


REPUBLIC OF KENYA



Enhancing Accountability

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|  THE NATIONAL ASSEMBLY PAPERS L.A.T.D | |
| DATE: 23 FEB 2022 | DAY: WED |
| TABLED BY: | HON. JIMMY ANGWENTI, MP |
| MARK-A1 THE-TABLE: | Perpetual Karanu |

REPORT

OF

THE AUDITOR-GENERAL

ON

**KENYA VETERINARY VACCINES
PRODUCTION INSTITUTE**

**FOR THE YEAR ENDED
30 JUNE, 2020**

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**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**



KENYA VETERINARY VACCINES PRODUCTION INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2020

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

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

| Table of Contents | Page |
|---|--------|
| 1. KEY ENTITY INFORMATION AND MANAGEMENT | iii |
| 2. THE BOARD OF DIRECTORS | vi |
| 3. MANAGEMENT TEAM | xi |
| 4. CHAIRMAN’S STATEMENT | xiv |
| 5. REPORT OF THE CHIEF EXECUTIVE OFFICER | xv |
| 6. REVIEW OF KEVEVAPI PERFORMANCE FOR FY 2019/20 | xviii |
| 7. CORPORATE GOVERNANCE STATEMENT | xxi |
| 8. MANAGEMENT DISCUSSION AND ANALYSIS | xxiii |
| 9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT | xxvii |
| 10. REPORT OF THE DIRECTORS | xxviii |
| 11. STATEMENT OF DIRECTORS’ RESPONSIBILITIES | xxix |
| 12. REPORT OF THE INDEPENDENT AUDITORS ON THE KEVEVAPI | xxx |
| 13. STATEMENT OF FINANCIAL PERFORMANCE..... | 1 |
| 14. STATEMENT OF FINANCIAL POSITION..... | 2 |
| 15. STATEMENT OF CHANGES IN NET ASSETS..... | 3 |
| 16. STATEMENT OF CASH FLOWS | 4 |
| 17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS..... | 5 |
| 18. NOTES TO THE FINANCIAL STATEMENTS | 6 |
| 19. Appendix 1 PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS | 27 |
| 20. Appendix II: PROJECTS IMPLEMENTED BY THE ENTITY | 29 |
| 21. Appendix III: INTER-ENTITY TRANSFERS | 30 |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Kenya Veterinary Vaccines Production Institute (KEVEVAPI) was established under Cap 446 of the laws of Kenya on 5th March 1990 through legal notice No. 223 of 4th June, 1990. The Institute was subsequently put under KARI management in July 2003 through Presidential Circular No. 3/2003 until July 2008 when it reverted back to its original status. It falls under the Ministry of Agriculture, Livestock and Fisheries, State Department of Livestock.

(b) Principal Activities

The vision of the Institute is to be an Institution of excellence and the preferred provider of high quality, affordable veterinary vaccines and services contributing to an improved quality of life for all Kenyans. Its mission is to develop safe, efficacious and affordable veterinary vaccines for the improvement of the livestock industry. It further strives to contribute complementary products and services in control of livestock diseases.

(c) Key Management

KEVEVAPI day to day management is under a management team. The management is composed of the Chief Executive of the Institute and Secretary to the Board, two Deputy Directors responsible for Technical services and Finance, Human Resource and Administration departments and Heads of Departments.

(d) Fiduciary Management

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

| No. | Designation | Name |
|-----|--|-------------------------------|
| 1 | Chief Executive Officer (CEO) | Dr. Jane Wanjugu Wachira |
| 2 | Head of Sales | Dr. Anisia Muriuki |
| 3 | Head of Finance | Mr. Peter Macharia Gitau |
| 4 | Head of Procurement | Mr. Charles Kiptoo |
| 5 | Head of Human Resources and Administration | M/s. Rosaline Muema |
| 6 | Head of Production, Kabete | Dr. Jones Mutua |
| 7 | Head of Production, Embakasi | M/S Nduta Mwangi |
| 8 | Head of Quality Control | Mr. Stephen Gitonga Njeu |
| 9 | Head of Research and Development | Dr. Michael Muthamia Kiraithe |
| 10 | Head of Engineering | Mr. Benard Kuria |
| 11 | Head of Information Communication | Mr. Samuel Mburu |
| 12 | Head of Legal | Mr. Walter Nyamwaya |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

(e) Fiduciary Oversight Arrangements

- Audit and finance committee Activities-This are committees of the board holding meetings on Quarterly basis and help to monitor the activities of the institute.
- Technical Committee- This is a technical committee of the board holding its meetings quarterly and any other time need arises and monitors the production and marketing activities of the institute.
- Full board meetings- These are meetings of the board to give direction and monitor management activities in every quarter of a financial year.
- Ministry of Agriculture, Livestock and Fisheries- Supervises operation of the Institute through the office of the PS and Director of Veterinary Services.

(f) Headquarters

Kenya Veterinary Vaccine Production Institute
Road 'A', Off Enterprise Road, Industrial Area
P.O. Box 53260-00200
Nairobi. Kenya

(g) Contacts

Telephone. No: 020 3540071 Cell 0724651895
E-mail: vaccines@kevevapi.or.ke
Website: www.kevevapi.or.ke

(h) Bankers

Kenya Commercial Bank
KICC Branch
P.O. Box 46950-00100
Nairobi.
Tel.020214778, Fax 337650
Account No. 1109016492
Account No 1102301108

Kenya Commercial Bank
Moi Avenue Branch
P.O. Box 30081-00100
Nairobi.
Tel: 20244939, Fax.20244939
Account No.1107172764

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

(i) Independent Auditors

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

(j) Principal Legal Adviser

P.K. Mbabu & Company Advocates
Cannon House, 2nd Floor
P.O. Box 6728-0100
Nairobi.

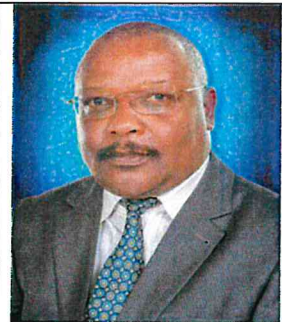


The Attorney General
State law office
Harambee Avenue
P.O. Box 40112 - 00200
Nairobi, Kenya

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

2. THE BOARD OF DIRECTORS

| | |
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|  <p>Prof. James K. Wabacha Chairman Board of Directors Key Qualification: Ph.D. and a Bachelor of Veterinary Medicine degree from the University of Nairobi, Kenya, and a Master of Science degree from Free University of Brussels.</p> | <p>Date of Birth: - 15th November 1961</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • 2009 to-date: Technical Livestock Advisor at African Union Interafrican Bureau for Animal Resources (AU-IBAR) with a leave of absence from University of Nairobi • A veterinarian by profession with vast experience in research, teaching and public administration and management. • Previously he has held the position of the Chairman of the Department of Clinical Studies, Faculty of Veterinary Medicine, and University of Nairobi. • Has served in many committees and Boards at the University of Nairobi. • James is also a Board member in several secondary schools. • Has both local and international experience in livestock development having worked in Kenya for many years in livestock development and at African Union Interafrican Bureau for animal Resources (AU-IBAR), a technical office of the African Union Commission in charge of livestock development in Africa for over seven years. • He has vast knowledge, skills and experience in management and coordination of large livestock development projects and programmes |
|  <p>Prof. Isaac M. Mbeche Key Qualification Ph.D., Department of Management Science, Management School, University of Lancaster, U.K, Master of Arts from the University of Nairobi (UON), Bachelor of Education (Science) UON Kenya</p> | <p>Date of Birth: - 22nd August, 1952.</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • Chairman of KEVEVAPI Audit Committee of the Board and an independent Director. • Feb.2011-Date Deputy Vice-Chancellor (Student Affairs) University of Nairobi • 2002-Jan.2011 Principal, College of Humanities and Social Sciences, University of Nairobi. • Chairman and Member of Various Committees within and outside UON |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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|---|---|
|  | <p>Date of Birth: - 22 July 1965</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • Chairman of KEVEVAPI Finance and Administration Board Committee and an independent Director • April 2010 to Date Operations Manager - Gicheha farm. • July 2007 to March 2010 Group Manager in charge of several estates managers at Tropical Farm Management. • Mar.2002- Jun. 2007: Operations director in charge of all operations at Robert Flowers. • April 1997- May. 2002: Production Manager at Willam K. Ltd • 1990 to March 1997: Estate Manager at Tropical Farm Management. |
|  | <p>Date of Birth: 29th December 1959</p> <p>Work Experience:</p> <p>2015 – To date Appointed KEVEVAPI Independent board member. 2010 to date – Dean Faculty of Animal health –Baraton College 2009- Sub-County Veterinary Officer (SCVO) 2005-Deputy District Veterinary Officer (DDVO). 2000-Veterinary Officer (VO)</p> |
|  | <p>Date of Birth: 1974</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • July 2015: Appointed to KEVEVAPI Board as alternate to PS Treasury • 2014 to date: Senior Assistant Accountant General-National Treasury. • 2015: Head of Accountant Unit – Ministry of Commerce and Tourism. • 2010: Head office Accountant- Kenya Rural Roads Authority. |

Mr. Robert M. Mburu
Key Qualification-Egerton University
BSC. Agriculture education and Extension

Dr. Lagat Kiprono David
Key Qualification: BVM (UON),
Diploma in Animal Science (Egerton University)

Mr. Elijah Kabiru
Key Qualification: PhD Candidate in Finance, (University of Nairobi),
Masters in Finance (Kenyatta University), Bed Economics & Mathematics (Moi University), CPA (K).



