

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



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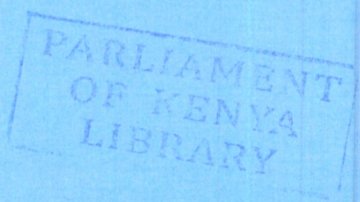
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REPORT

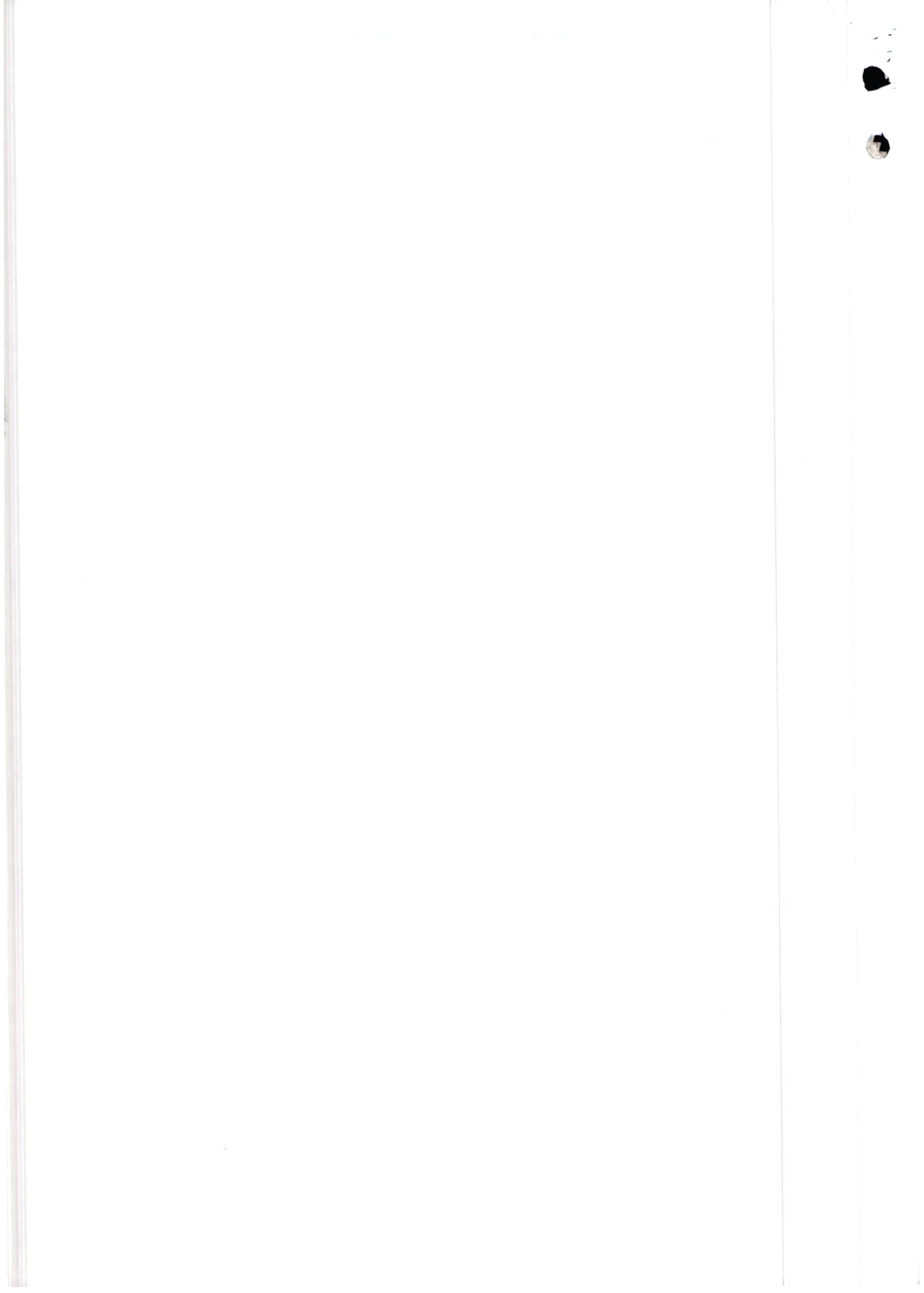
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA AGRICULTURAL AND LIVESTOCK
RESEARCH ORGANIZATION**

**FOR THE YEAR
ENDED 30 JUNE 2018**





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

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2018**

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

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ABBREVIATIONS

AIA	Appropriation in Aid
AMRI	Agricultural Mechanization Research Institute
APVC	Agricultural Product Value Chains
ASA	American Society of Agronomy
ASAL	Arid and Semi-Arid Lands
BoM	Board of Management
CBPP	Contagious Bovine Pleuro-Pneumonia
CEO	Chief Executive Officer
CNA	Competence Needs Assessment
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
NPT	National Performance Trials
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
USAID-FtF	United States Agency for International Development - Feed the Future

Our Vision

Excellence in agriculture and livestock research towards transformed livelihoods.

Our Mission

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

Organization Goal

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

Our Guiding Core Values

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

a) Customer orientation

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

b) Professionalism

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

c) Innovativeness

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

d) Collaboration

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

e) Environmental consciousness

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

f) Integrity

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

I. KEY ORGANIZATION INFORMATION AND MANAGEMENT

(a) Background information

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

(b) Principal Activities

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

(c) Key Management

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

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

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were;

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

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

(e) Fiduciary Oversight Arrangements

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

(f) Organization Headquarters

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

(g) Organization Bankers

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

6. Stanbic Centre. Chiromo Road. Westlands.
PO Box 30550 - 00100.
Nairobi.
Tel: +254 20 3268 888. Credit Cards. +254 20 3268 888/999.

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

(h) Independent Auditors

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

(i) Principal Legal Adviser

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

II. THE BOARD OF MANAGEMENT

Prof. Moses K. Limo, PhD



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

At Egerton University, he served as Chairman, Department of Biochemistry and Molecular Biology and Director, Graduate School and Baringo Campus. Prior to joining Egerton University, Moses worked as Research Fellow in International Laboratory for Research on Animal Diseases (ILRAD) now ILRI; Postdoctoral Scholar, University of California ,Davis U.S.A and Research Scientist at International Centre for Insect Physiology

and Ecology (ICIPE). He also worked as a Visiting Scientist in Animal Disease Research Institute, Ontario, Canada; Institute of Molecular Biology and Biotechnology, Crete, Greece. and Centre for Biotechnology and Bioinformatics, University of Nairobi.

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

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

Prof. Limo is appointed Member, Chairman KALRO BoM.

Prof. Mabel O. Imbuga. B.Sc., M.Sc., Ph.D, EBS



Prof. Mabel Imbuga is the Vice Chancellor of Jomo Kenyatta University of Agriculture and Technology. She is a Professor of Biochemistry, with over 33 years of teaching and research experience. 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,



Prof. Kassim is a Senior Rangeland Management Expert Intergovernmental Authority on Development (IGAD)

He is appointed Member, KALRO BoM

Dr. Michael Wawire

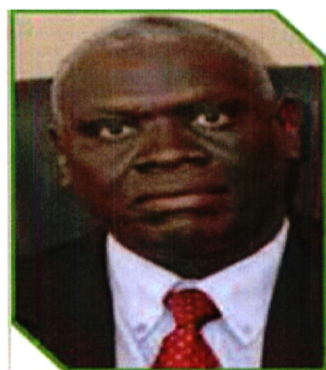


Dr. Wawire is Doctor of Philosophy (Food Science and Postharvest Technology), Jomo-Kenyatta University of Agriculture and Technology (JKUAT), Kenya (Collaboration between Dept. of Food Science and Postharvest Technology at JKUAT, Kenya and Laboratory of Food Technology, *Katholieke Universiteit*, Leuven,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

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

He is appointed Member, KALRO BoM

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



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

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

Dr Rugutt is a member of KALRO BoM.

Mr. Walter Oselu



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

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

He represents, PS, State Department of Livestock

Mrs. Anne A. Onyango



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

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

She represents, PS State Department of Agriculture

Mr. Kimathi Mugambi



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

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

He represents, PS National Treasury

Ms. Scholastica S. Matunge



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

Ms. Matunge is appointed Member, KALRO BoM.

III. MANAGEMENT TEAM

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



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

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



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

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

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



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

IV. CHAIRMAN'S STATEMENT

In the year under review, the KALRO Board of Management (BoM) ensured that the environment for the development of the 1st KALRO Strategic Plan (2017-2021) was created and steered its development. 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, Fisheries and Irrigation was drawn and we committed ourselves to the achievement of the set goals. I am glad to report that we recorded commendable achievements on the targets for the year. Going forward, the Organization will continue to adopt the Agricultural Productivity Value Chain (APVC) approach for all research programmes and projects.

