headquarters

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

(g) KEPHIS Contacts

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

(h) Corporation Bankers

1. Kenya Commercial Bank Ltd
P.O Box 7206 00100
NAIROBI
2. NCBA Bank
P. O Box 30437 00100
NAIROBI
3. National Bank Of Kenya
P.O. Box 72866 00200
NAIOROBI

(i) Independent Auditors

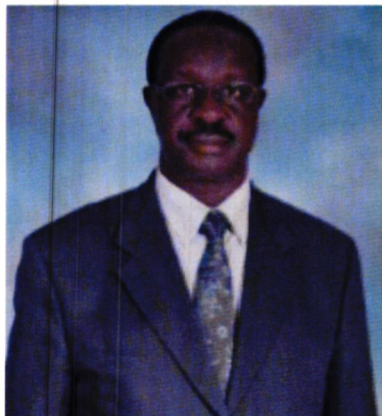
Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084, 00100
Nairobi, Kenya

(j) Principal Legal Adviser

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

THE BOARD OF DIRECTORS

Mr. Robin Manono Achoki - Chairman



Appointed on 15th May 2019.

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

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

Mr. Simeon Kibet – Ag. Managing Director



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

Mr. Kibet holds an MPhil degree in Crop production and Seed Technology from Moi University, and a BSC in Agriculture from The University of Nairobi. He has extensive experience in seed quality assurance and has been trained in Seed Technology in Japan, Netherlands and South Africa.

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

Appointed on 16th May 2017.



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

Dares Salaam.

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

Mr. Moses Merkalei Atuko – Member

Appointed on 6th June, 2018



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

Public Health, Moi University, 2004.

Ms. Lucky J. Litole – Member



Appointed on 6th June, 2018

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

Dr. Rose Njeru – Member



Appointed on 6th June, 2018

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

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

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

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

and International Centre for Tropical Agriculture among others. She serves the KEPHIS Board, as a member of the Technical Committee.

Mr. Mugambi Angaine – Member



Appointed on 3rd May, 2019

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

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

Mrs. Marstella Bahati Kahindi – Member



Appointed on 4th May, 2020.

Mrs. Marstella Bahati Kahindi is a holder of an MBA degree in Strategic Management and Bachelor of Arts. She has vast experience having been previously with Kenya Industrial Estate as a non- Executive Director, Barclays Bank of Kenya, Vibef Ltd, Ling'aling'a Enterprises Ltd, K-Rep Bank, Kenya Commercial Bank and Agricultural Finance Corporation before joining Kenya Plant Health Inspectorate Service.

Dr. Maore Stephen – Member



Appointed on 4th May, 2020.

Dr. Maore Stephen is a holder of Doctorate of

Philosophy (Marketing option), MBA Marketing option, Bachelor of Education. He is a member of Marketing Society of Kenya and Kenya Institute of Management. He has over fifteen (15) years' experience having been previously with Meru County Investments and Development Corporation, Trade Link Consultant and Kenya Methodist University before joining Kenya Plant Health Inspectorate Service (KEPHIS) in May, 2020.

Mr. Ronald J. Abonyo - Member



Appointed on 4th May, 2020.

Mr. Ronald J. Abonyo is a holder of Bachelor of Commerce (Finance Option). He has vast experience having been previously with Goldman Group of Companies as the Chief Executive Officer, Business Development Manager, Head of OTC Market at Dyer and Blair Limited, Operation Manager and the Head of Customer Care before joining Kenya Plant Health Inspectorate Service.

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



Appointed on 2nd July, 2018

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

MANAGEMENT TEAM

Mr. Simion Kibet – Ag. Managing Director

Profile on page 9 above

Mr. Bartonjo Cheptarus- Ag. General Manager, Finance & Administration

As from 18th March, 2020



Mr. Bartonjo joined KEPHIS in the year 2000, and has served in the capacities of Head of Finance and Head of Audit. He holds a Bachelor's Degree in Commerce (Finance Option) from the University of Nairobi.

He is a Certified Public Accountant, and is a member of the Institute of Certified Public Accountants, Kenya (ICPAK).

Dr. Isaac Macharia – General Manager, Phytosanitary Services



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

Mr. Simon Maina – Ag. General manager Quality Assurance



As from 18th March, 2020

Mr. Simon M. Maina Ag. General Manager, Quality Assurance

Mr. Maina joined KEPHIS in July 2002. He has held the position of Head, Seed Certification and Plant Variety Protection since October, 2013 and served as the Acting General Manager, Quality Assurance since March 2020. Mr. Maina holds a Master of Philosophy degree in Plant Genetics and a BSc from Moi University. He has extensive experience in plant variety protection and seed quality assurance. He has undergone extensive training in plant variety protection, seed certification and seed policy in Japan, United States and The Netherlands. He has offered leadership as a seed system and plant variety protection expert in development of regional systems under COMESA, ARIPO and EAC. In particular, he chaired the African Regional Intellectual Property Organization (ARIPO) Technical Committee on Plant Variety Protection that oversaw the development and adoption of Regulations under the Arusha Protocol for the protection on new Varieties of Plants from 2015 to 2019. He also led the Kenyan team of experts that participated in the development of the draft East Africa Seeds and Plant Varieties Bill. He has spearheaded capacity building of local and regional seed inspectors.

CHAIRMAN'S STATEMENT

During the 2019-2020 financial year, KEPHIS continued to focus on delivery of its mandate in terms of provision of efficient and effective assurance, certification and laboratory services to the agriculture sector. In the delivery the Corporation ensured that its activities are aligned to the Government's Vision 2030, the Third Medium Term Plan and the Big Four Agenda.

Further, the corporation played its role in the implementation of the Vision 2030 flagship projects and the Agricultural Sector Transformation and Growth Strategy (2019-2029). The Corporation continued to implement its 2017/18-2021/22 Strategic Plan, performance contract and work plans. The activities of the institution were geared towards achievement of food and nutrition security through its regulatory and facilitative role in the agriculture sector projects and programmes.

Agriculture takes a significant position in the growth of Kenya's economy with the sector contributing 26 per cent of GDP and 27 percent of GDP indirectly through linkages with other related sectors. The sector employs 40 percent of the total population and 70 percent of Kenya's rural population.

In the 2019 period, the Kenya National Economic Survey depicts the agricultural sector record a decelerated growth of 3.6 percent as compared to 6.1 percent in 2018. The decline was mainly due drought during the first half of the year, followed by high rainfall in the second half of the year. The production period was also greatly affected by the locust invasion in some parts of the country. This culminated in reduced production of selected crops.

During the period, the value of marketed production at current prices contracted by 6.5 per cent from KSh 498.3 billion in 2018 to KSh 465.7 billion in 2019. Maize production reduced from 44.6 million bags in 2018 to 39.8 million bags in 2019. Tea production decreased by 6.9 per cent to 458.5 thousand tonnes while sugar cane production decreased by 12.5 per cent to 4.6 million tonnes. However, the quantity of coffee produced increased by 8.7 per cent from 41.4 thousand tonnes in 2017/18 to 45.0 thousand tonnes in 2018/19. Total paddy rice production rose by 42.6 per cent from 112.6 thousand tonnes in 2018 to 160.6 thousand tonnes in 2019. More significantly, the export quantities of fresh horticultural quantities increased slightly by 1.8 per cent from 322.6 thousand tonnes in 2018 to 328.3 thousand tonnes in 2019. Despite this growth, earnings from exports of fresh horticultural produce decreased for the first time by 5.9 per cent from KSh 153.7 billion in 2018 to KSh 144.6 billion in 2019. This was attributable to lower prices offered in the international market.