**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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|  <p>Prof. Philip Nyaga Key Qualification: American language(Columbia University, PHD & MPVM (University of California, BVM (UON)</p> | <p>Date of Birth: 1948 Work Experience:</p> <ul style="list-style-type: none"> • 2015 to date -appointed an Independent KEVEVAPI board member. • 1989-to Date Professor of Virology • 26 April 1985-Associate Professor • 26th April 1985- Senior Lecturer • 1/02/1976-Lecturer • 21/12/1975- Temporary Lecturer • March –September 1973-Clinician • March-June 1979-Junior Animal Health assistant |
|  <p>Prof. Lilly Bebora Key Qualification: PHD (veterinary microbiologist, immunologist, specialist in poultry diseases, MSC, BVM</p> | <p>Date of Birth: 18 April 1949 Work Experience:</p> <ul style="list-style-type: none"> • 2015 to date -appointed as an Independent KEVEVAPI board member. • Present-Professor (Veterinary Microbiology and Immunology), UoN • May 2002-May 2013-Associate Professor • 16th 12/88-May 2002- Senior Lecturer • 29/11/79-16/12/88-Lecturer • 29/11/79-Assistant Lecturer |
|  <p>Dr. Dr. Harry Oyas Key Qualification: BVM (UON), MSc (University of London)</p> | <p>Date of Birth:29 September 1959 Work Experience:</p> <ul style="list-style-type: none"> • 2020- Appointed KEVEVAPI Board member (Alternate to PS State Department of Livestock) • 2016-2020- Deputy Director Veterinary Services, Head: Epidemiology and Economics Section, Directorate of Veterinary Services • 2008-2016- Senior Assistant Director of Veterinary Services, deputy head Epidemiology and Economics Section • 2014- Country focal person for Standard Methods and Procedures in Animal Health project • 2004 - 2006 – Project coordinator, Pan African Control for Epizootics Kenya, • 1990 – 1996- District Veterinary Officer, Nyamira District • 1983- 1990- Field Veterinarian, Department of Veterinary Services |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**





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|  <p>Dr. David Changwony</p> <p>•Key Qualification: PhD Animal Nutrition (University of Bonn, Germany), MSc Animal Nutrition (University of Sydney, Australia), BSc Animal Production and Diploma Animal Health (Egerton University)</p> | <p>Date of Birth: 24th January, 1957</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • 2019: Appointed to KEVEVAPI Board as Alternate to Director General, KALRO • 2014 to Date: Institute Director, KALRO Sheep, Goats and Camel Research Institute • 2014: Deputy Centre Director, KARI Perkerra • 1999-2014: Research Officer, KARI Lanet /Perkerra • 1990-1999: Technical Officer, KARI Lanet |
|  <p>M/S Beatrice Karwitha Kiragu</p> <p>Key Qualification: MBA (UON),2015, BED –Mathematics and Business Studies, KCSE B</p> | <p>Date of Birth: 18th August 1981</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • 2018 – To date: Appointed as an independent KEVEVAPI Board. • 2017 to date – Chairperson KEWOA (Kenya Women Agenda) • 2015-date Director Jubbe Logistics &General Suppliers Ltd • Nov 2014-Aug 2015-Tender and Contracts Manager-Coca Cola Bottling Company, Nairobi • Oct.2009-Oct.2014 –Procurement Category Specialist- Coca Cola Bottling Company, Nairobi. • June 2006-Sept 2009 Logistics & Warehouse Supervisor - Coca Cola Bottling Company, Nairobi. • 2005-2006-Stock Controller- Coca Cola Bottling Company, Nairobi • 2000-2004-Assistant Supplies Officer BAT (K) PLC |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**






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|  <p>Dr. Jane Wanjugu Wachira Chief Executive Officer (CEO) and Secretary to the Board, Key Qualification: MSC UK, BVM(UON), A, level</p> | <p>Date of Birth: 15 May 1961</p> <p>Work Experience:</p> <ul style="list-style-type: none"> • 2017 to date: Chief Executive Officer-KEVEVAPI • 2015 to 2017: Ag. Chief Executive Officer-KEVEVAPI • 2004-2015-Deputy Director Technical services • 2003-2004-Acting MD KEVEVAPI • 1993-2003-Production Manager Kabete • 1992-1993-Assistant Quality Assurance Manager KEVEVAPI setting up quality assurance labs Kabete and Muguga |
|  <ul style="list-style-type: none"> • Walter Manyibe Nyamwaya • KEVEVAPI Secretary • Key Qualification: LL. B, Post graduate Diploma(KSL), CS II(KASNEB), • Advocate of the High Court | <p>Date of Birth: - 28th October, 1988</p> <p>Work Experience;</p> <ul style="list-style-type: none"> • Jan 2018-Date-Legal Officer KEVEVAPI • May 2013-December 2014 Legal Researcher at Shem Kebongo & Company Advocates. • January 2015-December 2015: Policy Research & Advocacy Assistant at the Kenya Association of Manufacturers • January 2016-December 2017: Group Legal Advisor Broadway Group of Companies LTD. |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**




3. MANAGEMENT TEAM

| KEY MANAGER'S PASSPORT-SIZE PHOTO, NAME AND KEY PROFESSION/ACADEMIC QUALIFICATION | MAIN AREA OF RESPONSIBILITY |
|---|--|
|  <p>• Dr. Jane Wanjugu Wachira MSC UK, BVM(UON), A, level</p> | Chief Executive Officer (CEO). |
|  <p>• Mr. Peter Macharia Gitau MBA-Finance ((UoN), BCOM - Finance, FA, CPAK, KCSE.</p> | Head of Finance |
|  <p>• M/s. Rosaline Muema MBA- Human Resource Management (UoN) MB-Sociology Moi University, Higher Diploma - HRM CPS 1 – KASNEB. Membership IHRM KACE-3 Principals, 1 sub. KCE Division II</p> | Head of Human Resources and Administration Manager |
|  <p>• Dr. Jones Mutua MSc- Applied Microbiology BVM, KCSE</p> | Senior Production Officer- Embakasi |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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|  <p>• M/s Andia A. Khaseke MBA-((UoN), BED-Business Studies & Economics, CPAK</p> | <p>Chief Internal Auditor</p> |
|  <p>• Mr. Stephen Gitonga Njeu Pursuing MSc. Infectious Dis, Higher Dip. Applied Biology, Dip. Applied Biology KACE 1P, 1SubKCE DIV I</p> | <p>Quality Assurance Manager</p> |
|  <p>• Mr. Charles Kiptoo MBM (SCM), BBM (SCM), DSCM, MKISM</p> | <p>Senior Procurement Officer</p> |
|  <p>• Mr. Bernard Kuria B. Philosophy-Mechanical Engineering Technology-Higher Dip. Mechanical Engineering-Plant Option. Dip. Mechanical Engineering-Plant Option. KCSE-C+</p> | <p>Engineering Technician II</p> |
|  <p>• M/S Nduta Mwangi MSc. Biotechnology Health and Environment- (UoN) Bsc. Medical Microbiology from JKUAT</p> | <p>Senior Production Officer- Embakasi</p> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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|  <p style="text-align: center;">Dr. Michael Muthamia Kiraithe</p> <p>PhD (University of Freiburg) MSc. Biomedicine BSc. Biomedicine</p> | <p style="text-align: right;">Research and Development Manager</p> |
|  <p style="text-align: center;">Mr. Samwel Mburu</p> <p>BSC. Computer Information System, Cisco Certified Network Associate (CCNA), CCNA-Security, Application Security Specialist (IBM Security Appscan V8.7)</p> | <p style="text-align: right;">Head of Information Technology</p> |
|  <p style="text-align: center;">Mr. Walter Manyibe Nyamwaya</p> <p>LL. B, Post graduate Diploma(KSL), CS II(KASNEB), Advocate of the High Court</p> | <p style="text-align: right;">KEVEVAPI Secretary</p> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

4. CHAIRMAN'S STATEMENT

The State Corporations Act (Cap.446) requires the Board of Management to prepare financial statements for each financial year, which include a statement of financial position showing in detail the assets and liabilities of the Institute, a statement of comprehensive income, and such other statements that the Board may deem necessary. It also requires the Board to ensure the Institute keeps proper books of account and other books and records in relation to the Institute and to all the undertakings, funds, activities, investments and property of the Institute. They are also responsible for safeguarding the assets of the Institute.

The Board of Management accepts responsibility for the annual financial statements which have been prepared using appropriate accounting procedures supported by reasonable and prudent judgments and estimates in conformity within generally accepted accounting practice and in the manner required by the State Corporations Act Cap 446 and National Treasury circulars released from time to time. The Board of Management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Institute and of its operating results. The Board of Management further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements as well as adequate systems of internal control.

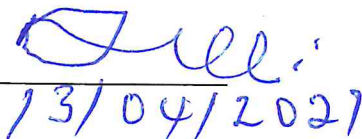
Nothing has come to the attention of the Board of Management to indicate the Institute will not remain a going concern for at least the next twelve months from the date of this statement.

Chairman: Prof. James K. Wabacha

Sign _____



Date _____



13/04/2021

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

5. REPORT OF THE CHIEF EXECUTIVE OFFICER

Kenya Veterinary Vaccines Production Institute (KEVEVAPI) was established by Government of Kenya as a parastatals Institution on 5th March 1990 by Legal Notice No.223 under Cap 446 of the Laws of Kenya. The Institute operates under the auspices of the Ministry of Agriculture, Livestock and Fisheries.

The Institute operated independently until 2003, when it was merged into the Kenya Agricultural Research Institute under the Ministry of Agriculture following implementation of Presidential Circular No.3/2003 of 31st July 2003. In July 2008, through the effort of the Ministry of Livestock Development, the Institute reverted to operations as an independent public state

The institute has the expertise and facilities to produce fifteen livestock vaccines that are considered to be important in the region. Currently we are producing 14 vaccines. Rinderpest vaccine is no longer produced because the disease has been eradicated. Our Laboratories at Embakasi in Industrial area produces the Foot and Mouth Disease vaccine. All our other vaccines are produced at our Kabete vaccine production Laboratory.

In order to meet emerging demands, the institute has embarked on production of three new products. These are an oil based Foot and Mouth disease vaccine, a thermostable Newcastle disease vaccine and Peste Petits des Ruminants (PPR) vaccine. Other approaches include signing of Memoranda of Understanding with relevant sister institutions. This has a two-pronged expectation: for technology exchanges and dual access to each other's products. Production of major vaccines has increased steadily over time due to increased demand by the County Governments and access to new markets particularly in Uganda, Tanzania, Rwanda, Burundi, UAE, Northern and Southern Sudan. Significant production increases have been for foot and mouth disease, contagious caprine pleuropneumonia, fowl typhoid and Newcastle disease. A rapid response enabled us to produce over 4 million doses of Rift Valley fever vaccine for the Kenyan and Tanzanian livestock industry. The institute now is in full capacity.

The mandate of KEVEVAPI

- To coordinate and undertake production of veterinary vaccines in the country
- To market and distribute veterinary vaccines locally and abroad
- To undertake research with respect to vaccine development and production alone or in collaboration with other institutions
- To develop and produce chemicals, media and laboratory materials for use in the production of vaccines and other veterinary products
- To provide information in the field on the suitability and effectiveness of veterinary vaccines.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

BOARD OF DIRECTORS

The first Board of Management was appointed on 8th may, 2009 by the Minister for Livestock Development through gazette notice No.4791. It was duly inaugurated by the Minister of Livestock Development on 21st June, 2010

KEVEVAPI is managed by a Board of Management, answerable to the Kenya Government, through the Minister for Agriculture, Livestock and Fisheries. The functions and responsibilities of the Board are provided in Legal Notice No. 223 and the State Corporations Act, Cap. 446, Revised 1987. Members of the Board include a non- executive chairman and eight other members appointed by the Minister responsible for Livestock.

The members include:

- Non – executive Chairman appointed by the President
- Chief Executive Officer
- The Permanent Secretary, State Department of livestock.
- The Permanent Secretary, National Treasury.
- Director, Kenya Agricultural Research Institute
- Not more than four other members not being employees of the Institute of whom not more than two shall be public officers appointed by the Minister.

Committees of the Board

According to the State Corporation Act (Section 9), KEVEVAPI Board of Directors has three Committees namely: -

- Finance, Human Resource and Administration;
- Technical and Marketing Committee; and
- Audit Committee for the purposes of preliminarily discussing the business of the Board and preparing working minutes for the full Board meetings.