Investment in fundamental research went up during the year under review. The A.I.A improved by KSh. 234.46 Million despite abolishment of the commodity levies for coffee, tea and sugar through the Financial Act 2016/17. Further relief has been realized with the onset of the implementation of USAID FtF project and support from the National Government. The BoM ensured that the Organization's innovation programmes were developed and implemented in collaboration with sector, industry and funding stakeholders. This was and remains important for sustainable investments in research to build technical and operational capabilities for KALRO to play a 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 promptly, effectively and affordably. Management has been tasked to accelerate plans already underway to address these challenges.

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



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 completed the process of developing the first KALRO Strategic Plan (2017-2021). This plan will guide the organization's development agenda in the next five years and beyond.

Researchers continued conducting various projects activities with funding mainly from the USAID FtF and other development partners. The Organization managed to achieve A.I.A totaling to over Ksh. 888 Million up from Ksh. 646 Million in 2016/17. The Management continued to apply the best practices by ensuring that funds allocated to the Institutes were utilized for the programmes and activities for which they had been planned. In this regard, the management committed to the application of Enterprise Resource Planning (ERP) system in Procurement, Financial and Human Resource Management.

I am happy to report that with the support of the Government and direction of the BoM, the staff transfer of services from former Foundations and KARI was completed. To achieve a harmonized employment package, the Government granted KALRO Ksh. 500 Million to implement the approved harmonized salaries for six months to 30th June 2018.

A major achievement during the year was the submission of 52 promising lines of different crops to KEPHIS for NPT, including 24 maize clones tolerant to Maize Lethal Necrosis Disease (MLND). In 2017/18 FY, testing of 22,152 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 including the Fall Army Worm.

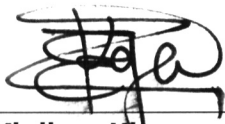
On the livestock research, four (4) vaccines for Contagious Bovine Pleuro-pneumonia (CBPP), Rift Valley Fever, and thermo stable PPR and Camel Mastitis were tested for the second year in the field, and East Coast Fever (ECF) vaccine was rolled out for use by farmers. On the same note, over 183 papers from KALRO researchers were published and/or accepted for publication in renowned peer reviewed journals. Another 113 papers were presented in conferences around the world and some 187 technical papers were published with 259 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 522 farmer training workshops, field days and demonstrations were held during the period under review.

To ensure that farmers used improved crop varieties and livestock breeds around the country, the Organization produced and sold 1,510.5 metric tonnes of basic seed and availed to farmers 1.54 million tea cuttings, 9.3 million coffee seedlings, 12,000 improved coconut seedlings, and 34,000 cashew-nut seedlings of improved varieties, 114 Breeding Sahiwal bulls and 374,428 indigenous chicks among other technologies. To ensure availability of quality livestock feed, the

Organization tested 486 feed samples for development of feed rations, produced and availed to farmers 505 thousand clean Napier planting materials.

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 566 Youth Internships/industrial attachment and Apprenticeships during the period.

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



Eliud Kiplimo Kijeger, 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 KALRO Act which states that the functions of the Board of Management of KALRO shall be:

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

Board Meetings

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

Other Board information

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

Board Committees

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

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

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

The Chairperson of each committee, in consultation with the Board, determined the frequency of committee meetings as is necessary to fulfill the committee's functions. The Chairperson of each committee, in consultation with management, developed the committee's agenda. The Board however determined the procedure and process within which committees take independent professional advice at the organization's expense. The committees promptly reported to the Board any actions taken for ratification and any major developments that they become aware of. The Board as set out in the terms of reference of the respective committees, received reports of the committee's findings and actions.

The Board established the following standing committees:-

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

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

Communication

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

VII. MANAGEMENT DISCUSSION AND ANALYSIS

a) Operational performance

During the Financial Year 2017/18, KALRO implemented various projects and programmes under the Crops and Livestock Research as discussed in detail in the report of the directors. The Programmes were mainly funded through Government grants, Development partners and internally generated funds.

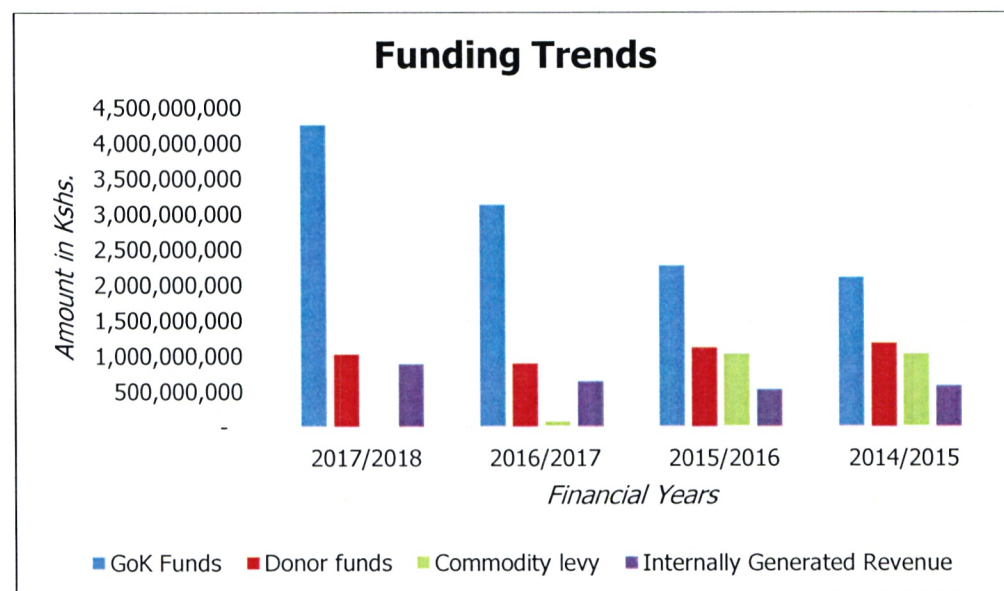
Government grants were mainly used for personnel emoluments, operations and maintenance. Donor funds were used for research technologies in line with partnership agreements. Internally generated funds were used to cater for utility bills and ploughed back to generate revenue

b) Financial performance

i. Funding trends

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

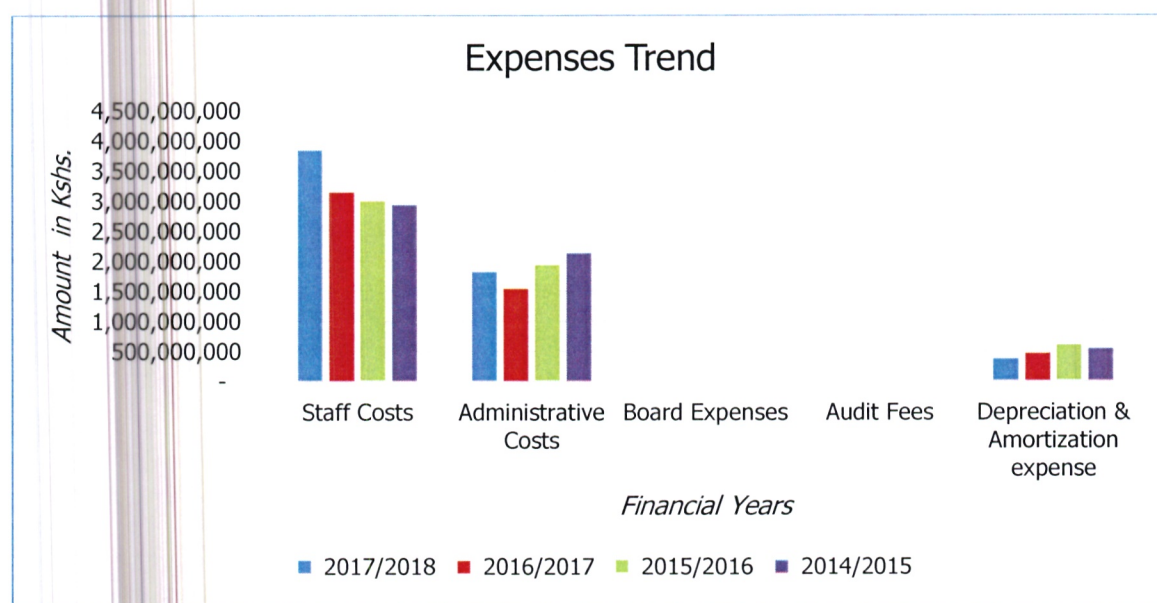
Source of Funds(Kshs.)	2017/2018	2016/2017	2015/2016	2014/2015
GoK Funds	4,253,740,000	3,128,261,405	2,267,431,333	2,099,625,000
Donor funds	1,028,292,514	901,441,578	1,120,371,629	1,187,868,608
Commodity levy	-	73,976,211	1,026,395,079	1,023,232,119
Internally Generated Revenue	888,673,027	646,020,904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



ii. Expenditure trends

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

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



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

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

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

c) Compliance with statutory requirements

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

d) Material arrears in statutory and other financial obligations

During the year, the Court of Appeal Civil Application No.272 of 2017, Dinesh Construction Vs KESREF was determined in favour of the claimant and a decretal award of Kshs. 164.621million given. This is recognized in the financial statement as a liability.

