

REPUBLIC OF KENYA



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REPORT



OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
KENYA ANIMAL GENETIC  
RESOURCES CENTRE

FOR THE YEAR ENDED  
30 JUNE 2017



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# **KENYA ANIMAL GENETIC RESOURCES CENTRE**

## **REVISED ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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

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**For the year ended June 30, 2017**

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## **I. KEY ENTITY INFORMATION AND MANAGEMENT**

### **(a) Background information**

The Kenya Animal Genetic Resources Centre (KAGRC) formally, CAIS was established in 1946 through a Gazette Notice No. 557 as a semen production and distribution Centre. The centre has been given full autonomy as a State Corporation, through a Gazette Notice No. L.N. 110 of 5th September 2011. The new mandate of the centre includes production, preservation, distribution and conservation of animal genetic material as well as rearing of breeding bulls for provision of high quality disease free semen to meet National demand and for export. KAGRC is situated 15 km from City Centre (West of the Nairobi City) and has its Headquarters in Lower Kabete in Nairobi. It has land capacity of about 358 Acres, 125 bulls in the stud, Two administration Blocks, A Laboratory, Reticulated water system, Electrical installations, and other infrastructure.

The Centre works in close collaboration with other breeding organizations such as Kenya Stud Book, Dairy Recording Services of Kenya and Livestock Recording Centre, Research Organizations, Universities, community Based Organizations (CBOs) and individual farmers. Together, we implement the Contract Mating Program through which breeding bulls are recruited to the centre for semen production and Progeny Testing Program (PTP). The PTP provides a basis against which the approximate value of the bulls at the centre is calculated. In addition to this, the Centre has entered into a memorandum of understanding with American Holstein Friesian association to undertake GENOMIC Selection of our Bull Dams, the Bulls themselves and their heifers for efficient performance of the Centre. Four 4 dairy breeds are kept in the Centre, namely Friesian, Ayrshire, Jersey and Guernsey and 2 beef breeds of bovine species namely Sahiwal and Boran.

### **(b) Principal Activities**

The Centre's principal activity is the production and sale of bull semen. The other mandates as stated in the legal notice 110 of September 2011 include the following;

1. Establish a national livestock resources gene bank for conservation of livestock tissues, DNA, semen and embryos of all livestock and emerging livestock species for posterity in Kenya.
2. Conserve for posterity and avail livestock tissues, DNA, semen and embryos of all livestock and emerging livestock species in Kenya for both research and Breeding
3. Engage in strategic semen production
4. Serve as a reference laboratory for certification, testing of semen, embryos and related livestock productive materials for purpose of import and export

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5. Either alone or in collaboration with other institutions, develop and produce chemicals and laboratory products for use in the production of semen
6. Either alone or in collaboration with other institutions, provide information on the suitability and effectiveness of animal breeding products
7. Provide training in animal resource conservation procedures, semen, in-vitro and in-vivo embryo production and transfer and related technology transfer.

**(c) Key Management**

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

- Office of the Managing Director
- Finance Human Resource and Administration
- Technical Services

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2016 and who had direct fiduciary responsibility were:

**Name:**

**Designation:**

Dr. David Kios – Managing Director  
Dr. Herbert Atsiaya -Director Finance Human Resource and Administration  
Dr. Paul Egesa -Manager Germplasm Production and Quality Assurance  
Dr. James Mbuchi -Manager Animal Health  
Dr. Roseline Wambugu –Ag. Director Technical Services  
Ms. Faith Aciita -Manager Finance  
Ms. Lucia Koskey -Principal Human Resource & Administration Officer  
Ms. Esther Gacheru -Manager Internal Audit  
Ms. Peris Miencha – Ag. Manager Sales and Marketing

**(e) Fiduciary Oversight Arrangements**

The Board of Directors meets on quarterly basis to monitor the implementation of the Centre's planned strategy, review it in conjunction with its financial and budgetary performance and approve issues of strategic nature. Specific reviews are also undertaken on operational issues and future planning. The Board held various meeting during the period under review.

The Board has constituted committees which meet regularly namely Audit Committee, Human Resource and Finance Committee and the Technical committee. The terms of reference for each committee are well set by the board so as to ensure that the board plays the oversight role.

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**BOARD COMMITTEES**

The Board has constituted committees which meet regularly namely Audit Committee, Human Resource and Finance Committee and the Technical committee. The terms of reference for each committee are well set by the board.

**(a) Audit Committee**

The Committee comprises of at least 3 non-executive members of the Board who are independent of the day-to-day management of the Company's operations. The Head of Internal Audit is the secretary to the committee.

The Committee's responsibilities include;

- a) Considers the appropriateness of the centre's accounting policies and procedures.
- b) Monitors and assess the role and effectiveness of the internal audit function.
- c) Deals with matters relating to appointment, remuneration and resignation or dismissal of external auditors.

**(b) Human Resource and Finance Committee**

The Committee comprises of at least 3 non-executive members of the Board who are independent of the day-to-day management of the Centre's operations.

The main responsibilities of the committee are;

- a) Review and approve the Centre's budget
- b) Reviews and monitors the integrity of the Centre's annual and interim financial statements
- c) Deals with matters relating to appointment, remuneration and resignation or dismissal of staff

**(c) Technical Committee**

The Committee comprises of at least 3 non-executive members of the Board who are independent of the day-to-day management of the Centre's operations.

The main responsibilities of the committee are;

- a) Advising the board on all technical issues affecting the Centre
- b) Providing policy direction of Genomic Advisory Committee, laboratory processes and quality control
- c) Deals with policy direction of research on emerging technologies and best practises,

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**(f) Entity Headquarters**

**Kenya Animal Genetic Resources Centre**  
P.O. Box 23070-00604  
Lower Kabete  
Nairobi, Kenya

**(g) Entity Contacts**

Telephone: 020-2064018, 4181325/6 DL: 020-2064027, Cell Phone:0728899767/0737540670  
Fax: 4181328/2064017  
E-mail: [info@kagrc.co.ke](mailto:info@kagrc.co.ke)  
Website: [www.kenya animal genetic resources centre](http://www.kenyaanimalgeneticresourcescentre.org)

**(h) Entity Bankers**

Barclays Bank of Kenya  
Westlands Branch  
P.O. Box 14403-00800  
Nairobi, Kenya

**(i) Independent Auditors**




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

**(j) Principal Legal Adviser**




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

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**II. THE BOARD OF DIRECTORS**