Current Members of the Board of Directors:

- Prof. James Wabacha - *Chairman Board of Directors*
- Principal Secretary National Treasury; -
- Principal Secretary, State Department of Livestock.
- Director, Kenya Agricultural Research Institute – K.A.L.R.O;
- Prof. Isaac M. Mbeche-Board Director
- Mr. Robert M. Mburu - Board Director
- Dr. Kiprono Lagat David - Board Director
- Prof. Philip Nyaga - Board Director

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

- Prof. Lily Bebora - Board Director
- M/S Beatrice Karwitha- Board Director
- Dr. Jane W. Wachira—CEO, KEVEVAPI

VACCINES PRODUCED BY KEVEVAPI:

The Institute commercially produces vaccines against the following livestock diseases for country and the regional market. Our Laboratories at Embakasi located at Industrial area produces the Foot and Mouth Disease vaccine. All our other vaccines are produced at our Kabete vaccines production Laboratory.

- Foot and Mouth Disease
- Contagious Bovine Pleuropneumonia
- Rift Valley Fever
- Lumpy Skin Disease
- Contagious Caprine Pleuropneumonia
- Sheep and Goat Pox
- Bluetongue
- Orf (Contagious echhyma)
- Peste Petits des Ruminants (PPR)
- Newcastle disease
- Fowl typhoid
- Fowl pox
- Turkey pox

CONSTRAINTS OF VACCINES PRODUCTION.

i. Poor State of Plant and Equipment

The main constraint arises from the use of old production systems. The process of upgrading of the old production system is ongoing in phases to uplift the standards of the laboratories. Upgrading of the plant require Kshs 5.6 Billion. The institute decided to phase the requirement and settled on the minimum requirements to be implemented first costing Kshs. 1,750 million. For the Financial year 2020/21 budget period, we have been allocated Kshs. 90 Million grant from Government to enable the institute attain GMP/ISO standards which will enable the institute access outside market. We sincerely hope that this will be availed.

Covid 19 pandemic also affected vaccine production due to the:

Inability and delays to ship raw materials from various countries all over the world into the country either for lack of flight or prioritization of home country supplies. Also lack of flights to certain countries for the export of KEVEVAPI vaccines, high costs of freights and Curfew resulted to fewer working hours

Chief Executive Officer Dr. Jane W. Wachira

Sign _____

Date _____

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

6. REVIEW OF KEVEVAPI PERFORMANCE FOR FY 2019/20

During the period under review, KEVEVAPI had key achievements which included enhancing/strengthening; availability of animal vaccines and information on animal vaccines, market access and products utilization, Research and Innovation, Governance and Corporate Affairs, Human Resource Capacity, financial sustainability of the Institute and leveraging ICT in all operations. This is summarized below

| Strategic Pillar | Objective | Key Performance Indicators | Activities | Achievements |
|---|--|--|--|---|
| Veterinary Vaccines Production and Marketing | 1) To enhance availability of animal vaccines and information on animal vaccines | Doses of vaccines produced Vaccines brochures distributed to stakeholders | <ul style="list-style-type: none"> -Increase Vaccine doses produced annually -Introduce new vaccines -Increase partnerships with reputable laboratories on franchising for vaccines - Upgrade plant and equipment - Improve energy management - Widen the scope of marketing - Install biometric access controls -Maintain and improve ISO 9001:2015 -Comply with Good - Manufacturing Practices (GMP) -Work towards achieving ISO 17025 Accreditation | <p>KEVEVAPI was able to produce 39.3 dose of vaccines against a target of 53.6 doses. This fell short because of the outbreak of Covid 19 pandemic which affected countries like China and Germany where the institute import reagents.</p> <p>Upgrading of infrastructure including tapping of solar energy</p> <p>The institute partnered with MCI morocco to make available Enterotoxaemia, pasteurilla and Rift valley fever vaccines in Kenya.</p> <p>The Institute maintained continuous improvement in ISO 9001:2015 and worked towards good manufacturing</p> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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| | | | | practices and ISO 17025 accreditation. |
| | 2) To enhance market access and products utilization | vaccines sale Farmers engaged | Increased sales Participate in Farmers forums | Sales were Kshs. 402 million against a target of Kshs 450 million due to Covid 19 effects This activity was hindered because of Covid 19 social distancing requirement. |
| Research and Innovation | 1) Upscale research in vaccines | -No. of qualified staff under research -Collaboration with other institutions and labs | Employ Chief Research Officer (CRO) Vaccine failure investigation Engage other organizations | CRD employed Held forums to educate farmers and stakeholders on handling of vaccines. The forums included ASK shows and Farmers field days. Collaborated with MCI Morocco and KALRO |
| Institutional Capacity | 1) To strengthen Governance and Corporate Affairs | good corporate governance Improved institute visibility Minimized risks | Training Board of management on Governance, Finance and procurements Improving Institute Website Identifying Areas of Risks and minimization | Board trained on Governance, Finance and procurements Improve Institute Website Departments identified risks and sensitization of staff |
| | 2) To Strengthen Human Resource Capacity | optimal human resource levels No of staff trained | Recruitment Training | Chief Human Resources and Senior Procurement Officer recruited |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

| | | | | |
|--|--|--|--|---|
| | | <p>Improve work environment and staff welfare</p> <p>Mainstream cross cutting issues</p> | <p>Conduct cross cutting sensitization</p> <p>Motivate staff</p> | <p>Staff trained on professional courses and senior management courses.</p> <p>Development of reward policy, medical insurance in place</p> |
| | 3) To strengthen financial sustainability of the Institute | <p>Enhance resource mobilization</p> <p>Manage resources prudently</p> | <p>Participate in resource bidding at the sector level</p> <p>Effect cost cutting measures</p> | <p>KEVEVAPI given a development grant of Kshs 150 million</p> <p>Reduced costs as evidenced in the financial statements</p> |
| | 4) To leverage ICT in all operations | <p>Automate KEVEVAPI's operations</p> <p>Enhance security of information systems</p> | <p>ERP Implementation</p> | <p>Installed local area network to support ERP system which is under implementation</p> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

7. CORPORATE GOVERNANCE STATEMENT

Corporate governance refers to the principles, processes and practices by which an organization is operated, regulated and controlled so as to fulfill its goals and objectives in a manner that adds value and benefits to all its stakeholders.

The Kenya Veterinary Vaccines Production Institute's (KEVEVAPI) corporate governance statement shall contribute to clarify the roles between the stakeholders, the board of management and the management of KEVEVAPI.

Good and transparent management of and control over the business will provide the basis for creating long-term value for the institute, employees, other stakeholders and society in general and, thereby, sustainable and permanent value creation. The roles shall build trust among the stakeholders through predictability and credibility. Open and accessible communication will ensure that the institute maintains a good relationship with society in general and the stakeholders affected by the institute's activities in particular. Board meetings & Members' Attendance.

During the Financial year 2018/19 the Board held 4 Full Board meetings, 12 Board Committee meetings (one per quarter for each of the three Board Committees) and 5 Special Full Board meetings to handle urgent matters. All the meetings were attended by the requisite quorum. Besides the meetings, the Board held 2 Board retreats to deliberate on the Institute's 2018-22 Strategic Plan and a board training session lasting 3 days. The Board also appointed various subcommittees to attend to disciplinary cases touching on senior staff and to handle staff unrest and conduct negotiations with the Union representing unionsable staff in the Institute.

The Board developed and adopted the charter that is currently in use in January 2018. The Charter is currently under review by the Board.

The Institute's Board members are appointed by the Cabinet Secretary Ministry of Agriculture Livestock and Fisheries while the Board Chairman is appointed by the President in line with Article 27 of the Constitution.

Functions of the Board are: to determine the organizations' mission, vision, purpose and core values; setting and overseeing the overall strategy and approving of significant policies of the organization; Ensuring that the organizations strategy is aligned to the long-term goals of the organization on sustainability; approval of the organization structure; approval of the organization's annual budget; monitoring the organizations' performance and ensuring sustainability; ensuring availability of adequate resources for the achievement of the organization's objectives; ensuring effective communication with stakeholders; and appointment of the organizations' Chief Executive Officer.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

The Institute inducts all new Board members prior to the Board members embark on discharging their functions. The institute also ensures that all Board members are taken through the induction on the Code of Governance for State Corporations by State Corporations Advisory Committee (SCAC). In FY 2018/19, the Institute conducted its Board induction for the new Board members between 15th January, 2019 and 17th January, 2019. Thereafter the new Board members attended the a SCAC organized Board induction in Naivasha in February 2019.

The Institute's Board Member Performance is evaluated annually by the Staff Advisory Committee in line with the Code of Governance for State Corporations (Mwongozo). In 2018/19 the Board was evaluated on 28th September, 2018. The Total Board score was 86.06%.

Conflict of Interest is declared by all members by signing a Board Conflict of interest register prior to any Board meeting. Any declared conflict of interest is captured in the meetings minutes.

The Institute remunerates Board members through payment of attendance allowances as per the Circular Ref. No. OP/CAB.9/21/2A/LII/43 dated 23rd November 2004 and OP/SACA.9/21.2 VOL.1(164) of 28th April, 2015 vis Accommodation & Subsistence Allowance for Chairmen & Board Members of State Corporations.

The institute's value base is described in KEVEVAPI's code of conduct, and the guidelines for ethics and corporate responsibility have been designed on the basis of the code. KEVEVAPI adheres to the State's principles for sound corporate governance as described in the State Corporation act cap 446, The Constitution of Kenya 2010 and The Code of Governance for State Corporations (Mwongozo), and is subject to the reporting requirements relating to corporate governance pursuant to Public Finance Management Act. The Board developed and adopted the Code of Conduct and Ethics that is currently in use in January 2018. The code aims at guiding board directors in order to help them carry out their roles with integrity and compliance with the law. The members have all signed the code and are all bound by it. Unfortunately, however, the Institute has not carried out a governance audit in the recent past due to lack of accredited governance auditors from the State Corporations Advisory Committee. The institute is however pursuing independent governance auditors to undertake a governance audit during the 2019/20 financial year as per the Board work plan.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

8. MANAGEMENT DISCUSSION AND ANALYSIS

The entity's operational and financial performance

Kenya's livestock sector contributes about 12% of the country's Gross Domestic Product (GDP) and accounts for nearly 50% of the agricultural sector's GDP. It is the main source of livelihood to the people in the ASALs accounting for 90% employment and more than 95% of family incomes for the people in these areas. In the high potential areas, the sector provides employment and incomes through dairy production.

The rural-based nature of livestock activities makes livestock keeping a suitable enterprise to improve household incomes and contribute to sustainable livelihoods for many people in the rural areas. The sector therefore contributes significantly to poverty reduction in the country.

The 2009 population and housing census revealed that Kenya has a massive livestock resource comprising of 3.4 million exotic cattle, 14.1 million indigenous cattle, 17.1 million sheep, 27.7 million goats, 2.9 million camels 25.8 indigenous chicken and 6.1 million exotic chicken. This is an important resource that if tapped could create more wealth and employment in the country thereby contributing significantly to poverty reduction.

The Kenya Veterinary Vaccine Production Institute (KEVEVAPI) is mandated to protect this important resource. As the country gears up towards the realization of the goals of the Kenya Vision 2030, many challenges are bound to arise, key among them being the outbreak of livestock diseases. Kenya Veterinary Vaccines Production Institute (KEVEVAPI) was established by Government of Kenya as a parastatals Institution on 5th March 1990 by Legal Notice No.223 under Cap 446 of the Laws of Kenya. The Institute operates under the auspices of the Ministry of Agriculture, Livestock and Fisheries.