Also, KALRO is faced with liability relating to NSSF penalty for the period January 1998 to January 2008 which amounted to Ksh. 206.49million. KALRO continues to pay the obligation and the amount outstanding as at 30th June 2018 was Kshs.83.89 million. This is recognized in the financial statement as a liability

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

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

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

KALRO through Food Crops Research Institute participated in the following:

- KALRO Njoro
 - Environmental Conservation - tree planting exercise at Utafiti Primary School and along River Njoro.
 - Cleanup exercise within the Lake Nakuru ecosystem/park.
 - Visited the catholic sisters' home to provide customized advisory services on horticultural farming skills as well as environmental conservation within their landscape.
 - Deployed casuals to work in Utafiti primary School to perform duties of a day security guard and a cook respectively
 - Provided clean water for use by staff and Utafiti primary School and assisted in completion of two class rooms – Fixing of windows and Doors.
 - Participated in the 2017/18 Nakuru National show in Technology transfer to the Community and entire Nation.
- KALRO Kisii
 - Contributed bananas for use by the children of Church of Christ Mesisita, Kisii school for the deaf.

KALRO through Coffee Research Institute:

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

KALRO through Dairy Research Institute:

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

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

KALRO Tea Research Institute:

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

KALRO through Industrial Crop Research Institute provided a vehicle and a driver to Gatundu North for the National polio immunization campaign.

IX. REPORT OF THE DIRECTORS

TECHNICAL RESEARCH PROGRAMME ACHIEVEMENTS: FY/2017/2018

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 2017/2018 as per the set Performance Contracting document.

Soil analysis samples and recommendations

- KALRO analyzed 22,120 samples and recommendation give to the customers. This activity is being promoted through publicity in trade fairs and outreach and partnership forums.

Project 2: Crop and livestock protection

Development of Vaccines

- KALRO developed Four (4) vaccines for Contagious Bovine Pleuro-pneumonia (CBPP), Rift Valley Fever, and thermo stable PPR and Camel Mastitis were tested for the second year in the field, and East Coast Fever (ECF) vaccine was rolled out for use by farmers.

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

- KALRO evaluated twenty four (24) maize clones tolerant to Maize Lethal Necrosis Disease (MLND) and 3 of the advanced clone were released in collaboration with KEPHIS.

Project 3: Production of planting materials

Basic Seed Produced

- During the 2017/18 FY KALRO produced 1,510.5 MT of basic seed of various crops.

Tea Plants and Cuttings Aailed

- KALRO produced a total of 1.54 million tea cuttings of improved varieties, and availed to farmers at cost recovery price in the tea growing counties with a view to enhancing tea production in the country.

Production of Coffee Planting Materials

- KALRO produced 9.3 million coffee seedlings and availed to farmers in both the traditional and upcoming coffee growing counties.

Production of improved coconut seedlings

- KALRO produced a total of 12,000 improved coconut seedlings for farmers in the coastal region Counties. A shortfall of 8,000 seedlings was realized due to non-payment of assorted seedling orders thus affecting the cash flow for production of the seeds.

Production of improved Cashew-nut seedlings

- KALRO produced a total of 34,000 improved seedlings for farmers in the cashew-nut growing Counties.

Rangelands grass Seed Produced

- KALRO produced 2020kg of mixed rangelands grass seed for the rehabilitation and rejuvenation of the rangelands.

Provision of Treated Seed Cane

- KALRO produced 3,050 tons of treated improved seed cane.

Project 4: Improvement of Livestock Production

Breeding Sahiwal Bulls Reared and availed To Farmers

- KALRO produced one hundred and fourteen (114) breeding Sahiwal bulls against the target of 126. This was due to loss of breeding animals due to prolonged drought in the previous two years, and affected subsequent breeding programmes.

Breeding Bucks and Rams

- KALRO bred and availed sixty seven (67) breeding bucks and rams. However, due to drought experienced during 2017 the organization culled a number of breeding stocks and thus KALRO targets to avail hundred (100) breeding bucks and rams as per the previous year, awaiting rebuilding of the flock.

Improved Indigenous Chicken

- KALRO produced 374,428 indigenous chicks against a target of 500,000 chicks. This was occasioned by hatchery breakdown at Naivasha which normally have a capacity of 20,000 chicks per month.

Production of Supplementary Napier grass cutting.

- KALRO produced 505,000 clean and improved Napier grass cuttings.

Project 5: Training and Stakeholder Engagements

Stakeholder training sessions at KALRO

- The Organization conducted 522 stakeholder training sessions on various crops, and livestock husbandry throughout the country.

Project 6: Breeding for Improved Crop Varieties

Development of Improved Crop Variety

- KALRO submitted 52 promising lines of different crops to KEPHIS for NPT evaluation.

Project 7: Quality Assurance of Animal Feeds and Pesticides

Analysis of Feed Samples

- KALRO gives this service to individual farmers and researchers on demand and 486 animal's feed samples were analyzed for nutritive values and advice given to livestock farmers accordingly. This service is demand driven and hence KALRO need to publicize it to wider clientele.

Evaluation of Pesticides for Crop Pest Management

- KALRO evaluated thirty six (36) pesticides for efficacy against a spectrum of pests.

Project 8: Development of KALRO Research Priority Setting Forums

KALRO Research Priority Setting Forums

- KALRO held 102 consultative fora. This entails project review meetings with partners and stakeholders, research proposal reviews, and mapping of Agricultural Product Value Chain (APVC).

Project 9: Promotion of a Culture of Scientific Research and Innovation

Research Proposals and Publications

During the year the following activities were undertaken;

a. Research Proposals

During this financial year KALRO prepared 35 research proposals for various calls for funding.

b. Publications in Refereed Journals;

These refer to papers published or accepted for publication in peer refereed journals. In 2017/18 FY 183 journals were published by KALRO scientists.

c. KALRO Technical Publications;

One hundred and eighty seven (187) technical publications.

d. 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. KALRO achieved 259 against a target of 320, which was caused by shortage of funds to undertake various research activities.

e. Publications in Conference Proceedings;

This refers to published papers reviewed, accepted and presented in conference proceedings. KALRO had 113 publications in conference proceedings compared to the targeted 200 due to financial constraints.

X. STATEMENT OF DIRECTOR'S RESPONSIBILITIES

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

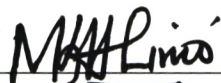
The Directors are responsible for the preparation and presentation of the organization's financial statements, which give a true and fair view of the state of affairs of the organization for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining 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, 2018, and of the organization's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the organization, which have been relied upon in the preparation of the organization's financial statements as well as the adequacy of the systems of internal financial control.

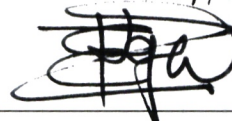
With effect from 1st July 2014, Kenya Agricultural Research Institute (KARI), Kenya Sugar Research Foundation (KESREF), Tea Research Foundation (TRF) and Coffee Research Foundation (CRF), were dissolved in pursuant to the Kenya Agricultural and Livestock Research Act 2013. Its newly acquired name is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

Approval of the financial statements

The KALRO financial statements were approved by the Board on 28/09/2018 and signed on its behalf by:



Prof. Moses K. Limo
Chairman, KALRO BoM



Eliud K. Kireger (PhD)
Director General

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA AGRICULTURAL AND LIVESTOCK RESEARCH ORGANIZATION FOR THE YEAR ENDED 30 JUNE 2018

Disclaimer of Opinion

I have audited the accompanying financial statements of Kenya Agricultural and Livestock Research Organization set out on pages 1 to 18, which comprise the statement of financial position as at 30 June 2018, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of 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.363,906,000 as at 30 June 2018 and disclosed under Note 24 to the financial statements, are staff imprests totalling Kshs.21,160,000 (2017 - Kshs.35,258,000) that have not been supported with necessary details such as dates of issue and due dates. Further, the schedule provided in support of the outstanding imprests of Kshs.21,160,000 reflects an amount of Kshs.23,778,104 resulting in unreconciled difference of Kshs.2,618,104.

Similarly, and as reported in the previous years, temporary imprests includes an amount of 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.

Report of the Auditor-General on the Financial Statements of Kenya Agricultural and Livestock Research Organization for the Year Ended 30 June 2018

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 include an amount of Kshs.314,388,000 in respect of commodity levy, which reflects a decrease from last year's figure of Kshs.314,569,000 by Kshs.181,000 that has not been explained. This figure, 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.

