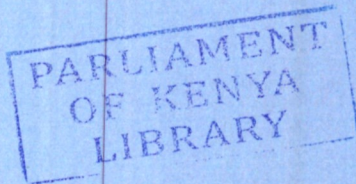


REPUBLIC OF KENYA



*Paper laid by the leader of
Majority party
27/6/2018
M.P.F.*

OFFICE OF THE AUDITOR-GENERAL



REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA AGRICULTURAL AND LIVESTOCK
RESEARCH ORGANIZATION (KALRO)**

**FOR THE YEAR
ENDED 30 JUNE 2017**

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

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

ANNUAL REPORT AND FINANCIAL STATEMENTS

30TH JUNE, 2017

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

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ABBREVIATIONS

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

Our Vision

Excellence in agriculture and livestock research towards transformed livelihoods.

Our Mission

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

Organization Goal

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

Our Guiding Core Values

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

a) Customer orientation

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

b) Professionalism

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

c) Innovativeness

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

d) Collaboration

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

e) Environmental consciousness

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

f) Integrity

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

I. KEY ORGANIZATION INFORMATION AND MANAGEMENT

(a) Background information

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

(b) Principal Activities

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

The Organization has a Financial Management Information System, which is operational in all research Institutes and Centres. Consolidation of financial data is done at KALRO Secretariat.

(c) Key Management

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

1. Director General, KALRO
2. Deputy Director General (Livestock)
3. Deputy Director General (Crops)
4. Chief Manager, Corporate Services

(d) Fiduciary Oversight Arrangements

- Ministry of Agriculture, Livestock and Fisheries
- Ministry of Finance

(e) Organization Headquarters

Kenya Agricultural and Livestock Research Organization

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

(f) Organization Bankers

1. Kenya Commercial Bank
P.O. Box 46950
Nairobi
Tel No. 020-214878,
2. NIC Bank Limited
P.O. Box 44599- 00100
Nairobi.
Tel No. 4450882,
3. Co-operative Bank of Kenya Ltd
P O Box 48231 - 00100
Nairobi
4. CFC Stanbic Bank
P.O Box 30550-00100
Nairobi.
5. National Bank of Kenya
Ruiru Branch
P.O Box 93-00232
Ruiru.

(g) Independent Auditors

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

(h) Principal Legal Adviser

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

II. THE BOARD OF MANAGEMENT

Prof. Moses K. Limo, PhD Professor of Biochemistry, Egerton University



Prof. Moses K. Limo holds a PhD in Biochemistry from the University of Nairobi, a Master of Science in Biochemistry from University of Trondheim Norway and a Bachelor of Science in Chemistry and Biochemistry from University of Nairobi. He is a Professor at the Egerton University Department of Biochemistry and Molecular Biology, with over 30 years of experience in teaching and research. Prof. Limo has served in leadership positions in a number of public institutions and at the Egerton University.

Prof. Limo is appointed Member, Chairman KALRO BoM.

Prof. Mabel O. Imbuga. B.Sc., M.Sc., Ph.D, EBS The Vice Chancellor, JKUAT



Prof. Mabel Imbuga is the Vice Chancellor of Jomo Kenyatta University of Agriculture and Technology, one of the 7 public universities in Kenya. She is a Professor of Biochemistry, with over 33 years of teaching and scholarly experience. She has extensive knowledge and demonstrative experience in the higher education system, having grown from a Research Assistant, Assistant Lecturer, Lecturer, Research Scientist, Chairman of Department, Dean, Director as well as a Deputy Vice Chancellor in charge of Academic affairs. Prof. Imbuga is a key resource in strategic management and leadership, with an MBA in strategic management from Eastern and Southern African Management Institute (ESAMI). She has participated in various forums and key Government seminars as a motivational speaker for upcoming leaders and scientists. To her credit, Prof. Imbuga has over 10 funded projects and 27 publications. Prof Imbuga has attracted over 10 international funding for various projects cutting across various disciplines. She is a member of several professional associations across the world, the president of the Africa Women in Science and Engineering; immediate former Director of International Network of Women Engineers and Scientists; Member, Global Consortium of Higher Education and Research for Agriculture (GCHERA) and member, International Conference of Women Engineers and Scientists (ICWES).

Prof. Mabel is appointed Member, KALRO BoM.

**Prof. Kassim O. Farrah,
Appointed Member, KALRO BoM**



**Dr. Michael Wawire
Appointed Member, KALRO BoM**



**Dr. Moses Kipngeno Rugutt (BVM, MSC, PhD, HSC)
Director General, NACOSTI**



Dr Rugutt is currently the Chief Executive Officer/Secretary of the National Commission for Science, Technology and Innovation (NACOSTI).

Dr Rugutt holds a PhD in Veterinary Medicine from University of Glasgow, a Master of Tropical Veterinary Science at the University of Edinburgh and a Bachelor of Veterinary Medicine from the University of Nairobi.

Dr Rugutt is also a Member of the Pharmacy and Poisons Board and Board of Management of the National Quality Control Laboratory.

Previously Dr Rugutt served at senior leadership positions at Kenya Agricultural Research Institute (KARI) and Ministry of Higher Education Science and Technology, with over 30 years of experience.

Dr Rugutt is a member of KALRO BoM.

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Mrs. Winnie Makotsi

Representative – Principal Secretary, State Department of Livestock
Appointed Member

Mrs. Anne A. Onyango

Representative - PS State Department of Agriculture
Appointed Member

Mr. James A. Aloyo

Representative, Principal Secretary, National Treasury

Ms. Scholastica S. Matunge

Human Resource Professional
Appointed Member

III. MANAGEMENT TEAM

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



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

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



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

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

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



Dr. Felister Makini holds a BSc in Botany and Chemistry from the University of Nairobi, Kenya and a MSc in Plant Pathology from Georgia State University, USA. She also has a PhD in Plant Pathology from the University of Greenwich, UK and has done several short courses in various fields. Prior to her current position, she worked as the Deputy Director in charge of the Department of Outreach and Partnerships, a new department in the former Kenya Agricultural Research Institute (KARI). She was responsible for promoting the dissemination and adoption of KARI technologies, products and services. She was also responsible for promoting the establishment and strengthening of

strategic partnerships along the research development to utilization continuum as well as along the agricultural product value chains (APVC), an approach adopted by then. Recently together with others she published an operational field guide to innovation platforms as the lead author.

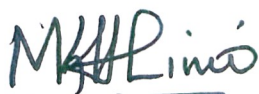
IV. CHAIRMAN'S STATEMENT

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

Investment in fundamental research went down during the year under review. The A.I.A fell short of KSh. 451.5 million after the commodity levies for coffee, tea and sugar were scrapped off through the Financial Act 2016/17. This shortfall, compounded by the winding up of major projects such as KAPAP and EAPP affected research operations. However, some relief on development funds has been realized with the onset of the implementation of USAID FtF project. To address this challenge, the BoM will ensure that the Organization's innovation programmes ensure collaboration with sector, industry and funding stakeholders. This is essential for ensuring that sustainable investments in research are availed to build technical and operational capabilities for KALRO to play a meaningful role in developing and disseminating technology and innovations that target both the local and global markets.

Although progress has been made towards the achievement of the Organization's strategic objectives, considerable effort still needs to be made to enhance stakeholder relations to generate buy-in and support for agricultural and livestock research initiatives to generate technology and innovation for enhanced productivity in agriculture. This will ensure improved incomes for farmers and attainment of food and nutrition security. The Organization still has room to improve internal efficiencies in order to respond to challenges facing the agricultural innovation system with speed and urgency. Management has been tasked to accelerate plans already underway to address these challenges.

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



Prof. Moses K. Limo
Chairman, KALRO BoM

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

The KALRO Management remained committed to the ideals of Kenya Vision 2030 in the implementation of the projects planned for the year under review. The activities included research, which is KALRO's core business, staff development and welfare, all of which were meant to provide a good working environment, compensate and motivate staff, develop and maintain facilities in line with the country's research needs. The research projects undertaken during the year were aligned to the former Institutes' Strategic Plans and Government Medium Term Plans (2013-2017). Besides, research projects focused on the assessment, validation and development of agricultural technologies identified along the Agricultural Product Value Chains (APVC). During this period, we continued the process of developing the first KALRO Strategic Plan (2017-2021). This strategic plan will guide the organization in the next five planning years and beyond.

