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# KENYA NATIONAL AUDIT OFFICE

## REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA PLANT HEALTH INSPECTORATE SERVICE FOR THE YEAR ENDED 30 JUNE 2005

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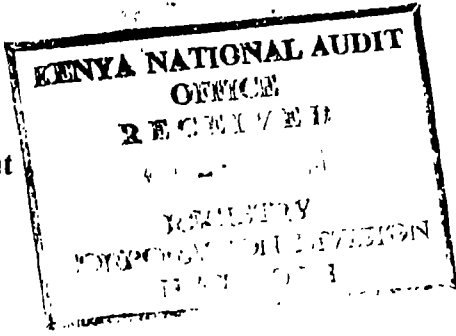
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# KENYA PLANT HEALTH INSPECTORATE SERVICE

## REPORT OF THE DIRECTORS

### YEAR ENDED 30<sup>TH</sup> JUNE 2005

The Directors have the pleasure of presenting their Financial Statements for the period 1<sup>st</sup> July 2004 to 30<sup>th</sup> June 2005.

The Kenya Plant Health Inspectorate Service is a Government parastatal set up under the State Corporations Act (Chapter 446) and operates within the provisions of the Legal Notice No.305 of 18<sup>th</sup> October 1996.

The mandate of KEPHIS is to undertake services in plant variety protection, seed quality control, plant protection; quality control on agricultural inputs and produce; and the monitoring of the effect of agricultural activities on the environment with a view to ensuring acceptable plant health standards and sustainable land resource use.

The 2004/2005 financial year was a significant period for the Corporation in terms of the magnitude of activities undertaken. The Corporation's mission - to provide a dependable, effective, efficient and competitive regulatory service for ensuring quality agricultural inputs and produce thereby promoting sustainable agriculture and economic growth; and the vision to be the leading and credible regulatory agency for quality agricultural inputs and produce remained the guiding beacons for the Board of Directors, management and staff. In fulfilling the regulatory mandate, significant achievements in the core functions - plant variety protection, seed quality control, plant protection and the monitoring of the effect of agricultural activities on the environment were recorded.

During the year, a total of fifty applications for grant of Plant Breeders' Rights (PBR) in Kenya were received. Nine of the applications were granted certificates for Protective Direction, which offers interim protection while the grant applicants are still being examined. Seed quality control activities involved registration of seed growers, field inspections of seed crops, seed processing inspection, laboratory testing of seeds, post control and post certification surveys. Seed field inspection was carried out in respect of slightly over seven thousand four hundred and thirty eight hectares of various seed crops. Eventually, over twenty million kilograms of harvested seed crops were processed, lot examined, sampled for laboratory analysis and post controlled to determine the quality. In seed testing, three thousand one hundred samples were received and tested in the seed testing laboratory to determine the purity, germination and health status of the seed lots.

The international accreditation process for the seed testing and analytical chemistry laboratory continued during the year. The analytical chemistry laboratory carried significant amount of work in analysis and certification of agro-input formulations. The activities included water analysis for irrigation suitability whereby thirty-four samples were received which was a forty two per cent increase compared to the previous year. In an effort to ensure that the production efficiency of cropping systems was not compromised, seventy eight fertilizer samples were analyzed. Other activities were analysis of soil and plant tissue, manure and organic compost, agrochemical formulations, animal feed and pesticide residues in animal tissues. Environmental monitoring through analysis of water,

soil and sediment samples to ascertain the level of contamination as a result of agrochemical usage was also a key activity.

During the year, grading and inspection of agricultural exports and imports continued to ensure that the produce met the standards of the exporting/importing country. In terms of exports and imports, sixty eight thousand five hundred and seventy three phytosanitary certificates and three thousand two hundred and eighty nine plant import permits were issued. However, a total of slightly over twenty-two tonnes of plant materials were intercepted and destroyed due to non-compliance to phytosanitary and quality requirements compared to three tonnes in the previous year. Other core phytosanitary service activities included plant quarantine services, field inspections and pathological analysis, soil analysis for nematodes, virus testing and tissue culture activities. The Corporation also undertook activities in biological control operations in addition to efforts to fulfill the mandate of implementation of the National policy on the introduction and use of genetically modified organisms.

A significant portion of the budget was devoted to staff development as well as welfare facilities. The commitment of the staff, their unstinting hard work and dedication has produced good results and we are confident that the trend will continue into the future. Since the Corporation is a service provider operating within the international standards and requirements, the Board of Directors and management are committed to being world-class in all areas of operation. The focus will remain continued operations within the concepts of good corporate governance; individual and institutional integrity; and responsibility to all clients - both internal and external.