1.4 Transfers to Other Institutions

The statement of financial position and as disclosed under Note 24 to the financial statements reflects an amount of Kshs.363,906,000 under receivables from non-exchange transactions, which includes Kshs.7,366,000 under transfers to other institutions. The amount indicated to have been transferred to other institutions was not supported with documentary evidence.

Consequently, it has not been possible to confirm whether receivables from non-exchange transactions balance of Kshs.363,906,000, in these financial statements is fairly stated.

2. Receivables from Exchange Transactions

The receivables from exchange transactions balance of Kshs.109,385,000, and as disclosed under Note 23 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, the other receivables balance decreased from Kshs.16,787,000 in the previous year, to Kshs.1,027,000 in the year under review. No supporting documentation was provided for the decrease.

In view of the above, it is not possible to confirm whether receivables from exchange transactions' balance of Kshs.109,385,000 is fairly stated.

3. Property, Plant and Equipment

3.1 Property, Plant and Equipment Without Title Documents

- (i) Included in the property, plant and equipment balance of Kshs.24,492,888,000 as at 30 June 2018 is an amount of Kshs.2,932,785,960 in respect of six parcels of land relating to the former Kenya Agricultural Research Institute for which the Organization has no ownership documents. 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 and their title documents were revoked by the Chief Registrar on 22 February 2019 as per the Kenya Gazette Notice No. 1716. However, a review of the position 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 2018, still revealed that the organization does not have titles for all its land. A review of the position in the current year revealed that 56 parcels of land including LR Nos. 654/6, 654/6A, 654/II and 654/7 all under Sugar Research Institute in Kibos area did not have any documents of ownership at the time of this report, some of which have not been surveyed.
- (v) The property, plant and equipment balance of Kshs.24,492,888,000 as at 30 June 2018 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.24,492,888,000 as at 30 June 2018, 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.24,492,888,000 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.24,492,888,000 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 (2016/2017 financial year) of Kshs.253,798,000 under Note 28 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 differed with the amount of Kshs.122,920,000 in respect of the award. The resulting difference of Kshs.13,155,000, between the arbitration amount and the amount reflected in the financial statements has not been accounted for to date.
- (xiii) Included in the cost of land of Kshs.17,808,626,000 is an amount of Kshs.117,000,000 being the cost for LR No. 116/3 Ruiru – Jacaranda where the Coffee Research Institute is located. Although management

acknowledges that the title deed is misplaced, there is no evidence provided to show efforts being made to acquire a replacement title deed.

- (xiv) According to correspondences obtained during the audit, the title deed for a parcel of land at Muguga LR No. 23878 was released to the Ministry of Lands, Housing and Urban Development through Ms Ojiambo & Co. Advocates to facilitate the excision of a portion of land allocated to Kenya Plant Health Inspectorate Service at the time of its inception. However, the records available indicate that title deed got lost while in the custody of the Ministry of Lands and Urban Planning Officers. This exposes the land to the risk of alienation, unlawful excision and subdivision.
- (xv) KALRO owns 142.06 ha of land in Matuga - LR No. 22689 for which it has a title deed. However illegal squatters have since encroached on this land making it impossible for the Organization to utilize the land for the purposes of agricultural research.
- (xvi) Note 28 to the financial statements on property, plant and equipment reflects the land's balance of Kshs. 17,808,626,000 as at 30 June 2018. This balance includes beach plots in Mtwapa valued at Kshs. 56,734,160 whose land registry number was given as MN/111/2945. However, the Organization does not have a title deed for the land. The management explained this land was illegally subdivided into five plots but the Commissioner of lands revoked the allotments. Baharini Developments Ltd filed a suit in court to affirm their ownership of the beach plots. The matter had not been determined at the date of this report and ownership of these plots is doubtful.
- (xvii) KALRO also owns five buildings on its Kitale Lower Farm Block LR No. 13/82 which were part of the L.R. No. 2049R but they were excluded from the title deed. In Kakamega, staff houses belonging to the Non-Ruminant Centre have been constructed on 20 acres of land that were left out during allotment of this land to the Organization. These issues were still outstanding by the reporting date.
- (xviii) Further included in the cost of land of Kshs. 17,808,626,000 are 1418 Ha of land in Lanet whose Registry Number is LR No. 9290/4 where the National Beef Research Centre is located. Records held at the Organization indicate that in 1984 one farmer surrendered two hundred and thirty acres of his land to the government and it was agreed that he would be compensated with an equivalent acreage of vacant land at the Beef Research Institute. However, the farmer was instead allotted two hundred and seventy acres, the excess being forty acres. Further, he violated the conditions of the land exchange and occupied the developed part of the land leading to destruction of property belonging to the KALRO. The said part of the land has since been subdivided into plots for sale to the public. In addition, records availed indicate that another farmer agreed to surrender one hundred acres and two hundred and twenty acres of his land in Nakuru but during exchange and

transfer of the land he irregularly acquired an extra one hundred and fifty-two acres of KALRO 's land. Additionally, a group of squatters has been trying to forcefully encroach the said land since 2014. There is therefore a high risk that the Organization may lose the disputed parts of its land in Lanet.

- (xix) The cost of land disclosed in Note 28 to the financial statements of Kshs.17,808,626,000 does not include the cost of the parcels of land listed below whose title deeds are not in the custody of the Organization;

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

Under the circumstances, it has not been possible to verify the ownership of these parcels of land which are exposed to a high risk of encroachment and possible loss.

- (xx) Included in the net assets and as disclosed in Note 28 to the financial statements are motor vehicles, motor cycles and other machinery owned by KARLO. It was observed that logbooks of motor vehicles, motor cycles, tractors and trailers were not kept in one central place, which is prone to misplacement and other possible defalcations. For example, the logbook for Isuzu D-Max KAT 697X owned by Sugar Research Institute was not provided for audit and management explained that the logbook was submitted to Kenya Revenue Authority for replacement with the new version.

3.2 Procurement of Egg Setter Machine

Note 28 to the financial statements on property, plant and equipment reflects an addition to lab equipment of Kshs.25,129,000, which includes an amount of Kshs.4,827,444 incurred to procure an egg setter machine from Pas Reform Hatchery Technologies. The contract agreement included delivery of the egg setter machine at the Non-Ruminant Research Institute in Naivasha, installation, training and commissioning. Though the supplier had received payment in full for the machine, it had not been installed. The management explained that installation was delayed due to unforeseen requirement for a chiller which had not yet been procured at the time of the audit. Additionally, modifications were carried out on the building where the egg

setter machine was to be installed at a cost of Kshs.4,472,000 The inspection and verification report dated 8 September 2017 indicated that the components delivered were as per the packaging list without confirming whether the machine that was delivered met the requisite specifications. It is, therefore, not possible to confirm whether the egg setter machine delivered met the specified criteria set by the user department.

3.3 Work in Progress

In addition, Note 28 to the financial statements discloses an amount of Kshs.27,188,000 on additions to work in progress, which represents payment towards the final certificate for the construction of the tea research and development factory at Tea Research Institute in Kericho . However, despite completion of the factory at a total cost of Kshs.304,505,000, in July 2018 when the contractor left the site, there were no equipment fitted in the factory building. It is, therefore, not possible to confirm when the tea factory will start generating income and achieve the purposes for which it was constructed.

Under the foregoing circumstances, the ownership, the value, accuracy and completeness of the property, plant and equipment and the balance of Kshs.24,492,888,000 disclosed in these financial statements cannot be confirmed.

4. Trade and Other Payables

- (i) The trade and other payables balance of Kshs.281,112,000 as at 30 June 2018 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.281,112,000 includes as disclosed in Note 33 to the financial statements an amount of Kshs.164,621,000 described as provision for liabilities relating to amounts owing to a contractor and arising from an arbitration ruling. This amount however was indicated as Kshs.122,917,000 in the previous year, while other information showed an amount of Kshs.122,920,000 as having been the arbitrated and an additional amount of Kshs.14,600,000 being the arbitral tribunal fees. The increase of over Kshs.27,100,000 has not been supported with documentary evidence.

Under the circumstance, the accuracy and completeness of the trade and other payables balance of Kshs.281,112,000 reflected in these financial statements cannot be ascertained.

5. Investments

The investments balance of Kshs.2,149,000 as at 30 June 2018 and as disclosed under Note 31 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.

6. Cash and Cash Equivalents

6.1 Unaccounted for Cash

As previously reported, the cash and cash equivalents' balance of Kshs.1,056,456,000 as at 30 June 2018 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.

6.2 Long Outstanding Unpresented Cheques and Uncredited Items

Bank reconciliation statements for the bank balances of Kshs.1,056,456,000 disclosed under Note 22 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.1,056,456,000 as at 30 June 2018 cannot be confirmed.