The institute has the expertise and facilities to produce fifteen livestock vaccines that are considered to be important in the region. Currently we are producing 14 vaccines. Rinderpest vaccine is no longer produced because the disease has been eradicated. Our Laboratories at Embakasi in Industrial area produces the Foot and Mouth Disease vaccine. All our other vaccines are produced at our Kabete vaccine production Laboratory.

In order to meet emerging demands, the institute has embarked on production of three new products. These are an oil based Foot and Mouth disease vaccine, a thermos stable Newcastle disease vaccine and PestePetits des Ruminants (PPR) vaccine. Other approaches include signing of Memoranda of Understanding with relevant sister institutions. This has a two-pronged expectation: for technology exchanges and dual access to each other's products. Production of major vaccines has increased steadily over time due to increased demand by the County Governments and access to new markets particularly in Uganda, Rwanda, Burundi, UAE and Northern Sudan. Significant production increases have been for foot and mouth disease, contagious caprinepleuropneumonia, fowl typhoid and Newcastle disease.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

SECTION A

The institute performance in terms of profitability for the year was good because of increased sales to External market and County Government and austerity measures by management to cut on costs.

The institute performance is as per the following indicators:

| | RATIOS | Budget 2019/20 | 2019/20/20 | 2018/20/19 |
|------|---------------------|----------------|------------|------------|
| i. | Gross Profit Margin | 34.86% | 24.54% | 44.5% |
| ii. | Net Profit Margin | 3.77% | 8.51% | 28.4% |
| iii. | Current Asset Ratio | 22.59:1 | 9.85:1 | 14.26:1 |
| iv. | Assets Turnover | 16.27% | 16.38% | 25.02% |
| v. | Return on Assets | 0.61% | 1.39% | 7.09% |

Explanations On Ratios

i. Gross Profit Margin-

Gross profit margin is gross income (revenue less cost of goods sold) divided by net revenue. The ratio reflects pricing decisions and product costs. In this case our score is high as compared to the budget and last year because of increased sale to our external market, county governments and to the World Bank/GoK Resilient project. The increased sales resulted from management adopting a different marketing strategy of creating personal and direct contact with the customer. For instance, with Doctor's company of Sudan, the CEO was recognized with a thank you card and promotional material for the continued partnership.

ii. Net Profit Margin-

Net profit margin compares a company's net income to its net revenue. This ratio is calculated by dividing net income, or a company's bottom line, by net revenue. It measures a firm's ability to translate sales into earnings for shareholders. We are high on this because of the increased sales as per (1) above.

iii. Current Asset Ratio-

The current ratio measures a company's current assets against its current liabilities. The current ratio indicates whether a company can pay off its short-term liabilities in an emergency by liquidating its current assets. The ideal is 1:1 and therefore 14:26 is good for the institute.

iv. Assets Turnover:

Asset turnover measures how efficiently a company uses its total Assets to generate revenues. The formula to calculate this ratio is simply net revenues divided by average total assets. We are high in this ratio compared to the budget because of the increased revenue.

v. Return on Assets

Return on assets is calculated as net income divided by total assets. It is a measure of how efficiently a firm utilizes its assets. We surpassed our budget on this as a result of the increased sales for the financial year.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)
SECTION B**

Entity's compliance with statutory requirements

The entity's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied in all the years presented.

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

Included in the value of land of Kshs 343,000,000 above on Property, Plant and Equipment is two parcels of land with civil cases in court that had been grabbed in prior years. The cases in court are as follows: -

- i) HCC ELC No. 454 and 455 Of 2009 Tuguta Enterprises Limited and TRUSTLAND developers' Limited vs KARI, KEVEVAPI, the land registrar and commissioner of lands. Land measuring 1.87 and 2.023 hectares or thereabout respectively.
- ii) HCCC ELC Civil Suit No. 945 of 2012 Jasper Singh Birdi vs KEVEVAPI. Land measuring 0.4047 hectares or thereabout.

SECTION C

Key projects and investment decisions the entity is planning/implementing

(a) Poor State of Plant and Equipment

The main constraint arises from the use of old production systems. The process of upgrading of the old production system is ongoing in phases to uplift the standards of the laboratories. Upgrading of the plant require Kshs 5.6 Billion. For the current phase, Kshs 1.750 Billion was required. For the budget period, we had requested for Kshs. 641 Million to enable the institute attain GMP/ISO standards which will enable the institute access outside market. The Ministry allocated Kshs 178 Million which was received and fully committed. We also intend to plough back any Internally generated income to supplement the GOK grants available. We sincerely hope that the government will consider availing more grants in the 2019/20 financial year.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

SECTION D

Major Risks/Assumptions facing the entity

The institute does not have major risks, but the risks and assumptions made are as follows:

- a) Vaccination of Livestock is basically under the County Governments and Director of Veterinary Services and KEVEVAPI is only a producer. The survival of the Institute is very much tied in with the activities of the Counties and DVS. We assume that the GOK will continue to facilitate the vaccination activities of the DVS and the County Governments in the coming years and especially the full activation of the disease free zones. Livestock Industry supports a lot of families in Kenya and is a big contributor to the National economy.
- b) KEVEVAPI has court cases affecting its 77.67 hectares' land in Embakasi and part of its 151.2 hectares at Limuru. Assumption is made that the institute will get favorable ruling and reclaim its land in full.
- c) It is assumed that the political situation will remain stable especially in our neighboring countries as we endeavor to expand our export market. Somalia has a very huge population of livestock and would be a very big market for KEVEVAPI.
- d) We also assume that economic performance within Kenya and the region will remain stable, so that our vaccines remain affordable to all farmers, big and small.
- e) The assumption is also made that the development Grant requested will be approved

SECTION E

Material arrears in statutory/financial obligations

Though we expected to generate Pre-tax profits of Kshs. 28.2 million in the financial year 2018/2019, the institute surpassed this target and made Kshs. 151,641million profit as a result of improved sales because of Increased demand by the county governments, who are our main customers and purchases by the World Bank-GoK Resilience Project. We intend to plough back this profit because the current requirement for access to international markets is Good Manufacturing Practices (GMP) certification. The institute has come up with a five-year plan to revamp KEVEVAPI and transform it into a modern bio-secure institution for production of high quality vaccines for both domestic and international markets in order to meet the Good Manufacturing Practices (GMP) requirements. The phased project cost will be approximately, Kshs. 1.75 billion, spread over 5 years. We sincerely hope that the government will approve the required grant to enable the institute upgrade to attain GMP standards thereby accessing international markets and avoiding over-reliance on local market.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

KEVEVAPI will be a good corporate citizen in all its activities. In brief, this means that the institute will produce and market veterinary vaccines based on environment-friendly sources of energy, use sustainable, safe and efficient production methods and behave in a responsible and ethical manner in the production, supply and marketing of veterinary vaccines.

KEVEVAPI shall be a safe place to work. All work shall be planned and executed so that the zero injuries objective is achieved. KEVEVAPI's safety culture shall be characterized by transparency and a desire to learn, both from own mistakes and from successful improvement measures. Biosafety and biosecurity will be a priority of the institute through an elaborate bio-risk management system.

As a veterinary vaccine producer, KEVEVAPI is involved in several corporate social responsibility activities in different parts of the country. These are mostly rural-based livestock activities geared to making livestock keeping a suitable enterprise to improve household incomes and contribute to sustainable livelihoods for many people in the rural areas.

For the Financial Year 2019/20, KEVEVAPI sponsored several Kenya Veterinary Association field days where Dairy farmers and professionals were sensitized on how to improve the health of livestock thus sustain farmer's livelihood. Further, KEVEVAPI used Kshs 525,000 in procuring tree seedlings to be given to citizens in the big four agenda.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

10. REPORT OF THE DIRECTORS

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

Principal activities

The principal activities of the entity continue to be preferred provider of high quality, affordable veterinary vaccines and services contributing to an improved quality of life for all Kenyans

Results

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

Directors

The members of the Board of Directors who served during the year are shown on page vi-ix & xvi-xvii

Dividends

KEVEVAPI made a profit of Kshs. 34.295 million as profit during the FY 2019/20. This amount was ploughed back for Capital investment which will enable the institute access international markets for vaccines. To access this market, Good Manufacturing Practices (GMP) certification is a requirement. The institute has been pursuing this through a five-year plan as a project. The project requires heavy investment in infrastructure development and the Institute intends to plough back the profits generated towards the project as per its dividend policy. This will enable the government, the only shareholder to earn capital gain rather than dividend payout

Auditors

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

By Order of the Board

Chief Executive Officer: Dr. Jane W. Wachira

Sign *J.C.*

Date 13/04/2021

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the institute's financial statements, which give a true and fair view of the state of affairs of the institute for and as at the end of the financial year (period) ended on June 30, 2020. 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 institute; (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 institute; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the institute's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity 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 institute's financial statements give a true and fair view of the state of institute's transactions during the financial year ended June 30, 2020, and of the institute's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the institute, which have been relied upon in the preparation of the institute's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The institute's financial statements were approved by the Board on August 06, 2020 and signed on its behalf
by:



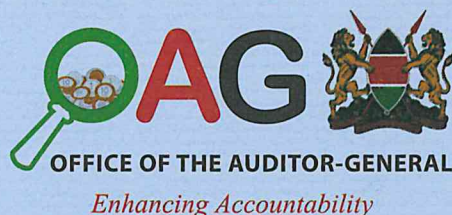
Chairman of the Board:



Chief Executive Officer

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA VETERINARY VACCINES PRODUCTION INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

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

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

Basis for Qualified Opinion

1. Property, Plant and Equipment

As disclosed under Note 20 to the financial statements, the statement of financial position reflects property, plant and equipment balance totalling to Kshs.565,023,000. The following observations were noted:

1.1. Irregular Allocation of Land

As previously reported, review of records revealed that the Government allocated the Institute's 98.3 hectares of land on which the Institute's Headquarters is located. In December, 1994, the Management applied to the Commissioner of Lands for consent to sub-divide the land into nine (9) separate parcels, and subsequently disposed to private developers, without the approval of the Treasury and the Parent Ministry. This was contrary to Section 13(c) of the State Corporations Act (Cap 446). Information available indicates that the irregularly sub-divided parcels were separately disposed to private developers without the approval of the Treasury and the Parent Ministry.

1.2. Land without Title Deed

As similarly reported in previous years, the balance excludes an undetermined value of land at the Kibiko holding group measuring approximately 500 acres and in respect of which no title deed has been issued.

Further, the Institute has not obtained a title deed for the land in Kabete, on which its production plant valued at Kshs.500,000,000 stands.

In addition, in 1990, the Parent Ministry allowed the Institute to use a land measuring approximately 151.2 hectares, situated in Limuru. At the time of allocation, the Management of the Institute was under Kenya Agricultural Research Institute (KARI). Consequently, the title deed for the land was processed and issued in the name of KARI. The Institute was subsequently separated from KARI and became a legally independent organization. Although the Institute has continued to use the land as initially allocated, the title deed still remains in the name of KARI. Further, the land has been encroached by third parties claiming ownership resulting to civil suits pending in court awaiting determination.