<b>PICTURE</b>	<b>PROFILE</b>
 <p><b>Dr. Geoffrey Kamau</b> Chairman</p>	<p>Dr. Geoffrey Kamau is the chairman of the Kenya Animal Genetic Resources Centre having been appointed to the office in April 2015. He oversees the development and promotion of optimum productivity of the national animal population through provision of high quality disease free animal germplasm and related breeding services.</p> <p>Dr. Kamau has wealth of experience in veterinary extension services acquired through working with farmers at various capacities in Kenya. In addition he has wide experience in leadership, partnerships and mobilization of teams and is also an entrepreneur in hospitality services. He is a graduate of Bachelor of Veterinary Medicine from the university of Nairobi.</p>
 <p><b>Dr. Bernadette Misoi</b></p>	<p>Dr. Bernadette Misoi is a member of the board and chairperson of the board audit committee. She has wealth of experience in livestock disease control, disease surveillance, veterinary public health, Artificial insemination services, veterinary extension services, hides skins and leather development, Livestock yards, training, inspectorate and the administrative work. She holds a Bachelor's degree in Veterinary Medicine and an MBA in strategic management.</p>
 <p><b>Dr. Walter Ongeti</b></p>	<p>Dr. Ongeti is an accomplished academician, strategic thinker, trainer, manager and a resourceful person with demonstrable leadership and management capacity including knowledge of strategic management, training, corporate governance and research. He earned a Doctor of Philosophy (PhD) degree in Business Administration majoring in Strategic Management and Corporate Governance from the University of Nairobi's School of Business in 2014; A Master of Business Administration (MBA) degree majoring in Strategic and Change Management (2009) from the University of Nairobi; A Bachelor of Education (B. Ed) degree majoring in Economics and Business studies (2003) from the same university. Dr. Ongeti has taught and supervised students at undergraduate masters and currently PhD levels. He has over 9 years' extensive experience in Research, Training and management consultancy in both the Private and Public sector in Kenya.</p> <p>Beyond the illustrious career, Dr. Ongeti is a distinguished member of the society and a great contributor to community service through various activities. He is Presidential Appointee as a chairman of</p>

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	<p>Jaramogi Oginga Odinga University of Science and Technology, a director, Kenya Animal Genetics Resources Centre and also a director at, Naivasha Water, Sewerage and Sanitation Company. He is also an accomplished motivational speaker and has so far delivered life changing talks to over 25 high schools, several institutions of learning as well as corporate entities. He remains focused on providing strategic leadership in academia, training, consulting, research as well as corporate governance.</p>
 <p><b>Dr. Ngeiywa Juma</b></p>	<p><b>Dr. Kisa Juma Ngeiywa</b> is the Director of Veterinary Services and a member of the board representing the Principal Secretary Ministry of Agriculture Livestock and Fisheries. Dr. Ngeiywa has wide experience in leaderships and collaborations in the field veterinary services.</p> <p>Dr Ngeiywa is a graduate of Bachelor of Veterinary Medicine Degree and Master of Science Degree in Veterinary Clinical Studies from the University of Nairobi.</p>
 <p><b>Mr. Gabriel Karia</b></p>	<p>Mr. Gabriel Karia is a member of the board and chairman of the Technical Committee. Mr. Karia is a graduate in animal husbandry dairy cattle classification (U.S.A) and artificial Insemination both in the U.S.A and Kenya. He has served as a government livestock officer for ( 5 years), a sales representative for multinational companies (7 years) and as a bovine genetic marketer (15years), development projects consultant with U.S.A.I.D, SNV Netherlands and U.K Aid for (9 years) working with several farmer group, and individual farms across Kenya and beyond.</p> <p>Gabriel is passionate about livestock farming but has a special inclination for dairy cows development in community work. Gabriel is the current chairman of Mangu progressive dairy in Gatundu North</p>
 <p><b>Mr. Kapsandui Chemasuet</b></p>	<p>Mr. Chemasuet is a representative of the principal secretary of the National Treasury to the board. He is a member of the finance human resource and administration and the audit committee of the board. He holds a bachelor's degree in finance and is a certified public accountant <b>CPA (K)</b>.</p>

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**Dr. Joseph Mureithi**


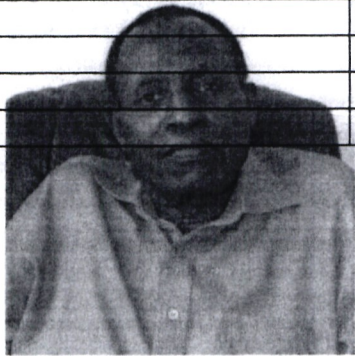
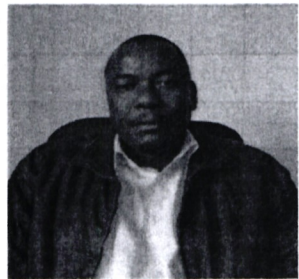
Dr. Joseph Gichane Mureithi is currently the Deputy Director General for Livestock Research, Kenya Agricultural and Livestock Research Institute, a position he has held since July 2006. Prior to this, he served as the coordinator of the Legume Research Network Project (LRNP), the Soil Management Project, and Farmer Field School Project funded by the Rockefeller Foundation between 1997 and 2006. Dr. Mureithi is a forage agronomist who has extensive experience in green manure cover crops (GM/CCs) research and development work. As the coordinator of the LRNP he spearheaded the development of the GM/CCs systems for various agro-ecologies in Kenya and also characterized their potential niches. He is trained in participatory research methods and was involved in the training of five dairy research/extension clusters in Kenya in those methods. Dr Mureithi is a member of the Technical Committee of the Board.



**Dr. David K. Kios**

Dr. David K. Kios – Managing Director Kenya Animal Genetic Resources Centre is a holder of Bachelor of Veterinary Medicine from University of Nairobi and Master of Science in Animal Breeding from the University of Pretoria, Republic of South Africa. Currently, he is in his final stage of PhD Thesis in Therigenology (Animal Production) at the University of Nairobi and research on improving efficiency of embryo transfer technology for improvement of animal breeding in Kenya. He is in charge of day to day running of the Centre’s activities and Secretary to the Board. He also serves as a Director at Action Aid Kenya and a member of the board of management of Kipture High School. He has extensive knowledge in research and development gained at the University of Eldoret.

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<b>III. MANAGEMENT TEAM</b>						
	<p>Dr. David K. Kios – Managing Director Kenya Animal Genetic Resources Centre is a holder of Bachelor of Veterinary Medicine from University of Nairobi and Master of Science in Animal Breeding from the University of Pretoria, Republic of South Africa. Currently, he is in his final stage of PhD Thesis in Therigenology (Animal Production) at the University of Nairobi and research on improving efficiency of embryo transfer technology for improvement of animal breeding in Kenya. He is in charge of day to day running of the Centre’s activities and Secretary to the Board. He also serves as a Director at Action Aid Kenya and a member of the board of management of Kipture High School. He has extensive knowledge in research and development gained at the University of Eldoret.</p>					
Dr. David K. Kios						
	<p>Dr. Atsiaya is the Director Finance and Administration. He is responsible for providing strategic leadership on all matters pertaining to financial and administrative management. He holds a bachelor’s degree in veterinary medicine and a master’s of science in the same field.</p>					
Dr. Herbert Atsiaya						
	<p>Dr. Egesa is the Manager, Germplasm and Quality Assurance. This function entails semen collection, evaluation, processing, packaging and certifying germplasm. He holds a bachelor’s degree in Veterinary Medicine</p>					
Dr. Paul Egesa						

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Dr. James Mbuchi

Dr. Mbuchi is the Manager, Animal Health. Animal health and farm management function entail rearing of breeding animal maintenance their health. He holds a bachelor's degree in Veterinary Medicine and is currently pursuing a master of science degree.