7. Inventories

The statement of financial position and as disclosed under Note 26 to the financial statements reflects a balance of Kshs.160,624,000 against inventories as at 30 June 2018. Documents provided for audit, however, shows that included in the figure is an amount of Kshs.4,131,000 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 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 inventories balance of Kshs.160.624,000 as at 30 June 2018 is not fairly stated.

8. Deferred Income

The statement of financial position reflects a balance of Kshs.177,182,000 against deferred income as at 30 June 2018 and as disclosed under Note 34 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.177,182,000 is net of Kshs.154,549,000 relating to the expenditure incurred during the year, which should have been recognized as income in the statement of financial performance. Supporting documents presented for audit in respect of 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.177,182,000 cannot be confirmed.

9. Deposits

The statement of financial position reflects an amount of Kshs.52,331,000 under deposits, which is an increase over last year's amount of Kshs.2,331,000 by Kshs.50,000,000. No documentary evidence was provided for the additional amount of Kshs.50,000,000. Consequently, the validity of the deposits balance of Kshs.52,331,000 cannot be confirmed.

10. Prepayments

The statement of financial position also reflects a balance of Kshs.83,013,000 under prepayments, which as disclosed in Note 25 to the financial statements relates to insurance premiums paid by the Organization during the year and covered one-year period ended 30 June 2018. This is however an increase of Kshs.10,495,000 over the previous year's premium. No reason was given for this substantial increase considering the Organization's activities and structure did not change substantially in the year under review.

11. Statement of Changes in Net Assets

The statement of changes in net assets reflects a balance of Kshs.26,449,787 as at 30 June 2018. This balance is however net of an amount of Kshs.112,694,000 that had been adjusted in the financial statements in the year ended 30 June 2016 as a prior year adjustment. The prior year adjustment was in relation to amounts owing from the former KARI to NSSF for statutory deductions for the period January 1998 to January 2008 and the initial amount 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 was posted to. Consequently, the completeness and validity of the prior year adjustment could not be ascertained.

12. Unreconciled Differences Between the Financial Statements and Ledger Balances

A comparison of the financial statements and the general ledger revealed variances as detailed below:

Item	Financial Statements Figure (Kshs)	General Ledger Figure (Kshs)	Variance (Kshs)
Staff Imprest	21,160,000	23,778,000	2,618,000
Trade Creditors	26,725,000	27,182,000	457,000
Trade debtors	75,302,000	77,067,000	1,765,000

The above variances have neither been reconciled nor explained.

13. Presentation and Disclosure of the Financial Statements

13.1 Other Receipts

The statement of financial performance reflects an amount of Kshs.125,202,000 under other receipts. As disclosed in Note 9 to the financial statements, the figure includes an amount of Kshs.39,508,000 described as gain on revaluation of assets. This amount arose from revaluation of assets during the year. However, this presentation is contrary to International Public Sector Accounting Standard No. 1 on presentation of financial statements.

13.2 Government of Kenya Development Funds

The statement of financial performance reflects an amount of Kshs.310,750,000 under Government of Kenya development funds. This amount, as disclosed in Note 11 to the financial statements represents grants from the government for research activities. However, no reason was given for the failure by the Organization to account for the funds as deferred income and directly link it to the specific research activity. Under the circumstances, the disclosure of the amount as a revenue item contradicts the International Public Sector Accounting Standard No.1 on disclosure and presentation of the financial statements.

14. Budget Control and Performance

14.1 Approval of the Budget

The statement of comparison of budget and actual amounts reflects total operating expenses original budget of Kshs.5,280,404,000 while the figure in the budget was Kshs.7,287,259,000. This resulted in a variance of Kshs.2,006,855,000. Although the

management explained that the variance was as a result of adherence to the recommendations made by Treasury and guided by the GOK funding, there was no evidence of Board resolutions on approval of the recurrent budget. In the absence of the board minutes and resolutions, the budget preparation process was not adhered to.

Further, the Organization received extra funds in three tranches amounting to Kshs.1,300,000,000 from the National Treasury. Amounts of Kshs.500,000,000 and Kshs.300,000,000 were meant for funding of critical operational expenses and the fall army worm (FAW), respectively. However, a copy of the Authority to Incur Expenditure No. 941528 provided to support release of the remaining balance of Kshs.500,000,000 by National Treasury was not supported by any schedule or breakdown. Hence it has not been possible to ascertain the purpose for which the funds were disbursed by Treasury.

14.2 Budget Execution

During the year under review, there was under-expenditure in the following items:

Audit Components	Current year Final Budget Figures	Actual Figures	Budget Utilisation Difference
	Kshs. 000	Kshs. 000	Kshs.000
Staff Costs	3,942,990	3,839,386	103,604
Administrative Costs	1,731,610	1,668,333	63,277
Board Expenses	20,000	5,827	14,173
Repairs and Maintenance	287,973	118,686	169,287
Contracted Services	145,000	23,928	121,072
Total	6,127,573	5,656,160	471,413

Failure to utilize the budgeted provisions means the Organization had over budgeted or may not have achieved the planned activities for the year.

15. 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the 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.

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the Kenya Agricultural and Research Organization's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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

of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described under Conclusions on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for audit conclusions.

I am independent of Kenya Agricultural and Livestock Research Organization 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.



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

Nairobi

24 June 2019

XI. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2018


	Notes	2017-2018 Kshs'000	2016-2017 Kshs'000'
Revenue from exchange transactions			
Goods	6	630,753	483,771
Services	7	116,608	117,303
Interest Received	8	16,110	8,855
Other Receipts	9	125,202	36,092
		888,673	646,021
Revenue from non-exchange transactions			
GoK Recurrent	10	3,942,990	3,128,261
GoK Development	11	310,750	-
Other Grants	12	1,028,293	901,442
Commodity levy	13	-	73,976
		5,282,033	4,103,679
Total Revenue		6,170,706	4,749,700
Expenses			
Staff Costs	14	3,839,386	3,145,122
Administrative Costs	15	1,668,333	1,418,802
Board Expenses	16	5,827	4,694
Audit Fees	17	6,750	6,490
Depreciation & Amortization expense	18	369,254	464,167
Repairs and Maintenance	19	118,686	100,184
Contracted Services	20	23,928	18,550
Finance cost	21	9,093	6,449
Total Expenses		6,041,256	5,164,457
Surplus/(Deficit)		129,450	(414,756)

The notes set out on pages 6 to 18 form an integral part of the financial statements.

XII. STATEMENT OF FINANCIAL POSITION
As at 30th June 2018

	Notes	2017-2018 Kshs' 000	2016-2017 Kshs' 000'
Assets			
Current Assets			
Cash and Cash equivalents	22	1,056,456	854,795
Receivables from Exchange Transactions	23	109,385	132,998
Receivables from Non-exchange Transactions	24	363,906	367,169
Prepayments	25	83,013	72,518
Inventories	26	160,624	288,304
Deposits	27	52,331	2,331
		1,825,714	1,718,115
Non-Current Assets			
Property, Plant and Equipment	28	24,492,888	24,536,196
Intangible Assets	29	19,956	26,010
Biological Assets	30	568,094	471,519
Investments	31	2,149	2,149
		25,083,087	25,035,874
Total Assets		26,908,801	26,753,987
Liabilities			
Current liabilities			
Bank overdraft	32	720	13
Trade & Other Payables	33	281,112	310,644
		281,831	310,658
Non-Current liabilities			
Deferred Income	34	177,182	122,992
Total Liabilities		459,014	433,650
Net assets		26,449,787	26,320,338
General Reserve	35	1,187,213	1,057,763
Capital Fund	36	5,397,197	5,397,197
Revaluation Reserve	37	19,865,377	19,865,377
Total Net Assets and liabilities		26,449,787	26,320,338

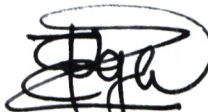
The Financial Statements set out on pages 1 to 18 were signed on behalf of the Board of Directors by:


Chairman, KALRO BoM

Date: 28/09/2018


Director, Finance & Accounts
ICPAK Member Number: 9703

Date: 28/09/2018


Director General

Date: 28/09/2018

XIII STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2018

	Capital Fund	Revaluation Reserve	General Reserve	Totals
	Kshs'000'	Kshs '000'	Kshs'000'	Kshs'000'
At 1st July 2016	5,397,197	19,865,377	1,472,519	26,735,094
Surplus/(Deficit) for the period	-	-	(414,756)	(414,756)
At 30 June 2017	5,397,197	19,865,377	1,057,763	26,320,337
At 1st July 2017	5,397,197	19,865,377	1,057,763	26,320,337
Surplus/(Deficit) for the period	-	-	129,450	129,450
At 30 June 2018	<u>5,397,197</u>	<u>19,865,377</u>	<u>1,187,213</u>	<u>26,449,787</u>

The notes set out on pages 6 to 18 form an integral part of the financial statements.

XIV STATEMENT OF CASHFLOW

As at 30th June 2018

	Notes	2017-2018 Kshs'000	2016-2017 Kshs'000
Cash Flow from Operating Activities			
Cash generated from/(used in) operations	37	567,691	212,792
Net cash generated from/(used in) operating activities		567,691	212,792
Cash flow from Investing Activities			
Revaluation of Biological assets		(256,727)	(83,317)
Purchase of property, plant & equipment	28	(147,867)	(253,798)
Purchase of intangible assets	29	(15,622)	(988)
Proceeds from sale of Assets		-	-
Cash generated from/(used in) investing activities		(420,216)	(338,102)
Cash flow from Financing Activities			
Deferred Income(Capital)		54,185	49,677
Cash generated from/(used in)Financing activities		54,185	49,677
Increase in Cash and Cash Equivalent for the Year		201,661	(75,633)
Cash and Cash Equivalent at the Start of the Year		854,795	930,429
Cash and Cash Equivalent at the End of the Year	32	1,056,456	854,795

The notes set out on pages 6 to 18 form an integral part of the financial statements.

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget 2017-2018 Kshs'000	Adjustments 2017-2018 Kshs'000'	Final Budget 2017-2018 Kshs'000'	Actual on comparable basis 2017-2018 Kshs'000'	Performance difference 2017-2018 Kshs'000'
Revenue from exchange transactions					
Goods	682,207		682,207	630,753	(51,454)
Services	100,000	-	100,000	116,608	16,608
Interest Received	10,000	-	10,000	16,110	6,110
Other Receipts	90,000		90,000	125,202	35,202
Sub total	882,207	-	882,207	888,673	
Revenue from non-exchange transactions					
GOK Personal Emoluments	2,942,990	1,000,000	3,942,990	3,942,990	-
GOK Development	73,000	270,000	343,000	310,750.00	(32,250)
Other Grants	882,207		882,207	1,028,293	146,086
Sub total	3,898,197		5,168,197	5,282,033	
Total Revenue	4,780,404		6,050,404	6,170,706	
Expenses					
Staff Costs	2,942,990	1,000,000	3,942,990	3,839,386	103,604
Administrative Costs	1,431,610	300,000	1,731,610	1,668,333	63,277
Board Expenses	20,000		20,000	5,827	14,173
Audit Fees	6,800		6,800	6,750	50
Depreciation & Amortization expense	435,631		435,631	369,254	66,377
Repairs and Maintenance	287,973		287,973	118,686	169,287
Contracted Services	145,000	-	145,000	23,928	121,072
Finance cost	10,400		10,400	9,093	1,307
Total Expenses	5,280,404		6,580,404	6,041,256	539,148
Surplus/(Deficit)	(500,000)		(530,000)	129,450	

The notes set out on pages 6 to 18 form an integral part of the financial statements.

Budget notes

1. Change between original and final budget is as a consequence of budget adjustment in form of additional exchequer
2. The % increase in revenue from services against the budget was a result of collection of royalties
3. The % increase in revenue from services against the budget was a result of interest earned from the bank
4. The % increase in revenue from other receipts against the budget was a result of gain in valuation of the biological assets
5. The increase in revenue from other grants against the budget was a result of signing of small donor agreements and the funding from National Research Fund (NRF)
6. Board expenses underutilization against the budget was a result of postponement of Corporate Governance training that were to be conducted to the Board Members
7. Repairs and maintenance decrease was as a result of the delay in the take off of the Kenya Climate Smart Project
8. Contracted services difference was as a result of the delay in the take off of the Kenya Climate Smart Project

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

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

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

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

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

3. Adoption of New and Revised Standards

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Standard	Impact
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions - IPSAS 23

Transfers from other government entities

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

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

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

Sale of goods

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

Interest income

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Rental income

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

b) Budget information – IPSAS 24

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

c) Property, plant and equipment – IPSAS 17

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

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

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

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

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

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

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

d) Intangible assets – IPSAS 31

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

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

e) Research and development costs

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

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

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

f) Inventories – IPSAS 12

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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%

Following harmonisation of staff salaries with effect from from 1st January 2018, the basis for contribution is as below;

Employee	Employer
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 net of bank overdrafts. In the Statement of Financial Position, bank overdrafts are included as borrowings under current liabilities.

j) Comparative figures

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

k) Foreign currency transactions IPSAS 4.

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

l) Subsequent events – IPSAS 14

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

m) Related Parties – IPSAS 20

The Organisation regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Organisation, or vice versa. The Government of Kenya is the principal shareholder of the entity, holding 100% of the entity's equity interest. Other related parties include the Parent Ministry(Ministry of Agriculture ,Livestock, Fisheries and Irrigation) and Board of Management . Members of key management are regarded as related parties and comprise senior managers. No related party contracts or dealings were exchanged during the year except for earnings as employees. Further, the key management do not hold any specific interests. Allowances to members of the Board of Management are as shown (see Note 16), while the three key management emoluments for the year were Kshs 20.038million. This is included in the staff costs.

n) Taxes – IAS 12

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

o) Leases – IPSAS 13

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

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

p) Changes in accounting policies and estimates – IPSAS 3

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

q) Financial Risk Management Objectives and Policies

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

i) Liquidity risk

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

The table shows the undiscounted cash flows on the Organisation financial assets and liabilities on the earliest possible maturity date. The liquidity ratio in FY 2017/18 is 2.84 (FY 2016/17: 8.74)

	Note	2017-2018	2016-2017
		Kshs '000	Kshs '000
Financial Assets			
Bank and Cash Balances	19	1,055,736	854,782
Receivables	20&21	473,291	500,167
Total Financial Assets		1,529,027	1,354,950
Financial Liabilities			
Payables	30	281,112	310,644
Total Financial Liabilities		281,112	310,644
Net Liquidity		1,247,915	1,044,305
Liquidity Ratio		5.44	4.36

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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

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

i) Useful lives of Property, Plant and Equipment

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

ii) Contingent Liabilities

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

iii) Provision for Doubtful Debts

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

iv) Other provisions

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

6 Goods

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Sheep & Goats	1,687	2,142
Cows	19,431	25,446
Poultry	18,163	13,035
Maize	3,657	7,156
Sorghum & Millets	567	246
Rice	13	408
Root and Tuber	9,489	1,749
Vegetables	1,526	1,210
Herbs	244	2
Beans	543	654
Fruits	536	774
Bananas	614	742
Wheat	5,548	7,788
Seeds	198,844	167,754
Seedlings	60,768	36,375
Trees and Plants	886	983
Manure	868	373
Sand & Ballast	88	64
Firewood	237	334
Flowers	96	184

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Pyrethrum	4	7
Fodder	10,264	17,466
Beef	16	899
Milk	25,475	20,359
Eggs	3,425	70
Tomatoes	340	250
Hay	306	2,182
Water	202	106
Other Farm produce	38,398	27,386
Increase/Decrease in Stock	85,530	(32,243)
Coffee, Milling Cane and Tea Sales	142,988	179,870
Total	630,753	483,771

7. Services

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Soil Analysis	11,014	11,493
Other Lab Services	1,906	25,742
Sale of Journals/Periodicals	587	270
Hire-Ground/Conference Facilities	7,529	11,391
Royalties	10,759	6,817
Rent	79,352	56,609
Other services	5,461	4,982
Total	116,608	117,303

8. Interest Received

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Interest Received	16,110	8,855
Total	16,110	8,855

9. Other Receipts

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Cafeteria Income	61,457	28,493
Guest House Income	13,572	7,812
Bus Income	2,282	902
Utilities Income	3,420	3,016
Sale of Tender Documents	4	47
Grazing Fee	884	416
Commission Received	56	118
Library coffee	9	11
Gain/(Loss) on Foreign exchange	4,009	(4,723)
Gain/(Loss) on revaluation of assets	39,508	0
Total	125,202	36,092

10. GoK Personnel Emoluments

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

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Grants-Personal Emoluments	3,942,990	3,128,261
Total	3,942,990	3,128,261

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. GoK Development Funds

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

	2017-2018 Kshs '000	2016-2017 Kshs '000
Development Grant - GoK	310,750.00	0
Sub-Total	310,750.00	0

12. Development Funds - Other Donors

These represent grants received from various donors for research activities.

	2017-2018 Kshs '000	2016-2017 Kshs '000
Development Grant - EU	118,317	88,487
Development Grant - USAID	167,165	209,189
Development Grant - Rockefeller	2,396	-
Development Grant - CIP	30,748	72,235
Development Grant - CIAT	1,242	694
Development Grant - ICRAF	901	1,249
Development Grant - FAO	4,764	715
Development Grant - ILRI	3,550	149
Development Grant - ICRISAT	3,816	1,072
Development Grant - CIMMYT	61,905	84,272
Development Grant - NRF	40,435	-
Development Grant - Other Grants	593,054	443,379
Total	1,028,293	901,442

13. Commodity levy

	2017-2018 Kshs '000	2016-2017 Kshs '000
Commodity levy	0	73,976
Total	0	73,976

14. Staff Costs

	2017-2018 Kshs '000	2016-2017 Kshs '000
Basic Salary	1,914,989	1,594,032
House Allowance	588,241	442,947
Other Personal Allowance	121,152	110,262
Commuter Allowance	205,881	212,222
Transfer Allowance	1,373	2,832
Passage & Leave Expenses	19,724	20,914
Gratuity & Pension Contribution	372,275	178,125
Medical Expenses	268,444	230,876
Contractual Employee	100,386	42,431
Casual Labour	246,921	310,480
Total	3,839,386	3,145,122

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Administrative Costs

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Fuels, Oils and Lubricants	73,722	57,316
Vehicle Insurance	18,639	14,929
Road Tax & Licenses	451	4,078
Hire of Transport	1,144	2,267
Freight, Clearing & Shipping	200	54
Purchase of Supplies Production	137,811	99,122
Purchase of Drugs	3,924	3,313
Purchase of Sierra & Vaccines	2,605	3,471
Farm Development	25,871	53,310
Purchase of Fungi Insecticide & Sprays	3,359	2,252
Purchase of Farm Input	40,580	56,841
Purchase of Laboratory Stores	37,944	48,539
Research Materials	11,845	19,542
Purchase of Animals	5,336	14,882
Purchase of Consumables Stores	3,564	3,934
Miscellaneous Operating Expenses	758	732
Hire Machinery & Equipment's	1,391	1,181
Purchase of Workshop Tools, Spares & Equipment	675	1,010
Farmer Grants (CIGs/CBOs)	33,376	11,770
Purchase of seed	85,380	68,446
Office Running Expenses	2,544	5,166
Office Stationery	20,665	19,845
Computer Expenses	5,636	14,615
Printing and Publishing	9,697	5,761
Advertising and Publicity	6,792	28,262
Library Expenses	879	1,214
Show Expenses	24,565	12,588
Cafeteria Expenses	28,026	25,583
Food and Ration	13,896	13,804
Official Entertainment	2,283	2,421
Conference and Seminars	24,356	10,322
Rent and Rates	2,995	2,826
Security Expenses	82,002	78,429
Insurance - Property	15,733	10,613
Uniforms and Clothing	4,243	9,031
Miscellaneous Charges	9,583	9,495
Subscriptions to Newspapers	252	416
Insurance - GPA & GL	20,020	16,455
Daily Subsistence Allowance	604,895	497,398
External Travels and Per Diem	16,972	20,843
Travel Costs (Air & Bus) Mileage	12,968	15,529
Training	42,851	20,149
Water Expenses	3,685	3,259
Electricity Supplies	91,697	79,949
Gas Expenses	986	787
Telephone Expenses	12,404	10,667
Postage and Courier Expenses	3,464	6,696
Provision for bad debts	3,139	
Internet Connections	37,532	12,479
Membership Fees & Subscription	3,397	7,068
Legal Dues, Arbitration & Compensation	71,605	10,143
Total	1,668,333	1,418,802

16. Board Expenses

Board	2017-2018	2016-2017
	Kshs '000	Kshs '000
Board and Committees	5,827	4,694
Total	5,827	4,694

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Audit Fees

These are fees incurred by the Institute during external audits.

	2017-2018 Kshs '000	2016-2017 Kshs '000
Audit Fees	6,750	6,490
Total	6,750	6,490

18. Depreciation & Amortization Expense

	2017-2018 Kshs '000	2016-2017 Kshs '000
Buildings	130,305	126,934
Plant and Machinery	25,485	31,432
Motor Vehicles	26,877	48,931
Motor Cycles & Bicycles	114	597
Lab & Scientific Equipment	75,019	94,670
Office & Computer Equip.	59,336	57,541
Office Furniture & Fittings	21,764	27,200
Infrastructure (G/hses, fences, streetlighting)	3,458	7,527
Amortization -Bearer Plants	5,030	-
Amortization-Software	21,866	69,334
Total	369,254	464,167

19. Repairs and maintenance

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

	2017-2018 Kshs '000	2016-2017 Kshs '000
Repairs & Maintenance of Vehicles	46,924	44,602
Repairs & Maintenance of Motor Cycles	301	217
Repair & Maintenance of Buildings & Stations	51,747	34,862
Repair & Maintenance of Water Supplies and Pumps	2,962	4,736
Repair & Maintenance of Office Equipment	3,257	4,106
Repairs & Maintenance Laboratory Equipment	517	447
Repairs & Maintenance Furniture	347	212
Maintenance of Plant and Machinery	11,445	10,620
Minor Alteration & Maintenance of Works	1,186	382
Total	118,686	100,184

20. Contracted Professional Services

	2017-2018 Kshs '000	2016-2017 Kshs '000
Contracted Professional Services	23,928	18,550
Total	23,928	18,550

21 Finance cost

	2017-2018 Kshs '000	2016-2017 Kshs '000
Bank Charges	9,093	6,449
Total	9,093	6,449

22 Cash and cash equivalent

	2017-2018 Kshs '000	2016-2017 Kshs '000
Bank Balances	1,056,456	854,795
Bank overdraft (Note 32)	(720)	(13)
Total	1,055,736	854,782

Cash and cash equivalent are held as per below:

	2017-2018	2016-2017
Kenya Commercial Bank	648,591	447,436
NIC Bank	331,389	248,058
Barclays Bank	17,410	20,547
National Bank of Kenya	9,248	13,907
UBS Switzerland AG	0	44
Cooperative Bank of Kenya	39,199	88,876
Stanbic Bank	5,633	26,890
MPESA	4,086	8,199
Cash	899	839
Total	1,056,456	854,795

23 Receivables from Exchange Transactions

	2017-2018 Kshs '000	2016-2017 Kshs '000
Trade Debtors	75,302	81,127
Kenya Seed	33,287	33,287
Prepayments	1,592	1,592
Rent dues	2,816	2,174
Bungoma Union	746	746

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Mugama Co-op Union	1,863	1,863
Other Receivables	1,027	16,787
Former staff debtors	663	663
Provision for Doubtful Debts	(7,913)	(5,241)
Total	109,385	132,998

	2017-2018	2016-2017
	Kshs '000	Kshs '000
24 Receivables from Non-exchange Transactions		
Commodity Levy	314,388	314,569
Staff Imprest	21,160	35,258
Staff advances	1,335	1,752
Transfers to other Institutions	7,366	-
Coffee Board of Kenya	23,445	23,445
KPCU	124,496	124,496
Provision for Doubtful Debts	(128,283)	(132,351)
Total	363,906	367,169

25 Prepayments

These are prepayments on insurance covers taken by KALRO with commencement date of 1st October 2017 and expiring on 30th September 2018

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Insurance Premium	83,013	72,518
Total	83,013	72,518

26 Inventories

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Consumables	156,835	133,398
Livestock	0	155,246
Crop	4,131	0
Provision for obsolete stock	(341)	(341)
Total	160,624	288,304

27 Deposits

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Deposits	52,331	2,331
Total	52,331	2,331

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. Property, plant and Equipment

	LAND	BEARER PLANTS	BUILDINGS	MOTOR VEHICLES	PLANT & MACHINERY	OFFICE EQUIP.	FURNITURE & FITTINGS	LAB EQUIPMENT	MOTOR CYCLES & BICYCLES	INFRASTRUCTURE (G/hses, fences, streetlighting)	WORK IN PROGRESS	TOTAL
Cost	Kshs'000'	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 2016	17,864,302	-	6,345,858	544,751	241,042	418,602	215,393	757,140	7,748	105,078	295,084	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
Reclassification of assets categories	(1,159)	-	1,159	0	-	-	(4,575)	4,575	-	-	-	0
Transfer from WIP	-	-	1,543	-	-	-	30,881	-	-	4,249	(36,673)	-
As at 1 July 2017	17,863,143	-	6,458,325	569,473	252,436	446,709	247,063	773,752	7,748	113,731	316,415	27,048,795
Addition for the period	-	-	3,672	28,061	6,801	54,160	2,856	25,129	-	-	27,188	147,867
Reclassification of assets categories	(54,518)	54,518	-	-	-	-	-	-	-	-	-	0
Transfer from Biological assets	-	160,153	-	-	-	-	-	-	-	-	-	160,153
Cost to end of period	17,808,626	214,670	6,461,997	597,534	259,237	500,869	249,919	798,881	7,748	113,731	343,603	27,356,815
Depreciation												
Accumulated Depreciation b/f	-	-	660,527	527,177	164,480	436,434	137,656	494,822	7,634	83,870	-	2,512,600
Adjusted Depreciation b/f	-	-	660,527	527,177	164,480	436,434	137,656	494,822	7,634	83,870	-	2,512,600
Charge for the period	-	5,030	130,305	32,534	19,828	59,336	21,764	78,959	114	3,458	-	351,328
Accumulated depreciation to end of period	-	5,030	790,833	559,711	184,308	495,770	159,420	573,781	7,748	87,328	-	2,863,927
Net Book Value at 30 June 2018	17,808,626	209,640	5,671,164	37,823	74,929	5,098	90,499	225,101	0	26,403	343,603	24,492,888
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

Motor vehicles with a gross carrying amount of Ksh. 373,747,000 had been fully depreciated during the year ending 30th June 2018 and are still in use

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 Intangible Assets

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Cost at the start of the Year	231,539	230,362
Addition for the period	15,622	988
Cost or Valuation at end of Period	247,162	231,349
Accumulated amortization b/f	205,339	136,005
Amortization for the period	21,866	69,334
Accumulated amortization at the end of period	227,206	205,339
Net Book Value at end of Period	19,956	26,010

30 Biological Assets

	2017-2018	2016-2017
	Kshs '000	Kshs '000
As at 1st July	471,519	388,203
Reclassification of assets category	18,384	-
Sold during the year	-	(641)
Gain in Value during the year	78,190	83,958
As at 30th June	568,094	471,519
Total	568,094	471,519

31 Investments

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Quoted Investments:		
1,672 B A T Kenya Limited shares- Fairvalue is Kshs 1,003,200(2016/2017:Kshs 1,340,944)	17	17
Other Investments:		
KPCU Unsecured Loan Stock	40	40
KPCU Redeemable Ordinary shares Fairvalue is Kshs 0 (2016/2017:Kshs 0)	2,092	2,092
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 2018, the shares traded at Kshs 600 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.

32 Bank Overdraft

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Bank overdraft	720	13
Total	720	13

33 Trade and Other Payables

	2017-2018	2016-2017
	Kshs '000	Kshs '000
Trade Creditors	26,725	81,293
Statutory Deductions	88,442	102,944
Other Creditors	577	2,840
Rent Deposits	747	650
Provision for Liabilities(Arbitration - Dinesh Construction)	164,621	122,917
Total	281,112	310,644

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 Deferred income

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

	2017-2018 Kshs '000	2016-2017 Kshs '000
Balance Brought Forward as at 1st July	122,992	73,315
Prior year adjustment	(60)	-
Additional Receipts	208,799	162,231
Total	331,731	235,546
Expenditure Incurred	(154,549)	(112,554)
Balance Carried Forward as at 30th June	177,182	122,992

35 General reserve

	2017-2018 Kshs '000	2016-2017 Kshs '000
Balance Brought Forward as at 1 July	1,057,763	1,472,519
Surplus/(Deficit) for the Year	129,450	(414,756)
Balance Carried Forward as at 30 June	1,187,213	1,057,763

36 Capital fund

	2017-2018 Kshs '000	2016-2017 Kshs '000
Capital Funds Brought Forward as at 1st July	5,397,197	5,397,197
Balance Carried Forward as at 30th June	5,397,197	5,397,197

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

	2017-2018 Kshs '000	2016-2017 Kshs '000
Cash Flow from Operating Activities		
Surplus/(Deficit)	129,450	(414,756)
Adjustment for:		
Depreciation and Amortisation	369,254	464,167
Operating profit/(loss) before working capital changes	498,704	49,410
Changes In:		
Decrease/(Increase) in Inventories	127,679	164,193
Decrease/(Increase) in Receivables-Exchange	23,613	3,186
Decrease/(Increase) in Receivables-Non-Exchange	7,016	1,120
Decrease/(Increase) in Prepayments	(10,495)	(20,580)
Increase/(Decrease) in Current liabilities	(28,827)	15,461
Decrease/(Increase) in Deposits	(50,000)	-
Net changes in Working Capital	68,987	163,382
Cash generated from/(used in) operations	567,691	212,792

38 Revaluation reserve

	2017-2018 Kshs '000	2016-2017 Kshs '000
Balance Brought Forward as at 1st July	19,865,377	19,865,377
Balance Carried Forward as at 30th June	19,865,377	19,865,377

39 Provisions for contingent liabilities

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

40 Events after the reporting period

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


41 Ultimate and holding entity


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

APPENDIX I.PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe:(Put a date when you expect the issue to be resolved)
1.1	Long Outstanding imprests	New ERP system being implemented to assist in aging	H-Finance	Not Resolved	Dec-18
1.2	Debt Recovery	Sought for the Public Investment Committee (PIC) assistance during the Parliamentary summons	H-Finance	Not Resolved	Continuous
1.3	Commodity Levy	To seek authority for write off	H-Finance	Not Resolved	May-19
2	Receivables from exchange Transactions	To seek authority for write off. Since then, Kenya seed has paid Kshs.14.044million	H-Finance	Partially Resolved	May-19
3	Biological Assets	To comply with IPSAS 27	H-Finance	Resolved	Resolved
4	Property Plant & Equipment	Follow up on acquisition of ownership documents	Director General	Partially Resolved	Continuous
5	Trade and other payables	Investigate the long unpaid debts with view of write-back. On the outstanding debt to a Contractor, Kshs.81million has been paid	H-Finance	Partially Resolved	May-19
6	Investments	Proper disclosure done	H-Finance	Resolved	Resolved
7	Cash and cash equivalents	Matter under investigation by the EACC and National Police Service. Long outstanding unrepresented cheques matter resolved	DG	Not Resolved	Continuous
8	Inventories	To comply with IPSAS 27	H-Finance	Resolved	Resolved
9	Differed Income	To comply with IPSAS 27	H-Finance	Resolved	Resolved
10	Statement of changes in net assets	Prior year adjustment entry explained	H-Finance	Resolved	Resolved


Chairman, KALRO BoM
Date: 28/09/2018


Director General
Date: 28/09/2018

APPENDIX II: PROJECTS IMPLEMENTED BY KALRO

Projects

Major projects implemented by KALRO and funded by development partners

	Project title	Project Number	Donor	Period/ duration	Donor commitment (Kshs'000')	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements(Yes/No)
1	Coffee Productivity Project	FED/2013/317-945	EU	54months	233,714	YES	YES
2	Integrated Agricultural Research for Development	AID-615-F-16-00001	USAID	36months	790,059	YES	YES
3	ASAL – Agricultural Productivity Research Project	FED/2012/291-241	EU	66months	467,429	YES	YES

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Coffee Productivity Project	264,408	242,242	92%	68,229	68,229	EU
2	Integrated Agricultural Research for Development	926,496	376,354	41%	167,165	167,165	USAID
3	ASAL– Agricultural Productivity Research Project	942,517	842,320	89%		0	EU

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

ENTITY NAME:		KALRO		
Break down of transfers from the State Department of Livestock				
FY 2017/18				
a. Recurrent Grants				
		Bank Statement Date	Amount (Kshs'000')	FY to which the amounts relate
		Aug-17	735,748	2017/18
		Nov-17	985,748	2017/18
		Jan-18	250,000	2017/18
		Feb-18	735,748	2017/18
		May-18	735,748	2017/18
		Jun-18	500,000	2017/18
		Total	3,942,990	
b. Development Grants				
		Oct-17	10,750	2017/18
		May-18	300,000	2017/18
		Total	310,750	

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

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

Name of the MDA Transferring the funds	Date received as per bank statement	Nature	Total Amount	Statement of Financial Performance	Where Recorded/recognized				Total Transfers during the Year
					Capital Fund	Deferred Income	Receivables	Others	
Ministry of Agriculture, Livestock, Fisheries and Irrigation	Appendix III	Recurrent	3,942,990	3,942,990	-	-	-	-	3,942,990
Ministry of Agriculture, Livestock, Fisheries and Irrigation	Appendix III	Development	310,750	310,750	-	-	-	-	310,750
Ministry of Education, Science and Technology - National Research Fund(NRF)	09.02.18	Research Funds	102,965	37,084	-	65,881	-	-	102,965
	15.05.18	Research Funds	6,701	3,351	-	3,351	-	-	6,701
	10.05.18	Research Funds	80,000	-	-	80,000	-	-	80,000
	21.05.18	Research Funds	11,285	-	-	11,285	-	-	11,285
Kenya Seed Company Ltd	14.03.18	Research Funds	4,750	4,750	-	-	-	-	4,750
Total			4,459,441	4,298,925	-	160,516	-	-	4,459,441