1.3. Motor Vehicles

The balance includes motor vehicles with a net book value of Kshs.4,095,000. The Institute has fifteen (15) motor vehicles, eleven (11) which are serviceable while four (4) are grounded. In addition, five (5) of the motor vehicles are registered in the name of the defunct Kenya Agriculture Research Institute - (KARI). No reason has been given for the failure to have the vehicles transferred in the name of the Institute. Further, no efforts have been made to dispose of the old and grounded vehicles that continue to be idle and wear out.

In the circumstances, the accuracy, completeness, validity and ownership of property, plant and equipment balance totalling to Kshs.565,023,000 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

2. Inaccuracies in Trade Payables and Other Payables

As disclosed under Note 21 to the financial statements, the statement of financial position reflects trade payables balance totalling to Kshs.26,903,000. The balance includes rate accruals amounting to Kshs.13,180,000 that have remained unpaid for a long period dating back to as far as 1998 and continues to attract interest and penalties. However, the amount of interest and penalties payable has not been determined and included in the trade and other payables balance. In addition, the accrued rates are attributed to pieces of land that are disputed and whose matters are in court.

Consequently, the accuracy, completeness and validity of trade payables balance totalling to Kshs.26,903,000 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Veterinary Vaccines Production Institute Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other

ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

1. Land under Legal Disputes

I wish to draw attention to Note 20 to the financial statements, which indicates that, included in the value of land of Kshs.343,000,000 under property, plant and equipment are various parcels of land with civil cases in court as it is alleged that they had been grabbed. Three of the cases HCCC ELC No.454 and 455 both of 2009 and HCCC ELC No.1066 of 2016 involves land measuring 1.87, 2.023 and 0.4047 hectares, respectively while the fourth case HCCC No.1015 of 2016 involves a passage of 200 meters long.

No provision has been made in these financial statements regarding this material uncertainty as the cases have not been determined and concluded.

2. Disputed Valuation of Assets

The Management procured valuation services for the Institute's assets through open tender during the 2018/2019 financial year. The contract was signed on 19 October, 2018 for a contract period of one hundred and twenty (120) days ending on 31 December, 2018 for a contract sum of Kshs.4,000,000 exclusive of VAT. The contractor was to be paid 30%, 40% and 30% of the contract sum upon signing the contract, submission of preliminary report and submission of final report respectively.

The final assets valuation report was presented on 11 March, 2020 reflecting a total revalued sum of Kshs.12,775,074,810, a balance which the Institute disputed for arithmetic inaccuracy.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Delay in Delivery of Software

The Management procured an Enterprise Resource Planning (ERP) system in the financial year 2015/2016 for a contract sum of Kshs.9,587,977. The agreement was signed between the vendor and the Institute on 14 December, 2016, and the commencement date was to be 5 January, 2017 for a period of twelve (12) weeks. There was an additional post go-live support on site by the service provider that was to take a month. It was further observed that before procuring the ERP system, the organization engaged a consultancy firm to assist in the technical process of procuring the ERP system at a contract sum of Kshs.900,000 for a period of thirty (30) days.

So far, there has been a 60% payment towards the ERP system amounting to Kshs.5,753,000. It is not clear why there is a delay in the roll-out of the ERP system to date, while all the components that were required for the completion of the installation of the system have been completed.

In the circumstances, I am unable to confirm whether the public obtained value for money for the procurement of the software.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has else come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Long Outstanding Receivables

As disclosed under Note 17 to the financial statements, the statement of financial position reflects a net receivables balance totalling to Kshs.133,361,000. The trade receivables gross totalling to Kshs.132,540,000 includes long outstanding amount of Kshs.26,029,000, relating to Ministry of Agriculture Rwanda and Ministry of Livestock that have remained uncollected for more than a year. The Management made a provision for bad and doubtful debts against the long outstanding debts amounting to Kshs.1,325,000. However, the provision appeared inadequate as the debts' collectability appear doubtful.

In the circumstances, I am unable to confirm existence of effective controls on debts management.

2. Human Resource Management

Examination of employees' records revealed that the Management confirmed an officer to the position of Senior Information Communication Technology Officer without having master degree in computer science or related field as per the staff manual. The recruitment process documents were also not provided.

Further, an officer who was employed on 19 September, 2019 had not been confirmed and the Management continued to irregularly engage officers in acting capacity since 1 November, 2016 to date.

In the circumstances, I am unable to confirm the effectiveness of controls on the employment procedures.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Directors

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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Institute's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to liquidate the Institute or to cease operations.

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Institute 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Institute to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 January, 2022



KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

13. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE, 2020

| | | 2019/2020 | 2018/2019 |
|---|-------|----------------|----------------|
| | Notes | Kshs'000 | Kshs'000 |
| Revenue from exchange transactions | | | |
| Sale of Vaccines | 5 | 402,829 | 534,801 |
| Cost of Goods Sold | 6 | 303,970 | (296,798) |
| Gross Surplus | | 98,859 | 238,003 |
| Finance income –Bank Interest earned | 7 | 24,986 | 20,012 |
| Other income-Sundry income | 8 | 2,867 | 3,304 |
| Total | | 126,712 | 261,319 |
| Administrative Expenses | | | |
| Employee costs | 9 | 64,060 | 64,159 |
| Depreciation and amortization expense | 10 | 4,750 | 4,506 |
| Repairs and maintenance | 11 | 264 | 550 |
| Board Expenses | 12 | 9,514 | 12,848 |
| General expenses | 13 | 34,886 | 34,425 |
| Provision for bad & Doubtful Debts | | (184) | (412) |
| Total Expenses | | 113,290 | 116,076 |
| Gain/Loss on foreign transactions | 15 | 20,873 | 6,398 |
| Surplus before tax | | 34,295 | 151,641 |
| Taxation | | - | - |
| Surplus for the period | | 34,295 | 151,641 |

The notes set out on pages 6 to 25 form an integral part of the Financial Statements

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

**14. STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020**

| | Notes | 2019-2020 | 2018-2019 |
|---|-------|-------------------------|-------------------------|
| | | Kshs'000 | Kshs'000 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 16 | 1,237,431 | 1,221,978 |
| Receivables | 17 | 133,361 | 151,138 |
| Inventories | 18 | 520,643 | 486,288 |
| Prepayment | 19 | 2,878 | 9,620 |
| | | 1,894,313 | 1,869,024 |
| Non-current assets | | | |
| Property, plant and equipment | 20 | 565,023 | 586,749 |
| | | | |
| Total assets | | <u>2,459,336</u> | <u>2,455,773</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 21 | 26,903 | 23,155 |
| Payments received in advance | 22 | 165,435 | 107,933 |
| | | | |
| Total liabilities | | 192,338 | 131,088 |
| Capital and Reserves | | | |
| Capital fund | | 367,249 | 367,249 |
| Capital grant | | 1,101,274 | 951,274 |
| Revaluation reserve | | 272,829 | 272,829 |
| Accumulated surplus | | 525,646 | 733,333 |
| Shareholders' funds | | <u>2,266,998</u> | <u>2,324,685</u> |
| Total net assets and liabilities | | <u>2,459,336</u> | <u>2,455,773</u> |

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:

Chief Executive Officer

Name: Dr. Jane W. Wachira

Sign... *JL*

Date... *13/04/2021*

Head of Finance

Name: Peter M. Gitau

ICPAK Member Number: 15878

Date... *13/04/2021*

Chairman of the Board

Name: Prof. James K. Wabacha

Sign... *[Signature]*

Date... *13/04/2021*

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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

| | Capital Fund | Capital Grant | Revaluation Reserve | Accumulat ed Surplus | Total |
|---------------------------------------|-------------------------|--------------------------|--------------------------------|---------------------------------|------------------|
| | Kshs '000 | Kshs '000 | Kshs '000 | Kshs '000 | Kshs '000 |
| Balance as at July 1, 2018 | 367,249 | 773,274 | 272,829 | 581,692 | 1,995,044 |
| Surplus for the period | - | - | - | 151,641 | 151,641 |
| Additional GOK Grant | - | 178,000 | - | - | 178,000 |
| Balance as at 30 June 2019 | 367,249 | 951,274 | 272,829 | 733,333 | 2,324,685 |
| Prior year adjust.-Cost of production | | | | (44,858) | (44,858) |
| Prior Year Adjustments-WIP | | | | 2,876 | |
| Surplus for the period | - | - | - | 34,295 | 49,575 |
| Surplus to the Treasury | | | | (200,000) | (200,000) |
| Additional GOK Grant | - | 150,000 | - | - | 150,000 |
| Balance as at 30 June 2020 | 367,249 | 1,101,274 | 272,829 | 525,646 | 2,279,402 |

See note 4(i)

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

**16. STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

| | <u>Note</u> | 2019/2020 Kshs'000 | 2018/2019 Kshs'000 |
|--|-------------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Profit for the period | | 34,295 | 151,641 |
| Add Depreciation | 20 | 65,846 | 61,873 |
| Prior Year Reserves | 4(o) | (41,982) | |
| Operating Profit | | 58,159 | 213,514 |
| Working Capital Changes | | | |
| Increase in stocks | 18 | (34,355) | (82,883) |
| Decrease/Increase in Receivables | 17 | 17,777 | 40,798 |
| Increase/Decrease in Payables | 21 | 61,250 | (11,528) |
| Increase/decrease in prepayment | 19 | 6,743 | 1,676 |
| Net cash outflow from operating activities | | 109,574 | 161,577 |
| Financing Activities | | | |
| GOK Capital Grant | 24.b | 150,000 | 178,000 |
| Surplus to National Treasury | 27 | (200,000) | - |
| Investing Activities | | | |
| Purchase of Fixed Assets and net cash used in | | | |
| Investing activities | 20 | (44,121) | (26,883) |
| Net Decrease In Cash & Cash Equivalents | | 15,453 | 312,694 |
| Cash and Cash Equivalents At 1 JULY,2019 | 16 | 1,221,978 | 909,284 |
| Cash and cash equivalents at 30 JUNE,2020 | 16 | 1,237,431 | 1,221,978 |

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

| | Original Budget | Adjustments | Final Budget | Actual On Comparable Basis | Performance Difference |
|--|-----------------|-------------|----------------|----------------------------|------------------------|
| | 2019-2020 | 2019-2020 | 2019-2020 | 2019-2020 | 2018-2019 |
| | Kshs'000 | Kshs'000 | Kshs '000 | Kshs '000 | Kshs '000 |
| Revenue | | | | | |
| Government grants and subsidies | 150,000 | - | 150,000 | 150,000 | - |
| Sale of vaccines | 450,000 | - | 450,000 | 402,829 | 47,171 |
| Other Income | 18,000 | 0 | 18,000 | 27,853 | (9,853) |
| Gain on foreign Exchange | 5,500 | 0 | 5,500 | 20,873 | (15,373) |
| Total income | 473,500 | (0) | 473,500 | 451,555 | 21,966 |
| Expenses | | | | | |
| Compensation of employees | 78,100 | - | 78,100 | 64,060 | 14,040 |
| Goods and services | 293,120 | 0 | 293,120 | 303,970 | (10,850) |
| Provision for Bad Debts | | | | (184) | 184 |
| Depreciation | 6,500 | 0 | 6,500 | 4,750 | (1,750) |
| Repair and Maintenance | 2,500 | - | 2,500 | 264 | 2,236 |
| Board Expenses | 15,000 | | 15,000 | 9,514 | 5,486 |
| General Expenses | 61,300 | | 61,300 | 34,886 | 29,290 |
| Total expenditure | 456,520 | (0) | 456,520 | 417,260 | 54,569 |
| Surplus for the period | 16,980 | 0 | 16,980 | 34,295 | 32,595 |
| Capital Expenditure | 150,000 | 0 | 150,000 | 44,121 | 105,879 |