Dr. Roseline Wambugu

Dr Wambugu is the Acting Director Technical Services. Her duties involve coordinating the design and management of current and upcoming breeding technologies, semen production and quality control. She holds a bachelor's in veterinary medicine and currently pursuing a master of science degree.



Ms. Faith K. Aciita



Ms. Aciita is the Manager Finance. She is responsible for financial management, prioritization of projects and activities for the purpose of financial reporting, preparation of annual budgets and overseeing expenditure monitoring. She holds an MBA Strategic Management, bachelor's degree in accounting, a post graduate diploma in financial management and is a **CPA (K)**.



Ms. Esther Gacheru

Ms. Gacheru is the Manager Internal Audit. She is responsible for reviewing the internal control systems, verifying operations and activities on the utilisation of centre's resources. Preparations of audit reports and follow up on the implementation of audit recommendations. She holds a bachelor's degree in finance and is a **CPA (K)**.

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	<p>Ms. Lucia Kosgey is the Principal Human Resource and Administrative Officer. She is responsible for effective organisation and administration of the human resource management, development of appropriate human resource policies for effective performance and productivity, human resource planning, advising on proper deployment and succession management. She holds a master degree in human resource management and is currently pursuing a PhD in the same field</p>
	<p>Ms. Peris Miencha is the Acting Manager Sales and Marketing. She is responsible for disseminating market information to relevant stakeholders, establishing and managing database on market information and development partners. The officer also participates in designing and development of promotional materials. She holds a bachelors of commerce degree.</p>

**Ms. Lucia Kosgey**

**Ms. Peris Miencha**

#### **IV. CHAIRMAN'S STATEMENT**

The Kenya Animal Genetic Resources Centre (KAGRC) plays a critical role in Agriculture development especially in the livestock sector in Kenya. The performance of the livestock industry in the country relies on the provision of quality breeding and extension services. However, the performance can be enhanced by provision of efficient Artificial Insemination (A.I) services for it to make greater contribution to the economy and rural livelihoods. It would be imperative that the government re-examines the current strategy and facilitate the provision of the A.I Services in the country. Counties should be encouraged to invest an A.I through improved storage facilities for Semen and Liquid Nitrogen to be able to maximize on devolved liquid nitrogen plants. Consequently, this will lead to accessibility and availability of both Liquid Nitrogen and Semen to A.I providers at the county level.

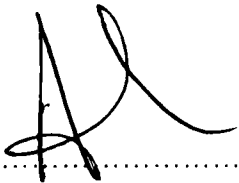
Despite the highly important and strategic mandate that the Centre plays in the Livestock Sector, it continues to experience serious challenges arising from budgetary constraints due to underfunding from the Government and low revenue generation. The high cost of production of Liquid Nitrogen being an important media in the preservation of semen and embryos used in Artificial Insemination of animals has been KAGRC's biggest challenge. The Plants consume a lot of power and this translates into high Electricity tariffs. These high monthly costs have continued to financially derail the Centre in its quest to reach out to many farmers' country wide. Distribution of Liquid Nitrogen has also been a big challenge. The Centre has only one truck to serve the whole country. This has created much inefficiency in trying to reach all A.I service providers and at the same time limited our capability to generate revenue.

Nevertheless, the Board of Directors has continued to oversee and ensure prudent financial management and direction for the Centre. We are consistently working towards improving on quality Semen production for local consumption and export. We believe distribution of Liquid Nitrogen will improve with the arrival of two (2) more Liquid Nitrogen trucks that we have requested from the Government.

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Finally, the Centre’s 5- year development plan is expected to cost an estimated Ksh. 4.2 billion and we look forward to the Government increasing funding allocation to this critical facility in the livestock industry so that its development plan can be a reality for the greater benefit of the Kenyan farmers.



Signed.....

Dr. Geoffrey Kamau

Chairman Board of Directors

Date..... 4-4-18

## **V. REPORT OF THE CHIEF EXECUTIVE OFFICER**

During the financial year 2016/2017, the Centre was able to achieve quite a number of notable objectives despite the dire financial constraints. Two of KAGRC's Liquid Nitrogen (LN<sub>2</sub>) Plants were commissioned by H. E The president of the republic of Kenya Hon Uhuru Kenyatta.

Sotik Liquid Nitrogen plant in Bomet County and Ahiti Ndonga Liquid Nitrogen Plant in Kirinyaga County were commissioned on 16<sup>th</sup> and 23<sup>rd</sup> June respectively. However, the high cost of running and maintaining the Liquid Nitrogen Plants remained our biggest challenge during the financial year. The Plants consumes allot of power which translates into higher electricity tariffs. It costs the Centre up to Kshs.30Million a year in electricity bills alone. This has greatly impeded our plans to further develop and expand into all parts of the country. We have consistently struggled because of this but we remained confident that this will be solved once Kenya Power considers our request for cheaper tariff. The recently commissioned Liquid Nitrogen Plants located at Bomet and Kirinyaga Counties with a total annual production capacity of 800,000 litres of Liquid Nitrogen will play a great role in ensuring the demand is met.

Considering the livestock Sector contributes 12% of the GDP, the Government should consider increased investment in training and equipping of Artificial Inseminators to meet the increased demand for Artificial Insemination. KAGRC envisages to produce 2Million Doses of Semen in the next two (2) years. This will suffice to serve the increased demand for Semen in the country. KAGRC has consistently played its role in ensuring reliable Artificial Insemination services delivery and provision of high-quality disease-free Semen to Kenyan farmers countrywide.

Production and conservation of animal genetics is also a costly undertaking as it requires expensive equipment and other inputs which are not locally available. These challenges have been confounded by the inadequate funding from the Government. The Centre intends to adopt new technologies and fully implement the Centre's expanded mandate but it's limited by unavailability of funds. We have since requested for more allocation from Treasury through the State Department of Livestock among other donors. This will ensure that our services can be accessed by all farmers.

The Centre has also had challenges in distribution of Liquid Nitrogen to farmers and other A. I service providers. We only have one truck fitted with a cryogenic tank used for distribution of Liquid Nitrogen in the whole country. This has caused a lot of inconveniences as it can't meet the demand in good time and more so greatly limited our ability to generate revenue from Semen and Liquid Nitrogen sales. We

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have since requested the Government through our parent Ministry to facilitate the Centre with two trucks fitted with cryogenic tanks with capacity of 2000 litres each. The Centre intends to immediately station the two trucks in Bomet and Kirinyaga LN<sub>2</sub> Plants so that farmers can conveniently access our products and services. It is our hope that the Government will in the near future heed to our request for more funding so that this critical situation can be improved.

The Management will continue with the prudent use of resources allocated to it and to devise appropriate ways of cutting down expenditure. We are also reaching out to other development partners and stakeholders to find ways of working together in ensuring that our services are efficient and effective.

Despite the challenges, I and the entire Management team wish to acknowledge the Ministry of Agriculture Livestock and Fisheries and the Board of Directors for the immense support in our journey. Through them we were able to achieve most of our performance targets. The livestock industry remains as a necessary catalyst for increasing farmers income, job and wealth creation aimed towards poverty alleviation in the country. KAGRC will continue to contribute significantly to the realization of the national development goals.

We have plans to introduce four new substations for Chicken breeding, Pig breeding, Dairy Goat breeding and Camel breeding to assist farmers improve other species of livestock whose production will help improve food security in the country. We also intend to have a fully-fledged in-vitro embryo production unit. All this has been proposed in the third medium term plan for 2018- 2022 and if approved by the Treasury will no doubt revolutionize animal production in Kenya.

Signed.....

Dr. David K. Kios HSC

Managing Director

Date.....4/4/2018.....

## **V. CORPORATE GOVERNANCE STATEMENT**

At the Centre we are committed to the highest level of corporate governance which is critical to our business philosophy and to maintaining stakeholders trust. Our corporate governance policy functions as an inbuilt self-regulating mechanism, which provides the framework to monitor and ensure statutory compliance, foster a culture that values rewards the highest level of ethical standards and personal integrity. The centre strives to ensure that the board, management and staff act with integrity, honesty and professionalism at all times.

The board is comprised of six independent members and two representatives of the permanent secretary ministry of Agriculture Livestock and Fisheries and the permanent secretary National Treasury respectively. The board comprise of representatives of various organisations who contribute expertise and judgement, based on their professional qualifications and business expertise. The board reflects a diversity of background and experience.

### **Conduct of Business Operations, Performance**

The Centre's operations are carried out within an established framework of processes, procedures, systems and in line with the strategic plan. The centre practises equal opportunity recruitment of qualified persons but ensures compliance in its hiring practises with policies guided by the constitution of Kenya (2010) in recognising regional and ethnic balance, gender balance and affirmative action to persons with disabilities where possible. The centre recognises it human capital as strategic to the achievement of its strategic goals and objectives. To ensure that staff wellbeing is taken care of, the centre has undertaken a comprehensive medical scheme for all its staff and dependants.

### **Risk Management and Internal Controls**

The board has the overall responsibility for the establishment and oversight of the centre's risk management frameworks. Risk management policies are established to identify and analyse risks and set mitigation mechanisms to reduce occurrence. This is achieved through in-house risk review enhanced by internal and external audits.

### **ISO 9001:2008 Certification**

The centre has a functioning and continuously monitored Quality Management System (QMS). The QMS is monitored through quarterly management review meetings, internal and external audits aimed at ensuring that it satisfies all customer requirements.

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**Compliance**

The board is satisfied that the Centre has to the best of its knowledge complied with all the relevant laws and conducted its affairs in accordance with law in particular the State Corporation Act and the Legal Notice No.110. Further disclosures on compliance are set out in the statement of the board of directors responsibilities and notes to the financial statements.

**VI. MANAGEMENT DISCUSSION AND ANALYSIS**

The Centre's operations are carried out within an established framework of processes, procedures, systems and in line with the strategic plan. Projects and activities are linked to the budgeting cycle and performance contracts. The Centre keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The statements have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates in conformity with the International Financial Reporting Standards (IFRS), the Public Financial Management Act and Treasury circulars released from time to time.

This requirement entails compliance with, and enforcement of the Constitution. The Centre has implemented elements of the Constitution that are relevant to KAGRC's mandate. In addition, the Centre has conformed to all laws and regulations and circulars related to KAGRC. This includes Public Procurement and Disposal Act, regulations and rules - this entails development and adherence to the procurement plan, submitting the plan to PPOA by 31st August and quarterly procurement plan implementation reports to the Authority in the format provided. Remittance of Statutory Deductions which include, repayment of Higher Education Loans Board dues by beneficiary employees, Statutory Taxes, NHIF, NSSF, PAYE.

In the current financial year, the Centre commissioned two Liquid Nitrogen Plants that were procured with development grant for the financial year 2015/2016. The two Liquid Nitrogen Plants are located in Kirinyaga and Bomet Counties and were commissioned in June 2017 by His Excellency the President of the Republic of Kenya. The Centre had targeted to produce one (1) million straws of semen and distribute 0.4 million litres of liquid nitrogen for Artificial insemination in the country. The semen production target was met however the distribution of liquid nitrogen was affected by the drought situation in the month of January through March 2017. In the next financial year the Centre is targeting to save on the cost of procuring hay through establishment of own hay fields in Ngong and Kabete farms respectively.

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The Centre has developed two proposals to mobilize external resources from East Africa Agricultural Productivity Project (EAAPP) and Kenya Agricultural Productivity and Agribusiness Project (KAPAP), Small Holder Dairy Commercialization Project (SDCP). These projects will be implemented in the next financial year once the Centre resources are made available.

The Kenya Animal Genetic Resources Centre (KAGRC) formally, CAIS was established in 1946 through a Gazette Notice No. 557 as a semen production and distribution Centre. The Centre was been given full autonomy as a State Corporation, through a Gazette Notice No. L.N. 110 of 5th September 2011. The Centre has a present obligation of accrued gratuity for all its permanent staff as a result of transition from a department within the Director of Veterinary Services to a state corporation. It is probable that an outflow of resources embodying economic benefits will arise when they fall due.

The responsibility on government agencies is to promote high standards of integrity, demonstrate leadership through their own actions and through documented policies and procedures, and identify and address unacceptable practices. This involves actions by both the organisation and individuals. The Centre ensures strict adherence to the code of ethics and other internal policies and procedures without deviation. The Centre has set out an ethical culture and values at the organisation level and implements those values through policies and codes of practice.

The heads of departments are required to demonstrate those values through leadership, to positively reinforce the values and also to ensure compliance with, and enforcement of, the values. KAGRC staffs are conscious at all times of the need to uphold the highest standards of conduct in their dealings with the public, which includes acting with integrity and avoiding conflicts of interest.

**VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

The Centre recognises that the institution's social, environmental and ethical conduct has an impact on its reputation. The centre's relationship with its stakeholders is guided by its commitment to integrity, professionalism and inclusiveness. Accordingly, we are committed to ensuring that each person and entity collaborating with the Centre is treated with dignity and respect and is given an opportunity to contribute to the Centre's success. We strive to maintain a productive and open dialogue with all parties who may have an interest in our activities. We conduct regular customer satisfaction surveys, monitor suppliers and customers performance and actively encourage feedback from our employees using a variety of methods including employee satisfaction survey.

Diversity in our workforce and supply base helps foster the kind of innovation, sensitivity and vitality that enables us to effectively deliver our services. We embrace diversity across all levels of our collaborations and act on any feedback that improves our service delivery. During the financial year under review, the centre recognized the responsibility to act responsibly and constructively as a member of the surrounding communities, through donations to the nearby Nairobi Children's Home, Kabete Rehabilitation Centre and created awareness on drug and substance abuse to the youths and the families. To conserve the environment, the Centre participated in planting of five hundred trees.

**REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of the Centre's affairs.

**Principal activities**

The principal activities of the Centre are contained in page two.

**Results**

The results of the entity for the year ended June 30<sup>th</sup>, 2016 are included in this year's statements.

**Directors**

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

**Auditors**

The Auditor General is responsible for the statutory audit of the Centre in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. The Centre's financial statements for year ended 30<sup>th</sup> June 2016 were audited by the office of the Auditor General.

#### **VIII. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and section 14 (3) of the State Corporations Act, require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the entity for that year/period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the Centre's financial statements, which give a true and fair view of the state of affairs of the Centre for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 Centre; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Centre'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 State Corporations Act Cap 446. The Directors are of the opinion that the Centre's financial statements give a true and fair view of the state of Centre's transactions during the financial year ended June 30, 2017, and of the Centre's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Centre, which have been relied upon in the preparation of the Centre'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 Centre will not remain a going concern for at least the next twelve months from the date of this statement.

**KENYA ANIMAL GENETIC RESOURCES CENTRE**  
**Reports and Financial Statements**  
**For the year ended June 30, 2017**

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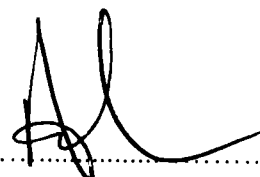
**Approval of the financial statements**

The Centre's financial statements were approved by the Board on **20<sup>th</sup> September 2017** and signed on its behalf by:



.....  
Dr. David Kios, HSC  
Managing Director

Date: 4/4/2018.....



.....  
Dr. Geoffrey Kamau  
Chairman Board of Directors

Date: 4-4-18.....

# REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA ANIMAL GENETIC RESOURCES CENTRE FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Kenya Animal Genetic Resources Centre set out on pages 1 to 20, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects 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 Animal Genetic Resources Centre as at June 30, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the State Corporations Act Cap 446.

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

#### Basis for Qualified Opinion

##### 1. Property, Plant and Equipment

As reported in the previous years, and as disclosed in Note 13 to the financial statements, property, plant and equipment balance of Kshs. 435,360,433 as at 30 June 2017 excludes the value of seven parcels of land measuring 168.082 hectares which have not been valued and for which the Centre has not obtained ownership documents as listed below:

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*Report of the Auditor-General on the Financial Statements of Kenya Animal Genetic Resources Centre for the year ended 30 June 2017*

<b>Registration No.</b>	<b>Land size</b>	<b>Location/User</b>
L.R.No.22380/26	89.47 Hectares	Veterinary Headquarters Kabete
L.R.No.23362	47.47 Hectares	Artificial Insemination
L.R.No.23375/5	22.65 Hectares	Hayfield
L.R.No.23943	0.030 Hectares	Borehole
L.R.No.26536	0.198 Hectares	Staff Houses
L.R.No.22380	5.000 Hectares	Veterinary Hayfield
L.R.No.22387	3.264 Hectares	AHITI Kabete
<b>Total</b>	<b>168.82 Hectares</b>	

Consequently, the legal ownership of the property without titles cannot be confirmed. In addition, without a valuation report on the aforementioned property and inclusion in the financial statements, the property, plant and equipment balance of Kshs.435,360,433 as at 30 June 2017 is not under the circumstances fairly stated.

## **2. Receivables**

The statement of financial position as at 30 June 2017 reflects receivables from exchange transactions balance of Kshs.29,007,899. The amount includes receivables from KAGRC Agents of Kshs.24,805,490 out of which Kshs.7,772,900 relates to debts outstanding for over 120 days. Further, included in the above Kshs.7,772,900 is an amount of Kshs.3,680,758, which has remained outstanding for over a year. No provision has been made in the books for non-recovery of these long outstanding amounts. The receivables balance of Kshs.29,007,899 as at 30 June, 2017 is, therefore, not fairly stated.

## **3. Payables**

The statement of financial position reflects a balance of Kshs.144,912,306 under trade and other payables from exchange transactions. Included in the amount of Kshs.144,912,306 and as disclosed under Note 15 to the financial statements is an amount of Kshs.64,382,868 described trade payables, which includes trade payables totalling Kshs.40,295,136 that have been outstanding for over a year. No satisfactory reason has given for failure by the Centre to settle the long outstanding amounts.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Animal Genetic Resources Centre in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

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

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

In preparing the financial statements, management is responsible for assessing the Centre's ability to sustain services, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Centre's financial reporting process.

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

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

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

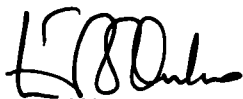
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Centre's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Centre's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Centre's 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 Centre's to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

**Nairobi**

**30 May 2018**

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

	Note	2016-2017	2015-2016
		Kshs	Kshs
<b>Revenue from non-exchange transactions</b>			
Transfers from other governments – government grants	1	26,000,000 .00	263,215,274.00
		<b>26,000,000 .00</b>	<b>263,215,274.00</b>
<b>Revenue from exchange transactions</b>			
Sale of goods and services	2	243,545,410.00	209,397,362.00
Other income	3	5,153,820.00	9,116,347.00
Total Revenue from exchange transactions		248,699,230.00	218,513,709.00
<b>Total revenue</b>		<b>274,699,230.00</b>	<b>481,728,983.00</b>
<b>Expenses:</b>			
Employee costs	4	109,849,543.00	104,587,232.00
Remuneration of directors	5	6,120,263.00	8,753,725.00
Depreciation and amortization expense	6	53,042,497.00	61,900,149.00
Repairs and maintenance	7	7,793,045.00	6,744,144.00
General expenses	8	82,722,185.00	112,137,078.00
<b>Total expenses</b>		<b>259,527,532.00</b>	<b>294,122,328.00</b>
<b>Other gains/(losses)</b>			
<b>Surplus before tax</b>		<b>15,171,698.00</b>	<b>187,606,655.00</b>
<b>Surplus/( deficit) for the period</b>		<b>15,171,698.00</b>	<b>187,606,655.00</b>

The notes set out on pages 1 to 21 form an integral part of these Financial Statements

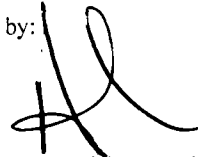
**XII. STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2017**

		2016-2017	2015-2016
		Kshs	Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	3,777,293.00	6,677,118.00
Receivables from exchange transactions	11	29,007,899.00	27,978,357.00
Inventories	12	221,785,800.00	148,744,300.00
		<b>254,570,992.00</b>	<b>183,399,775.00</b>
<b>Non-current assets</b>			
Property, plant and equipment	13	435,360,433.00	476,432,822.00
Biological Assets	14	9,744,351.00	9,542,351.00
		445,104,784.00	485,975,173.00
<b>Total assets</b>		<b>699,675,776.00</b>	<b>669,374,948.00</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	15	144,912,306.00	134,963,175.00
Refundable deposits from customers	16	11,099,920.00	5,919,920.00
		<b>156,012,226.00</b>	<b>140,883,095.00</b>
<b>Non-current liabilities</b>			
<b>Total liabilities</b>		<b>156,012,226.00</b>	<b>140,883,095.00</b>
<b>Net assets</b>			
Capital Reserves		185,872,025.00	185,872,025.00
Revenue Reserves		338,883,025.00	323,711,327.00
Donations		18,908,500.00	18,908,500.00
<b>Total net assets and liabilities</b>		<b>699,675,776.00</b>	<b>669,374,947.00</b>

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

  
Managing Director  
Dr. David K. Kios HSC

  
Head of Finance  
Faith K. Aciita

  
Chairman of the Board  
Dr. Geoffrey Kamau

Date: 4/4/2018

ICPAK Member Number: 20748  
Date: 4/4/18

Date: 4-4-18

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

	Attributable to the owners of the controlling entity					Total Kshs
	Capital Reserve Kshs	Reserves		Accumulated surplus Kshs	Minority interest Kshs	
		Revenue Reserve Kshs	EAAPP Donations Kshs			
<b>Balance as at 1 July 2015</b>	185,872,025.00	136,104,673.00	18,908,500.00	N/A	N/A	340,885,198.00
Surplus/(deficit) for the period	-	187,606,654.00	-	-	-	187,606,654.00
Transfers to/from accumulated surplus	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-
Grants received during the year						-
Revaluation gain			-			-
<b>Balance as at 30 June 2016</b>	<b>185,872,025.00</b>	<b>323,711,327.00</b>	<b>18,908,500.00</b>	-	-	<b>528,491,852.00</b>
Balance as at 1 July 2016	185,872,025.00	323,711,327.00	18,908,500.00	-	-	528,491,852.00
Surplus for the period	-	15,171,698.00	-	-	-	15,171,698.00
Transfers to/from accumulated surplus	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-
Grants received during the year	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-
<b>Balance as at 30 June 2017</b>	<b>185,872,025.00</b>	<b>338,883,025.00</b>	<b>18,908,500.00</b>	-	-	<b>543,663,550.00</b>

**KENYA ANIMAL GENETIC RESOURCES CENTRE**  
**Reports and Financial Statements**  
**For the year ended June 30, 2017**

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

		<b>2016-2017</b>	<b>2015-2016</b>
		<b>Kshs</b>	<b>Kshs</b>
<b>Cash flows from operating activities</b>		15,171,698.00	187,606,655.00
<b>Adjustments:</b>			
Annual Depreciation		53,042,497.00	61,900,149.00
		-	-
<b>Surplus Before working capital changes</b>		<b>68,216,795.00</b>	<b>249,506,804.00</b>
		-	-
<b>Changes in working capital</b>			
(Increase)/Decrease in inventory/stocks		(73,041,500.00)	(35,898,800.00)
(Increase)/Decrease in Receivables		(1,029,542.00)	(394,106.00)
Increase/ (Decrease ) in Payables		15,129,131.00	21,012,252.00
		-	-
<b>Net Cash flows from Operating activities</b>		<b>9,272,284.00</b>	<b>234,226,150.00</b>
<b>Cash flows from Investing activities</b>			
Acquisition of Property Plant and Equipment		(11,970,108.00)	(229,453,682.00)
Net Acquisition of biological asset		(202,000.00)	(447,000.00)
		-	-
<b>Net cash flows from investing activities</b>		<b>(2,899,824.00)</b>	<b>4,325,468.00</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
<b>Net cash flows used in financing activities</b>		<b>(2,899,824.00)</b>	<b>4,325,468.00</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,899,824.00)</b>	<b>4,325,468.00</b>
Cash and cash equivalents at 1 July		6,677,118.00	2,351,650.00
<b>Cash and cash equivalents at 30 June</b>	10	<b>3,777,293.00</b>	<b>6,677,118.00</b>

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

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference	
	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs
<b>Revenue</b>										
Government grants and subsidies	26,000,000.00		-		26,000,000.00		26,000,000.00		-	
Sale of Goods	235,000,000.00		-		235,000,000.00		243,545,410.00		8,545,410.00	
Other Income	9,364,000.00		-		9,364,000.00		5,153,820.00		(4,210,180.00)	
<b>Total income</b>	<b>270,364,000.00</b>		<b>-</b>		<b>270,364,000.00</b>		<b>274,699,230.00</b>		<b>4,335,230.00</b>	
<b>Expenses</b>										
Employee Costs	108,788,000.00		-		108,788,000.00		109,849,543.00		(1,061,543.00)	
Remuneration of Directors	7,000,000.00		-		7,000,000.00		6,120,263.00		879,737.00	
Depreciation and Amortization	-		-		-		53,042,497.00		(53,042,497.00)	
Repairs and Maintenance	6,800,000.00		-		6,800,000.00		7,793,045.00		(668,245.00)	
<b>General Expenses:</b>										
Travelling and Subsistence	11,100,000.00				11,100,000.00		11,582,660.00		(482,660.00)	
Telephone and Postage	2,900,000.00				2,900,000.00		2,381,096.00		518,904.00	
Electricity and Water	42,800,000.00				42,800,000.00		26,822,807.00		15,977,193.00	
Printing Stationery and Computer expenses	4,600,000.00				4,600,000.00		3,201,183.00		1,398,817.00	
Training and ISO	800,000.00				800,000.00		468,040.00		331,960.00	
Uniforms & Protective Clothing	1,500,000.00				1,500,000.00		390,155.00		1,109,845.00	
Bank Charges	800,000.00				800,000.00		760,577.00		39,423.00	
Subscriptions and Newspapers	100,000.00				100,000.00		108,360.00		(8,360.00)	
Catering Services	800,000.00				800,000.00		973,539.00		(173,539.00)	
Motor vehicle Insurance	700,000.00				700,000.00		285,152.00		414,848.00	
Transport Operating Expenses	6,500,000.00				6,500,000.00		5,670,619.00		829,381.00	
Repairs and Maintenance of Motor vehicles	2,800,000.00				2,800,000.00		821,986.00		1,978,014.00	
Miscellaneous and other charges	8,506,000.00				8,506,000.00		7,722,443.00		783,557.00	

**KENYA ANIMAL GENETIC RESOURCES CENTRE**  
**Reports and Financial Statements**  
**For the year ended June 30, 2017**

Audit Fees	580,000.00		580,000.00	580,000.00	-
Bull Recruitment and Maintenance	32,300,000.00		32,300,000.00	15,137,013.00	17,162,987.00
Marketing and Advertisement	10,990,000.00		10,990,000.00	5,816,556.00	5,173,444.00
CAPEX	20,000,000.00				
<b>Total expenditure</b>	<b>270,364,000.00</b>	-	<b>270,364,000.00</b>	<b>259,527,532.00</b>	<b>10,836,468.00</b>
<b>Surplus for the period</b>		-		<b>15,171,698.00</b>	

**Budget notes**

- Revenue- The Centre's main source of internally generated revenues is from sale of bull semen, liquid nitrogen, artificial insemination equipment and other miscellaneous income such as rental income and disposal income. The Centre missed the revenue target due the prolonged draught experienced in the third and fourth quarter of the financial year. The weather conditions is a key factor to consider because when the climatic conditions are favourable more of the Centre's products are consumed by farmers and when the conditions are unfavourable the Centre experiences a decline in revenue.
- Employee costs was more than budgeted due to engagement of casuals workers stationed at the new sun stations following a freeze on employment by the National Treasury.
- The Centre does not budget for depreciation hence the negative variance
- The actual repairs and maintenance were more than the actual because of unplanned expenses occasioned by breakdown of our machinery towards the end of the financial year. It was therefore impossible to do reallocations and have the approvals in good time before implementation.
- In the general expenses category most of the actual expenses were less than budgeted. This was because some activities were shelved due to the reduction in development budget allocated to the Centre. The long draught also affected our sales revenues which supports 90% of the recurrent expenses hence the Centre could not procure as the procurement plan.

During the year ended 30<sup>th</sup> June the Centre did not revise the budget hence no reallocations to the budget were done

**XVI. NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

KAGRC is established by and derives its authority and accountability from Gazette Notice No.10 of 5<sup>th</sup> Sept 2011. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya.

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

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

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

**3. ADOPTION OF NEW AND REVISED STANDARDS**

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

Standard	Impact
<b>IPSAS 33: First time adoption of Accrual Basis IPSAS</b>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p> <p>The Centre adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the entity.</p>

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

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii. **Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2017.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

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

**Transfers from other government entities**

The Centre receives both recurrent and development grants every year finance various activities and operations. 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.

**ii) Revenue from exchange transactions**

**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. The Centre revenues mainly come from sale of deep frozen semen and Liquid Nitrogen which is used to preserve the semen.

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

**b) Budget information**

The original budget for FY 2016-2017 was approved by the board in July 2016. No Subsequent revisions or additional appropriations were made to the approved budget. The entity'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.

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 six (6) of these financial statements.

**c) 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.

The Centre makes estimates in determining depreciation rates of property plant and equipment. The rates used are set out in the accounting policy for depreciation. Depreciation is calculated on reducing balance with a full year's charge on acquisition and none on disposal. The annual depreciation rates used are:

Buildings	2%
Farm Machinery	20%
Computers	33%
Plant and Equipment	12.5%
Motor Vehicles	20%
Loose Tools	33%
Furniture and Fittings	33%

**d) 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. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

**f) Nature and purpose of reserves**

The Entity creates and maintains reserves in terms of specific requirements.

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

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

**h) Employee benefits**

**Retirement benefit plans**

The Entity provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

**i) Related parties**

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

**j) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank. 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.

**k) Comparative figures**

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

**l) Reserves**

The Centre creates and maintains reserves in terms of capital reserves, revenue reserves and donations received from development partners in form of asset donations.

**m) Biological Assets**

Estimates and judgements are continually evaluated on the basis of historical experience and other factors including future events that are believed to be reasonable under the circumstances. The carrying value of biological assets disclosed in the financial statements is at cost.

## 5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity'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 Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

### **Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Transfers from other governments

Description	2016-2017	2015-2016
	KShs	KShs
<b>Unconditional grants</b>		
Operational grant	26,000,000.00	261,044,000.00
Other-EAAPP	-	2,171,274.00
	<b>26,000,000.00</b>	<b>263,215,274.00</b>
<b>Conditional grants</b>		
<b>Total government grants and subsidies</b>	<b>26,000,000.00</b>	<b>263,215,274.00</b>

1b) Transfers from Ministries, Departments and Agencies

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2015-2016
			KShs	KShs	KShs
Ministry of Agriculture Livestock and Fisheries	26,000,000.00	-	26,000,000.00	26,000,000.00	261,044,000.00
<b>Total</b>	<b>26,000,000.00</b>	<b>26,000,000.00</b>	<b>26,000,000.00</b>	<b>26,000,000.00</b>	<b>261,044,000.00</b>

2. Sale of goods

Description	2016-2017	2015-2016
	KShs	KShs
<b>Sale of goods</b>		
Sale of Deep Frozen Semen	129,315,700.00	141,815,090.00
Sale of Liquid Nitrogen	52,510,900.00	53,381,486.00
Other- Production Income	61,718,810.00	14,200,786.00
<b>Total revenue from the sale of goods</b>	<b>243,545,410.00</b>	<b>209,387,362.00</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Other income

Description	2016-2017	2015-2016
	KShs	KShs
Liquid Nitrogen Containers	1,584,000.00	4,692,300.00
Artificial Insemination Equipment	1,485,905.00	2,002,877.00
Miscellaneous Income eg disposal, fees	1,225,963.00	1,533,716.00
Rental Income	857,952.00	887,454.00
<b>Total other income</b>	<b>5,153,820.00</b>	<b>9,116,347.00</b>

4. Employee costs

	2016-2017	2015-2016
	KShs	KShs
Salaries and wages	94,189,024.00	80,853,763.00
Employee related costs - contributions to medical aids	10,300,175.00	10,950,798.00
Employee related costs - contributions to pensions and gratuity	5,360,344.00	12,782,671.00
<b>Employee costs</b>	<b>109,849,543.00</b>	<b>104,587,232.00</b>

5. Remuneration of directors

Description	2016-2017	2015-2016
	KShs	KShs
Chairman's Honoraria	960,000.00	960,000.00
Directors emoluments	5,160,263.00	7,793,725.00
<b>Total director emoluments</b>	<b>6,120,263.00</b>	<b>8,753,725.00</b>

6. Depreciation and amortization expense

Description	2016-2017	2015-2016
	KShs	KShs
Property, plant and equipment	53,042,497.00	61,900,149.00
<b>Total depreciation and amortization</b>	<b>53,042,497.00</b>	<b>61,900,149.00</b>

7. Repairs and maintenance

Description	2016-2017	2015-2016
	KShs	KShs
Equipment and machinery	7,793,045.00	6,744,144.00
<b>Total repairs and maintenance</b>	<b>7,793,045.00</b>	<b>6,744,144.00</b>

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

**8. General expenses**

<b>Description</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>KShs</b>	<b>KShs</b>
Travelling and Subsistence	11,582,660.00	15,060,833.00
Telephone and Postage	2,381,096.00	2,645,338.00
Electricity and Water	26,822,807.00	24,252,430.00
Printing, Stationery and Computer Expenses	3,201,183.00	4,710,206.00
Training and ISO	468,040.00	4,763,904.00
Uniforms and Protective Clothing	390,155.00	779,344.00
Bank Charges	760,577.00	455,322.00
Subscriptions	108,360.00	89,880.00
Catering Services	973,539.00	844,280.00
Property Insurance	-	560,551.00
Motor Vehicle Insurance	285,152.00	692,141.00
Transport Operating Expense	5,670,619.00	5,467,613.00
Motor Vehicle Servicing	821,986.00	2,421,962.00
Miscellaneous Charges	7,722,443.00	14,104,949.00
Audit Fees	580,000.00	580,000.00
Bull Recruitment and Maintenance	15,137,013.00	23,410,675.00
Marketing and Advertisement	5,816,556.00	11,297,651.00
<b>Total general expenses</b>	<b>82,722,185.00</b>	<b>112,137,079.00</b>

**9. Cash and cash equivalents**

<b>Description</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>KShs</b>	<b>KShs</b>
Current account	3,738,860.00	6,616,096.00
Cash in Hand	38,433.00	61,022.00
<b>Total cash and cash equivalents</b>	<b>3,777,293.00</b>	<b>6,677,118.00</b>

10. Detailed analysis of the cash and cash equivalents

		2016-2017	2015-2016
Financial institution	Account number	KShs	KShs
<b>a) Current account</b>			
Barclays Bank of Kenya	0731056080	6,674.00	(5,807.00)
Barclays Bank of Kenya	0731082928	28,102.00	6,167,720.00
Barclays Bank of Kenya	0731082901	3,704,084.00	454,182.00
<b>Sub- total</b>		<b>3,738,860.00</b>	<b>6,616,096.00</b>
<b>b) Others (specify)</b>			
Cash in hand		38,433.00	61,022.00
<b>Sub- total</b>		<b>38,433.00</b>	<b>61,022.00</b>
<b>Grand total</b>		<b>3,777,293.00</b>	<b>6,677,118.00</b>

11. Receivables from exchange transactions

Description	2016-2017	2015-2016
	KShs	KShs
<b>Current receivables</b>		
KAGRC Agents	24,805,490.00	22,766,853.00
Staff Debtors	271,826.00	415,671.00
Other exchange debtors-medical cover	3,930,583.00	4,795,833.00
	-	-
<b>Total current receivables</b>	<b>29,007,899.00</b>	<b>27,978,357.00</b>
<b>Non-current receivables</b>		
<b>Total non-current receivables</b>	-	-
<b>Total receivables</b>	<b>29,007,899.00</b>	<b>27,978,357.00</b>

12. Inventories

Description	2016-2017	2015-2016
	KShs	KShs
Semen Stocks	221,785,800.00	148,744,300.00
<b>Total inventories at the lower of cost and net realizable value</b>	<b>221,785,800.00</b>	<b>148,744,300.00</b>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Property, Plant and Equipment

Cost	Land and Buildings	Motor vehicles	Farm Machinery	Computers	Loose Tools	Plant and equipment	Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs
At 1 July 2015	92,282,435.00	46,584,227.00	3,723,153.00	36,473,075.00	764,724.00	255,848,517.00	435,676,131.00
Additions	24,991,306.00	-	315,000.00	2,728,300.00	101,516.00	201,317,560.00	229,453,682.00
Disposals	-	-	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-	-	-
<b>At 30<sup>th</sup> June 2016</b>	<b>117,273,741.00</b>	<b>46,584,227.00</b>	<b>4,038,153.00</b>	<b>39,201,375.00</b>	<b>866,240.00</b>	<b>457,166,077.00</b>	<b>665,129,813.00</b>
Additions	10,446,892.00	-	680,000.00	415,000.00	-	428,216.00	11,970,108.00
Disposals	-	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-	-
<b>At 30<sup>th</sup> June 2017</b>	<b>127,720,633.00</b>	<b>46,584,227.00</b>	<b>4,718,153.00</b>	<b>39,616,375.00</b>	<b>866,240.00</b>	<b>457,594,293.00</b>	<b>677,099,921.00</b>
<b>Depreciation and impairment</b>							
At 1 July 2015	4,672,006.00	24,665,494.00	2,127,878.00	22,267,667.00	534,874.00	72,528,922.00	126,796,841.00
Depreciation	2,252,035.00	5,488,941.00	382,055.00	5,588,124.00	109,351.00	48,079,644.00	61,900,149.00
Impairment	-	-	-	-	-	-	-
<b>At 30<sup>th</sup> June 2016</b>	<b>6,924,041.00</b>	<b>30,154,435.00</b>	<b>2,509,933.00</b>	<b>27,855,791.00</b>	<b>644,225.00</b>	<b>120,608,566.00</b>	<b>188,696,991.00</b>
Depreciation	2,415,932.00	4,107,448.00	441,644.00	3,880,993.00	73,265.00	42,123,216.00	53,042,497.00
Disposals	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-	-	-
<b>At 30<sup>th</sup> June 2017</b>	<b>9,339,973.00</b>	<b>34,261,883.00</b>	<b>2,951,577.00</b>	<b>31,736,784.00</b>	<b>717,490.00</b>	<b>162,731,782.00</b>	<b>241,739,488.00</b>
<b>Net book values</b>							
At 30 <sup>th</sup> June 2017	118,380,660.00	12,322,344.00	1,766,576.00	7,879,591.00	148,750.00	294,862,511.00	435,360,433.00
At 30 <sup>th</sup> June 2016	110,349,700.00	16,429,792.00	1,528,220.00	11,345,584.00	222,015.00	336,557,511.00	476,432,822.00

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Investment Biological Assets

Description	2016-2017	2015-2016
	KShs	KShs
At beginning of the year	9,542,351.00	9,095,351.00
Additions	562,000.00	807,000.00
Disposal	(360,000.00)	(360,000.00)
At end of the year	9,744,351.00	9,542,351.00

15. Trade and other payables from exchange transactions

Description	2016-2017	2015-2016
	KShs	KShs
Trade payables	64,382,868.00	53,422,192.00
Payments received in advance	22,637,845.00	25,584,319.00
Employee Gratuity	56,731,593.00	54,796,665.00
Third-party payments	1,160,000.00	1,160,000.00
<b>Total trade and other payables</b>	<b>144,912,306.00</b>	<b>134,963,175.00</b>

16. Refundable deposits from customers

Description	2016-2017	2015-2016
	KShs	KShs
Customer deposits	11,099,920.00	5,919,920.00
<b>Total deposits</b>	<b>11,099,920.00</b>	<b>5,919,920.00</b>

17. Related Party Balances

a) 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.

The entity is related to

- i) The National Government;
- ii) Ministry of Agriculture Livestock and Fisheries
- iii) The National Treasury;
- iv) The general public;
- v) Livestock Producers;
- vi) Key management;
- vii) Board of directors;

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

**19. Related Party Balances (continued)**

**c) Key management remuneration**

	<b>2016/2017</b>	<b>2015/2016</b>
Directors	6,120,263.00	8,753,725.00
Key management compensation	<u>28,256,707.20</u>	<u>24,256,128.00</u>
	<u><b>34,376,976.20</b></u>	<u><b>33,009,853.00</b></u>

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

**18. Currency**

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

**XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

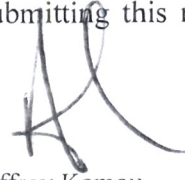
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Ref. KAGRC/2015 /2016 (9)	Differences between the actual and budgeted amounts in the financial not explained in the notes.	Material variances between the budget actual amounts were explained an attached as annexure to the financial statements.	Dr. David K. Kios	Resolved	Resolved
	The Centre lacks land ownership documents for the parcels of land it currently occupies	The Centre has written the parent ministry requesting for the parcels of land it occupies to be transferred in the name of KAGRC.		Not resolved	Not resolved

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

  
 Dr. David K. Kios, HSC  
 Managing Director

  
 Dr. Geoffrey Kamau  
 Chairman of the Board

Date..... 4/4/2018 .....

Date..... 4-4-18 .....

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**Appendix 2: INTER-ENTITY TRANSFERS**

<b>ENTITY NAME:</b>			
<b>Break down of Transfers from the State Department of Livestock</b>			
<b>FY 16/17</b>			
a. Recurrent Grants			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	20/09/2016	1,500,000.00	2016/2017
	28/12/2016	1,500,000.00	2016/2017
	1/03/2017	1,500,000.00	2016/2017
	10/5/2017	1,500,000.00	2016/2017
	<b>Total</b>	<b>6,000,000.00</b>	
b. Development Grants			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	10/5/2017	20,000,000.00	2016/2017
	<b>Total</b>	<b>20,000,000.00</b>	

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

Finance Manager  
KAGRC

Head of Accounting Unit  
Ministry

Sign

  
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Sign-----