KEPHIS plays an important role in the country's agricultural sector through its regulatory function. The corporation has implemented robust systems and scientific processes for assuring quality agricultural inputs and produce. KEPHIS in collaboration with other agencies, has also made it possible for Kenya's fresh horticultural produce to maintain its

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competitiveness in the world market by ensuring market requirements and standards are adhered to by local farmers, producers and exporters.

The institution's service delivery and performance was however not without facing a number of challenges. The Covid-19 pandemic that affected the whole globe during the third and fourth quarter had major interruptions on the agricultural production value chain. Pests and diseases with significant economic effects were also witnessed during the year. These included the desert locust, False Codling Moth (FCM) in chilies and roses and the Potato Cyst Nematode (PCN) in potatoes among others. Dynamic and new market requirements which result in increased costs of doing business and loss of opportunities especially for horticultural producers. Further, limited financial resources facing KEPHIS strained its systems due to inadequate staffing and facilities. The Corporation did however ensure services were delivered in spite of the challenges.

One key achievement of the Corporation was the important role it played in the negotiations for the African Continental Free Trade Area (ACFTA), the US Free Trade Area, and concluded requirements for exports to China for locally produced Avocado. The initiatives are expected to open up more opportunities for trade for local smallholder farmers and traders.

During the period, the United Nations declared the International Year for Plant Health 2020. This was launched in Kenya during the year and KEPHIS will play a pivotal role in its celebration and spearhead the global awareness on how protecting plant health can help end hunger, reduce poverty, protect the environment, and enhance economic development.

Growth in the corporation's revenue has been modest in 2019/2020 and sustainability remains a major factor amid recent adjustments in budgetary allocations from the exchequer. In this regard, KEPHIS has re-focused its strategy on Resource Mobilization and Management in a bid to enhance revenue streams and explore new service areas aimed at expanding its financial resource base. This is expected to enhance sustainability gaps hence ensuring that KEPHIS continue to fulfil its mandate.

I take this opportunity to thank the Cabinet Secretary and Principal Secretary Ministry of Agriculture, Livestock, Fisheries and Cooperatives, fellow Directors, management, staff, stakeholders, development partners and collaborators that made the year a success. KEPHIS commits itself towards the promise of protecting and enhancing Kenya's agricultural sector for a prosperous economy.



Robin M. Achoki

CHAIRMAN, BOARD OF DIRECTORS

KENYA PLANT HEALTH INSPECTORATE SERVICE (KEPHIS)

REPORT OF THE CHIEF EXECUTIVE OFFICER

It is my pleasure to present to you the Kenya Plant Health Inspectorate Service (KEPHIS) Annual Financial Statement report for the year ended 30th June 2020. The period under review concluded with the whole world undergoing challenges as a result of the Covid-19 pandemic. This had huge ramifications on the world economies and more so on all nation's health and economic systems. Despite the set-backs, the pandemic has provided opportunity for the corporation through its adoption to the new business environment. These opportunities will be sought and implemented in the impending period.

During the period under review, KEPHIS continued its regulatory role of assuring the quality of agricultural inputs and produce in Kenya and as the National Plant Protection Organization (NPPO). The corporation operates within a robust legal framework through the KEPHIS Act No. 54 of 2012 and other supportive statutes that include the Seeds and Plant Varieties Act CAP 326 and the Plant Protection Act CAP 324. In the year under review, the Corporation initiated development of the Phytosanitary policy and review of CAP 324 through development of import and export regulations to further strengthen its regulatory role in the agriculture sector.

Agricultural productivity and access to novel and superior quality of seed by Kenyan farmers is one of the focus areas under the Big four agenda. In support of this, KEPHIS undertook seed certification and plant variety activities during the year. As a result, 90 Plant Breeder's Rights (PBRs) were issued as compared to 40 last year. In addition, 70 new seed varieties were recommended for release during the period, as compared to 56 last year. In the period under review KEPHIS tested varieties suitable for irrigation, drought resilient as well as industrial crops. These crops included maize, potato, rice, millet, sorghum, common beans, iron rich beans, ground nut, bambara nut and cotton. In addition, the corporation in collaboration with other stakeholders finalized tests and released GM-cotton varieties that will be key in enabling farmers enhance productivity, lower use of insecticides and provide supply to the now revitalized textile industry.

KEPHIS gave support to farmers in assuring quality of other inputs through analysis of 686 fertilizers samples, 3,709 samples for food safety analysis, 4,986 seed samples and 3,229 pest and disease diagnostic samples. This was made possible through accredited laboratories at Analytical Chemistry at Headquarters, Seed Quality lab at Nakuru and the Plant Health Laboratory at Plant Quarantine and Bio-Security station (PQBS). Other established laboratories are the seed and Analytical Chemistry laboratories at Kitale and the molecular laboratory at headquarters. The plant health laboratory at PQBS attained a major milestone of re-accreditation to ISO/IEC 17025:2017. This will definitely boost the confidence of our clients to the test results from the laboratory.

Plant health and bio-security remain core areas for KEPHIS and in retrospect, the country has gone through numerous challenges in terms of crop pest and disease emergence that

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include Leaf miner (*Tuta absoluta*), Maize Lethal Necrosis Disease (MLND), Potato Cyst Nematode (PCN), Fall Army Worm (FAW), False Codling Moth (FCM) and more recently the desert locust. In the period under review KEPHIS collaborated with partners and other agencies in developing a strong Early Warning Systems for plant pests and for early detection and management. The Corporation put in place a research unit to work with other research agencies as a compliment in the fight against introduction of harmful organisms to the country. Enhancement of surveillance, inspection activities and border control was ensured and KEPHIS issued 44,127 Plant Import Permits (PIPs) for and 413,523 Phytosanitary Certificates for compliant import and export consignments respectively.

KEPHIS as the recognized National Plant Protection Organization (NPPO), trade facilitation remains key in the implementation its mandate. During the period, KEPHIS participated in key negotiations that included the European Union (EU), East Africa Community (EAC), Africa Continental Free Trade Area (AfCFTA) and the Unites States of America Free Trade Area (USFTA). The Corporation also actively participated in international forums such as AGOA, COMESA, IPPC - CPM, WTO, ISTA, OECD, UPOV where the revised tea guidelines were finalized to be approved by the UPOV Council and CODEX Alimentarius to support the county's position in international trade standards and requirements.

Capacity building is paramount for KEPHIS for infrastructural development and an empowered skilled manpower. During the period, the Corporation fully integrated its Electronic Certification System (ECS) and the Import Certification System (ICS) to the Kenya National Single Window system (KNSWS) for trade facilitation and ease of doing business for exporters and importers of fresh produce. The Corporation also received support from Trade Mark East Africa (TMEA) in the development of the Electronic Seed Certification system that was piloted in the last quarter. The system is expected to enhance efficiency in the provision of seed certification and plant variety protection services. KEPHIS in collaboration with the University of Nairobi (UoN), Centre of African Biosciences International (CABI) and other partners jointly trained 891 horticultural practitioners under the Centre of Phytosanitary Excellence (COPE) at both local and regional levels. Going forward KEPHIS intends to transit COPE into an independent training center and streamline its operations to attract more support and clients.