Budget notes

- Government grant-The institute had expected a government grant of Kshs 150,000 million which it received.
- Sale of vaccines- This is market driven therefore if there is less demand from our customers we experienced less sales. This was majorly caused by the Covid 19 pandemic.
- Other Income – The institute earned interest of Kshs 24.986 million bank interest from a call account it had opened and placed amounts received in advance from clients.
- Foreign Exchange Loss – The dollar was strong compared to Kenya shilling therefore the rise in foreign exchange gain. (The rate of change of \$.1 to Kenya shilling was 102.30 30/06/2019 compared to 106.52 on 30/06/2020.
- Employees Costs- The institute expected to recruit additional technical & administration staffs on permanent basis but this did not happen within the year. We expect this to happen in the FY 2020/2021.
- Cost of Production - This cost was within the budget.
- Provision for Bad Debts – The Institute collected more debts during the year and this led to recovery in provisions in FY 2019/20 of Kshs. 183,777.
- Repair and maintenance – The installation of new equipment and machines has reduced the cost of repairs and maintenance.
- Board Expenses – This was less because of the Covid 19 pandemic which restricted social gathering as a way of curbing it.
- General Administrative Expenses -This was less because of the cost cutting measures the institute had put in place besides the reduced activity as a result of Covid 19 restrictions.
- Capital expenditure -The Institute spend less on equipment and machinery due to the nature of the specialized equipment and most of them have to be imported or customized and manufactured specifically for the institute.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

18. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Kenya Veterinary Vaccines Production Institute (KEVEVAPI) is established and derives its authority and accountability from Cap 446 of the laws of Kenya on 5th March 1990 through legal notice No. 223 of 4th June, 1990. The Institute is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to provide high quality, affordable veterinary vaccines and services contributing to an improved quality of life for all Kenyans

2. Statement of compliance and basis of preparation

The entity's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

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

3. Adoption of New and Revised Standards-

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

4. Summary of significant accounting policies

a) Revenue recognition

i. Revenue from non-exchange transactions

Transfers from other government entities

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

ii. Revenue from exchange transactions

Rendering of services

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

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

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Sale of goods

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

Interest income

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

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the entity's right to receive payments is established.

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

The original budget for FY 2019-2020 was approved by the National Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

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

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

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

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

c) Property, plant and equipment

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

ii) The institute has contracted University of Nairobi Enterprises and Services Limited (UNES) to undertake valuation of its assets and when complete, the value of the institute Assets (Land, Building, Plant & Machinery, Office Equipment, Furniture and Fittings and Motor Vehicles will change.

d) Financial instruments

Financial assets

Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current.

Such assets are carried at amortized cost using the effective interest method. Changes in the carrying amount are recognized in the profit or loss.

Impairment of financial assets

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

- The debtors or entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)
- ***Financial liabilities***

Initial recognition and measurement

- Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.
- All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

e) Inventories

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

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

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

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

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

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

f) Provisions

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

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

Contingent liabilities

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

g) Nature and purpose of reserves

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

- i) Capital Fund-This is the initial capital the government used to set up the institute.
- ii) Capital grants- This is accumulated government development grant given to the institute yearly.
- iii) Accumulated Profits- This figure denotes the institute profits since inception
- iv) Revaluation Surplus-This denotes amount arising from the revaluation of institute assets.

h) Changes in accounting policies and estimates

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

i) Employee benefits

Retirement benefit plans

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

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

j) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

k) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. The institute's related parties include The National Government, The parent Ministry of Agriculture, Livestock and Fisheries, County Government, Board of Directors and Key Management.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

m) Comparative Figures

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

n) Significant Judgments and Sources of Estimation Uncertainty

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

Critical Accounting Judgments in Applying the Entity's Accounting Policies

Impairment losses on trade and other receivables

The institute reviews its trade and other receivables to assess impairment regularly. In determining whether an impairment loss should be recognized through profit or loss, the institute makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables, before a decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or local economic conditions that correlate with defaults on assets in the institute. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

of assets and liabilities within the next financial year, are described below. The Institute based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Institute. Such changes are reflected in the assumptions when they occur.

Estimates and assumptions

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

- **Key sources of estimation uncertainty**

Impairment of assets

At the end of each reporting period, the institute reviews the carrying amount of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any).

Plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the institute
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Depreciation on fixed assets is provided on a straight line basis and is calculated on cost or valuation at the following rates which are consistent with prior years: -

| | |
|------------------------|-------|
| Land | nil |
| Buildings | 2% |
| Laboratory Equipment | 12.5% |
| Plant and Machinery | 12.5% |
| Furniture and Fittings | 12.5% |
| Motor Vehicles | 25.0% |

Employees Costs: Salaries, Pension & National Social Security Fund payment for and Commuter Allowances paid to employees are apportion between Cost of production and Administration at the ratio of **0.67: 0.33**. This was based on the assignment of the employees' costs to the staff working in the two respective classes.

KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Fair value estimation – financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required in establishing fair values. Judgment includes the consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

o) Subsequent events

Transferred to previous years' books is Kshs. 44,858,153.49 (Kshs 20,505,937.20 and Kshs24,352,216.29 relating cost of packaging materials and glassware respectively. In addition, procurement of an ERP system was expensed in FY 2018/19 instead of recognizing this as a WIP in procuring a non-tangible asset.

5. Sales of vaccines (Exchange Revenue)

| Description | 2019-2020 | | 2018-2019 | |
|--------------------|----------------|-----------------------|----------------|-----------------------|
| | Ksh'000 | US \$ '000 | Kshs'000 | US \$'000 |
| Sales on Account | 223,581 | 1,166.99 | 284,899 | 842.595 |
| Cash Sales | 53,111 | 42.4 | 52,001 | 1,121.153 |
| | | 1,209.39 | | 1,962.748 |
| Conversion Rates | | Various | | Various |
| Total Kes | 276,692 | 126,137 | 336,900 | 197,901 |
| Grand Total | | <u>402,829</u> | | <u>534,801</u> |

6. Cost of Sales

| Description | 2019-2020 | 2018-2019 |
|--|-----------------------|-----------------------|
| | Ksh'000 | Ksh'000 |
| Production Materials | 26,760 | 22,827 |
| Direct Labour | 74,740 | 73,681 |
| Other Staff Benefits | 16,849 | 19,408 |
| General Expenses attributable to production | 126,764 | 75,443 |
| Power, water, Fuel & Gases attributable to production | 20,170 | 24,370 |
| Maintenance, Repairs & Security attributable to Production | 22,449 | 23,703 |
| Depreciation attributable to production | 61,096 | 57,366 |
| Total production and Manufacturing Expenses | 348,828 | 296,798 |
| Prior Year Adjustments on reagents usage | (44,858) | 0 |
| Total Cost of goods Sold | <u>303,970</u> | <u>296,798</u> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. Finance Income

| Description | 2019-2020 | 2018-2019 |
|--|----------------------|----------------------|
| | Ksh'000 | Ksh'000 |
| Interest earned from KCB MOI AVENUE Call Account | 24,986 | 19,995 |
| Interest earned from KCB Kes account (1107172764) | 0 | 0 |
| Interest earned from KCB KICC Kes Account (1109016492) | 0 | 17 |
| Interest earned from KCB KICC USD Account(1102301108) | 0 | 0 |
| Total | <u>24,986</u> | <u>20,012</u> |

8. Other Income

| Description | 2019-2020 | 2018-2019 |
|---------------|---------------------|---------------------|
| | Ksh'000 | Ksh'000 |
| Limuru Farm | 1,548 | 2,460 |
| sundry income | 1,319 | 844 |
| Total | <u>2,867</u> | <u>3,304</u> |

9. Employee Costs

| Description | 2019-2020 | 2018-2019 |
|-----------------------------------|----------------------|----------------------|
| | Ksh'000 | Ksh'000 |
| Salaries | 33,995 | 33,026 |
| Pensions & NSSF | 5,513 | 5,326 |
| Medical | 17,324 | 17,778 |
| Commuter Allowance | 2,785 | 2,837 |
| Leave Travelling Allowance | 2,479 | 2,201 |
| Training | 1,964 | 5,828 |
| Grand Total Employee Costs | <u>64,060</u> | <u>66,996</u> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10. Depreciation

| Description | 2019-2020 | 2018-2019 |
|----------------------|---------------------|---------------------|
| | Ksh'000 | Ksh'000 |
| Motor Vehicles | - | - |
| Office Equipment | 2,954 | 2,710 |
| Furniture & Fittings | 1,796 | 1,796 |
| Total | <u>4,750</u> | <u>4,506</u> |

11. Repairs and Maintenance

| Description | 2019-2020 | 2018-2019 |
|------------------|-------------------|-------------------|
| | Ksh'000 | Ksh'000 |
| Office equipment | 246 | 460 |
| Furniture | 18 | 90 |
| Total | <u>264</u> | <u>550</u> |

12. Board Expenses

| Description | 2019-2020 | 2018-2019 |
|------------------------------------|---------------------|----------------------|
| | Ksh'000 | Ksh'000 |
| Sitting and subsistence allowances | 9,514 | 12,848 |
| Total | <u>9,514</u> | <u>12,848</u> |

13. General Administration Expenses

| Description | 2019-2020 | 2018-2019 |
|----------------------------|-----------|-----------|
| | Ksh'000 | Ksh'000 |
| Sales and marketing | 6,416 | 4,450 |
| Printing & stationery | 3,832 | 3,362 |
| Audit fees | 580 | 580 |
| Other professional charges | 8,644 | 13,575 |
| Subscriptions | 3,416 | 374 |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

| NOTES TO THE FINANCIAL STATEMENTS (Continued) | | |
|--|----------------------|----------------------|
| Donations | 525 | - |
| Bank charges | 550 | 192 |
| Sundry Office Expenses | 3,752 | 3,487 |
| Staff welfare | 187 | 478 |
| Telecommunication | 3,089 | 3,205 |
| Local travel | 2,556 | 3,266 |
| Overseas travel | 720 | 395 |
| Motor vehicles | 619 | 1,061 |
| Grand Total | <u>34,886</u> | <u>34,425</u> |

14. Provision for Bad Debts

| Description | 2019-2020 | 2018-2019 |
|--------------------------------------|--------------------|--------------------|
| | Ksh'000 | Ksh'000 |
| Trading debtors as at year end | 132,540 | 150,918 |
| Impairment at 1% | 1,325 | 1,509 |
| Provision as at 30/6/2019 | 1,509 | 1,921 |
| Savings/Increase in provision | <u>-184</u> | <u>-412</u> |