**Board of Directors**

The Board of Directors during the year comprised of the following:

- |  |   |  |
|--|---|--|
| Prof. Juma A. Lugogo                         | - | Chairman                                 |
| Dr. Wilson R. Opile                          |   |  |
| Dr. Paul K.A. Konuche                        |   |  |
| Dr. James M. Onsando                         |   |  |
| Mr. Jeremiah K. Rutto                        |   |  |
| Mrs. Lucy Waithaka                           |   |  |
| Mr. Stephen Muna                             |   |  |
| Permanent Secretary, Ministry of Finance     | - | (Alternate - Mrs. Truphena Mokaya)       |
| Permanent Secretary, Ministry of Agriculture | - | (Alternate - Mrs Ann Onyango)            |
| Dr. Chagema J. Keclera                       | - | Managing Director/Secretary to the Board |

Statement of Directors' Responsibilities

The State Corporations Act Cap 446 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the corporation as at the end of the financial year and of the operating results of the corporation for that year. It also requires the directors to ensure the corporation keeps proper accounting records, which disclose with reasonable accuracy the financial position of the corporation. They are also responsible for safeguarding the assets of the corporation.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in a manner required by the Kenya Accounting Standards. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the corporation and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in preparation of the financial statements, as well as adequate 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.

*Wemba Opile*

Director

16<sup>th</sup> March 2006

*C. Kelewa*

Director

16<sup>th</sup> March 2006



## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA PLANT HEALTH INSPECTORATE SERVICE FOR THE YEAR ENDED 30 JUNE 2005

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I have audited the financial statements of Kenya Plant Health Inspectorate Service for the year ended 30 June 2005 in accordance with the provisions of Section 14 of the Public Audit Act, 2003. 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. The financial statements are in agreement with the books of account.

#### Respective Responsibilities of the Directors and the Controller and Auditor General

---

As set out in the statement of directors' responsibilities, the directors are responsible for the preparation of financial statements which give a true and fair view of the Inspectorate's state of affairs and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

#### Basis of opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. I believe my audit provides a reasonable basis for my opinion.

#### Comments

##### 1. Cash and Bank Balances

The balance sheet cash and bank balances figure of Kshs.29,460,410 includes an amount of Kshs.13,997,927 for current account I while the figure as per the bank reconciliation is Kshs.11,231,821 hence a variance of Kshs.2,766,106 which was not explained. In addition, no bank reconciliations were availed to support the note 9 current account II with a balance of Kshs.9,791,938, regional offices with a balance of Kshs.3,999,417 and ADSP Account with a balance of Kshs.1,525,327. In view of the above, it was not possible to confirm the accuracy of the bank balance figure of

Kshs.29,460,410 as at 30 June 2005 or to ascertain whether all bank transactions during the year were fairly stated.

## 2. Debtors

Included in the debtors balance figure of Kshs.44,778,832 is a figure for advance of Kshs. 4,820,937 while the schedule provided for audit reflects Kshs.4,478,862 thereby resulting to an unexplained difference of Kshs.342,072. In the circumstances, the debtors' figures' figure of Kshs.44,778,832 can not be confirmed.

## 3. Creditors

The amount reflected in the schedules for staff retirement benefit scheme and group life assurance as provided for audit is Kshs.4,840,619 and Kshs.7,129,477 respectively which sums up to Kshs.11,970,096. However, the combined amount for both schemes in the accounts as per note 13 is Kshs.4,350,468 hence an un-explained discrepancy of Kshs.7,619,628. Further, the balance sheet creditors figure of Kshs,7,899,508 differs with note 13 to the accounts creditors figure of Kshs.8,674,846 giving rise to un-explained difference of Kshs.775,338. Accordingly, the validity and completeness of the creditors figure of Kshs.8,674,846 as reflected in the financial statements could not be confirmed.

## 4. Budgetary Control

The Inspectorate during the year under review over-spent its approved budget by amounts totalling Kshs.63,094,393 contrary to the provisions of Section 12 of the State Corporations Act. Some of the items on which the approved budget was over-spent included:-

<u>Name of the Account</u>	<u>Approved Budget</u>	<u>Actual Expenditure</u>	<u>Over Expenditure</u>
Motor vehicles	6,800,000	15,095,128	8,295,128
Plant & equipment	14,400,000	19,417,782	5,075,782
Transport operating Expenses	13,503,000	23,062,272	9,559,272
Publishing and printing	4,300,000	9,411,267	5,111,267
Maintenance (buildings)	9,600,000	18,898,939	<u>9,298,939</u>
		<b>Total</b>	<b><u>37,340,388</u></b>

Although approval of the Board of Directors was sought and obtained for reallocation of funds within the budget, the Inspectorate has not availed evidence of authority from the Parent Ministry as well as the Treasury sanctioning this reallocation. Under the circumstances, it is not possible to confirm the propriety of the over-expenditure of Kshs.63,094,393.