Researchers continued conducting various projects with funding mainly from the USAID FtF, and other agencies and development partners. However, all these major projects were concluded during the financial year. Despite these developments, the Organization managed to achieve A.I.A totaling to over KSh. 1,761 million. The Management continued to apply the best practices by ensuring that funds allocated to the Institute were utilized for the programmes and activities for which they had been planned for. In this regard, the management launched application of Enterprise Resource Planning (ERP) system in Procurement, Financial and Human Resource Management. The implementation process has been completed and all transactions and activities were undertaken through the ERP. This development is expected to enhance prudent management of resources and support realization of our goals.

A major achievement during the year was the official release of 92 crop varieties by KEPHIS and identification of 24 promising maize clones tolerant to Maize Lethal Necrosis Disease MLND. In 2016/17FY, testing of 15,572 soil samples was achieved through collaborative linkages with the Counties and International partners. In addition, the Adaptive Research Programme evaluated 30 pesticides for crop pest management. On the livestock research, five vaccines for Contagious Bovine Pleuro-pneumonia (CBPP), TSOL 18, thermos stable PPR, Rift Valley Fever and ECF were tested on-farm. One (1) Tsetse repellent and one (1) attractant were developed and tested for the management of tsetse fly a serious vector of cattle diseases. On the same note, over 157 papers from KALRO researchers were published and/or accepted for publication in renowned peer reviewed journals. Another 190 papers were presented in conferences around the world and some 214 technical papers were published with 315 Extension materials developed/updated and availed to users. This offered an opportunity to our researchers to communicate to farmers, the extension workers and other stakeholders on the technologies available. A total of 291 farmer training workshops, field days and demonstrations were held with about 5,407 farmers and stakeholders trained on Kenya Good Agricultural Practices (GAP).

To ensure that farmers used improved crop varieties and livestock breeds around the country, the Organization produced and sold 1,378 metric tonnes of basic seed and 2.957 million clean root crop planting material, 73 Breeding Sahiwal bulls reared and availed to farmers and 296 thousand fertile eggs produced and availed to farmers among other technologies. To ensure availability of quality livestock feed, the Organization tested 2, 500 feed samples for development of feed rations, produced and availed to farmers 394.26 thousand clean Napier planting material, 12, 13.5 and 3 thousand bales Lucerne, Rhodes grass and oat bales respectively.

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Through the KALRO Training Master Plan, the management continued to coordinate, monitor and evaluate staff on PhD and MSc training both in local and overseas universities as well as identifying potential sponsors for the trainings. KALRO also provided 724 Youth Internships/industrial attachment/Apprenticeships during the period.

On behalf of the Management, I would like to take this opportunity to thank the Government of Kenya and our development partners for the support they accorded to KALRO during the reporting period. This support ensured that the Organization meets the set targets leading to a commendable achievement of most of our Performance Contract targets. Based on this, we are optimistic that we shall receive a "Very Good" rating by the Division of Performance Contracting, Ministry of Devolution and Planning.



**Eliud Kiplimo Kireger, PhD
DIRECTOR GENERAL**

VI. CORPORATE GOVERNANCE STATEMENT

Overview

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

Organization structure

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

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

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

Appointment of the Board

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

Board Organization and Structures

The composition of the KALRO Board of Management consists of

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

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

Role of the Board of Management

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

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

Board Meetings

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

Other Board information

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

Board Committees

In line with the provisions of the KALR Act No. 17 of 2013, the Board established three standing Committees as follows;

1. Finance and Administration Committee;

The committee assisted the Board in its oversight role of the Organization in matters relating to finance and human resource management.

2. Research, Technical and Innovation Committee

Functions of the Research, Technical and Innovation Committee includes:

- a) Serving as the advisory arm to the Organization; and
- b) Providing technical, financial and legal expertise to the Board and the research Institutes established under this Act.

In the performance of its functions under subsection (1), the Research, Technical and Innovation Committee shall

- a) Advise the Board on:
 - i) Science policy and broad strategic research directions; and
 - ii) Strategic planning, priority setting and research agenda
- b) Commission and manage periodic external reviews of the programs of research
- c) Undertake system level impact assessments;
- d) Collaborate with partners to mobilize and harness best science practices;
- e) Provide advice and capacity building to research Institutes and individuals undertaking agricultural research and programs pursuant to this Act;
- f) Analyze policies, research proposals and proposed research programs prior to submission to the Board for approval; and
- g) Perform such other functions relating to agricultural research as may be assigned to it by the Board.

3. Audit, Governance & Risk Committee.

The Board Audit, Governance and Risk Committee was established in accordance with the provisions of Public Finance Management regulation No. 34 of 2015. This sub-committee of the Board is delegated the responsibility of supporting the Director General with regard to the issues of risk, governance and related assurance. It further follows up the implementation of recommendation of internal and external auditors.

The committees were provided with all necessary resources to enable them to undertake their duties in an effective manner.

The above committees permit and facilitate more in-depth deliberations on issues than would otherwise, not be possible in a normal full Board Meetings. The Committees undertake preliminary discussions of the business of the board and prepare their resolutions for deliberations and

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adoption by the full Board Meetings. A decision of any of the Committees only becomes effective after it has been approved and confirmed by the full board.

Communication

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

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

Interest is growing in Corporate Social Responsibility activities in Kenya, more especially with regard to the social and environmental management practices. The Organization has contributed to a number of voluntary projects, such as freedom from hunger walk, ear walk, distributing tree seedlings to schools and contributing towards construction of such schools.

The objectives of this CSR policy are:

- To improve the livelihood of our employees, the neighbouring community and the lesser privileged sections of the society through sustainable and measurable initiatives.
- To participate in National, Community, Education, Environment and healthcare Research initiatives.
- To support farmers through generation and transfer of appropriate Research Technologies and knowledge.
- To offer a platform to employees to give back to the society in a meaningful way.
- To observe a high sense of corporate ethics and promote ethical behavior in all our activities.

KALRO recognizes the need to integrate our business values and operations to meet the expectations of all our stakeholders i.e. government departments, customers, employees, regulators, donors, suppliers, the community and the environment by:

- Recognizing that our social, economic and environmental responsibilities to these stakeholders are integral to our business
- Taking seriously the feedback that we receive from our stakeholders and maintaining open dialogue to ensure fulfilment of their requirements as stipulated in this policy
- Communicating our strategies, targets, performance and governance to our stakeholders in our continual commitment to sustainable development.
- Providing the necessary resources to enhance realization of the corporate responsibilities.

Pursuant to the above mentioned Corporate Social Responsibility objectives, Kenya Agricultural and Livestock Research Organization has endeavored to give support through:

- KALRO management developed a Customer Service Delivery Charter in line with National Values and Principles of Governance as espoused in Article 10 of the Constitution such as: human dignity; human rights; equality and equity; social justice and inclusiveness; non-discrimination and protection of the marginalized. KALRO has been supporting Social/Community Development oriented activities like promoting education by sponsoring primary schools at Muguga, Kiboko and Ruiru by to enhance their education standards;

- The Organisation continued supporting education in communities through sponsorship of Utafiti Primary school. This is a public primary school located in Timbilil at the KALRO-TRI by partnering with parents to pay ECDE PTA appointed teachers. Sugar Research Institute provided food stuff and clothes for community children. Arid and Range Land Research Institute supported the community school (Primary and Secondary) through providing drinking water and housing.
- The organization donated learning materials to Jacaranda Primary school which comprises of players from all parts of the country thereby enhancing National cohesion.
- The Organization participated in tree planting during the World's Environmental day at KALRO Kitale;
- The Organization through ASAL Project offered training on nutritional value addition of Amaranth to Women groups and Children in Makindu, Muthetheni and Katumani enviros.
- The organization too contributed funds and participated in the Freedom from Hunger Walk to stamp out Hunger in Kenya through the Kenya Freedom from Hunger Council
- The management has systematically been ensuring that KALRO is well represented in the counties by establishing centres and sub-centres to provide services throughout the country.

VIII. REPORT OF THE DIRECTORS

TECHNICAL RESEARCH PROGRAMME ACHIEVEMENTS: FY/2016/2017

The year recorded significant achievements in various projects under Crops and Livestock Research. Presented below is the summary of the key achievements for the FY 2016/2017 as per the set Performance Contracting document.

Project 1. Fertilizer cost reduction investment

Soil Analysis and Recommendations within Kenya

- This refers to soil analysis and the associated fertilizer recommendations to clients by KALRO laboratories. A total of 15,572 samples of soil analysis were recommended. KALRO will collaborate with the Counties and International partners where applicable to improve an uptake of the service.

Project 2: Establishment of Disease-Free Zones

Development of Vaccines

- Vaccine development, testing and strategic use are key factors in maintenance of disease-free zones. The developed vaccines are first tested in the laboratory and on station animals. The successful ones are then tested on farm for 2-3 years. Five vaccines for Contagious Bovine Pleuro-pneumonia (CBPP), TSOL 18, thermos stable PPR, Rift Valley Fever and ECF were tested for the second year on- farm trials.

Development of Tsetse repellent and attractant

- Tsetse repellent and one (1) attractant were developed and tested for the management of tsetse fly a serious vector of cattle diseases.

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

- KALRO identified 24 promising maize varieties tolerant to MLND. In 2016/17FY, these varieties and additional 230 were evaluated for MLND tolerance. Sixteen (16) varieties were found to be tolerant to MLND and are in advance stage of being released by KEPHIS.

Project 3. Production of planting materials

Basic Seed Produced

- The Organization produced 1,378 MT of basic seed of different food crop species and sold to seed companies for further multiplication and commercialization.

Basic Seed Produced

- The Organization produced 1,378 MT of basic seed of different food crop species and sold to seed companies for further multiplication and commercialization.

Clean Root Crop Planting Material Produced

- Total number of 2.957 million clean root crop planting material (sweet potato vines, pyrethrum, and other) were produced and sold.
- 300 tons of certified seed potatoes produced and distributed for further multiplication.

Tea Plants and Cuttings Aailed

- KALRO produced a total of 1.49 million cuttings of improved tea varieties for distribution to farmers in the tea growing counties.

Production of Coffee Planting Materials

- The Organization produced 14.77 million coffee seedlings to be availed to farmers in both the traditional and upcoming coffee counties.

Provision of Treated Seed Cane

- KALRO produced 2,340 tons of treated improved seed cane.

Project 4. Improvement of Livestock Production

Breed Sahiwal Bulls rear and availed to Farmers

- KALRO produced and availed to farmers 73 breeding Sahiwal bulls in 2016/17 FY. Sahiwal is dual cattle that tolerate a wide range of climatic conditions. It is also more tolerant to some of the diseases that limit dairy production in the country. The Sahiwal bulls are used to improve local breeds thus enhancing milk production in Kenya.

Breeding Bucks and Rams

- Goats and sheep are critical livestock in ASAL areas of the country. KALRO intends to improve the productivity by providing high quality breeding material to the farmers. During 2016/2017FY KALRO availed ninety eight (98) breeding bucks and rams.

Improved Indigenous Chicken

- Chicken plays an important role in the rural communities as a source of protein delicacy and incomes from the sale of eggs and meat. KALRO has a programme for enhancing capacity for indigenous chick production. During the 2016/17 FY, KALRO supplied 296,000 chicks to stakeholders.

Fertile eggs produced and availed to farmers

- To supplement the production of one day old chicks KALRO availed fertile eggs to farmers for hatching in their localities. In the 2016/17 FY, 34,250 fertilized eggs were produced and availed to farmers.

Production of Supplementary Animal Feeds

- KALRO produced 394,260 clean Napier grass cuttings, 12,000 bales of Lucerne Hay, 13,500 Rhodes grass and 3,000 bales of Oat hay in 2016/17 FY. These targets felt short of what was expected due to prolonged drought.

Project 5. Training and Stakeholder Engagements

Stakeholder training sessions at KALRO

- During the period, the Organization had 291 stakeholder training sessions on various crops and livestock husbandry at different KALRO Centres and Practical Training Centers.
- HRI Tigoni: 2 GIZ ToTs training, 1 PCN training and sensitization)

Training in Good Agricultural Practices

- KALRO has an obligation to train farmers and their workers on Good Agricultural Practices (GAP) in order to ensure competitiveness of Kenyan produce in the world market. The training is hosted at KALRO Horticulture Practical Training Centre. A total of 5,407 farmers were trained on enhancing produce quality and checking on minimum residue level of agrochemicals used;
- HRI KALRO: 62 ward agricultural officers trained on GAP of potato in collaboration with GIZ.

Outreach/Partnership Fora

- A total of 1,182 stakeholder fora for products and services dissemination purposes and getting feedback on technologies demand and use were held using the following approaches:
 - a. Partnership activities under the various MoUs;
 - b. Farmer Field Schools (FFS), where farmer groups learn by practical hands-on training;
 - c. On-farm demonstrations, farmer business days and field days – in collaboration with partners and collaborators, as well as demonstrations in county and regional agricultural shows; HRI Tigoni: 6 on-farm demos through the joint collaboration with Korea Project on International Agriculture;
 - d. Several farmer training workshops were held.
- KALRO Branded all the Vision 2030 flagship projects by use of billboards and directional boards to the projects' sites;
- KALRO submitted quarterly reports on Vision 2030 projects to Vision 2030 Delivery Secretariat.

Project 6. Breeding for Improved Crop Varieties

Development of Improved Crop Variety

- Under this project the following activities were carried out;
 - a. Germplasm stored in the gene bank located at the Genetic Resources Research Institute was rejuvenated for breeding purposes and to verify viability;
 - b. 1,500 crop varieties were maintained in several *In vivo* genebanks;
 - c. Plant breeding activities were undertaken under field, screen house and greenhouse conditions in all relevant Institutes;
 - d. Promising lines were advanced to National Performance Testing (NPT) and Distinctness, Uniformity and Stability (DUS) testing by KEPHIS for evaluation and release;
 - e. 92 promising lines of different crops were submitted to KEPHIS for evaluation. (5 potato candidate lines submitted to KEPHIS for NPT).

Project 7 Quality Assurance of Animal Feeds and Pesticides

Analysis of Feed Samples

- The quality of animal feed is critical in the determination of milk, meat and eggs. Farmers are always advised to have their feeds analyzed to ensure that they are giving their animals the right ration for the targeted product. KALRO analyzed 1,552 animal feed samples for their nutritive values and advised livestock farmers accordingly.

Evaluation of Pesticides for Crop Pest Management

- Various crops attracted a wide range of pests and diseases. These pests are controlled using pesticides. Before any pesticide can be recommended for use by farmers, it must be tested for its efficacy on target pest(s) & effect on the yield and quality for 2-3 years depending on whether it is a new or old molecule, weather patterns and target pest's dynamics. KALRO is accredited by Pest Control Products Board (PCPB) to undertake pesticide efficacy trials. A total of 30 pesticides were evaluated in various centres.

Commercialization of Fibre Crops

- Sericulture – 3 strains of silkworms introduced and evaluated for development of a Kenya strain. 50,000 eggs imported; 8 KALRO staff undergoing training in Japan (long term training) and 6 in India for short term training,
- 3 climate smart rice varieties identified by KALRO-Mwea,
- Arid and semi-arid crop technologies (AMRI),
- Four (4) drought-tolerant and nutrient-fortified bean varieties were released through KEPHIS,
- Three (3) drought-tolerant green gram varieties were released for eastern counties,


IX. STATEMENT OF DIRECTOR'S RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the organization's financial statements, which give a true and fair view of the state of affairs of the organization for and as at the end of the financial year (period) ended on June 30, 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 organization; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the organization; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the organization's financial statements, which have been prepared in accordance with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the organization's financial statements give a true and fair view of the state of organization's transactions during the financial year ended June 30, 2017, and of the organization's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the organization, which have been relied upon in the preparation of the organization's financial statements as well as the adequacy of the systems of internal financial control.

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



Prof. Moses K. Limo
Chairman, KALRO BoM

Date:

18/04/2018



Eliud K. Kireger (PhD)
Director General

Date:

18/04/2018

- Early white sorghum harvest to deter bird damage validated for eastern Kenya counties,
- Identified and promoted the Amaranthus mechanical threshers with farmers.

Project 8. Development of KALRO Research Priorities

KALRO Research Priorities

- A total of 94 consultative fora were held to address the following issues:-
 - a. Research priority setting based on the Agricultural Product Value Chain (APVC);
 - b. Evaluation of research proposals, and
 - c. Engagement with other partners.

Project 9. Promotion of a Culture of Scientific Innovation Documentation

The year the following activities were undertaken;

Publications in Refereed Journals;

- These refer to papers published or accepted for publication in *peer refereed journals*. A total of 157 papers were **published** by KALRO scientists;
- (HRI Tigoni: 1 paper - Muthoni *et al.* (2016). Soil Fertility situation in potato producing Kenyan Highlands-case of KALRO Tigoni. International Journal of Horticulture. Vol 24: 1-1.1.

KALRO Technical Publications;

- These refer to publications developed by KALRO Institutes and Centres, 214 papers were published.

Extension Materials Developed/Updated;

- These refer to extension materials developed/updated and availed to farmers including: technical bulletins, pamphlets, leaflets and online library developed by KALRO Institutes and Centres. A total of 315 materials were developed and updated.

Publications in Conference Proceedings;

- This refers to published papers reviewed, accepted and presented in conference proceedings and a total of 190 papers were presented and published in conference proceedings;
- HRI International Phytosanitary Conference, 2016, Occurrence of potato virus Y in Kenya, KEPHIS Headquarters, Nairobi, Attended 12th -16th Sept, 2016, book of abstracts, pp 42; The 10th Triennial Conference of the African Potato Association in Ethiopia, October 9th to 13th, 2016 in Addis Ababa, pp 46 and 67.

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
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 AGRICULTURAL AND LIVESTOCK RESEARCH ORGANIZATION (KALRO) FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Agricultural and Livestock Research Organization (KALRO) set out on pages 1 to 21, 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 purposes of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kenya Agricultural Research Organization as at 30 June 2017 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance Management Act, 2012 and Kenya Agricultural and Research Organization Act, 2013.

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

Basis for Adverse Opinion

1. Receivables from Non-Exchange Transactions

1.1 Long Outstanding Imprests

As reported in the previous year, included in receivables from non-exchange transactions balance of Kshs.367,169,000 as at 30 June 2017 and disclosed under Note 22 to the financial statements, are staff imprests totalling Kshs.35,258,000 that have not been supported with dates of issue and due dates. Similarly, and as reported in the previous years, temporary imprests includes amount of

Report of the Auditor-General on the Financial Statements of Kenya Agricultural and Livestock Research Organization (KALRO) for the year ended 30 June 2017

Kshs.1,558,396 held by former employees of Sugar Research Institute and long outstanding imprests of Kshs.5,980,161 out of which Kshs. 2,964,822 relates to imprests issued in the financial year 2009/2010 to the Sugar Research Institute.

1.2 Debt Recovery

As previously reported, the receivables from non-exchange transactions balance still includes an amount of Kshs.124,495,782 due from Kenya Planters Co-operative Union (KPCU) – (in receivership) and Kshs.23,445,376 due from Coffee Board of Kenya relating to Coffee Research Institute. Although the organization has made a full provision of Kshs.124,445,376 in respect of KPCU debt and forwarded a claim to the receiver manager, no meaningful progress has been reported towards recovery of this debt as at the date of this report.

1.3 Commodity Levy

Similarly, and as previously reported, receivables from non - exchange transactions includes an amount of Kshs.314,569,000 in respect of commodity levy representing 86% of the total receivables from non - exchange transactions. This figure, however, includes Kshs.7,073,687 from Nyambene Mills which is under receivership. The management has not provided any evidence on the steps being taken to ensure that these debts are recovered. In addition, no provision for bad and doubtful debts in respect to commodities levy whose recovery remains doubtful has been made in these financial statements.

Consequently, it has not been possible to confirm whether receivables from non-exchange transactions balance of Kshs.367,169,000, in these financial statements is fairly stated.

2. Receivables from Exchange Transactions

The receivables from exchange transactions balance of Kshs.132,998,000 and as disclosed under Note 21 to the financial statements includes like in the previous year amounts of Kshs.12,649,000 and 33,287,000 owed by various debtors and Kenya Seed Company respectively which have remained outstanding for over five years. The receivable figure also includes long outstanding debts of Kshs.537,700 owed by former Members of Parliament. In addition, included in the balance of other receivables of 16,787,000 disclosed under Note 21 is an amount of Kshs.1,760,000 due from Sugar Research Institute, a department within KALRO.

In view of the above, it is not possible to confirm whether receivables from exchange transactions' balance of Kshs. 132,998,000 as at 30 June 2017 is fairly stated.

3. Biological Assets

Biological Assets balance of Kshs.471,519,000 as at 30 June 2017 includes assets within KALRO headquarters of Kshs.264,486,280 and Tea Research Institute (TRI) of Kshs.197,585,000. This figure, however, excludes undetermined value of assets held at Coffee Research Institute (CRI) and Sugar Research Institute (SRI). The balance of Kshs.471,519,000 as at 30 June 2017 is, however, more than the figure

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of Kshs.388,203,000 reported as at 30 June 2016 by Kshs.83,316,000. No documentary evidence or explanation has been provided to confirm whether the balance of biological assets reported was determined in compliance with paragraph 16 of International Public Sector Accounting Standard (IPSAS) No.27, which requires biological assets to be measured on initial recognition and at each reporting date at its fair value less costs to sell. In addition, the biological assets do not include amounts of Kshs.149,236,000 and Kshs.6,371,000 relating to animals and plants respectively, which have been disclosed in these financial statements under inventories.

In the circumstances, it is not possible to confirm whether biological asset's figure of Kshs.471,519,000 is fairly stated.

4. Property, Plant and Equipment

- (i) Included in the property, plant and equipment balance of Kshs.24,536,196,000 as at 30 June 2017 is an amount of Kshs.2,932,785,960 as previously reported, in respect of six parcels of land relating to the former Kenya Agricultural Research Institute for which the Organization has no ownership documents. The parcels include L.R. No.5212 which, although the Institute holds an allotment letter, was allocated to a private developer.
- (ii) Further, part of the Organization's land at Manera and Olmagogo farms in Naivasha-Mai Mahiu Road, was illegally acquired by private developers in the year 2000 and another property in Katumani Centre measuring approximately 100 hectares has been occupied by private developers since the year 2000. In addition, part of this land is being used as a dumping site by the County Government of Machakos and construction of a power station is taking place on the same land.
- (iii) Similarly, in January 2011, a group of individuals forcibly invaded the Organization's land L.R.5210 and L.R.5211 in Naivasha, claiming ownership. The organization filed a case in court to have them evicted, and a ruling in favour of the Organization was made on 29 March 2012. However, a review of the position as at the date of this report revealed that the invaders had not vacated the land.
- (iv) As reported in the previous years, a review of available information and documentation of the Organization's land ownership documents as at 30 June 2017, still revealed that the organization does not have title to 32 parcels of land across the country, some of which have not been surveyed.
- (v) The property, plant and equipment balance of Kshs.24,536,196,000 as at 30 June 2017 excludes undetermined value of parcels of land located in Azani and Koru measuring 99 ha and 127 ha respectively which the Coffee Research Institute uses for farming. The titles to the parcels of land however are in the name of Coffee Board of Kenya (CBK) which has since merged to form Agricultural Food Authority.

- (vi) The Agricultural Mechanization Services (AMS) - a department within the Ministry of Agriculture-occupies a portion of the Organization's land at Rukera and has set up its own buildings. Although management clarified that the value of the constructions/improvements by the AMS are not included in the assets balances, and that AMS was devolved from the National Government to the County Government, the County Government had not signed any lease agreement and has not paid any rent to Coffee Research Institute for use of the land as at the date of this report.
- (vii) The property, plant and equipment figure of Kshs.24,536,196,000 as at 30 June 2017, also excludes the value of twenty acres piece of land developed by Tea Research Institute in Kirinyaga County with an estimated value of Kshs.8,430,634. Available information indicates however that the land belongs to Kenya Forest Service.
- (viii) The property, plant and equipment net book value of Kshs.24,536,196,000 includes a figure of Kshs.81,650,080 representing the value of buildings allocated to Kenya Plant Health Inspectorate Service in 1998. The net book value is, therefore overstated by Kshs.81,650,000.
- (ix) The property, plant and equipment balance of Kshs.24,536,196,000 also includes the value of an office block completed in the year 2012/2013 at a cost of Kshs.663,772,203 in respect of Sugar Research Institute. However, as previously reported, the valuation report on the building placed the value as Kshs.447,992,751 resulting in an unexplained difference of Kshs.215,779,453. It is not clear how the value of a new building could drop below the actual cost of construction with such a high margin.
- (x) The value of land reported under Coffee Research Institute is inclusive of undetermined value of coffee bushes thus violating the International Public Sector Accounting Standard (IPSAS) No.1 on presentation, which requires various classes of assets to be shown separately on the face of the financial statements.
- (xi) As reported in the previous year, the Organization's residential building at Kisii Sub-Centre of Coffee Research Institute has been taken over by the Kisii County Government with no benefit accruing to the Organization.
- (xii) Included in additions for the period of Kshs. 253,798,000 under Note26 to the financial statements is an amount of Kshs.109,765,000 in respect to buildings described as arbitration award to a company and relates to disputed values of certificates of completion of the new office block at Sugar Research Institute. This figure however differs with the amount of Kshs.122,920,000 in respect of the award disclosed under Note 37 (ii) to the financial statements. The difference of Kshs.13,155,000, between the arbitration amount and the amount provided in these financial statements has not been accounted for.

Under the foregoing circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.24,536,196,000 cannot be confirmed.

5. Trade and Other Payables

- (i) The trade and other payables balance of Kshs.310,644,000 as at 30 June 2017 includes Kshs.3,771,786 as previously reported, owed to various hospitals that have remained unpaid for a very long time. Included also is an amount of Kshs.4,547,866 in regard to penalty imposed by Kenya Revenue Authority on unremitted Pay As You Earn (PAYE). No explanation has been provided for failure to settle the long outstanding liabilities.
- (ii) Trade and other payables figure of Kshs.310,644,000 includes as disclosed in Note 31 to the financial statements an amount of Kshs.122,917,000 described as provision for liabilities relating to amounts owing to a contractor and arising from an arbitration ruling. However, Note 37(ii) to the financial statements shows an amount of Kshs.122,920,000 as having been the arbitrated amount and an additional amount of Kshs.14,600,000 being the arbitral tribunal fees.

The trade and other payables figure of Kshs.310,644,000 is therefore understated with an amount of Kshs.14,603,000.

6. Investments

The investments balance of Kshs. 2,149,000 as at 30 June 2017 and as disclosed under Note 29 to the financial statements, includes a Kenya Planters Co-operative Union's (KPCU) unsecured loan stock of Kshs. 40,000 and KPCU redeemable ordinary shares of Kshs. 2,092,000 with a nil fair value as at 30 June 2017. Further, KPCU is under statutory management.

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

7. Cash and Cash Equivalents

7.1 Unaccounted for Cash

As previously reported, the cash and cash equivalents' balance of Kshs.854,795,000 as at 30 June 2017 still excludes cash withdrawals totalling Kshs.6,914,345 made in 2009/2010 in respect to Sugar Research Institute against which the related supporting documents were not provided for audit verification. Although management had indicated that the missing documents are a subject of investigation by the Sugar Research Institute and other arms of the Government, the amount of Kshs.6,914,345 nevertheless remains unaccounted for and as at the date of this report, no evidence had been provided on the status of investigations for verification.

7.2 Long Outstanding Unpresented Cheques and Uncredited Items

Bank reconciliation statements for the bank balances of Kshs.854,795,000 disclosed under Note 20 to the financial statements includes unpresented cheques amounting

to Kshs.452,634 dating back to 25 April 2015 and uncredited items totalling Kshs.126,255 dating back to 21 November 2008. The management has not explained why these long outstanding items have not been reversed and recorded in the cash book.

Under the circumstances, the accuracy of cash and cash equivalents' balance of Kshs.854,795,000 as at 30 June 2017 cannot be confirmed.

8. Inventories

The statement of financial position and as disclosed under Note 24 to the financial statements reflects a balance of Kshs.288,304,000 against inventories as at 30 June 2017. Documents provided for audit, however, shows that included in the figure are amounts of Kshs.149,236,000 and Kshs.6,371,000 relating to animals and plants respectively. However, this treatment is contrary to the provisions of paragraph 9 of the International Public Sector Accounting Standard (IPSAS) No.27 which defines a biological asset as a living plant or animal. Although the management has explained that the livestock and plants have been classified as inventories since they are held for purposes of research, this explanation does not comply with the definition of inventories as provided for under paragraph 9 of the International Public Sector Accounting Standard (IPSAS) No.12.

Under the circumstances, the accuracy of the inventories balance of Kshs.288,304,000 as at 30 June 2017 cannot be confirmed.

9. Deferred Income

The statement of financial position reflects a balance of Kshs.122,992,000 against deferred income as at 30 June 2017 and as disclosed under Note 32 to the financial statements. The amount relates to grants received from donors for specific projects, classified as non-current liabilities and carried in the books net of amortization based on the life of the project. The amount of Kshs.122,992,000 is net of Kshs.112,554,000 relating to the expenditure incurred during the year, which should have been recognized as income in the statement of financial performance. Examination of supporting documents presented for audit in respect to different classes of revenues for the Organization during the year however did not reflect this figure as part of the income for the year under review.

In the absence of documentary evidence, the validity of the deferred income figure of Kshs.122,992,000 cannot be confirmed.

10. Statement of Changes in Net Assets

The statement of changes in net assets reflects an amount of Kshs.112,694,000 relating to prior year adjustment and as disclosed in Note 38 to the financial statements. The figure relates to amounts owing from the former KARI to NSSF for failure to remit statutory deductions for the period January 1998 to January 2008 and the initial total was Kshs.206.49 million. As at the time of this report, it was indicated that the matter was still under negotiation to have the penalty waived, while management recognized the amount as a prior year adjustment. However, it is not

clear where the corresponding entry on the provision were posted to. Consequently, the completeness and validity of the prior year adjustment cannot be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Agricultural and Livestock Research Organization (KALRO) 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 adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion and Other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

KALRO Act, 2013

As previously reported, the Cabinet Secretary Ministry of Agriculture, Livestock and Fisheries had set 1 August 2014 as the commencement date for the operation of the Organization. This Act repealed the Science and Technology Act 250-KARI, Coffee Act (No.9 of 2001) - CRF, Sugar Act (of 2001)-KESREF and the Tea Act, Cap 343-TRF.

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

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

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 Organization's ability to sustain services, disclosing, as applicable, matters related to / sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Organization or 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 Organization's financial reporting process.

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

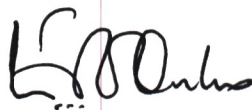
The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. 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 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 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 of the effectiveness of the Organization'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 Organization 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 report. However, future events or conditions may cause the Organization to cease sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Organization to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

13 June 2018

X. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2017

		2016-2017	2015-2016
	Notes	Kshs'000	Kshs'000'
Revenue from exchange transactions			
Goods	3	483,771	384,718
Services	4	117,303	89,743
Interest Received	5	8,855	8,045
Other Receipts	6	36,092	46,501
		646,021	529,008
Revenue from non-exchange transactions			
GoK Recurrent	7	3,128,261	2,211,831
GoK Development	8	-	55,600
World Bank	9	-	28,875
Other Grants	10	901,442	1,091,497
Commodity levy	11	73,976	1,026,395
		4,103,679	4,414,198
Total Revenue		4,749,700	4,943,206
Expenses			
Staff Costs	12	3,145,122	3,123,656
Administrative Costs	13	1,418,802	1,686,003
Board Expenses	14	4,694	2,409
Audit Fees	15	6,490	7,953
Depreciation & Amortization expense	16	464,167	598,811
Repairs and Maintenance	17	100,184	113,481
Contracted Services	18	18,550	99,151
Finance cost	19	6,449	8,741
Total Expenses		5,164,457	5,640,205
Surplus/(Deficit)		(414,756)	(696,999)

The Financial Statements set out on pages 1 to 5 form an integral part of the Financial Statements.

XI. STATEMENT OF FINANCIAL POSITION
As at 30th June 2017

	Notes	2016-2017 Kshs'000	2015-2016 Kshs'000'
Assets			
Current Assets			
Cash and Cash equivalents	20	854,795	930,442
Receivables from Exchange Transactions	21	132,998	136,184
Receivables from Non-exchange Transactions	22	367,169	368,289
Prepayments	23	72,518	51,937
Inventories	24	288,304	452,496
Deposits	25	2,331	2,331
		1,718,115	1,941,680
Non-Current Assets			
Property, Plant and Equipment	26	24,536,196	24,677,231
Intangible Assets	27	26,010	94,357
Biological Assets	28	471,519	388,202
Investments	29	2,149	2,149
		25,035,874	25,161,939
Total Assets		26,753,987	27,103,619
Liabilities			
Current liabilities			
Bank overdraft	30	13	14
Trade & Other Payables	31	310,644	295,197
		310,658	295,210
Non-Current liabilities			
Deferred Income	32	122,992	73,315
Total Liabilities		433,650	368,525
Net assets		26,320,337	26,735,095
General Reserve	33	1,057,763	1,472,519
Capital Fund	34	5,397,197	5,397,197
Revaluation Reserve	35	19,865,377	19,865,377
Total Net Assets and liabilities		26,320,337	26,735,095

The Financial Statements set out on pages 20 to 24 form an integral part of the Financial Statements.



Chairman, KALRO BoM

Date: 18/04/2018



Director General

Date: 18/04/2018

XII STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2017

	Capital Fund	Revaluation Reserve	General Reserve	Totals
	Kshs'000'	Kshs '000'	Kshs'000'	Kshs'000'
Balance as at 1st July 2015	5,355,365	19,865,377	2,169,518	27,390,260
Surplus/(Deficit) for the period	41,833	-	(584,305)	(542,472)
Prior year adjustments	-	-	(112,694)	(112,694)
Balance as at 30 June 2016	5,397,197	19,865,377	1,472,519	26,735,094
Surplus/(Deficit) for the period	-	-	(414,756)	(414,756)
Balance C/F: 30/06/2017	5,397,197	19,865,377	1,057,763	26,320,337

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XIII STATEMENT OF CASHFLOW

As at 30th June 2017

	Notes	2016-2017 Kshs'000	2015-2016 Kshs'000
Cash Flow from Operating Activities			
Receipts			
Sale of Goods		483,771	384,718
Finance Income		8,855	8,045
Rendering of Services		117,303	89,743
Government & Donor Grants		4,029,703	3,387,803
Commodities levies		73,976	1,026,395
Other Incomes		36,092	46,501
Sub-Total		4,749,700	4,943,206
Payments			
Compensation of employees		3,145,122	3,123,656
Goods & Services		1,548,720	1,908,997
Finance Costs		6,449	8,741
Sub-Total		4,700,290	5,041,394
Net Cash flow from operating activities before working capital c	36	49,410	(98,188)
Decrease /(Increase)in Inventories		164,193	(105,383)
Decrease /(Increase) in Receivables-Exchange		3,186	15,125
Decrease /(Increase)in Receivables-Non-Exchange		1,120	169,220
Decrease /(Increase) in Prepayments		(20,580)	(12,687)
Increase/(Decrease)in Creditors		15,448	14,697
Cash generated from/(used in) operations		212,778	(17,214)
Cash flow from investing activities			
Revaluation of Biological assets		(83,317)	35,697
Purchase of property, plant & equipment	26	(253,798)	(311,456)
Purchase of intangible assets	27	(988)	(47,616)
Proceeds from sale of Assets		-	234
Cash generated from/(used in) investing activities		(338,102)	(323,141)
Cash flow from Financing Activities			
Capital Grant		-	41,833
Deferred Income(Capital)		49,677	(28,960)
Cash generated from/(used in)Financing activities		49,677	12,872
Increase in Cash and Cash Equivalent for the Year		(75,647)	(327,481)
Cash and Cash Equivalent at the Start of the Year		930,442	1,257,923
Cash and Cash Equivalent at the End of the Year		854,795	930,442

The Financial Statements set out on pages 1 to 5 form an integral part of the Financial Statements.

XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final Budget	Actual on comparable basis	Performance difference
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017
	Kshs'000	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Revenue from exchange transactions					
Goods	650,000	-	650,000	483,771	(166,229)
Services	100,000	-	100,000	117,303	17,303
Interest Received	10,000	-	10,000	8,855	(1,145)
Other Receipts	90,000	(9,803)	80,197	36,092	(44,105)
Sub total	850,000	(9,803)	840,197	646,021	
Revenue from non-exchange transactions					
GOK Personal Emoluments	4,567,257	(1,438,996)	3,128,261	3,128,261	(0)
GOK Development	688,648	(645,648)	43,000	-	(43,000)
Other Grants	901,555	699,930	1,601,485	901,442	(700,043)
Commodity Levy	1,229,535	(1,229,535)	-	73,976	73,976
Sub total	7,386,995		4,772,746	4,103,679	
Total Revenue	8,236,995		5,612,943	4,749,700	
Expenses					
Staff Costs	4,795,782	(1,655,121)	3,140,661	3,145,122	(4,461)
Administrative Costs	2,343,743	(921,022)	1,422,721	1,418,802	3,919
Board Expenses	81,062	(61,062)	20,000	4,694	15,306
Audit Fees	6,800	-	6,800	6,490	310
Depreciation & Amortization exp	460,135	23,900	484,035	464,167	19,868
Repairs and Maintenance	209,569	(333)	209,236	100,184	109,052
Contracted Services	150,000	-	150,000	18,550	131,450
Finance cost	6,400	-	6,400	6,449	(49)
Total Expenses	8,053,491		5,439,853	5,164,457	275,396
Surplus/(Deficit)	183,504		173,090	(414,756)	

XV. NOTES TO THE FINANCIAL STATEMENTS

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

The organization'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 organization and all values are rounded to the nearest thousand (Kshs. 000). The accounting policies have been consistently applied to all the years presented.

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

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions - IPSAS 23

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the organization and can be measured reliably.

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

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

Sale of goods

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

Interest income

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

Rental income

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

b) Budget information – IPSAS 24

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

c) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fairvalue.

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

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

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

d) Intangible assets–IPSAS 31

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

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

e) Research and development costs

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

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

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

f) Inventories – IPSAS 12

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

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

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

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

g) Nature and purpose of reserves

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

h) Employee benefits – IPSAS 25

Retirement benefit plans

The organization provides retirement benefits for its employees. The retirement scheme is contributory with employee and employer contributing as below on the basis of the Basic Salary.

	Employee	Employer
Former CRF	7.5%	15%
Former KARI	5%	10%
Former KESREF	5%	10%
Former TRF	10%	20%

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held of at various commercial banks at the end of the financial year.

j) Comparative figures

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

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

The preparation of the organization'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.

l) 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 organization 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 organization. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

m) Subsequent events – IPSAS 14

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

n) Related Parties – IPSAS 20

The Organisation regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Organisation, or vice versa. Members of key management are regarded as related parties and comprise senior managers. No related party contracts or dealings were exchanged during the year except for earnings as employees. Further, the key management do not hold any specific interests. Allowances to members of the Board of Management are as shown (see Note 14), while the three key management emoluments for the year were Kshs 19.672million. This is included in the staff costs.

o) Taxes – IAS 12

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

p) Leases – IPSAS 13

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

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

q) Changes in accounting policies and estimates – IPSAS 3

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

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

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

i) Useful lives of Property, Plant and Equipment

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

ii) Contingent Liabilities

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

iii) Provision for Doubtful Debts

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

iv) Other provisions

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

s) Financial Risk Management Objectives and Policies

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

i) Liquidity risk

Liquidity risk is the risk that the Board will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive costs. This risk can arise from mismatches in the timing of cash flows from revenue and capital/ operational outflows, assets and liabilities according to their maturity profiles and can occur where cash flow streams have been discontinued, etc. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be met at expected terms and when required.

The objective of the liquidity and funding management is to ensure that all foreseeable operational and capital commitment expenditure can be met under both normal and stressed conditions and the mismatch is controlled in line with allowable risk levels.

The table shows the undiscounted cash flows on the Organisation financial assets and liabilities on the earliest possible maturity date. The liquidity ratio in FY 2016/17 is 4.36 (FY 2015/16: 4.86)

	Note	2016-2017 Kshs '000	2015-2016 Kshs '000
Financial Assets			
Bank and Cash Balances	20	854,795	930,442
Receivables	21&22	500,167	504,474
Total Financial Assets		1,354,962	1,434,916
Financial Liabilities			
Payables	31	310,644	295,197
Total Financial Liabilities		310,644	295,197
Net Liquidity		1,044,318	1,139,719
Liquidity Ratio		4.36	4.86

ii) Currency Risk

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

iii) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Organisation's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as legal and regulatory requirements and generally acceptable standards of corporate behavior. The Organisation seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor and report such risks. The Organisation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Organisation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

iv) Compliance and Regulatory Risk

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

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3 Goods	2016-2017	2015-2016
	Kshs '000	Kshs '000
Shee	2,142	2,530
Cows	25,446	17,602
Poultry	13,035	19,988
Maize	7,156	4,852
Sorghum & Millets	246	296
Rice	408	276
Root and Tuber	1,749	3,236
Vegetables	1,210	78
Herbs	2	1
Beans	654	380
Fruits	774	579
Bananas	742	649
Wheat	7,788	8,840
Cassava	-	1
Seeds	167,754	77,591
Seedlings	36,375	42,131
Trees and Plants	983	508
Manure	373	187
Sand & Ballast	64	102
Firewood	334	273
Flowers	184	244
Pyrethrum	7	-
Cotton	-	27
Fodder	17,466	9,873
Beef	899	36
Milk	20,359	21,228
Eggs	70	194
Tomatoes	250	45
Hay	2,182	4,617
Water	106	444
Other Farm produce	27,386	29,156
Increase/Decrease in Stock	(32,243)	23,533
Sale of Scrap	-	4,543
Coffee, Milling Cane and Tea Sales	179,870	110,677
Total	483,771	384,718
4. Services	2016-2017	2015-2016
	Kshs '000	Kshs '000
Soil Analysis	11,493	10,801
Other Lab Services	25,742	10,357
Sale of Journals Periodicals	270	66
Hire-Ground/Conference Facilities	11,391	10,675
Royalties	6,817	1,784
Rent	56,609	52,071
Other services	4,982	3,989
Total	117,303	89,743
5. Interest Received	2016-2017	2015-2016
	Kshs '000	Kshs '000
Interest Received	8,855	8,045
Total	8,855	8,045

6 Other Receipts

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Cafeteria Income	28,493	26,321
Guest House Income	7,812	9,014
Bus Income	902	639
Utilities Income	3,016	4,304
Sale of Tender Documents	47	681
Grazing Fee	416	1,717
Commission Received	118	43
Sale of mature trees	-	2
Library coffee	11	14
Gain/(Loss) on Foreign exchange	(4,723)	1,195
Gain/(Loss) on Sale of Fixed Assets	-	2,570
Total	<u>36,092</u>	<u>46,501</u>

7 GoK Personnel Emoluments

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

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Grants-Personal Emoluments	3,128,261	2,211,831
Total	<u>3,128,261</u>	<u>2,211,831</u>

8 GoK Development Funds

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

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Development Grant -GoK	-	55,600
Sub-Total	<u>-</u>	<u>55,600</u>

9 World Bank

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Development Fund - KAPAP	-	21,651
Development Fund - EAAPP	-	7,224
Total	<u>-</u>	<u>28,875</u>

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10 Development Funds - Other Donors

These represent grants received from various donors for research activities.

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Development Grant - EU	88,487	329,517
Development Grant - USAID	209,189	4,715
Development Grant - CIP	72,235	45,834
Development Grant - CIAT	694	3,288
Development Grant - ICRAF	1,249	1,085
Development Grant - FAO	715	5,461
Development Grant - ILRI	149	2,675
Development Grant - ICRISAT	1,072	1,690
Development Grant - CIMMYT	84,272	93,110
Development Grant - AGRA	-	14,321
Development Grant - Small Grants	443,379	589,801
Total	901,442	1,091,497

11 Commodity levy

Commodity levy

Total

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Commodity levy	73,976	1,026,395
Total	73,976	1,026,395

12 Staff Costs

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Basic Salary	1,594,032	1,477,070
House Allowance	442,947	466,519
Other Personal Allowance	110,262	97,362
Commuter Allowance	212,222	212,041
Transfer Allowance	2,832	4,632
Passage & Leave Expenses	20,914	22,114
Gratuity & Pension Contribution	178,125	311,388
Medical Expenses	230,876	213,876
Contractual Employee	42,431	23,116
Casual Labour	310,480	295,539
Total	3,145,122	3,123,656

13 Administrative Costs

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Fuels, Oils and Lubricants	57,316	63,138
Vehicle Insurance	14,929	30,401
Road Tax & Licenses	4,078	370
Hire of Transport	2,267	2,711
Freight, Clearing & Shipping	54	370
Purchase of Supplies Production	99,122	149,200
Purchase of Drugs	3,313	3,993
Purchase of Sierra & Vaccines	3,471	7,383
Farm Development	53,310	30,978
Purchase of Fungi Insecticide & Sprays	2,252	49,096
Purchase of Farm Input	56,841	62,455
Purchase of Laboratory Stores	48,539	45,376
Research Materials	19,542	20,782
Purchase of Animals	14,882	7,331

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Purchase of Dressing & Non Pharmaceutical	-	5
Purchase of Consumables Stores	3,934	5,887
Miscellaneous. Operating Expenses	732	1,157
Hire Machinery & Equipment's	1,181	1,143
Purchase of Workshop Tools, Spares & Equipment	1,010	3,137
Farm Grants (CIGs/CBOs)	11,770	42,779
Purchase of seed	68,446	-
Office Running Expenses	5,166	10,308
Office Stationery	19,845	21,293
Computer Expenses	14,615	18,876
Printing and Publishing	5,761	10,259
Advertising and Publicity	28,262	31,930
Library Expenses	1,214	1,337
Show Expenses	12,588	13,155
Cafeteria Expenses	25,583	22,421
Food and Ration	13,804	14,110
Official Entertainment	2,421	4,720
Conference and Seminars	10,322	18,891
Rent and Rates	2,826	7,914
Commission and Honoraria	-	12,567
Security Expenses	78,429	78,531
Insurance - Property	10,613	20,945
Uniforms and Clothing	9,031	4,522
Miscellaneous Charges	9,495	22,116
Subscriptions to Newspapers	416	626
Insurance - GPA & GL	16,455	6,529
Daily Subsistence Allowance	497,398	566,957
External Travels and Per Diem	20,843	27,333
Travel Costs (Air & Bus) Mileage	15,529	22,813
Training	20,149	64,446
Water Expenses	3,259	8,016
Electricity Supplies	79,949	81,144
Gas Expenses	787	96
Telephone Expenses	10,667	8,570
Postage and Courier Expenses	6,696	2,962
Internet Connections	12,479	19,763
Membership Fees & Subscription	7,068	9,343
Legal Dues, Arbitration & Compensation	10,143	25,821
Total	1,418,802	1,686,003

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14 Board Expenses

Board	2016-2017	2015-2016
	Kshs '000	Kshs '000
Board and Committees	4,694	2,409
Total	4,694	2,409

15 Audit Fees

These are fees incurred by the Institute during external audits.

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Audit Fees	6,490	7,953
Total	6,490	7,953

16 Depreciation & Amortization Expense

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Buildings	126,934	124,327
Plant and Machinery	31,432	30,065
Motor Vehides	48,931	128,501
Motor Cycles & Bicycles	597	1,926
Lab & Scientific Equipment	94,670	95,984
Office & Computer Equip.	57,541	124,747
Office Furniture& Fittings	27,200	25,735
Infrastructure(G/hses,fences,streetlighting)	7,527	7,482
Amortization -Tea Bushes	-	642
Amortization-Software	69,334	59,401
Total	464,167	598,811

17 Repairs and maintenance

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

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Repairs & Maintenance of Vehicles	44,602	52,801
Repairs & Maintenance of Motor Cycles	217	77
Repair & Maintenance of Buildings & Stations	34,862	32,451
Repair & Maintenance of Water Supplies and Pumps	4,736	3,457
Repair & Maintenance of Office Equipment	4,106	2,800
Repairs & Maintenance Laboratory Equipment	447	1,271
Repairs & Maintenance Furniture	212	103
Maintenance of Plant and Machinery	10,620	20,063
Maintenance of Roads, Ferries	-	203
Minor Alteration & Maintenance of Works	382	255
Total	100,184	113,481

18 Contracted Professional Services

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Contracted Professional Services	18,550	99,151
Total	18,550	99,151

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19 Finance cost

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Bank Charges	6,449	8,741
Total	6,449	8,741

20 Cash and cash equivalent

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Bank Balances	854,795	930,442
Total	854,795	930,442

21 Receivables from Exchange Transactions

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Trade Debtors	81,127	70,189
Kenya Seed	33,287	33,287
Prepayments	1,592	1,592
Rent dues	2,174	1,523
Bungoma Union	746	746
Mugama Co-op Union	1,863	1,863
Other Receivables	16,787	31,636
Former staff debtors	663	663
Provision for Doubtful Debts	(5,241)	(5,315)
Total	132,998	136,184

22 Receivables from Non-exchange Transactions

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Commodity Levy	314,569	314,223
Staff Imprest	35,258	34,957
Staff advances	1,752	3,519
Coffee Board of Kenya	23,445	23,445
KPCU	124,496	124,496
Provision for Doubtful Debts	(132,351)	(132,351)
Total	367,169	368,289

23 Prepayments

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Medical cover	72,518	51,937
Total	72,518	51,937

24 Inventories

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Consumables	133,398	303,933
Livestock	155,246	142,562
Crop	-	6,342
Provision for obsolete stock	(341)	(341)
Total	288,304	452,496

25 Deposits

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Deposits	2,331	2,331
Total	2,331	2,331

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26. Property, plant and Equipment

Adjusted Depreciation b/f	LAND	BUILDINGS	MOTOR VEHICLES	PLANT & MACHINERY	OFFICE EQUIP.	FURNITURE & FITTINGS	LAB EQUIPMENT	MOTOR CYCLES & BICYCLES	INFRASTRUCTURE (G/hoses, fences, streetlighting)	WORK IN PROGRESS	TOTAL
Cost	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
As at 1 July 2015	17,864,302	6,104,810	508,902	237,004	388,471	196,140	705,913	7,748	75,575	396,062	26,484,917
Addition for the period	-	11,309	36,524	11,227	25,557	17,338	51,226	-	29,503	128,771	311,456
Reclassification of assets categories	-	-	-	(6,489)	4,575	1,914	-	-	-	-	-
Transfer to Biological assets	-	-	-	-	-	-	-	-	-	-	-
Disposal for the period	-	-	(675)	-	-	-	-	-	-	-	(675)
Transfer from WIP	-	229,739	-	(700)	-	-	-	-	-	(229,739)	(700)
As at 1 July 2016	17,864,302	6,345,868	544,751	241,042	418,602	216,393	757,140	7,748	105,078	296,084	26,794,998
Addition for the period	-	109,765	24,722	11,394	28,106	5,365	12,038	-	4,404	58,003	253,798
Transfer from WIP	-	1,543	-	-	-	30,881	-	-	4,249	(36,673)	-
Reclassification of assets categories	(1,159)	1,159	0	-	-	(4,575)	4,575	-	-	-	0
Disposal for the period	-	-	-	-	-	-	-	-	-	-	-
Cost to end of period	17,863,143	6,458,325	569,473	252,436	446,709	247,063	773,752	7,748	113,731	316,415	27,048,795
Depreciation											
Accumulated Depreciation b/f	-	533,458	478,245	134,737	382,879	109,936	395,131	7,036	76,343	-	2,117,767
Adjusted Depreciation b/f	-	533,458	478,245	134,737	382,879	109,936	395,131	7,036	76,343	-	2,117,767
Charge for the period	-	126,934	48,931	31,432	53,667	27,642	98,102	597	7,527	-	394,833
Accumulated depreciation on disposal	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation to end of period	-	660,527	527,177	164,480	436,434	137,656	494,822	7,634	83,870	-	2,512,600
Net Book Value at 30 June 2017	17,863,143	5,797,798	42,296	87,956	10,275	109,407	278,931	114	29,861	316,415	24,536,196
Net Book Value at 30 June 2016	17,864,302	5,812,400	66,605	106,305	35,723	105,456	362,009	712	28,734	296,084	24,677,231

Motor vehicles with a gross carrying amount of Ksh. 373,747,000 had been fully depreciated during the year ending 30th June 2017 and are still in use

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27 Intangible Assets

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Cost at the start of the Year	230,362	182,746
Addition for the period	988	47,616
Cost or Valuation at end of Period	231,349	230,362
Accumulated amortization b/f	136,005	76,604
Amortization for the period	69,334	59,402
Accumulated amortization at the end of period	205,339	136,005
Net Book Value at end of Period	26,010	94,357

28 Biological Assets

	2016-2017	2015-2016
	Kshs '000	Kshs '000
As at 1st July	388,203	424,541
Sold during the year	(641)	(1,272)
Gain in Value during the year	83,958	(35,067)
As at 30th June	471,519	388,203
Total	471,519	388,203

29 Investments

Quoted Investments:

1,672 B A T Kenya Limited shares- 17 17
Fairvalue is Kshs 1,340,944(2015/2016:Kshs 1,396,120)

Other Investments:

KPCU Unsecured Loan Stock 40 40
KPCU Redeemable Ordinary shares 2,092 2,092
Fairvalue is Kshs 0 (2015/2016:Kshs 0)

Total **2,149** **2,149**

The fair value of BAT shares is determined by reference to published price quotation in the active market (NSE) .On 30th June 2017, the shares traded at Kshs 802 per share.

The KPCU unsecured loan stock and redeemable ordinary shares are unquoted investments classified as available for sale and measured at cost.The fair value of KPCU is estimated at zero as the KPCU is under the statutory management by Kenya Commercial Bank.

30 Bank Overdraft

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Bank overdraft	13	14
Total	13	14

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31 Trade and Other Payables

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Trade Creditors	81,293	109,962
Statutory Deductions	102,944	119,260
Other Creditors	2,840	9,586
Rent Deposits	650	532
Capital WIP Retention	-	15,856
Provision for Liabilities(Arbitration - Dinesh Construction)	122,917	40,000
Total	310,644	295,197

32 Deferred income

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

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Balance Brought Forward as a 1st July	73,315	102,275
Additional Receipts	162,231	74,224
Total	235,546	176,499
Expenditure Incurred	(112,554)	(103,184)
Balance Carried Forward as at 30th June	122,992	73,315

33 General reserve

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Balance Brought Forward as at 1 July	1,472,519	2,169,518
Surplus/(Deficit) for the Year	(414,756)	(696,999)
Prior year adjustments	-	-
Balance Carried Forward as at 30 June	1,057,763	1,472,519

34 Capital fund

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Capital Funds Brought Forward as at 1st July	5,397,197	5,355,365
Capital Funds during the year	-	41,833
Balance Carried Forward as at 30th June	5,397,197	5,397,197

35 Revaluation reserve

	2016-2017	2015-2016
	Kshs '000	Kshs '000
Balance Brought Forward as a 1st July	19,865,377	19,865,377
Balance Carried Forward as at 30th June	19,865,377	19,865,377

36 Net cash flow from operating activities

	2016-2017 Kshs '000	2015-2016 Kshs '000
Surplus/(Deficit)	(414,756)	(696,999)
Prior year adjustment	-	-
Add : Depreciation	464,167	598,811
Net Cash Flow	49,410	(98,188)

37 Provisions for contingent liabilities

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

(ii) As at the end of the financial year, KALRO-Sugar Research Institute was involved in an arbitration process with Dinesh Construction Company Limited relating to disputed values of certificates of completion of the new office block. The arbitration process had been completed but award was not yet out. The award has now been given for Kshs. 122 .92million in favour of Dinesh Construction Company Ltd and Kshs 14.6million being the arbitral tribunal fees on 13th September 2016. The management has made an appeal in court.

38 Prior Period adjustment

Related to liability relating to NSSF penalty for the period January 1998 to January 2008 which amounted to Ksh. 206.49million is as shown below. The matter is still being negotiated to have the penalty waived. The management has recognised the outstanding liability as a prior year.

	2015-2016 Kshs '000
Balance Brought forward as a 1st July	127,094
Payments	(14,400)
Balance Brought down as a 30th June	112,694