15. Gain on Foreign Exchange Transactions

| Description | 2019-2020 | 2018-2019 |
|-------------------------------|----------------------|---------------------|
| | Ksh'000 | Ksh'000 |
| On sales to MTK Uganda | 634 | - |
| On sales to Uganda government | 22 | - |
| On sales to Doctors Co. | 234 | 761 |
| On sales to Aggrotech Rwanda | - | 331 |
| On sales to Other clients | 1,311 | 1,793 |
| On Cash held in the Bank | 18,672 | 3,513 |
| Totals | <u>20,873</u> | <u>6,398</u> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Cash and Cash Equivalents

| Description | 2019-2020 | 2018-2019 |
|--|-------------------------|-------------------------|
| | Kshs 000 | Kshs 000 |
| Bank | 891,467 | 689,615 |
| Cash-on-hand and in transit | 243 | 7 |
| Call on deposit (KCB Bank) | 345,721 | 532,356 |
| Total cash and cash equivalents | <u>1,237,431</u> | <u>1,221,978</u> |

NB: Bank Figure Breakdown

| | | |
|--|------------------------------|------------------------------|
| <i>Mpesa Balance</i> | 273,861 | 6,400 |
| <i>KCB Account No. 1109016492 Kshs</i> | 1,156,156.11 | 273,774.11 |
| <i>KCB Account No 1102301108 Kshs.(Foreign Exchange Account for inputs purchase)</i> | 611,899,843.56 | 519,689,540.50 |
| <i>KCB Account No.1107172764 Kshs</i> | 278,136,788.88 | 169,645,607.03 |
| Grand Total | <u>891,466,649.55</u> | <u>689,615,321.64</u> |

17. Receivables

| Description | 2019-2020 | 2018-2019 |
|---|-----------------------|-----------------------|
| | Kshs 000 | Kshs 000 |
| Current Receivables(Exchange Transactions) | | |
| Ministry of Livestock | 105 | 105 |
| MTK Uganda | 59,091 | 74,504 |
| Ministry of Agriculture Rwanda | 26,029 | 26,029 |
| Others | 47,315 | 50,280 |
| Total current receivables | <u>132,540</u> | <u>150,918</u> |

Receivables from non – exchange contracts

| Description | 2019-2020 | 2018- 2019 |
|--|-----------------------|-----------------------|
| | KShs 000 | KShs 000 |
| Staff advances and Imprest (non-exchange Transactions) | 197 | 156 |
| Deposits | 1,949 | 1,573 |
| Total Non-Trade receivables | 2,146 | 1,729 |
| Total Receivables | <u>134,686</u> | <u>152,646</u> |
| Less provision for Impairment | <u>1,325</u> | <u>1,509</u> |
| Total Receivables | <u>133,361</u> | <u>151,138</u> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS(Continued)

18. Inventories

| Description | 2019-2020 | | 2018- 2019 |
|--|-----------------------|--|-----------------------|
| | KShs 000 | | KShs 000 |
| Bulky and Filled vaccines | 295,335 | | 256,155 |
| Chemicals, Glassware & Filtration | 204,093 | | 190,950 |
| Engineering, livestock and lab Equip equipment | 6,002 | | 5,604 |
| Fuel Oil | 708 | | 429 |
| Others | 14,505 | | 33,148 |
| Total inventories at the lower of cost and net realizable value | <u>520,643</u> | | <u>486,288</u> |

19. Prepayment

| Description | 2019-2020 | | 2018- 2019 |
|----------------|---------------------|--|---------------------|
| | KShs 000 | | KShs 000 |
| Reagents | - | | 9,620 |
| Medical scheme | 2,878 | | - |
| Totals | <u>2,878</u> | | <u>9,620</u> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS(Continued)

20. Property, Plant and Equipment

| | Land | Buildings | Plant & Machinery | Office Equipment | Furniture & Equipment | Motor Vehicles | WIP | Totals |
|------------------------------------|---------|-----------|-------------------|------------------|-----------------------|----------------|-------|-----------|
| Cost | Shs 000 | Shs 000 | Shs 000 | Shs 000 | Shs 000 | Shs 000 | | Shs 000 |
| Costs at 1 ST July 2019 | 343,000 | 204,962 | 426,135 | 21,678 | 14,373 | 27,003 | - | 1,037,151 |
| Additions | - | 17,759 | 16,075 | 1,951 | - | 5,460 | 2,876 | 44,121 |
| Disposals | | | | | | | | |
| Costs at 30 June 2020 | 343,000 | 222,720 | 442,211 | 23,629 | 14,373 | 32,463 | 2,876 | 1,078,396 |
| Depreciation and impairment | | | | | | | | |
| Costs at 1 ST July 2019 | - | 35,021 | 365,689 | 13,134 | 9,555 | 27,003 | | 450,402 |
| Depreciation | - | 4,454 | 55,276 | 2,954 | 1,797 | 1,365 | | 65,846 |
| Disposals | | | | | | | | |
| Costs at 30 June 2020 | - | 39,475 | 420,966 | 16,088 | 11,352 | 28,367 | | 516,248 |
| Net book values | | | | | | | | |
| Costs at 30 June 2020 | 343,000 | 183,245 | 21,245 | 7,542 | 3,021 | 4,095 | 2,876 | 565,023 |
| Costs At 30 June 2019 | 343,000 | 169,941 | 60,446 | 8,544 | 4,818 | - | - | 586,749 |

Note

Included in the value of land of Kshs 343,000,000 above on Property, Plant and Equipment is land with Civil cases in court that had been grabbed in prior years. The cases in court are as follows: -

- i) HCC ELC No. 454 and 455 Of 2009 Tuguta Enterprises Limited and TRUSTLAND developers' Limited vs KARI, KEVEVAPI, the land registrar and commissioner of lands. Land measuring 1.87 and 2.023 hectares or thereabout respectively
- ii) ELC Civil Suit No. 1015 of 2016 Bangu Villa Estate Management vs KEVEVAPI and Nairobi City County. Trespass and illegal demolition of KEVEVAPI perimeter wall.
- iii) ELC Civil Suit No. 1066 of 2016-Christopher Oanda Onuong'a Vs Board of Directors KEVEVAPI- Application from plaint restraining KEVEVAPI from trespassing on her land within KEVEVAPI 29.5 ha.
- iv) The Depreciation charge of Kshs 1,365,000 relates to additional Isuzu Lorry FRR whose costs was Kshs 5,460,000. The figure of Kshs 27,003,000 worth of Motor Vehicle as at 30/06/2020 was fully Depreciated as at 30/06/2019.
- v) The institute has fifteen vehicles where twelve are serviceable with three grounded but resisted in the name of Kenya Agriculture Research Institute.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS(Continued)

vi) WIP -This refers to work in progress. This is the intangible assets (ERP software) the institute is installing (Microsoft Navision). By 30th June 2020, KEVEVAPI had paid the vendor Kshs. 2,876,393.10. This amount was paid on 21/05/2019 therefore we have credited the 2018/19 reserves by 2,876,393.1. and Debited Property, Plant and Equipment-Work in Progress (WIP).

21. Trade and Other Payables from Exchange Transactions

| Description | 2019-2020 | 2018- 2019 |
|-----------------------------|----------------------|----------------------|
| | KShs 000 | KShs 000 |
| Trade payables | 9,856 | 7,534 |
| Accruals rates | 13,180 | 13,180 |
| Accruals security services | - | 466 |
| Accruals-Electricity bill | 1,119 | 1,270 |
| Accruals-Nita Subscriptions | 2,058 | - |
| Accruals-Water bill | 110 | 125 |
| Audit fee | 580 | 580 |
| Total Trade payables | <u>26,903</u> | <u>23,155</u> |

22. Payment received in Advance

| Description | 2019-2020 | 2018- 2019 |
|--|-----------------------|-----------------------|
| | KShs 000 | KShs 000 |
| Payments received in advance by counties | 153,009 | 102,046 |
| Galvmed Project | 1,127 | 1,127 |
| Kasal project | 114 | 114 |
| Asal project | 200 | 200 |
| University of Florida | 10,411 | 4,446 |
| Kalro Collaboration | 289 | - |
| International Dev't Research | 285 | - |
| Total payment in advance | <u>165,435</u> | <u>107,933</u> |
| Grand total of payables | <u>192,338</u> | <u>131,088</u> |

23. Financial Risk Management

Exposure to currency, commodity, interest rate, liquidity and credit risk arises in the normal course of the institute's operations. This note presents information about the institute's exposure to each of the above risks, policies and processes for measuring and managing risk, and the institute's management of capital. Further quantitative disclosures are included throughout these financial statements.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS(Continued)

Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the institute's financial instruments.

| Financial Assets | Carrying Amount | Fair value |
|--|-------------------------|-------------------------|
| At 30 June 2020 | Kshs,000 | Kshs,000 |
| Receivables from non-exchange transactions | 2,146 | 2,146 |
| Receivables exchange transactions | 132,540 | 130,394 |
| Cash and cash equivalents | <u>1,237,432</u> | <u>1,237,432</u> |
| Total | <u>1,372,118</u> | <u>1,369,972</u> |

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Credit risk

Credit risk is the risk of financial loss to the institute if customers or counterparties to financial instruments fail to meet their contractual obligations. The institute's credit risk is primarily attributable to its receivables and cash and cash equivalents. The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors before extending credit. The carrying amount of financial assets represents the maximum credit exposure. The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings. The maximum exposure to credit risk as at 30 Jun 2020 was:

| | Fully performing | Past due | Impaired | Total |
|---------------------------------|-------------------------|-----------------------|-----------------------|-------------------------|
| | KShs,000 | Kshs,000 | Kshs | Ksh,000 |
| Trade receivables | 526 | 132,014 | (1,325) | 131,215 |
| Cash and cash equivalents | <u>1,237,431</u> | = | = | <u>1,237,431</u> |
| Maximum exposure to credit risk | <u>1,227,544</u> | <u>132,014</u> | <u>(1,325)</u> | <u>1,368,646</u> |

The average credit period on services rendered is 90 days from date of invoice. Debts above 90 days old are classified as past due. The customers under the fully performing category are paying their debts as they continue dealing with the institute. The default rate is low. Trade debtors are provided for impairment at the rate of 1% as approved by the Board of Directors.

Credit quality

Credit quality is assessed risk of default attached to counterparties to which the institute extends credit and also those parties with whom the institute invests. As such, the credit quality assessed extends to the customers, donors and banks of the institute. For financial statement purposes, the

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS(Continued)

investments and balances with banks are limited to the receivable and cash and cash equivalents line items in the statement of financial position. The institute determines credit quality of the banks from past dealings with them and from information readily available from the regulatory authority, the Central Bank of Kenya.

The client base of the institute is diverse and consists mainly of counties and east African countries. For the purpose of determining the credit quality of clients, the institute applies its past experience with them in determining the risk of default they pose.

Receivables

Receivables amount are owed by clients and the government of Kenya and are presented net of any impairment losses. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The institute's exposure to credit risk is monitored on an ongoing basis. The institute's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance.