Opinion

Except for the matters set out in the foregoing paragraphs, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of Kenya Plant Health Inspectorate Service as at 30 June 2005 and of its surplus and its cash flows for the year then ended and comply with the Kenya Plant Health Inspectorate Service Order No. 305 of 1996.



**E.N. MWAI**  
**CONTROLLER AND AUDITOR GENERAL**

Nairobi

31 May 2006

**KENYA PLANT HEALTH INSPECTORATE SERVICE**  
**INCOME AND EXPENDITURE ACCOUNT**

**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2005**

	Notes	2004/2005	2003/2004
		<u>Kshs</u>	<u>Kshs</u>
<b><u>INCOME</u></b>			
Recurrent grants		216,439,280	216,439,280
USAID grants		30,438,635	24,883,146
Fees for services rendered		<u>80,609,599</u>	<u>60,702,214</u>
<b>Total Income</b>	(8)	<b><u>327,487,514</u></b>	<b><u>302,024,640</u></b>
<b><u>EXPENDITURE</u></b>			
Personnel costs			
Other operating expenses	(15)	167,463,916	121,126,945
Depreciation	(16)	150,579,180	133,653,988
<b>Total Expenditure</b>	(4)	<u>31,165,050</u>	<u>22,661,178</u>
		<u>349,208,146</u>	<u>277,442,111</u>
<b>Surplus Income over Expenditure</b>		(21,720,632)	24,582,529
<b>Surplus Income over Expenditure brought forward</b>		<u>352,580,027</u>	<u>319,576,752</u>
<b>Surplus Income over Expenditure carried forward</b>		<u>330,859,395</u>	<u>344,159,281</u>

# KENYA PLANT HEALTH INSPECTORATE SERVICE

## BALANCE SHEET AS AT 30<sup>TH</sup> JUNE 2005

	Notes	2004/2005 <u>Kshs</u>	2003/2004 <u>Kshs</u>
<b>Represented by:</b>			
Revaluation Reserves		166,373,043	166,373,043
Surplus Income over Expenditure		(21,720,632)	24,582,529
Surplus Income over Expenditure brought forward			
<b>Total</b>		<u>352,580,027</u> <u>497,232,438</u>	<u>319,576,752</u> <u>510,532,324</u>
<b>Assets:</b>			
Property, Plant & Equipment	(4)	420,742,210	410,335,993
<b>Current assets:</b>			
Cash and Bank Balances	(9)	29,460,410	41,748,790
Investment in Government securities	(12)		39,873,180
Debtors & Prepayments	(14)	44,778,832	32,443,926
Stock	(6)	<u>10,150,494</u>	<u>6,241,141</u>
<b>Total current assets</b>		<u>84,389,736</u>	<u>120,307,037</u>
Creditors		7,899,508	20,110,706
<b>Net current assets</b>	(13)	<u>76,490,228</u>	<u>100,196,331</u>
<b>Total</b>		<u>497,232,438</u>	<u>510,532,324</u>

for Prof. Juma A. Lugogo *Wrember Opile*  
 Chairman  
 Board of Directors

Date 16<sup>th</sup> March 2006

Dr. Chagema J. Kedera  
 Managing Director KEPHIS *(Signature)*

Date 16<sup>th</sup> March 2005

# KENYA PLANT HEALTH INSPECTORATE SERVICE

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2005

	2004/2005	2003/2004
	<u>Kshs</u>	<u>Kshs</u>
<b>Cash flow from Operating Activities</b>		
Surplus Income over expenditure for the year		
Adjustments for:		
Depreciation	(21,720,632)	24,582,529
Interest on Treasury Bills/FDR/Savings	31,165,050	22,661,178
	(122,639)	(1,797,919)
<b>Surplus Income over Expenditure for the year</b>	<b>9,321,779</b>	<b>20,863,259</b>
Prior period - stock items		-44,890,337
<b>Net surplus</b>	<b>9,321,779</b>	<b>44,890,337</b>
<b>Working Capital changes</b>		
(Increase) Decrease in Stock	(3,909,353)	(450,743)
(Increase) Decrease in Debtors & prepayments	(12,334,906)	2,621,953
Increase (Decrease) in Creditors	(12,211,198)	9,762,943
	<b>(28,456,457)</b>	<b>11,931,153</b>
<b>Cash flow from Financing Activities</b>		
Interest on treasury Bills/FDR/Savings	122,639	1,797,919
<b>Cash flow from Investing Activities</b>		
Purchase of Fixed Assets	(41,598,640)	(229,201,972)
<b>Net increase in cash and cash equivalents</b>	<b>(60,609,679)</b>	<b>(170,582,563)</b>
<b>Cash and cash equivalents opening balance</b>	<b>81,447,933</b>	<b>252,030,496</b>
<b>Cash and cash equivalents closing balance</b>	<b>20,838,254</b>	<b>81,447,933</b>

## NOTES TO THE ACCOUNTS

### SIGNIFICANT ACCOUNTING POLICIES

The following paragraphs describe the main accounting policies used by the corporation:

#### 1) Basis of accounting

The accounts are prepared on historical cost convention modified to include the revaluation of certain fixed assets.

#### 2) Revenue recognition

Recurrent grants received for operations are recognised as revenue in their entirety. Fees for services rendered and other miscellaneous receipts are recognised as revenue in the period in which the services were rendered.

Project grants received directly from donors are recognised as revenue in the year of receipt.

#### 3) Depreciation

Fixed assets are stated at cost less depreciation. Depreciation is calculated using the straight-line basis over the estimated useful lives of the assets. The principal annual rates used are:

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 30%

The above rates are applied on pro rata basis for assets acquired or disposed off during the year.

#### 4) Fixed assets schedule

COST OR VALUATION	LAND	BUILDINGS	PLANT AND MACHINERY	MOTOR VEHICLES	COMPUTERS AND ACCESSORIES	OFFICE EQUIPMENT	FURNITURE AND FITTINGS	LABORATORY EQUIPMENT	TOTALS
At 1 <sup>st</sup> July 2004	103,516,351	230,103,179	9,578,317	63,390,338	9,085,597	1,979,070	6,516,082	73,881,129	501,081,363
Additions		4,480,755		15,095,128	9,957,212	3,272,562	1,251,700	7,511,283	11,598,610
At 30 <sup>th</sup> June 2005	103,516,351	234,583,934	9,578,317	78,485,466	19,042,809	8,251,632	7,797,782	81,425,712	512,682,603
Depreciation									
At 1 <sup>st</sup> July 2004		7,881,758	3,342,974	43,993,586	3,003,979	2,291,011	3,073,256	27,137,771	90,717,365
Charge for the year		4,616,250	1,197,290	9,519,979	4,278,724	891,196	898,617	9,767,289	31,192,425
At 30 <sup>th</sup> June 2005		12,521,008	4,540,264	53,513,565	7,282,703	3,185,240	3,991,953	36,905,060	121,939,793
Net Book Value At 30 <sup>th</sup> June 2005	103,516,351	222,062,926	5,038,053	24,971,901	11,760,106	5,066,392	3,805,829	44,520,652	420,742,210
Net Book Value At 30 <sup>th</sup> June 2004	103,516,351	222,218,421	6,235,343	19,396,782	6,081,618	2,688,026	3,452,826	46,746,658	410,335,995

The Inspectorate is pursuing the issue of land and buildings inherited from Kenya Agricultural Research Institute upon inception with the relevant Government Ministries

#### 5) Treasury Bills

Treasury bills are stated at cost. Interest is credited to income over the period of issue.

#### 6) Stock

Stock is stated at the normal cost of bringing inventory to their existing state and condition less any trade discounts.

#### 7) Debtors

Debtor figure include long outstanding balances in respect of debts owed to the organisation by a State Corporation where provision of 2.5% have been made.

#### 8) Income

Fees for services rendered

Miscellaneous receipts

Interest earned

Grants from Ministry of Agriculture

Grants from Ministry of Finance

License Fees

Sale of Property

Grants from USAID

2004/2005

Kshs

74,676,425

5,046,401

122,639

86,439,280

130,000,000

688,820

72,694

30,438,635

327,487,514

2003/2004

Kshs

58,055,472

119,533

1,797,919

86,439,280

130,000,000

-

-

24,883,146

301,295,350

9) Cash and Bank balances

Current account I		
Current account II	13,997,927	10,241,954
Regional offices	9,791,938	23,318,077
Savings account (Staff Retirement)	3,999,417	4,285,634
ADSP account		2,065,514
Cash in hand	1,525,327	134,576
<b>Total</b>	<u>145,801</u>	<u>152,994</u>
	<b>29,460,410</b>	<b>41,748,790</b>

10) Staff Retirement Benefits

The Kenya Plant Health Inspectorate Service Staff Retirement Benefits Scheme is managed by a Board of Trustee.

The Savings Account (Staff Retirement) figure of Kshs.2, 065,514 is in respect of both the Employer and Employee contributions to the scheme for the period 1<sup>st</sup> July to 31<sup>st</sup> December 1998 prior to the registration of the scheme and inclusive of the net interest earned after making adjustments for the related bank charges.

11) Statement of Change in Equity

	Revaluation Reserves <u>Kshs</u>	Accumulated Surplus <u>Kshs</u>	Total <u>Kshs</u>
At 1st July 2004			
Surplus for the year	166,373,043	319,576,752	510,532,324
Recommended amendments 2002/2003 and 2003/2004		(21,438,632)	(21,438,632)
At 30th June 2005	166,373,043	8,138,746	8,138,746
		298,138,120	497,232,438

12) Fixed Deposits

Central Bank of Kenya

39,873,180  
39,873,180

13) Creditors

Trade creditors		
Staff Retirement & Group Life Benefits	2,975,770	7,224,556
Staff Retirement Benefit Scheme	4,350,168	
Group Life Assurance		1,454,288
Group Personal Accident		7,419,757
Others		873,900
<b>Total</b>	<u>1,348,608</u>	<u>3,138,205</u>
	<b>8,674,846</b>	<b>20,110,706</b>

#### 14) Debtors & Prepayments

Trade debtors		
Interest receivable	30,246,201	23,571,935
Regional offices		4,181
Advances	(81,391)	
Deposits	4,820,937	5,015,055
Prepayments	1,304,016	1,211,315
<b>Total</b>	<b><u>8,489,069</u></b>	<b><u>6,927,074</u></b>
	<b><u>44,778,832</u></b>	<b><u>32,443,926</u></b>

#### 15) Personnel costs

000	Personal Emoluments	88,926,712	43,144,352
040	Gratuity and Pension Contributions	6,864,925	5,136,900
050	House Allowance	45,598,500	42,391,000
060	Other Personal Allowances	12,477,046	14,077,554
064	Transfer Allowance	51,615	148,605
065	Medical Allowance	7,524,500	6,944,500
068	Training Expenses (Staff)	6,020,617	9,275,993
<b>Total</b>		<b><u>167,463,915</u></b>	<b><u>121,126,945</u></b>

#### 16) Other Operating Costs

080	Passages and Leave Expenses		
090	Medical Expenses	1,888,000	2,022,600
100	Transport Operating Expenses	5,439,783	4,903,335
110	Travelling and Accommodation Expenses	23,062,272	16,738,886
112	External Travelling and Accommodation	14,961,806	14,591,239
120	Postage and Telegram Expenses	11,794,856	14,161,771
121	Telephone Expenses	1,127,138	911,910
130	Official Entertainment	4,002,059	3,671,080
131	Expenses of Boards Committees & Conferences	509,780	619,242
140	Electricity Expenses	2,525,696	2,694,775
141	Water and Conservancy Expenses	4,407,711	2,782,992
150	Purchase of supplies for Production	474,150	483,331
153	Purchase of Fungicides	417,943	
156	Purchase of Laboratory Stores	446,056	
160	Purchase of Food & Rations	11,360,119	8,145,025
171	Publishing and Printing Expenses	552,622	647,802
172	Purchase of Uniform and Clothing	9,411,267	6,163,123
173	Library Expenses	1,121,811	370,965
174	Purchase of Stationery	706,138	493,057
		2,230,263	3,071,265

175	Advertising and Publicity		
176	Show Expenses	2,381,613	3,344,280
182	Payment of Rents and Rates Non-Residential	2,120,546	1,753,979
184	Contracted Professional Services	2,162,177	2,149,468
185	Computer Expenses	4,983,510	3,168,750
190	Miscellaneous Other Charges	2,693,072	2,168,234
192	Vehicle Insurance and Road Tax	1,446,097	1,116,610
193	Fees Commission and Honoraria	5,749,121	803,449
194	Training Expenses (Farmers)	441,060	97,500
199	Compensation & Ex-Gratia Payment	1,129,900	2,278,878
250	Maintenance of Plant Machinery and Equipment	3,161,088	7,793,998
260	Maintenance of Buildings and Stations	4,052,170	2,353,220
295	Minor Alterations and Repair Works	18,898,939	16,975,071
377	Contributions to International Organisations	1,154,209	
391	Audit Fees	2,770,672	4,254,509
		<u>250,0000</u>	<u>250,0000</u>
<b>Total</b>		<b><u>150,579,180</u></b>	<b><u>133,653,988</u></b>