KEPHIS is cognizant of the fact that agriculture extension is now a devolved function. During the year we partnered with County governments in building capacity for farmers and players at the local level as a way of ensuring compliance to standards. This is expected to enhance productivity and create market access for our local agricultural produce. In the period under review KEPHIS undertook various initiatives in various counties and trained a total of 807 county extension staff and farmers in Naivasha, Timau, Machakos, Nakuru, Laikipia, Taita Taveta, Nyeri, Kirinyaga, Kericho, Uasin Gishu, Kajiado, Kiambu, Trans-Nzoia, and Bungoma

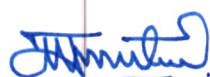
KEPHIS greatly values the strong partnerships and linkages it has developed with its stakeholders over the years. During the year, the Corporation partnered with the Government through the Ministry of Agriculture, Livestock, Fisheries and Cooperatives.

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Other government bodies and international partners included the European Union (EU), USAID (United States Agency for International Development), United Nations Industrial Development Organization (UNIDO), Centre for Agriculture and Biosciences International (CABI), the International Potato Centre (CIP), among others. KEPHIS implemented a number of projects including the USAID FOODSCAP under the Feed the Future Programme, COMESA RIIP and CIP/ GIZ. The projects mainly focused on capacity building within the sector, equipment purchases, surveillance and creation of awareness on current and emerging market requirements.

Resource mobilization and management remained a priority for KEPHIS during the period. KEPHIS has put forward strategies that will assist optimization of resource use and allocation to ensure sustainability for the Corporation. The corporation financed its budget through internally generated funds and exchequer support. As the corporation forges ahead it intends to enhance networks and collaboration with both local and international development partners with a view to exploring avenues of cooperation in the areas of plant health, plant protection, seed trade facilitation and laboratory work. Public-Private-Partnership will be enhanced in various aspects of our operations of with the view of creating more business models for generation of the much needed resources.

In conclusion, I take this opportunity to sincerely thank the KEPHIS Board, management, staff and stakeholders for the support given during the year. KEPHIS is confident that with the support of all stakeholders and partners, we shall attain the vision of **"Healthy plants, safe trade and sustainable agro-environment for a prosperous Kenya"**.



Prof. Theophilus M. Mutui
Managing Director
Kenya Plant Health Inspectorate Service (KEPHIS)

CORPORATE GOVERNANCE STATEMENT

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

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

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

During the 2019/2020 financial year, composition of the Board was as follows:

Chairman	- Mr. Robin Achoki.
Members	- Mr. Julius Mutua
	- Prof. Anne W. T. Muigai (upto 4 th April,2020)
	- Prof. Paul Kimurto (up to 25 th May, 2020)
	- Prof. Julius Mwangi (up to 25 th May, 2020)
	- Dr. Esther Kimani (Up to 18 th March, 2020)
	- Ms. Lucky Litole
	- Mr. Moses Atuko
	- Dr. Rose Njeru
	- Mr. John Angaine
	- Mrs. Marstella Bahati Kahindi

**Kenya Plant Health Inspectorate Service,
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- Dr. Stephen Kirimi Maore
- Mr. Ronald Juxton Abonyo
- Mr. Simon Kogo Kibet (From 18th March, 2020)

Board Committees

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

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

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

During the 2019/2020 financial year, Board and Committee meetings held thirty one (31) meetings as follows:

1. Technical Committee – Seven (7) No.
2. Finance Committee – Six (6) No.
3. Human Resource and Administration Committee – Fifteen (15) No.
4. Audit, Risk & Governance Committee - Four (4) No.
5. Ad-Hoc Committee – One (1) No.
6. Board – Seventeen (17) No.

Attendance to those meetings by members was as follows:

Board Member	Technical Committee Meetings (6 No.)	Finance Committee Meetings (5 No.)	Human Resource & Administration Committee Meetings (5 No.)	Audit Committee Meetings (4No.)	Board Meetings (9 No.)	Ad-Hoc Committee	Total No. of Meetings Attended
Mr. Robin Achoki	0	0	0	0	16	1	17
Prof. Anne W. T. Muigai	4	0	0	4	14	1	23
Mr. Julius Mutua	0	6	15	3	15	0	33
Prof. Paul Kimurto	5	3	0	0	13	1	22
Prof. Julius Mwangi	5	0	0	2	16	0	23
Ms. Lucky Litole	0	6	15	2	16	1	41
Mr. Moses Atuko	0	0	15	3	16	1	35
Dr. Rose Njeru	5	0	0	3	16	0	24
Mr. John Angaine	0	5	12	0	14	0	31

**Kenya Plant Health Inspectorate Service,
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Board Member	Technical Committee Meetings (6 No.)	Finance Committee Meetings (5 No.)	Human Resource & Administration Committee Meetings (5 No.)	Audit Committee Meetings (4No.)	Board Meetings (9 No.)	Ad-Hoc Committee	Total No. of Meetings Attended
David Mwangi	1	0	0	1	8	0	10
Mrs. Marstella Bahati Kahindi (Appointed 4 th May 2020)	0	0	0	0	0	0	0
Dr. Stephen Kiriimi Maore (Appointed 4 th May 2020)	0	0	0	0	0	0	0
Mr. Ronald Juxton Abonyo (Appointed 4 th May 2020)	0	0	0	0	0	0	0
Dr. Esther Kimani	5	4	6	0	11	0	26
Simon Kibet	2	1	4	0	3	0	10

Succession Planning

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

Existence of a Board Charter

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

Induction and training

Induction training for Board members undertaken in February and June, 2018 however, the newly appointed Board Members have not been inducted for the reasons that the Management is awaiting the numbers of the Board Members be rationalized pursuant to the provisions of the KEPHIS Act. No. 54 of 2012.

Board and Member Performance

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

Declaration of Interest

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

Board Remuneration

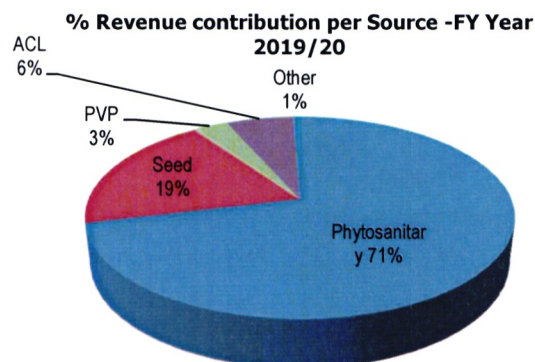
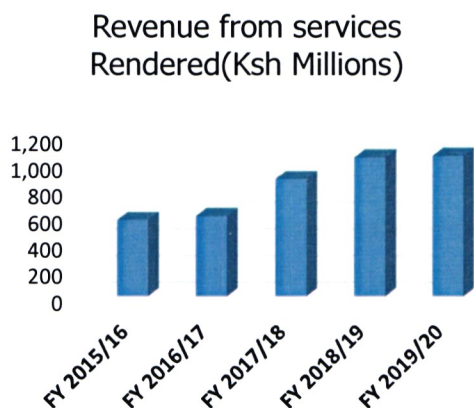
Currently governed under the 2004 Guidelines on Terms and Conditions of Service for State Corporations' Chief Executive Officer, Chairmen and Board Members, Management and Unionisable Staff.

Governance Audit

The Board has embarked on building in-house capacity in readiness for the 1st Governance Audits during the 2020/2021 financial year upon accreditation of Governance Auditors by the State Corporations Advisory Committee.

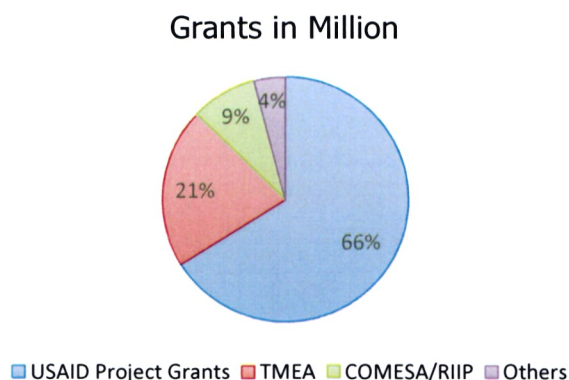
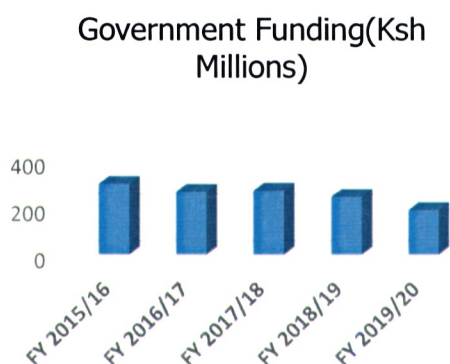
MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview



Revenue generated from rendering services grew from Kshs. 1.05billion in the year 2018/19 to Kshs. 1.06B in the year ending June 2020. 71% of the revenue was generated by offering phytosanitary services while 19% was generated from seed inspection. ACL and Plant protection generated 3% and 6% respectively.

Government funding has reduced significantly from Kshs. 300M in the year 2015/16 to Kshs. 190M in the year 2019/20. The corporation has appealed to the treasury for additional funding following stoppage of inspection charges from spices, tea and coffee destined for Palestine market. This has attributed greatly to surplus gained after implementation of gazetted charges shrinking to deficit.



Major donors within the year were USAID Foodscap, COMESA RIIP, and TMEA. RIIP has been advocating for region integration for ease of market penetration while TMEA are developing a seed system to facilitate efficiency in inspection and certification. Foodscap is a project for improving food security through strengthening and enhancing the organization's capacity to certify crop and facilitate safe food.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

1. KEPHIS Donates a Cow and Avocado Seedlings for its Corporate Social Sustainability Initiative in Naivasha

Asante Children's Home is located a few kilometres from Naivasha Town in Nakuru County. The home has 22 children, from 8-18 years old, both boys and girls and was established in 2008. This was the venue for the main 2019-2020 Corporate Social Sustainability (CSS) initiative. KEPHIS through the Naivasha office donated a cow in calf for the children for their calcium and other health needs.



Left: the cow donated by KEPHIS to Asante Children's Home in Naivasha for the 2019-2020 main Corporate Social Sustainability initiative; and right: Dr. Isaac Macharia the GM for Phytosanitary Services officially handing over the cow to the administrators and children of the home

Mr. Moses Wakahara, the Crops Officer for Naivasha Sub-county urged the home to feed the cow with desmodium and lucerne for it to be well nourished and maintained. "Our office is also ready to cater to any disease that occurs and we will alert you when the next vaccinations are due," he advised. "We are teaching farming as a business (agribusiness) so increase the number of cows here." He added.

Dr. Isaac Macharia, the KEPHIS GM for Phytosanitary Services who was the Chief Guest and represented the Managing Director gave an overview of KEPHIS mission which is to provide a science based regulatory service by assuring plant health, quality of agricultural inputs and produce for food security, globally competitive agriculture and sustainable

development. The mandate of the Corporation, he added, is seed certification, phytosanitary services and analyses of agricultural inputs and produce through globally accredited laboratories. The mandate is felt in the exports of plant and plant produce which includes avocado, flowers, fruits and vegetables; KEPHIS also certifies nurseries of various crops. The Corporation's phytosanitary role includes inspections at border points so that injurious pests and diseases are not introduced into the country.

The GMPS also taught the administrators of the home how to plant avocado seedlings before donating 20 seedlings which when mature will provide additional nutritional needs to the children as well as being an income generating activity.

2. Donation of beans, maize and sanitary towels to West Pokot floods victims

KEPHIS joined other Kenyans and corporates of goodwill in assisting those in West Pokot affected by devastating floods. Over 50 people died and thousands displaced in the county where bridges were washed away and rivers overflowed their banks thus cutting off communications; KEPHIS donated 40 bags of maize, 10 bags of beans and sanitary towels through the CAS in the Ministry of Agriculture, Livestock and Fisheries Dr. Andrew Tuimur. Other donations came from New KCC who donated milk, Kenya Seed Company who donated 100 bags of maize, Brookside Dairies who also donated milk and the Agricultural Development Corporation who donated maize and provided logistical support to transport the foodstuff and other items. Dr. Tuimur, who led the various organizations in handing the foodstuff to Governor John Lonyangapuo in Kapenguria, hoped the items would go a long way in alleviating the suffering of those affected by the disaster.



CAS Agriculture, Livestock and Fisheries Dr Andrew Tuimur and West Pokot Governor John Lonyangapuo flagging off foodstuff and other items to those displaced by floods in West Pokot. (Right) KEPHIS Board member Ms. Lucky Litole addressing the media before foodstuff to those affected by floods in West Pokot was flagged off

3. Training of persons with disabilities on how to grow avocado seedlings

KEPHIS organized a training on fruit tree and vegetable farming to Persons living with Disabilities (PWDs) in Embu County in November 2019. The training was conducted at St. Paul's Anglican Church of Kenya Hall. KEPHIS was the first organization to organize for such training in Embu County, whose aim was to align people abled differently on farming activities in line with the *Big 4 Agenda* by encouraging them to engage in modern agriculture. The training focused on empowering the farmers on nursery establishment to facilitate production of high quality planting material.

The farmers were sensitized on the importance of using certified seeds and seedlings and services offered by KEPHIS. Stakeholders called for more inclusivity of disabled people in many other agricultural activities as well as regular interactions with KEPHIS and other government agencies towards supporting them. Each farmer was also given four (4) sweet potatoes vines of *Kabode* and *Vitaa* varieties to increase their food production. The farmers were also given a practical session on macadamia nursery establishment at the KEPHIS Embu office.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the corporation's affairs.

Principal activities

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

Results

The results of the entity for the year ended June 30, 2020 are set out on pages 1 to 5.

Directors

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

Surplus Remission

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

Auditors

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

By Order of the Board



Secretary to the Board of Directors, KEPHIS

Date:.....21/05/2021.....

I. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the corporation's financial statements, which give a true and fair view of the state of affairs of the corporation for and as at the end of the financial year ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

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

Approval of the financial statements

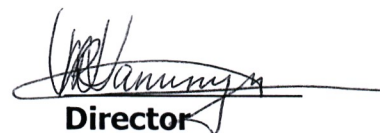
The corporation's financial statements were approved by the Board on _____
2020 and signed on its behalf by:



Director



Director



Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA PLANT HEALTH INSPECTORATE SERVICE FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Plant Health Inspectorate Service set out on pages 1 to 38, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Plant Health Inspectorate Service as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Plant Health Inspectorate Service Act, 2012, Public Finance Management Act, 2012 and the State Corporations Act, Cap 446 of the Laws of Kenya.

Basis for Qualified Opinion

1. Property, Plant and Equipment

Property, plant and equipment balance of Kshs.1,130,631,000 reflected in the statement of financial position as at 30 June, 2020 includes eleven parcels of land valued at Kshs.264,666,000 situated in Nakuru, Muguga, Kitale, Kabete, Embu, Karen and Kisumu. Except for the parcels of land in Karen, Embu, Kabete and Kisumu, the Inspectorate Service does not possess ownership documents for the other parcels.

As previously reported, out of the 125.3 hectares of land in Kitale held by third parties, the Inspectorate Service has so far recovered 34.09 hectares while a balance of 91.21 hectares is still held by private developers or occupied by squatters.

Further, although the management has initiated the process of transferring the ownership of Nakuru and Muguga parcels of land from KARLO (formerly KARI) to KEPHIS, it is not clear when title documents will be obtained.

In the circumstances, the fair statement of property, plant and equipment balance of Kshs.1,130,631,000 as at 30 June, 2020 cannot be confirmed.

2. Long Outstanding Debtors

The statement of financial position reflects an amount of Kshs.115,951,000 under receivables from exchange transactions and as disclosed under Note 21 to the financial statements. The amount is net of a provision of Kshs.16,695,000. However, an aged debtors' analysis provided for audit reflects an amount of Kshs.28,317,115 as being over a year and above, with some of the debtors being over three years old.

No reason was provided for failure to recover from the debtors as their accounts remain active to date. The validity of the balances exceeding one year therefore remains doubtful.

In the circumstances, the recoverability of debtors amounting to Kshs.28,317,115 could not be confirmed.

3. Unsupported Increase in Provision for Doubtful Debts

The statement of financial performance reflects an amount of Kshs.2,989,000 under increase in the provision for doubtful debts, and as disclosed in Note 28 to the financial statements. The amount includes Kshs.2,028,000 relating to additional provision in doubtful debts in the year. However, no basis was provided for the additional provision in doubtful debts.

Consequently, the accuracy of the financial statements could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Plant Health Inspectorate Service Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the 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

Restriction of KEPHIS Inspections at the Entry and Exit Ports

The Government issued a circular intended to enhance efficiency and reduce duplication of roles at the ports of entry and exit of Kenya. The Government Agencies and other entities and stakeholders like importers, exporters and clearing agents, who had been operating at the ports were grouped into five categories and a description of the process of clearing imports and exports described.

Kenya Plant Health Inspectorate Service (KEPHIS) was grouped in Category 3: Intelligence-led Operators. Category 3: Agencies undertake cargo related intervention after making a formal request to the Head of the Lead Agency (Kenya Ports Authority) in Category 2 using the Port of Entry Accountability Form.

This administrative arrangement may compromise the food safety measures as their inspection is only possible if approved by the Kenya Ports Authority. The likelihood of other agencies not prioritizing the flagging of consignments of phytosanitary concern is very high because the mandate of protection of the country's agriculture against pests through phytosanitary certification do not fall within their jurisdiction.

Continued failure to include KEPHIS under Category 2 agencies creates the dangers listed below to the Country;

- (i) Exposure of the country to plants pests posing threat to agriculture and food security that may lead to losses in yield, high costs of management, enhanced international market phytosanitary restrictions among others.
- (ii) Inadequate implementation of KEPHIS mandate.
- (iii) Exposure of the phytosanitary risks associated with the plants, plant products.
- (iv) Risk of market loss upon trading partners realizing our weak system in regulating imports and exports.

- (v) The Country could be in breach of the WTO-SPS agreement where Kenya is a party to, thereby exposing the country to trade complaints where Phyto-certification has not been issued by a duly certified competent authority.
- (vi) Enhanced inspection regimes whenever Kenya's agricultural produce arrive in foreign country may be put in place and restrictions on Kenyan produce may be implemented.

Further, Kentrade System give inadequate information on the consignment and cannot be able to display content of the consignment in advance before clearance by category 2 Agencies. Previously, the Service could use Information from KWATOS, SIMBA and ICMS that were able to give full details of the consignment before arrival of the ship.

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 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 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 those Charged with Governance

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 ability of Kenya Plant Health Inspectorate Service 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 Service or to cease operations.

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

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

Those charged with governance are responsible for overseeing the 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 audit 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Kenya Plant Health Inspectorate Service to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Inspectorate to cease 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 Kenya Plant Health Inspectorate Service to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

26 January, 2022

Kenya Plant Health Inspectorate Service
Annual Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2019-2020	2018-2019
		Kshs '000'	Kshs '000'
Revenue from non-exchange transactions			
Public contributions and donations	6	269,617	179,984
Transfers from other governments—gifts and services-in-kind	7	190,000	245,914
		459,407	425,898
Revenue from exchange transactions			
Rendering of services	8	1,060,134	1,046,911
Hire of Facilities	9	2,958	7,386
Finance income-external investments	10	2,635	3,404
Other income	11	14,021	1,471
		1,079,748	1,059,172
Total revenue		1,539,365	1,485,070
Expenses			
Employee costs	12	672,340	634,293
Board Expenses	13	33,856	26,124
Depreciation and amortization expense	14	86,782	88,654
Repairs and maintenance	15	63,681	80,911
Grants and subsidies	16	169,006	125,178
General expenses	17	504,400	523,184
Total expenses		1,530,065	1,478,344
Other gains/(losses)			
Gain on sale of assets	18	1,190	1,080
Gain on foreign exchange transactions	19	(501)	304
Increase/Decrease in provision for doubtful debts	28	(2,989)	904
Total other gains/(losses)		(2,300)	2,288
Surplus/Deficit for the period		7,000	9,015
Remission to National Treasury	32	18,000	-
Surplus/Deficit for the period		(11,000)	9,015

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

Kenya Plant Health Inspectorate Service
Annual Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

		2019 - 2020	2018 - 2019
	Note	Current year	Current year
Assets		Shs '000'	Shs '000'
Current assets			
Cash and cash equivalents	20	31,493	125,748
Receivables from exchange transactions	21	115,951	105,134
Receivables from non-exchange transactions	22	5,176	6,876
Inventories	23	29,693	44,692
Prepayments	24	77,395	56,668
		259,709	339,119
Non-current assets			
Property ,plant and equipment	25	1,130,631	1,110,521
Investments	26	60,000	60,000
Long term receivables from exchange transactions		-	-
		1,190,631	1,170,521
Total assets		1,450,340	1,509,640
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	27	131,484	88,692
Provisions	28	1,922	961
Deferred income	29	94,696	190,626
Payments received in advance	30	9,077	7,388
Current Borrowing	31	2,189	-
		239,368	287,667
Net assets			
Reserves		1,221,972	1,212,958
Surplus/(deficit)		(11,000)	9,015
		1,210,972	1,221,972
Total net assets and liabilities		1,450,340	1,509,640

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



Managing Director
Prof. Theophilus M. Mutui



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



Chairman of the Board
Mr. Robin M. Achoki

Date. 21/05/2021

Date. 21/05/2021

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Kenya Plant Health Inspectorate Service
Annual Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2020

	Revaluation reserve	Retained earnings	Total
	Kshs '000'	Kshs '000'	Kshs '000'
At July 1, 2018	451,194	761,763	1,212,957
Surplus/Deficit for the period		9,015	9,015
At June 30, 2019	451,194	770,778	1,221,972
At July 1, 2019	451,194	770,778	1,221,972
Surplus/Deficit for the period		(11,000)	(11,000)
At June 30, 2020	451,194	759,778	1,210,972

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2019-2020	2018-2019
		Kshs '000'	Kshs '000'
Cash flows from operating activities			
Receipts			
Public contributions and donations	6	173,687	218,258
Transfers from other governments—gifts and services-in-kind	7	190,000	245,914
Rendering of services	8	1,060,134	1,046,911
Hire of Facilities	9	2,958	7,386
Finance income-external investments	10	2,635	2,251
Other income	11	13,520	1,471
		1,442,935	1,522,191
Payments			
Employee costs	12	672,340	634,293
Board Expenses	13	33,856	26,124
Repairs and maintenance	14	63,681	80,911
Grants and subsidies	15	169,006	125,178
General expenses	16	504,400	523,184
Remission to National Treasury		18,000	-
		1,461,283	1,389,690
Net cash flows from operating activities		(18,348)	132,500
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(107,814)	(112,866)
Proceeds from sale of property, plant and Equipment		2,111	1,410
Decrease/(increase) in current receivables		(11,144)	12,258
Decrease/(increase) inventories		14,999	(8,620)
Decrease/(Increase) in prepayments		(20,727)	(12,381)
(Decrease)/Increase in payables		42,791	10,327
(Decrease)/Increase Payment received in advance		1,689	(1,138)
Net cash flows used in investing activities		(78,095)	(111,010)
Cash flows from financing activities			
Proceeds from borrowings		2,189	-
Repayment of borrowings		-	-
Increase in deposits		-	-
Net cash flows used in financing activities		2,189	-
Net increase/(decrease) in cash and cash equivalents		(94,255)	21,462
Cash and cash equivalents at 30 June 2018		125,748	104,258
Cash and cash equivalents at 30 June 2019		31,493	125,748
Per Financial Statements		31,493	125,748

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2020

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Explanation of material variances
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020	
	Kshs	Kshs	Kshs	Kshs	Kshs	
Revenue						
Public contributions and donations	176,728	-	176,728	269,617	92,889	(a)
Transfers from other governments-gifts and services-in-kind	190,000	-	190,000	190,000	-	(b)
Rendering of services	1,151,307	-	1,151,307	1,160,134	91,173	(c)
Hire of Facilities	14,118	-	14,118	2,958	(11,160)	(d)
Other income	13,045	-	13,045	14,356	1,311	(e)
Total income	1,545,198		1,545,198	1,537,066	(8,133)	
Expenses						
Employee costs	675,753	-	675,797	672,340	3,457	(f)
Board Expenses	28,414	1,586	30,000	33,856	(3,856)	(g)
Depreciation and amortization expense	83,200		83,200	86,782	(3,582)	(h)
Repairs and maintenance	75,933	(1,586)	74,347	63,681	10,666	(i)
Grants and subsidies	176,729	-	176,729	169,006	7,723	(j)
General expenses	505,16	-	505,125	504,400	725	(k)
Remission to National Treasury	-	-	-	18,000	(18,000)	(l)
Total expenditure	1,545,198	-	1,545,198	1,548,065	(2,867)	
Surplus for the period	-	-	-	(11,000)	(11,000)	

Explanation of material variance in statement of variance and actual comparison

- a) Increase attributed to support from TMEA on Seed Certification System.
- b) GOK funding was provided as per budget.
- c) The revenue from rendering of services was below budget forecast due to maturing revenue stream and effect of COVID 19.
- d) Targeted revenue was not met due to facilities set up and location, and effect of covid 19 pandemic.
- e) Other income target surpassed
- f) Expenditure was within set target.
- g) Board expenditure was high due to increased activities aimed at addressing institutional gaps.
- h) Depreciation amount was within range.
- i) Savings achieved due to COVID pandemic.
- j) Saving due to slowdown in implementation of activities as result of COVID pandemic.
- k) The general expenditure was within range.
- l) The money was recalled by the national treasury

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

2. Statement of Compliance and Basis of preparation

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

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

3. Adoption of new and revised Standards

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

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 are covered purely under Public Sector combinations as amalgamations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

Standard	Effective date and 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 scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
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;

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Standard	Effective date and impact:
	(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.
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	Applicable: 1st January 2022: a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other Improvements to IPSAS	Applicable: 1st January 2021: a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets. d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).

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Standard	Effective date and impact:
	Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020.

4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees

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

Transfers from other government entities

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

ii) Revenue from exchange transactions

Rendering of services

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

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

Sale of goods

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

Interest income

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

b) Budget information

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

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

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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

c) Taxes

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

d) Property, plant and equipment

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

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

The Corporation applies the following rates of depreciation:

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

The following residual values have been adopted:

- Plant and Machinery 10%

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

e) Leases

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

f) Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Held-to-maturity

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

Impairment of financial assets

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

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

g) Inventories

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

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

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

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

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

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

Provisions

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

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

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

Contingent liabilities

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

Contingent assets

The Corporation does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Corporation in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

i) Nature and purpose of reserves

The Corporation creates and maintains reserves in terms of specific requirements. The corporation maintains two reserves namely, retained earnings reserve revaluation reserve and. Revaluation reserves of Kshs. 451,194,344.00 reflected in the financial statements arose out of revaluation of corporation assets while the retained earnings reserve have a balance of Kshs. 768,375,783 arising out of accumulated surplus since inception.

Changes in accounting policies and estimates

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

j) Employee benefits

Retirement benefit plans

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

k) Foreign currency transactions

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

l) Related parties

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

m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are

subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

n) Comparative figures

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

o) Subsequent events

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

5. Significant judgments and Sources of estimation uncertainty

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

Estimates and assumptions

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

Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Entity

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

Provisions

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

6. Public contributions and donations

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Project grant COPE	5,609	6,662
COMESA/RIIP	15,000	9,000
SASHA II/Prebasic seed revolving fund	854	1,605
EU-SMAP	-	9,305
CIP Pre-Basic revolving Fund	-	-
CIP Ralstonia	1,108	-
USAID foodscap	113,635	191,440
Natural History Museum	-	245
IITA cassava Rap	-	-
STDF/COMESA	37	
CIMMYT	1,012	
Agri experience	210	
TMEA	36,222	
Total Transfers and sponsorship	173,687	218,258
Reconciliation of public contribution and donations		
Balance unspent at the beginning of the year	190,626	152,351
Current year receipts	173,687	218,258
Condition met-transferred to revenue	(269,617)	(179,984)
Condition to be met -remain liabilities	94,696	190,626

These funds are received from various development partners and stakeholders.

7. Transfers from other governments

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Unconditional grants		
Operational grant	190,000	245,914
Other		
	190,000	245,914
Conditional grants		
Development Grant	-	-
Total government grants and subsidies	190,000	245,914

7b)

Name of the Entity sending the grant	Amount recognize d to Statement of Comprehe nsive Income	Amount deferred under deferred income	Amount recognize d in capital fund.	Total grant income during the year	2019-2020
	Kshs	Kshs	Kshs	Kshs	Kshs
Ministry of Agriculture Livestock and Fisheries/State department of Research	190,000	-	-	-	190,000
Total	190,000	-	-	-	190,000

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8. Rendering of services

Description		2019-2020	2018-2019
Department	Section	KShs	KShs
Phytosanitary	JKIA Plant Inspection Unit	263,474	274,933
	Plant Quarantine Station Muguga Muguga	11,958	11,084
	Namanga Boader Post	46,212	61,606
	Loitoktok Boader Post	15,565	15,648
	ICD Nairobi	214	-
	Headquaters Phytosanitary	13,627	43,560
	Headquaters Molecular Laboratory	3,640	4,534
	Mombasa Chief Grader	251,461	221,399
	Lungalunga Boarder Post	12,014	8,939
	Taveta Boarder Post	26,718	17,662
	Bura Station	430	1,375
	Naivasha	9,296	10,816
	Total Phytosanitary Revenue	654,609	671,556
Seed Certification	Headquarters Seed Section	35,647	37,761
	Nakuru Main Office	41,412	39,079
	Kitale Main office	70,236	66,459
	Malaba Boarder Post	52,307	38,738
	Eldoret Station	3,577	5,854
	Swam	969	444
	Lwakhakha	203	-
	Kisumu Main Office	3,365	4,563
	Busia Boarder Post	67,971	75,159
	Isebania Boarder Post	6,498	5,137
	Embu Regional Office	3,963	10,469
	Moyale Boarder Post	17,515	9,624
	Timau Station	3,771	1,788
	Nyeri	1,017	341
	Total Seed Certification Revenue	308,450	295,417
Plant Variety Services	All Stations	32,513	39,847
Analytical Laboratory Services	Headquarters	64,563	40,091
Other Incomes		-	-
	Total revenue from the rendering of services	1,060,134	1,046,911

9. Rental revenue from facilities

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Conference and Accommodation	2,958	7,386
Total rentals	2,958	7,386

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

10. Finance income

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Interest from Mortgage Deposit and other deposits	2,635	3,404
Total finance income – external investments	2,635	3,404
Interest Received	1,657	2,251
Interest receivable	978	1,153
Total Interest receivable	2,635	3,404

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

11. Other income

	2019 - 2020	2019-2020
	Kshs 000	Kshs 000
Miscellaneous receipts	14,021	1,471
Total other income	14,021	1,471

12. Employee costs

	2019-2020	2018-2019
	Kshs 000	Kshs 000
Basic Salary	313,283	302,539
Casual Labour	60,779	47,752
Gratuity and Pension	56,045	47,333
House Allowance	117,681	117,517
Transfer Allowance	2,538	2,515
Other Personal Allowances	51,515	54,241
Overtime Allowance	2,446	2,943
Passage & Leave Expenditure	4,725	4,721
Medical Expenses	47,703	32,557

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Staff life and accident cover	7,259	7,148
Training Expenses (staff)	8,366	15,027
Total employee cost	672,340	634,293

13. Remuneration of directors

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Medical Expenses	1,004	717
Board Committees and Seminars	31,745	24,363
Chairman's Honoraria	1,106	1,044
Total director emoluments	33,856	26,124

14. Depreciation and amortization expense

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Property, plant and equipment	86,782	88,654
Total depreciation and amortization	86,782	88,654

15. Repairs and maintenance

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Maintenance of Motor Vehicle	30,334	31,743
Maintenance of Plant Machinery & Equipment	15,798	26,069
Maintenance of Buildings and stations	17,549	23,099
Total depreciation and amortization	63,681	80,911

16. Grants and subsidies

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Project grant COPE	6,751	6,483
EAPP	-	-
ASSIP -K	-	-
EU SMAP	-	7,063
COMESA/RIIP	11,959	13,441
SASHA II/Prebasic seed fund	657	2,336
IITA BGMF		
STDF/COMESA	1,624	-
KFC/KAVER	-	-
Prebasic seed fund		-
CIP Ralstonia	1,464	-
Agri experience	210	-
IITA Cassava Rap	531	-
CIMMYT	999	-
USAID Foodscap	126,091	95,609
Natural History Museum	18,720	245
Total Transfers and sponsorship	169,006	125,177

17. General expenses

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Electricity	19,393	24,324
Water & Conservancy	1,494	2,119
Telephone	4,617	2,519
Postal & Courier	3,369	3,776
Internet Services	19,815	17,356
Local travel & Accommodation	143,582	125,657
External Travel	16,254	24,152
Publishing & printing	48,649	56,111
Advertising & publicity	1,787	5,221
Trade shows & Exhibitions	20,622	30,806
Rents & Rates	7,425	7,827
Hire of transport	977	2,384
Training (stakeholders)	6,365	15,748
catering services	7,638	4,931
Insurance premiums - vehicles & other assets	8,551	6,905

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laboratory stores	37,269	29,318
Education & library	1,598	1,891
Uniform & clothing	2,397	5,811
Purchases of NPT DUS PC and farm inputs	15,168	19,517
General office supplies and Stationery	11,771	12,368
Supply and accessories for computers and Printers	21,946	22,049
Fuel & lubricants	29,739	32,858
Bank Charges	5,727	3,085
Guards & cleaning services	29,305	27,214
contracted professional services	9,106	9,523
others	564	493
contribution to private and international organisations	6,523	5,308
Farmers demos & field day food & ration	22,721	22,410
Audit fees	-	961
Compensation and ex-gratia	-	315
corporate social responsibility	30	226
Total General Expenditure	504,400	523,184

18. Gain on sale of Assets

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Motor Vehicles	1,190	887
Office Equipment	-	3
Furniture & Fitting	-	190
Total gain	1,190	1,080

19. Gain on foreign exchange

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Realised Exchange Gain/loss	(501)	304

20. Cash and cash equivalents

Institution	Description	Account Number	2019-2020	2018-2019
			Kshs 000	Kshs 000
Current accounts				
CBA	KEPHIS USAID	6523810022	16,254	30,806
KCB	KEPHIS	1108285430	2,643	17,830
KCB	KEPHIS	1108285430	-	104
KCB	KEPHIS(Dollar)	1104843269	1,704	2,560
KCB	Kephis-Assip	1138298948	292	292
KCB	Kephis-Cope	1130043959	331	2,401
KCB	Kephis sinking Fund	1128368366	134	53,350
KCB	Kephis EAAPP Project	1121039685	262	262
NBK	Kephis	1001017146200	9	0
NIC	EU Smap	1001569364	5	5
KCB	Kephis Kisumu	1104038307	1	56
KCB	Kephis Kitale	1108814093	579	142
KCB	Kephis Chief Grader	1101574712	575	69
KCB	Kephis Naivasha	1121954359	103	310
KCB	Kephis Nakuru	1101844876	1	651
KCB	Kephis Plant Quarantine	1107093724	98	1341
KCB	JKIA		427	483
CBA	Kephis JKIA	6523810017	6,182	2,732
KCB	Kephis Embu	1102966649	4	185
Others				
	MPESA		1,500	8094
	Un-deposited funds		391	4076
Total cash and cash equivalents			31,493	125,748

21. Receivables from exchange transactions

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Current receivables		
Service debtors	132,646	119,802
Less: impairment allowance	(16,695)	-14,667
Total current receivables	115,951	105,134

22. Receivables from non-exchange contracts

Description	2019-2020	2018-2019
	Kshs	Kshs
Current receivables		
Staff advances	84	12
Interest receivable	978	2645
Medical Advance	4,115	4220
Total current receivables	5,176	6,876

23. Inventories

Description	2019-2020	2018-2019
Inventories as per region	Kshs 000	Kshs 000
KEPHIS Naivasha	448.18	319
KEPHIS EMBU	476.03	515
Stores-HQ	21,468	25,404
Mombasa	606.63	776
Kitale	-	4016
PQBS	853	-
Kisumu	239.87	242
Jkia	885	1381
Nakuru	3,300	2,017
Lab Stores	1,416	10,021
Total Inventories	29,693	44,692

24. Prepayments

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Prepayment Supplies	64,101	38,049
Deposit Supplies	6,475	6,228
Travel Imprest	6,819	12,391
Total Prepayments	77,395	56,668

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Property, plant and equipment

COST OR VALUATION	LAND	BUILDINGS	PLANT AND MACHINERY	MOTOR VEHICLES	COMPUTERS AND ACCESSORIES	OFFICE EQUIPMENT	FURNITURE AND FITTINGS	LABORATORY EQUIPMENTS	Capital work in progress	TOTALS
cost:Shs.'000'										
July 1st 2018	264,666	639,699	76,040	190,473	89,961	27,458	15,482	371,745	-	1,675,524
Additions	-	-	5,040	61,685	13,993	5,673	3,579	22,818	-	112,788
Transfer	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	(3,143)	-	(54)	(313)	-	-	(3,510)
At 30th June 2019	264,666	639,699	81,080	249,015	103,954	33,077	18,748	394,563	-	1,784,802
July 1st 2019	264,666	639,699	81,080	249,015	103,954	33,076	18,748	394,563	-	1,784,801
Additions	-	-	-	-	8,094	2,004	373	78,544	18,799	107,814
Transfer	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	(9,290)	-	-	-	-	-	(9,290)
At 30th June 2020	264,666	639,699	81,080	239,725	112,048	35,080	19,121	473,107	18,799	1,883,326
DEPRECIATION										
July 1st 2018	-	86,577	46,621	169,728	67,763	16,662	11,245	190,209	-	588,807
Charge for the year	-	12,794	6,580	13,575	14,152	2,326	993	38,234	-	88,654
Disposal	-	-	-	(2,831)	-	(51)	(298)	-	-	(3,180)
Accumulated at 30th June 2019	-	99,371	53,201	180,472	81,916	18,936	11,940	228,443	-	674,281
July 1st 2019	-	99,371	53,201	180,472	81,916	18,936	11,940	228,443	-	674,281
Charge for the year	-	12,794	6,247	14,295	10,197	2,705	1,141	39,404	-	86,782
Disposal	-	-	-	(8,369)	-	-	-	-	-	(8,369)
Accumulated at 30th June 2020	-	112,165	59,448	186,399	92,113	21,641	13,081	267,847	-	752,694
Net Book Value at 30th June 2020	264,666	527,534	21,632	53,326	19,935	13,439	6,040	205,260	18,799	1,130,631
Net Book Value at 30th June 2019	264,666	540,328	27,879	68,543	22,038	14,140	6,808	166,120	-	1,110,521

26. Investment

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
At beginning of the year	60,000	60,000
Additions	-	-
Depreciation	-	-
At end of the year	60,000	60,000

27. Trade and other payables from exchange transactions

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Trade Creditors	95,336	65,289
Sundry Creditors	34,275	19,545
Tax Liability	556	2,542
WIBA insurance proceeds	1,316	1,316
Totals	131,484	88,692

28. Current provisions

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Audit fee Provision		
Balance at the beginning of the year	961	961
Additional Provisions	961	-
Provision utilised	-	-
Change due to discount and time value for money	-	-
Transfers from non -current provisions	-	-
Balance at the end of the year	1,922	961
Provision for doubtful debt		
Balance at the beginning of the year	14,667	15,571
Additional provision	2,028	(904)
Change due to discount and time value for money		
Balance at the end of the year	16,695	14,667
Change in provision(961+2028)	2,989	(904)

29. Deferred income

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Public contributions and donations	13,114	91,645
Donated assets	81,582	98,981
Total deferred income	94,696	190,626

The deferred movement is as follows

Public contributions and donations	
Balance brought forward	190,626
Additions	173,687
Transfers to Capital fund	(83,213)
Transfers to income statement	(169,006)
Transfer to depreciation	(17,398)
Balance carried forward	94,696

30. Payment Received in Advance

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Prepayment Liability	9,077	8,526

31. Current Borrowing

Description	2019-2020	2018-2019
	Kshs 000	Kshs 000
Bank Overdraft (1102825678)	2,189	-

32. Remission to National Treasury

In a letter ref DGIPE/A/1/10 dated 16th September 2019, the National Treasury recalled Kshs. 58 million to finance the big 4 agenda. The cabinet secretary had done this with thought of idle resources not needed immediately and felt there was need to rationalize the budget downward. The organization only managed to remit Kshs. 18Million to facilitate the agenda.

33. Financial Risk Management

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

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policies to ensure that credit is only extended to customers with an established credit history.

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

(i) Credit risk

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

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

	Total amount Kshs. '000'	Fully performing Kshs. '000'	Past due Kshs. '000'	Impaired Kshs. '000'
At 30 June 2020				
Receivables from exchange transactions	132,646	109,273	6,974	16,399
Receivables from non-exchange transactions	5,176	5,176	-	-
Total	137,822	114,449	6,365	16,399
At 30 June 2019				
Receivables from exchange transactions	105,134	98,769	6,365	14,667
Receivables from non-exchange transactions	6,876	6,876	-	-
Total	112,010	105,645	6,365	14,667

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

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

(ii) Liquidity risk management

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

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

	Less than 1 month	Between n 1-3 months	Between n 3-5 Months	Over 5 months	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
At 30 June 2020					
Trade payables	49,852	55,772	3,195	1,679	110,498
Provisions	961	-	-	961	1,922
Deferred income	94,696	-	-	-	94,696
Employee benefit obligation	19,014	-	-	1,972	20,986
Total	164,523	55,772	3,195	4,612	228,102
At 30 June 2019					
Trade payables	63,520	24,918	144	110	88,692
Provisions	961	-	-	-	961
Deferred income	190,626	-	-	-	190,626
Employee benefit obligation	13,344	-	-	-	13,344
Total	268,451	24,918	144	110	293,623

(iii) Market risk

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the

value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

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

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

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

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

	Ksh	Other currencies	Total
	Kshs 000	Kshs 000	Kshs 000
At 30 June 2020			
Financial assets			
Cash	29,789	1,704	31,493
Debtors	104,028	28,618	132,646
Total financial assets	135,521	30,322	164,139
Financial Liabilities			
Trade and other payables	130,501	983	131,484
Total financial liabilities	130,501	983	131,484
Net foreign currency asset/(liability)	5,020	29,339	32,655

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

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

Foreign currency sensitivity analysis

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

Foreign currency sensitivity analysis (Continued)

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs 000	Kshs 000	Kshs 000
2020			
USD	10%	±2,934	±2,934
2019			
USD	10%	±2,996	±2,996

b) Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Kshs 892,531 (2019: Kshs 18.6M). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs 4.5M (2018 – KShs9.3M)

iv) Capital Risk Management

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

	2019-2020	2018-2019
	Kshs 000	Kshs 000
Revaluation reserve	451,194	451,194
Retained earnings	759,778	770,746
Total funds	1,210,972	1,221,940
Total borrowings	237,179	287,830
Less: cash and bank balances	(29,304)	(125,748)
Net debt/(excess cash and cash equivalents)	207,875	162,082
Gearing	0.18	0.14

34. RELATED PARTY BALANCES

Nature of related party relationships

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

Government of Kenya

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

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

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	2019-2020	2018-2019
	Kshs 000	Kshs 000
Transactions with related parties		
a) Grants from the Government		
Grants from National Govt	190,000	245,914
Total	190,000	245,914
b) Key management compensation		
Directors' emoluments	33,856	26,124
Compensation to the CEO	4,685	7,170
Compensation to key management	10,701	13,077
Total	49,242	46,372

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

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

Managing Director
Prof. Theophilus M. Mutui

Date: 21/05/2021

APPENDIX II: INTER-ENTITY TRANSFERS

ENTITY NAME:				
		Break down of Transfers from the State Department of Agricultural Research		
FY 19/20				
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	
		19-08-19	15,833	FY 2019/20
		08-11-19	15,833	FY 2019/20
		07-10-19	15,833	FY 2019/20
		07-10-19	15,833	FY 2019/20
		11-12-19	15,833	FY 2019/20
		31-12-19	15,833	FY 2019/20
		07-02-20	31,667	FY 2019/20
		03-04-20	15,833	FY 2019/20
		15-05-20	15,833	FY 2019/20
		04-06-20	15,833	FY 2019/20
		29-06-20	15,833	FY 2019/20
		<u>TOTAL</u>	190,000	