Cash and cash equivalents

The institute limits its exposure to credit risk by investing cash and cash equivalents with only reputable financial institutions that have a sound credit rating. Consequently, the institute does not consider there to be any significant exposure to credit risk.

Liquidity risk

Liquidity risk is the risk of the institute not being able to meet its obligations as they fall due. The institute's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the institute's reputation. Prudent liquidity risk management includes maintaining sufficient cash to meet the institute's obligations.

The table below analyses the institute's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

| | Less than 1 month | Between 1-3 months | Over 3 months | Total |
|---|------------------------------|-------------------------------|--------------------------|-----------------------|
| | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 |
| At 30 June 2020 | | | | |
| Trade payables from exchange transactions | 11,665 | 163,421 | | 175,086 |
| Trade payables from Non exchange transactions | | | 15,195 | 15,195 |
| | <u>11,665</u> | <u>163,421</u> | <u>15,195</u> | <u>190,281</u> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS(Continued)

Market risk

Market risk is the risk of changes in market prices, such as foreign-exchange rates and interest rates, affecting the institute's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the risk.

- (i) Price risk
The institute does not hold investments that would be subject to price risk; hence this risk is not relevant.
- (ii) Interest rate risk
The institute does not hold any interest bearing liabilities or assets; hence this risk is not relevant.
- (iii) Foreign currency risk
The institute is exposed to foreign-currency risk through foreign currency denominated bank balances. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the end of the reporting period are shown below.

| Description | 2020 | 2019 | 2020 | 2019 |
|------------------------|---------------------|---------------------|-----------------------|-----------------------|
| | USD | USD | Kshs | Kshs |
| Assets | - | - | - | - |
| Bank and cash balances | 5,744,330.24 | 5,080,138.58 | 611,899,843.56 | 519,689,540.50 |
| Receivables | 258,092.71 | 476,247.93 | 27,492,654.76 | 48,719,353.22 |
| | <u>6,002,422.95</u> | <u>5,556,386.51</u> | <u>639,392,498.30</u> | <u>568,408,893.72</u> |

At 30 June 2020 an increase/decrease of 10% on the US dollar exchange rates would have resulted in an increase/decrease in surplus of Sh. 63,939,249.99 (Shs703,331,748.3 – Shs639,392,498.3).

Capital risk management policies

The primary objective of managing the institute's capital is to ensure that there is sufficient cash available to support the institute's funding requirements, including capital expenditure, to ensure that the institute remains financially sound. The institute monitors capital using a gearing ratio, which is net debt, divided by total capital, plus net debt. As at the end of the year, the institute had no debt.

The capital structure of the institute consists only of a general fund. The gearing ratio of the institute is therefore 0%.

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS(Continued)

24. Related Party Balances

a) Nature of related party relationships

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

The entity is related to

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

b) Related Party Transactions

| Description | 2019-2020 | | 2018- 2019 |
|--|-----------------------|--|-----------------------|
| | KShs 000 | | KShs 000 |
| Transfers from related parties' | 150,000 | | 178,000 |
| Transfers to related parties (MOA, L&F, Depart of Livestock) | - | | - |
| Total | <u>150,000</u> | | <u>178,000</u> |

Related Party Balances (continued)

c) Key management remuneration

| Description | 2019-2020 | | 2018- 2019 |
|-----------------------------|----------------------|--|----------------------|
| | KShs 000 | | KShs 000 |
| Directors' | 9,358 | | 12,848 |
| Key management compensation | 5,555 | | 5,447 |
| Chairman's Honoraria | 1,020 | | 156 |
| Total | <u>15,933</u> | | <u>18,451</u> |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS(Continued)

d) Due from related parties

| Description | 2019-2020 | 2018- 2019 |
|----------------------------|-------------------|-------------------|
| | KShs 000 | KShs 000 |
| Due from Parent Ministry | 105 | 105 |
| Due from County Government | 389 | 187 |
| Total | <u>494</u> | <u>292</u> |

f) Due to related parties

| Description | 2019-2020 | 2018- 2019 |
|----------------------------|----------------------|-----------------------|
| | KShs 000 | KShs 000 |
| Due to the parent Ministry | - | - |
| Due to County Governments | 66,582 | 102,047 |
| Totals | <u>66,582</u> | <u>102,047</u> |

25. Contingent Assets and Contingent Liabilities

| Contingent liabilities | 2019-2020 | 2018-2019 |
|--|------------|------------|
| | Kshs | Kshs |
| HCC ELC No. 454 and 455 Of 2009 Tuguta Enterprises Limited and TRUSTLAND developers' Limited vs KARI, KEVEVAPI | Not Valued | Not Valued |
| ELC Civil Suit No. 1015 of 2016 Bangué Villa estate Management vs KEVEVAPI and Nairobi City County. | Not Valued | Not Valued |
| ELC Civil Suit No. 1066 of 2016-Christopher Oanda Onuong'a Vs Board of Directors KEVEVAPI | Not Valued | Not Valued |
| KVVPI/T/1/2017-18-This tender is in court awaiting determination | 80 million | 80 million |
| Total | Not Valued | Not Valued |

Note

Included in the value of land of Kshs 343,000,000 above on Property, Plant and Equipment is parcels of land with civil cases in court that had been grabbed in prior years. The cases in court are as follows: -

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTES TO THE FINANCIAL STATEMENTS(Continued)

- i) HCC ELC No. 454 and 455 of 2009 Tuguta Enterprises Limited and TRUSTLAND developers' Limited vs KARI, KEVEVAPI, the land registrar and commissioner of lands. Land measuring 1.87 and 2.023 hectares or thereabout respectively
- ii) ELC Civil Suit No. 1015 of 2016 Bangué Villa Estate Management vs KEVEVAPI and Nairobi City County. Land trespass and illegal demolition of KEVEVAPI perimeter wall.
- iii) ELC Civil Suit No. 1066 of 2016-Christopher Oanda Onuong'a Vs Board of Directors KEVEVAPI-Application from plaint restraining KEVEVAPI from trespassing on her land within KEVEVAPI 29.5 ha.

KEVEVAPI has a case in court of Approximately Kshs. 80 million for FY 2017/18 intended for purchase lot of machinery and equipment for modernizing KEVEVAPI. The dispute is in court on the award of the tender KVVPI/T/2017-18, and if approved for award by the Court, KEVEVAPI may lose money in buying a machine that does not conform to specifications.

26. Capital Commitments

| Capital commitments | 2019-2020 | 2018-2019 |
|-------------------------------|----------------|----------------|
| | KShs 'Millions | Kshs' Millions |
| Authorized for | 444 | 641 |
| Authorized and contracted for | 211 | 178 |
| Total | 641 | 641 |

27. Surplus Remission to The National Treasury

On 18/11/2018, The Institute paid surplus funds through RTGS of Kshs. 200 Million To The National Treasury.

28. Events after the reporting period

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

29. Ultimate and Holding Entity

The entity is a State Corporation under the Ministry of Agriculture, Livestock and Fisheries. Its ultimate parent is the Government of Kenya.

30. Currency

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

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

19. Appendix 1 PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name & designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|------------------------------------|--|--|-----------------------------------|--|
| 2018/1.1 (a,b,c) | Property, Plant and Equipment-Land | <p>-We have a case in court concerning the illegal allocation of the Institute Land L.R No. 209/11969 at Embakasi awaiting court ruling.</p> <p>-The Land at Kibiko does not exist in our books. An inquiry at the Lands Registrar office in Ngong on 03/08/2017 revealed that we need a title deed to do a search and advised we refer the matter to the Ministry of Lands to establish the LR No. and to whom the land was apportioned.</p> <p>-On the issue of land at Kabete, the land is owned by the DVS and we are relating well as we also house some of the DVS function at our offices in Embakasi.</p> <p>-The land AT Limuru still has a court case. The case started when KEVEVAPI was under KARI and therefore the reason for delayed transfer. As at 30/06/2016, the institute had instructed the legal counsel to initiate transfer process.</p> | Chief Executive Officer(CEO) | Ongoing | Awaiting Court decision. |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

| | | | | | |
|----------|---|---|------------------------------------|---------|-----------------------------|
| 2016/1.2 | Property, Plant and Equipment- Motor Vehicles | The vehicles in question were given to the Institute for use when the Institute was given independent status from KARI. The Institute has continued to use the vehicles, maintaining them and insuring them. Correspondences have been going on between the two Institutions to identify all the assets that belong to KARI in order to facilitate formal transfer or other appropriate action. However, the assimilation of KARI into Kenya Agricultural Livestock Research Organizations (KALRO) in 2014 posed a new challenge since it deprived KARI of its legal autonomy | Chief Executive Officer(CEO) | Ongoing | By end of 2020. |
| 2016/2 | Trade and Other Payables | The rates of Kshs. 13, 180, 000 relates to land that has been grabbed and with a court case and therefore management deemed fit to stop paying for the rates until the issue was resolved. | CEO | Ongoing | Awaiting Court Ruling |
| 2016/3 | Kshs 26,134,000 worth of receivables were long outstanding | Management have initiated serious efforts in collecting these debts. This is reflected in the reduction of debts from Kshs 151m in FY 2018/19 million to Kshs 133 million in FY 2019/20. | CEO | Ongoing | June 2021 |

Chief Executive Officer

Be

Date... 13/04/2021

Chairman of the Board

Shill

Date... 13/04/2021

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

20. Appendix II: PROJECTS IMPLEMENTED BY THE ENTITY
Status of Projects completion

| | Project | Total project Cost | Total expended to date | Completion % to date | Budget | Actual | Sources of funds |
|---|--|---------------------------|-------------------------------|-----------------------------|----------------------------|---------------|-------------------------|
| 1 | Modernize the FMD Laboratory to attain GMP Standards | 1.75 Billion | 1,101,273,860 | 63.93 % | 150 Million 689 Million | 150 million | G.O.K Committed |

**KENYA VETERINARY VACCINES PRODUCTION INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

21. Appendix III: INTER-ENTITY TRANSFERS

| | | | | |
|----------|---|---|-----------------------|--|
| | ENTITY NAME: | KENYA VETERINARY VACCINES PRODUCTION INSTITUTE | | |
| P | Break down of Transfers from the State Department of Livestock, Ministry of Agriculture, Livestock and Fisheries | | | |
| | FY 19/20 | Bank Statement Date | Amount (Kshs) | FY the Amounts Relate |
| | | | | |
| a. | Recurrent Grants | | Nil | N/A |
| | | | | |
| b. | Development Grants | | | |
| | | <u>Bank Statement Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
| | | 20/11/2019 | 75,000,000.00 | 2019/20 |
| | | 17/03/2020 | 75,000,000.00 | 2019/20 |
| | | | | |
| | | Total | 150,000,000.00 | |
| | | | | |
| c. | Direct Payments | | Nil | N/A |
| | | | | |
| d. | Donor Receipts | | Nil | N/A |

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

Head of Accounting Department

KEVEVAPI

Head of Accounting Department

Ministry of Agriculture, Livestock and Fisheries,

Department of Livestock.

Sign ----- Date

Name:

Sign----- Date

Name: