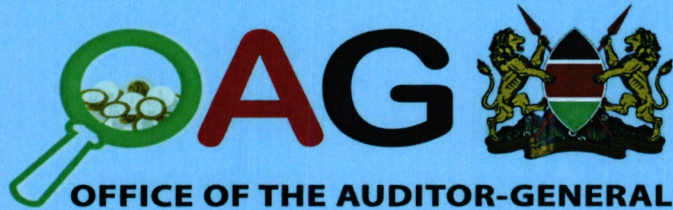



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Enhancing Accountability

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THE AUDITOR-GENERAL

ON

**SMALLHOLDER DAIRY
 COMMERCIALIZATION PROGRAMME (IFAD
 LOAN NO. 678-KE AND GRANT NO. 815-KE)**

**FOR THE NINE MONTHS' PERIOD
 ENDED 31 MARCH, 2020**



311-01



REPUBLIC OF KENYA



Investing in rural people

**PROGRAMME NAME: SMALLHOLDER DAIRY COMMERCIALISATION PROGRAMME
(SDCP)**

**IMPLEMENTING ENTITY: MINISTRY OF AGRICULTURE, LIVESTOCK,
FISHERIES AND COOPERATIVES**

STATE DEPARTMENT FOR LIVESTOCK

IFAD PROGRAMME NO: KEN/05/F01

IFAD LOAN 678 KE AND 2000001408

IFAD GRANT 815 KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE PERIOD ENDED
MARCH 31, 2020**

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

11 SEP 2020

Smallholder Dairy Commercialisation Programme
Annual Report and Financial Statement
For the Period Ended March 31 2020

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1. PROGRAMME INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: Smallholder Dairy Commercialisation Programme (SDCP)

Objective: The Programme goal is to increase the income of the poor rural households that depend substantially on production and trade of dairy products for their livelihoods.

Address: The Programme headquarters offices are Nakuru Town, Nakuru County, Kenya.

The address of its registered office is:

The Programme Coordination Unit is based within the compound of the Sub County Livestock Production office, Nakuru. Off Nakuru Ravine Rd, Opp. KEMSA Regional Office.

The Programme also has offices/branches in the following Counties:

- Nakuru
- Trans Nzoia
- Uasin Gishu
- Nandi
- Bomet
- Kisii
- Nyamira
- Bungoma
- Kakamega (Lugari)

Contacts: The following are the Programme contacts

P. O. Box 12261-20100

Nakuru

Telephone: (254) 51-2210851

E-mail: pcu@sdcp.or.ke / pcu.sdcp@gmail.com

Website: www.sdcp.or.ke

1.2 Programme Information

Programme Start Date:	The Programme start date is July 12, 2006
Programme End Date:	Programme Completion date being 30th September 2019 Programme Closing date 31st March 2020
Programme Coordinator:	The Programme Coordinator is Dr. Moses Kembe, PhD
Programme Sponsor:	The Programme sponsor is International Fund For Agri Development (IFAD)



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1.4 Bankers

The following are the bankers for the current year:

Cost Centre	Account No.	Banker
Special Account – Loan	3625-0968	Citibank N.A New York
Special Account – Grant	3625-1039	Citibank N.A New York
Programme Unit – Loan	Coordination 01120025232501	Cooperative Bank of Kenya, P.O. Box 2982, Nakuru
Programme Unit – Grant	Coordination 01120025232500	Cooperative Bank of Kenya, P.O. Box 2982, Nakuru
Nakuru	01120025798200	Cooperative Bank of Kenya, P.O. Box 2982, Nakuru
Trans Nzoia	1105204499	KCB, P.O. Box 1974, Kitale
Uasin Gishu	1102545708	KCB, P.O. Box 560, Eldoret
Nandi	1102097764	KCB, P.O. Box 164, Kapsabet
Bomet	1105840190	KCB, P.O. Box 328, Bomet
Kisii	1102024996	KCB, P.O. Box 476, Kisii
Nyamira	1103336126	KCB, P.O. Box 403, Nyamira
Bungoma	1102063657	KCB, P.O. Box 135, Bungoma
Kakamega (Lugari)	1107201179	KCB, P.O. Box 381, Webuye

1.5 Auditors

Auditor General, Office of Auditor General, P.O Box 30084 – 00100 Nairobi

Smallholder Dairy Commercialisation Programme
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1.6 Roles and Responsibilities of Programme staff

No	NAME	Title designation	Key qualification	Responsibilities
1	Dr. Moses A. Kembe, <i>PhD</i>	Programme Coordinator	Post Graduate Degree	Overall Programme Management and Coordination
2	Christopher M. Kingi	Financial Controller	Post Graduate Degree	Management and administration of Programme finances
3	William Mengich	Monitoring & Evaluation Officer	Under graduate degree	Management of the Programme M&E system
4	Winfred Olubai	Group Development Officer	Post Graduate Degree	Management of the dairy organizational development
5	Michael Kibiego	Marketing Officer	Post Graduate Degree	Management of the dairy marketing development
6	Lorna Mbatia	Dairy Enterprise Development Officer	Post Graduate Degree	Management of the dairy enterprise development
7	Bernard Kimoro	Dairy Production Officer	Post Graduate Degree	Management of the dairy production development
8	Board Omondi	Procurement Officer	Post Graduate Degree	Procurement of works, goods and services
9.	Adija Baraza	Community Nutrition Specialist	Post Graduate Diploma	Community Nutrition
10	Geoffrey Ochieng	Assistant Monitoring & Evaluation /MIS Specialist	Under graduate degree	In charge of data and information system and technology
11	Abel Sawanga	Assistant-Accountant	Under graduate degree	Assist in management and administration of programme finances
12	Jemimah Ingosi	Administration Assistant-General	Under graduate degree	Management of human resource and administrative activities
13	Silbah Samoei	Secretary	Diploma	Office secretarial services
14	Quillent Misala	Secretary	Diploma	Office secretarial services
15	Felista Njeri	Stores Clerk	Under graduate degree	Procurement stores management
16	Jesse Josiah	Driver	High school certificate	Driving programme staff on official duties
17	Stephen Okungu	Driver	High school certificate	Driving programme staff on official duties
18	Ambrose Titi	Driver	High school certificate	Driving programme staff on official duties
19	Douglas Cherogony	Driver	High school certificate	Driving programme staff on official duties

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No	NAME	Title designation	Key qualification	Responsibilities
20	Peter Ochieng	Driver	High school certificate	Driving programme staff on official duties
21	Antony Oluku	Office Assistant	Diploma	Office support services
22	Sabina Kivaya	Office Assistant	High school certificate	Office support services
23	Philip Obondo	Office Assistant	High school certificate	Office support services

Key field staff

No	Name	Title designation	Key qualification	Responsibilities
1	Silvester Wafula	County Programme Coordinator- Bungoma	Under graduate degree	County Programme Management and Coordination
2	Wellington Mangoli	County Programme Coordinator – Kakamega (Lugari)	Post Graduate Degree	County Programme Management and Coordination
3	Virginia Ngunjiri	County Programme Coordinator –Nakuru	Post Graduate Degree	County Programme Management and Coordination
4	Samuel Rono	County Programme Coordinator –Nandi	Under graduate degree	County Programme Management and Coordination
5	Bernard Bett	County Programme Coordinator –Trans Nzoia	Post Graduate Degree	County Programme Management and Coordination
6	Fanuel Anjela	County Programme Coordinator –Uasin Gishu	Under graduate degree	County Programme Management and Coordination
7	Dominic Simbe	County Programme Coordinator- Kisii	Post Graduate Degree	County Programme Management and Coordination
8	Sebastian Itooi	County Programme Coordinator –Nyamira	Under graduate degree	County Programme Management and Coordination
9	Evans Kiplagat	County Programme Coordinator –Bomet	Under graduate degree	County Programme Management and Coordination

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1.7 Funding summary

The Programme has been implemented from July 2006 to September 2016 with an approved budget of US\$ 19.75 million equivalent to Kshs 1,477,300,000.00¹. The Programme was given an additional financing for 3 years with an approved budget of Ksh 2,026,500,000 to end on 30 September 2019 and the closing date 31st March 2020. The two financings total Ksh 3,503,800,000 (including the beneficiary contribution of Ksh 152,300,000 not shown) as highlighted in the table below:

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date – (31 March 2020)		Undrawn balance to date (31 March 2020)	
	<i>Donor currency</i>	<i>KShs</i>	<i>Donor currency</i>	<i>KShs</i>	<i>Donor currency</i>	<i>KShs</i>
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant						
IFAD	840,000	62,832,000	893,667	73,035,230	-53,667	-10,203,230
(ii) Loan						
IFAD - Initial Loan	17,490,000	1,308,252,000	17,847,544	1,415,036,466	-357,544	-106,784,466
IFAD - Additional Financing	17,000,000	1,700,000,000	16,768,241	1,841,580,028	231,759	-141,580,028
(iii) Counterpart funds						
Government of Kenya - Initial Loan	920,000	68,816,000	1,237,000	123,883,745	-317,000	-55,067,745
GoK - Additional Financing	2,116,000	211,600,000	2,514,499	251,449,820	-398,499	-39,849,820
Total	38,366,000	3,351,500,000	39,260,951	3,704,985,289	-894,951	-353,485,289

1.8 Summary of Overall Programme Performance:

Budget performance against actual amounts for current year and for cumulative to-date

The budget for the SDCP for the 2019/2020 Fiscal Year is Kshs 419,973,100 of which Kshs. 82,000,000 is the Government of Kenya (GOK) contribution. The programme spent a total of Ksh 382,869,840 (91%) of the budget to meet 98% of its planned activities for 2019/2020.

Cumulative Programme disbursements stand at 100% for the loan and Grant, counterpart (GoK) contribution is 124% and beneficiaries' contribution estimated at 100%. Combined total programme disbursement stands at 108%.

¹ Exchange rate 1US\$ -74.8 Kshs at the loan signing

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Physical progress based on outputs, outcomes and impacts since Programme commencement

Programme background

The Government of Kenya and the International Fund for Agricultural Development (IFAD) signed a loan agreement for the implementation of the Smallholder Dairy Commercialisation Programme (SDCP) on January 25, 2006. The Programme was implemented in Dairy Commercialisation Areas in nine Counties namely; Nakuru, Bungoma, Bomet, Kisii, Kakamega, Nandi, Nyamira, Trans Nzoia and Uasin Gishu. The Programme was declared effective on July 12, 2006, with a Completion Date of September 30, 2012, and Closing Date of March 31, 2013. SDCP was extended with a Programme Completion Date of 30 September 2015 and a Loan Closing Date of 31 March 2016. On 10 September 2014, the Government of Kenya requested IFAD for additional financing to scale up the good results of the existing programme. The request was confirmed by IFAD on 23 January 2015 with a commitment of an additional USD 17 million. IFAD's Executive Board approved the additional financing in December 2015 with a new programme completion date of 30 September 2019 and closure date of 31 March 2020. The first GoK/IFAD mission was conducted in December 2007, a mid-term review was conducted in February 2011 and the last GoK/IFAD supervision mission conducted in July 2019.

The goal of the Programme was to increase the income of the poor rural households that depend substantially on the production and trade of dairy products for their livelihoods, with special attention to poor female-headed households.

The purpose of SDCP was two-fold: a) Improving the financial returns of market-oriented production and trade activities by small operators, through improved information on market opportunities, increased productivity, cost reduction, value-adding, and more reliable trade relations; and b) Enabling more rural households to create employment through and benefit from expanded opportunities for market-oriented dairy activities, in particular as a result of strengthened and expanded farmer organizations.

The additional financing to SDCP sought to enhance the scale and impact of the Programme through (i) a modular geographic expansion to select sub-counties within the previous nine counties where Dairy Groups had demonstrated potential to graduate to market-oriented farming, and (ii) the extension of the outreach of activities found to have had achieved significant development results during the first phase of the Programme.

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Programme investment

At programme completion, about 108% of the financing had been spent in building the capacities of the Programme beneficiaries. This included 1,096 dairy groups, 59 apex organizations, 307 small-scale milk bars and shop operators and 312 mobile milk traders. In total, SDCP reached 36,609 households representing 381,654 household members against a target of 303,756 (55% women and 23% youth). This was achieved through the five components of the programme namely: Organization and Enterprise Skills Development, Technical Support to Smallholder dairy Producers, Development of the Milk Marketing Chain, Support to Policy and Institutions and Programme Coordination and management.

Organization and Enterprise Skill Development: 63,609 households were trained on organization and enterprise skills. The Programme contracted technical service providers (TSPs) to supplement the capacity needs. Kenya National Farmers Federation (KENAFF) trained the beneficiaries on entrepreneurship, group organisation and management. They also oversaw the implementation of grants for dairy enterprise scheme. The Equity Group Foundation trained the Programme beneficiaries on financial literacy. SDCP further trained 207 community resource persons (model farmers) to supplement extension services. Ksh 182,402,308 was disbursed to 289 groups as dairy enterprise grants to improve various dairy enterprises against a Programme target of 200 groups. A total of 29,512 people (11,666M; 17,846F; 5,036 Youth) were trained on Gender Action Learning. In order to improve the youth participation in dairying SDCP adopted a mentorship model to enhance its youth focus. A total of 103 young farmers were trained.

Technical Support to Smallholder Dairy Producers Component: 63,609 households were trained on dairy production and management skills, disease control and management. SDCP contracted the Kenya Agricultural and Livestock Research Organisation (KALRO) to inventorize and document dairy feed resources in the Programme areas. Kenya Livestock Breeders Association undertook capacity building of the producer organization on animal registration, recording and evaluation. SDCP engaged Kenya Animal Genetic Resource Centre (KAGRIC) to develop artificial insemination quality assurance system. All the 33 Programme sub-counties established a revolving fund based on the need to deepen the animal health services. The Programme constructed 412 biogas units as demonstrations. 23,188 households were trained on innovations for energy saving jikos. 44,306 households were reached on human nutrition campaign.

Development of Milk Marketing Component: 63,609 households were trained on dairy post-

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production activities. Two feasibility studies on the state and impact of rural infrastructure were conducted by the Programme. 38 cooperative societies received bulk milk coolers and accessories with combined capacity of 144,000 litres. The cooperatives were further supported with 20 milk pasteurizers and accessories and 20 milk dispensers and accessories. A total of 1,928 goats were procured for 801 resource poor women against an original target of 200 goats (767%). The Programme conducted a feasibility study on school milk programme and piloted the programme on a cost sharing basis. The findings were shared with Kenya National School Milk Steering Committee for adoption.

Support to Policy and Institutions Component: The Programme supported the development of National Animal Breeding Policy and Bill and the review of the Animal Feedstuffs Policy and Bill. The Programme financed the construction of a multi-purpose conference centre and hostel within the Dairy Training Institute (DTI). The Programme also supported the farm and curricula development. SDCP supported the upgrading of the Dairy Information Centre at Kenya Dairy Board and the development of a strategy for commercialization/privatization of Central Artificial Insemination Station (CAIS) and were further supported with liquid nitrogen trucks.

Outcomes of SDCP interventions

The Programme's development objective of increasing household income and creation of employment along the dairy value chain as well as the theory of change with an emphasis on enhancing the capacity of the smallholder dairy farm to increase the marketed milk and derive better financial benefits for the market are still relevant and in line with both IFAD and the Government of Kenya's development goals. SDCP invested about USD 40 million in 63,609 households and thus, about USD 629 per beneficiary household, this is on the higher side for a Programme that focused on capacity enhancement and not major infrastructural development. However, the internal rate of return was 25.3% at Programme completion compared to the projected 24% at design. In addition, 98% of the 289 grants provided under SDCP were still functional and being used for intended purposes at the time of Programme completion.

SDCP investments have generated a good stream of benefits that are largely sustainable in terms of the capacity of dairy farmers and their dairy groups to adopt the market-oriented dairy enterprises (MODE) approach. The use of innovations such as the Community Own Resource Persons (CPRs) and the Gender Action Learning Systems (GALS) champions to demonstrate in the communities these tangible benefits, and offer assistance to other farmers is ample evidence that the adoption

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MODE approach is sustainable. However, the resultant significant increase in marketed milk through the dairy groups and cooperatives poses a liquidity challenge to the cooperatives, which, if not addressed immediately, could impede the sustainability of the Programme's benefits.

The main lessons learnt were; (i) group approach, though very good is only effective if members of the group are all at the same threshold for commercialization, (ii) training using CRPs and GALs was very effective, and adoption of the improved dairy management skills and feeding regimes was very high, and (iii) the business hubs provided an opportunity for farmers to finance dairy inputs and services through deductions from the milk payment which served as an effective tool to mitigate cash flow constraints to scaling up dairy investments and meet household expenditure.

In conclusion, SDCP has changed the fundamentals of smallholder dairy production by enhancing the capacity of the smallholder dairy to increase their productivity and production, at the same reduced cost of production and has enlarged the body of knowledge to transform smallholder dairy production from subsistence to market-oriented dairy enterprises. This led to most smallholder dairy farmers moving from subsistence to commercial dairy farming, culminating in increased household incomes.

The Programme was rated 5/6 (satisfactory) by the Programme Completion Report mission.

Smallholder Dairy Commercialisation Programme
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1.9 Summary of Programme Compliance:

The Programme is fully compliant with applicable laws and regulations, and essential external financing agreements/covenants,

Below is a summary table on compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Section 2.02	<i>Accounts and Withdrawals:</i> The Fund shall open a Loan Account and a Grant Account in the name of the Borrower.	Before commencement	Complied	The Borrower has continually requested for and received withdrawals from these accounts.
Section 2.03 & 2.04	<i>Special Account:</i> The Borrower shall open and thereafter maintain in a commercial bank, a Special Account denominated in USD for the purpose of receiving proceeds.	Before commencement	Complied	Bank Accounts for both Loan and Grant denominated in USD opened and maintained with Citibank, NY.
Section 2.05	<i>Use of proceeds:</i> The Borrower and each Programme party shall use the proceeds of the Loan and Grant exclusively to finance Eligible Expenditures.	Continuous	Complied	Withdrawal Applications submitted based on the agreed activities defined by categories.
Section 3.02	Annual Work Plans & Budgets (AWPB): The PCU shall prepare a draft AWPB for each Programme year.	Continuous	Complied	The AWPB prepared and approved by the National Steering Committee and IFAD each financial year.
Section 3.03	Programme Accounts: The Lead Programme Agency shall open and thereafter maintain in a commercial bank, a current account denominated in Kenya Shillings for receiving Loan and Grant proceeds.	30 days after effective date	Complied	Bank accounts for Loan and Grant proceeds opened and maintained with the Cooperative Bank of Kenya.
Section 4.02	Progress Reports: The Lead Programme Agency shall submit to the Fund six month and consolidated annual progress reports on Programme implementation.	3 months after end of period	Complied	Always submitted.

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Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Section 5.01 & 5.02	Financial Statements: The Lead Programme Agency shall prepare the financial statements of the operations, resources and expenditures related to the Programme. Reports to be audited.	3 months after end of period	Complied	In conformity with the Government of Kenya statutory requirements and IPSAS Cash basis of accounting.

2. STATEMENT OF PROGRAMME MANAGEMENT RESPONSIBILITIES

The *Principal Secretary* for the State Department for Livestock and the *Programme Coordinator* for **Smallholder Dairy Commercialization Programme** are responsible for the preparation and presentation of the Programme's financial statements, which give a true and fair view of the state of affairs of the Programme for and as at the end of the financial year (period) ended on March 31, 2020. This responsibility includes: (i) maintaining adequate financial management arrangement 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 Programme; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Programme; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The *Principal Secretary* for the State Department for Livestock and the *Programme Coordinator* for **Smallholder Dairy Commercialization Programme** accept responsibility for the Programme's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The *Principal Secretary* for the State Department for Livestock and the *Programme Coordinator* for **Smallholder Dairy Commercialization Programme** are of the opinion that the Programme's financial statements give a true and fair view of the state of Programme's transactions during the financial year/period ended March 31, 2020, and of the Programme's financial position as at that date. The Programme experienced the following financial challenges during the implementation period including lengthy procurement processes, late release of A.I.E.- the first half A.I.Es were received in September 2019.

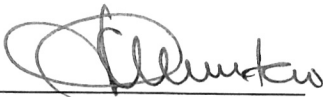
The *Principal Secretary* for the State Department for Livestock and the *Programme Coordinator* for **Smallholder Dairy Commercialization Programme** further confirm the completeness of the accounting records maintained for the Programme, which have been relied upon in the preparation of the Programme financial statements as well as the adequacy of the systems of internal financial control.

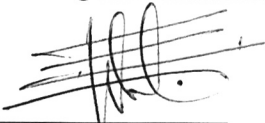
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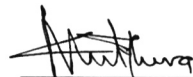
The *Principal Secretary* for the State Department for Livestock and the *Programme Coordinator* for *Smallholder Dairy Commercialization Programme* confirm that the Programme has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Programme funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Programme financial statements

The Programme financial statements were approved by the *Principal Secretary* for the State Department for Livestock and the *Programme Coordinator* for *Smallholder Dairy Commercialization Programme* on 2015/ 2020 and signed by them.

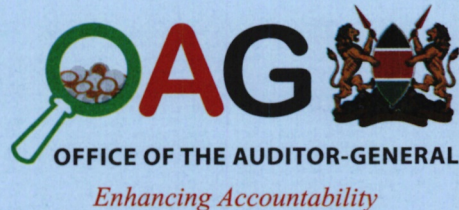

Principal Secretary
Name: Harry Kimtai, CBS


Programme Coordinator
Name: Dr. Moses Kembe, PhD


Programme Accountant:
Name: Christopher Kingi
ICPAK Member Number: 9467

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON SMALLHOLDER DAIRY COMMERCIALIZATION PROGRAMME (IFAD LOAN NO. 678-KE AND GRANT NO. 815-KE) FOR THE NINE MONTHS' PERIOD ENDED 31 MARCH, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Smallholder Dairy Commercialization Programme - IFAD Loan No.678-KE and Grant No.815-KE set out on pages 1 to 24, which comprise of the statement of financial assets and liabilities as at 31 March, 2020, and statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts for the period 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, 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, the financial statements present fairly, in all material respects, the financial position of Smallholder Dairy Commercialization Programme as at 31 March, 2020, and of its financial performance and its cash flows for the period then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the loan and grant Financing Agreements Nos. 678-KE and 815-KE respectively between the International Fund for Agricultural Development (IFAD) and the Government of Kenya dated 25 January, 2006 and 23 March, 2016 respectively.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Smallholder Dairy Commercialization Programme 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 opinion.

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.373,375,111 against the approved budget of Kshs.419,973,100 resulting in a revenue shortfall of Kshs.46,597,989 or 11 % of the Budget.

The Management has attributed the revenue shortfall to delays in exchequer and loan disbursements. This has negatively impacted on the achievement of programme activities as it resulted in underfunding of the annual budget by Kshs.37,103,260 representing 8.8% of the approved budget.

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 matters 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

1.0 Unsurrendered Bank Balance

As disclosed under Note 8.13A to the financial statements, the statement of financial assets and liabilities reflects bank balances of Kshs.809,406;(2018-Kshs.10,325,800). The balance relates to loan and grant amounts that had not been expended at the date of the Project closure but were yet to be transferred into the consolidated fund in accordance with Section 74(6)(d) of the Public Finance Management (National Government) Regulations, 2015.

To this extent, the Programme is in breach of the law.

2.0 Pending Bills

Annex 2 - Analysis of pending bills to the financial statements discloses a balance of Kshs.16,807,828 that was unpaid as at the programme closure date of 31 March, 2020. This is contrary to Section 3.07 of the Financing Agreement that requires the Programme parties to complete the Project activities on or before its completion date.

Consequently, the pending bills balance of Kshs.16,807,828 will not be paid from the programme funding.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by International Fund for Agricultural Development (IFAD), I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Programme, so far as appears from the examination of those records; and
- iii. The Programme's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash 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 Programme's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using going concern basis of accounting unless Management is aware of the intention to liquidate Programme 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Programme 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 noncompliance. 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Programme'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 Programme 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 Programme 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.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

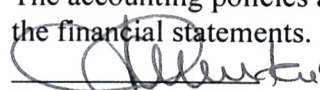
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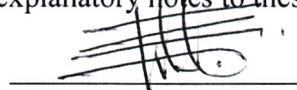
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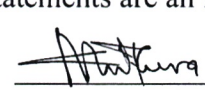
4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 31ST MARCH 2020

	Note	2019/20		2018/19		Cumulative to-date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payments controlled by the entity	Payments made by third parties	
		KShs	KShs	KShs	KShs	KShs
RECEIPTS						
Transfer from Government entities	8.3	82,000,000	-	57,549,456	-	375,333,565
Proceeds from domestic and foreign grants	8.4	-	-	2,074,558	-	73,035,230
Loan from external development partners	8.5	164,129,647	116,283,282	428,598,759	100,000,000	3,256,616,494
Miscellaneous receipts	8.6	10,962,182	-	502	-	11,895,448
TOTAL RECEIPTS		257,091,829	116,283,282	488,223,275	100,000,000	3,716,880,737
PAYMENTS						
Compensation of employees	8.7	45,916,714	-	86,008,537	-	534,424,914
Purchase of goods and services	8.8	148,205,602	38,400,231	318,792,480	-	2,109,685,358
Social security benefits	8.9	12,606,715	-	-	-	36,215,089
Acquisition of non-financial assets	8.10	57,154,527	77,883,051	47,570,503	100,000,000	858,683,294
Transfers to other government entities	8.11	-	-	-	-	222,502
Other grants and transfers and payments	8.12	2,703,000	-	39,417,025	-	182,402,308
TOTAL PAYMENTS		266,586,558	116,283,282	491,788,546	100,000,000	3,721,633,466
SURPLUS/DEFICIT		(9,494,729)	-	(3,565,271)	-	(4,752,728)

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.


Principal Secretary
Name: Harry Kimtai, CBS


Programme Coordinator
Name: Dr. Moses Kembe, PhD


Programme Accountant
Name: Christopher Kingi
ICPAK Member Number: 9467

Smallholder Dairy Commercialisation Programme
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5. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 31ST MARCH 2020

	Note	2019/20 KShs	2018/19 KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	8.13 A	809,406	10,325,800
Cash Balances	8.13 B	-	-
Total Cash and Cash Equivalents	8.13	809,406	10,325,800
Accounts receivables – Imprest and Advances		-	-
TOTAL FINANCIAL ASSETS		809,406	10,325,800
REPRESENTED BY			
Fund balance b/fwd	8.14	10,325,800	16,087,886
Prior year adjustments	8.15	(21,665)	(2,196,815)
Surplus/Deficit for the year		(9,494,729)	(3,565,271)
NET FINANCIAL POSITION		809,406	10,325,800

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 20/5/ 2020 and signed by:



Principal Secretary
Name: Harry Kimtai, CBS



Programme Coordinator
Name: Dr. Moses Kembe, PhD



Programme Accountant:
Name: Christopher Kingi
ICPAK Member Number: 9467

Smallholder Dairy Commercialisation Programme
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6. STATEMENT OF CASHFLOW FOR THE PERIOD 31ST MARCH 2020

	Note	2019/20 KShs	2018/19 KShs
Receipts for operating activities			
Transfer from Government entities	8.3	82,000,000	57,549,456
Proceeds from domestic and foreign grants	8.4	-	2,074,558
Miscellaneous receipts	8.6	10,962,182	502
Payments for operating activities			
Compensation of employees	8.7	(45,916,714)	(86,008,537)
Purchase of goods and services (By entity)	8.8	(148,205,602)	(318,792,480)
Purchase of goods and services (By third parties)	8.8	(38,400,231)	-
Social security benefits	8.9	(12,606,715)	-
Transfers to other government entities	8.11	-	-
Other grants and transfers	8.12	(2,703,000)	(39,417,025)
Adjusted for:			
Change in receivables		-	-
Adjustments during the year	8.15	(21,655)	(2,196,815)
Net cash flow from operating activities		(154,891,735)	(386,790,341)
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets (By entity)	8.10	(57,154,527)	(47,570,503)
Acquisition of Assets (By third parties)	8.10	(77,883,051)	(100,000,000)
Net cash flows from Investing Activities		(135,037,578)	(147,570,503)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	8.5	164,129,647	428,598,759
Proceeds from Foreign Borrowings (AIA – Direct Payments)	8.5	116,283,282	100,00,000
Net cash flow from financing activities		280,412,929	528,598,759
NET INCREASE IN CASH AND CASH EQUIVALENT		(9,516,394)	(5,762,086)
Cash and cash equivalent at BEGINNING of the year		10,325,800	16,087,886
Cash and cash equivalent at END of the year		809,406	10,325,800

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 20/5/2020 and signed by:

Principal Secretary

Name: Harry Kimtai, CBS

Programme Coordinator

Name: Dr. Moses Kembe, PhD

Programme Accountant:

Name: Christopher Kingi

ICPAK Member Number: 9467

Smallholder Dairy Commercialisation Programme
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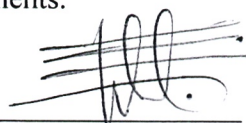
7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	82,000,000	-	82,000,000	82,000,000	-	100%
Proceeds from domestic and foreign grants	2,200,000	(2,200,000)	-	-	-	-
Proceeds from borrowings	584,232,528	(246,259,428)	337,973,100	280,412,929	57,560,171	83%
Miscellaneous receipts			-	10,962,182	(10,962,182)	-
Total Receipts	668,432,528	(248,459,428)	419,973,100	373,375,111	46,597,989	89%
Payments						
Compensation of employees	55,740,000	(9,740,000)	46,000,000	45,916,714	83,286	100%
Purchase of goods and services	265,586,108	(58,658,647)	206,927,461	186,605,833	20,321,628	90%
Social security benefits	13,310,000	(644,766)	12,665,234	12,606,715	58,519	100%
Acquisition of non-financial assets	303,796,420	(152,121,015)	151,675,405	135,037,578	16,637,827	89%
Transfers to other government entities			-	-	-	-
Other grants and transfers	30,000,000	(27,295,000)	2,705,000	2,703,000	2,000	100%
Total Payments	668,432,528	(248,459,428)	419,973,100	382,869,840	37,103,260	91%

Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.



Principal Secretary
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Programme Coordinator
Name: Dr. Moses Kembe, PhD



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8. NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these financial statements are set out below:

8.1. Basis of Preparation

8.1.1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

8.1.2. Reporting entity

The financial statements are for the *Smallholder Dairy Commercialization Programme* under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation Public Finance Management Act, 2012.

8.1.3. Reporting currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Programme and all values are rounded to the nearest Kenya Shilling.

8.2. Significant Accounting Policies

a) Recognition of receipts

The Programme recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

• Transfers from the Exchequer

Transfer from Exchequer is to be recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

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• **External Assistance**

External assistance is received through grants and loans from multilateral and bilateral development partners.

Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Programme or any other debt the Programme may take on will be treated on cash basis and recognized as a receipt during the year they were received.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Programme currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the Programme is anticipated to continue to completion. An analysis of the Programme's undrawn external assistance is shown in the funding summary.

• **Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognised in the financial statements the time associated cash is received.

b) Recognition of payments

The Programme recognises all payments when the event occurs and the related cash has actually been paid out by the Programme.

• **Compensation of employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

• **Use of goods and services**

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

• **Interest on borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

• **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

• **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by Smallholder Dairy Commercialization Programme and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

c) In-kind donations

In-kind contributions are donations that are made to the Programme in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Programme includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) 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 the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits.

e) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

f) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Programme at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Programme's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Programmes are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Programme's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

h) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year Kshs 116,283,282 being loan disbursements were received in form of direct payments from third parties.

i) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Programme operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

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SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Comparative figures

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

k) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the period ended March 31, 2020.

l) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.3. RECEIPTS FROM GOVERNMENT OF KENYA

These represent counterpart funding and other receipts from government as follows:

	2019/20 KShs	2018/19 KShs	Cumulative to-date
<i>Counterpart funding through Ministry</i>			
Counterpart funds Quarter 1	-	-	-
Counterpart funds Quarter 2	82,000,000	30,396,158	-
Counterpart funds Quarter 3	-	-	-
Counterpart funds Quarter 4	-	27,153,298	-
	<u>82,000,000</u>	<u>57,549,456</u>	<u>375,333,565</u>

8.4. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the 9 months to 31 March 2020 no grants were received from donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	Grants received in cash	Grants received as direct payment *	Grants received in kind	Total amount in KShs	
						FY 2019/20 KShs	FY 2018/19 KShs
Grants Received from Multilateral Donors (International Organisations)							
IFAD			-			-	2,074,558
Total			-			-	2,074,558

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.5. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 9 months to 31 March 2020 we received funding from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

Name of Donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment*	Total amount in KShs	
					FY19/20	FY18/19
			KSh			
Loans Received from Multilateral Donors (International Organisations)						
IFAD	2019/20	-	164,129,647	116,283,282	280,412,929	528,598,759
Total			164,129,647	116,283,282	280,412,929	528,598,759

8.6. MISCELLANEOUS RECEIPTS

	FY 2019/20			FY 2018/19	Cumulative to- date
	Receipts controlled by the entity in Cash	Receipts controlled by third parties	Total Receipts		
	KSh	KSh	KSh	KSh	KSh
Fines, penalties and forfeitures	10,644,622	-	10,644,622	-	11,191,011
Other receipts not classified elsewhere	317,560	-	317,560	502	704,437
	10,962,182	-	10,962,182	502	11,895,448

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8.6.1 OTHER RECEIPTS

COST CENTRE	2019/20	2018/19	Cumulative to-date
	KShs	KShs	
PCU - Nakuru	317,560	-	626,806
Nakuru County	-	-	40,728
Total	<u>317,560</u>	=	<u>667,534</u>

Note: These receipts are as a result of payroll recoveries for losses by staff.

8.6.2 FINES, PENALTIES AND FORFEITURES

COST CENTRE	2019/20	2018/19	Cumulative to-date
	KShs	KShs	
PCU - Nakuru	10,644,622	-	11,191,011
Total	<u>10,644,622</u>	=	<u>11,191,011</u>

Note: The cumulative receipt is as a result of surrender of cash by Equity Group Foundation for consultancy work done.

8.7. COMPENSATION OF EMPLOYEES

	FY 2019/20			FY 2018/19	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
-	KShs	KShs	KShs	KShs	KShs
Basic wages of temporary employees	45,916,714	-	45,916,714	86,008,537	534,424,914
Total	<u>45,916,714</u>	=	<u>45,916,714</u>	<u>86,008,537</u>	<u>534,424,914</u>

Smallholder Dairy Commercialisation Programme
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For the Period Ended March 31 2020

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.8. PURCHASE OF GOODS AND SERVICES

	FY 2019/20			FY 2018/19			Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	
	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Utilities, supplies and services	1,020,000		1,020,000	1,568,742		1,568,742	7,285,620
Communication, supplies and services	997,833		997,833	3,366,055		3,366,055	27,381,051
Domestic travel and subsistence	30,418,455		30,418,455	75,997,564		75,997,564	515,005,860
Foreign travel and subsistence	608,455		608,455	7,442,845		7,442,845	39,638,755
Printing, advertising and – information supplies & services	2,651,462		2,651,462	9,897,987		9,897,987	74,219,026
Rentals of produced assets	-		-	205,000		205,000	3,314,245
Training payments	67,704,067		67,704,067	112,035,273		112,035,273	779,987,271
Hospitality supplies and services	5,235,696		5,235,696	19,332,547		19,332,547	58,070,512
Insurance costs	445,737		445,737	5,297,868		5,297,868	23,388,929
Specialised materials and services	-		-	23,559,892		23,559,892	118,531,073
Office and general supplies and services	2,102,657		2,102,657	5,417,187		5,417,187	33,916,984
Fuel oil and Lubricants	2,658,693		2,658,693	11,831,938		11,831,938	51,894,069
Other operating payments	30,814,841	38,400,231	69,215,072	30,720,723		30,720,723	309,855,250
Routine maintenance – vehicles and other transport equipment	896,593		896,593	3,614,977		3,614,977	46,138,402
Routine maintenance- – other assets	2,651,113		2,651,113	8,503,882		8,503,882	21,058,312
Total	148,205,602	38,400,231	186,605,833	318,792,480	=	318,792,480	2,109,685,358

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8.9. SOCIAL SECURITY BENEFITS

	FY 2019/20			FY 2018/19	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Government pension and retirement benefits	12,606,715	-	12,606,715	-	36,215,089
Total	12,606,715	-	12,606,715	-	36,215,089

8.10. ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2019/20			FY 2018/19			Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	
	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Purchase of buildings	-	-	-	-	-	-	-
Construction of buildings	16,051,514	-	16,051,514	9,499,997	-	9,499,997	67,703,076
Refurbishment of buildings	-	-	-	-	-	-	90,601,770
Construction of civil works	-	-	-	1,150,000	-	1,150,000	7,582,123
Purchase of vehicles & other transport equipment	20,200,000	-	20,200,000	-	-	-	113,861,758
Purchase of household furniture & institutional equipment	-	-	-	3,867,117	-	3,867,117	3,867,117
Purchase of office furniture & general equipment	2,398,285	-	2,398,285	167,858	-	167,858	12,757,229
Purchase of specialised plant, equipment and machinery	18,504,728	77,883,051	96,387,779	20,419,641	100,000,000	120,419,641	503,638,019
Purchase of certified seeds, breeding stock and live animals	-	-	-	12,209,840	-	12,209,840	57,912,487
Rehabilitation of civil works	-	-	-	256,050	-	256,050	759,715
Total	57,154,527	77,883,051	135,037,578	47,570,503	100,000,000	147,570,503	858,683,294

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.11. TRANSFERS TO OTHER GOVERNMENT ENTITIES

During the 9 months to 31 March 2020, no funds were transferred to reporting government entities as shown below:

	FY 2019/20			FY 2018/19	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KSh	KSh	KSh	KSh	KSh
Transfers to National Government entities					
Exchequer Transfer	-	-	-	-	222,502
TOTAL	=	=	=	=	<u>222,502</u>

8.12. OTHER GRANTS AND TRANSFERS AND PAYMENTS

	FY 2019/20			FY 2018/19	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Transfers to lower levels i.e. beneficiary groups	2,703,000	-	2,703,000	39,417,025	182,402,308
Total	<u>2,703,000</u>	=	<u>2,703,000</u>	<u>39,417,025</u>	<u>182,402,308</u>

8.13. CASH AND CASH EQUIVALENTS CARRIED FORWARD

	2019/20	2018/19
	KShs	KShs
Bank accounts (Note 8.13A)	809,406	10,325,800
Cash in hand (Note 8. 13B)	-	-
Cash equivalents (short-term deposits)	-	-
Total	<u>809,406</u>	<u>10,325,800</u>

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The Programme has twelve commercial bank accounts spread within the Programme implementation area and managed by the Programme staff and two foreign currency designated accounts and other two central bank (local currency) managed by the National Treasury as listed below:

8.13. A Bank Accounts

Programme Bank Accounts

	2019/20	2018/19
	KShs	KShs
<u>Foreign Currency Accounts</u>		
Citi Bank, New York [A/c No: 36250968] - Loan A/C	-	21,665
Citi Bank, New York [A/c No: 36251039] - Grant A/C	-	-
Total Foreign Currency balances	<u>=</u>	<u>21,665</u>
<u>CBK - Local Currency Accounts</u>		
Central Bank of Kenya [A/c No: 1000236205] - Loan A/C	-	-
Central Bank of Kenya [A/c No: 1000236191] - Grant A/C	-	-
Total CBK - Local Currency balances	<u>=</u>	<u>=</u>
<u>Total Commercial Banks - Local Currency Accounts</u>		
Co-operative Bank of Kenya [A/c No: 01120025232501] - Nakuru	714,153	9,849,039
Co-operative Bank of Kenya [A/c No: 01120025232500] - Nakuru	95,253	95,253
Co-operative Bank of Kenya [A/c No: 01120025798200] - Nakuru	-	178,208
Kenya Commercial Bank [A/c No: 1105204499] - Kitale	-	144,990
Kenya Commercial Bank [A/c No: 1107201179] - Webuye	-	516
Kenya Commercial Bank [A/c No: 1102063657] - Bungoma	-	630
Kenya Commercial Bank [A/c No: 1102545708] - Eldoret	-	16,902
Kenya Commercial Bank [A/c No: 1103336126] - Nyamira	-	14,146
Kenya Commercial Bank [A/c No: 1102024996] - Kisii Main	-	2,931
Kenya Commercial Bank [A/c No: 1102097764] - Kapsabet	-	894
Kenya Commercial Bank [A/c No: 1105840190] - Bomet	-	626
Total Commercial Banks - Local Currency Accounts Balances	<u>809,406</u>	<u>10,304,135</u>
Total bank account balances	<u>809,406</u>	<u>10,325,800</u>

- i. The County Programme accounts were closed during the financial year and all balances transferred to the Programme Coordination Unit (PCU) account as brought forward at the beginning of the financial year.
- ii. The balances in the Programme's Designated Account(s) (offshore in USD) as at 1st March 2020 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

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Special Deposit Accounts

Below is the Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

Special Deposit Accounts Movement Schedule

	2019/20	2018/19
	KShs	KShs
(i) Central Bank of Kenya [A/c No: 1000236205] – Special PMG Loan A/C		
Opening balance	-	118,561
Total amount deposited in the account	164,129,647	528,598,759
Total amount withdrawn (as per Statement of Receipts & Payments)	164,129,647	528,717,320
Closing balance (as per SDA bank account reconciliation attached)	=	=
(ii) Central Bank of Kenya [A/c No: 1000236205] - Special PMG Grant A/C		
Opening balance (as per the SDA reconciliation)	-	584,270
Total amount deposited in the account	-	2,074,558
Total amount withdrawn (as per Statement of Receipts & Payments)	-	2,658,828
Closing balance (as per SDA bank account reconciliation attached)	=	=

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.14. FUND BALANCE BROUGHT FORWARD

	2019/20	2018/19
	KShs	KShs
Bank accounts	10,325,800	16,087,886
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Outstanding imprests and advances	-	-
Total	<u>10,325,800</u>	<u>16,087,886</u>

8.15. PRIOR YEAR ADJUSTMENT

	2019/20	2018/19
	KShs	KShs
Bank accounts	(21,665)	(2,196,815)
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Receivables - Outstanding Imprest	-	-
Total	<u>(21,665)</u>	<u>(2,196,815)</u>

Ksh 21,655 was the opening balance in the Citi Bank, New York [A/c No: 36250968] - Loan A/C in foreign currency of USD 209.43 translated at an exchange rate of 103.45 as at 30th June 2019.

However, the amount has been restated in the Statement of Financial Assets through the prior year adjustment above since they are below the line items and were yet to be drawn into the Exchequer Account as a voted provision.

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9. STATEMENT OF OPERATING PERFORMANCE FOR THE PERIOD ENDED 31ST MARCH 2020 (BY CATEGORY)

	2019/20	2018/19	CUMULATIVE TO DATE
	Kshs	Kshs	Kshs
BALANCE B/F			
Cash at Hand - Loan	8.13 B	-	-
Cash at Bank - Loan Account	8.13 A	10,230,547	13,957,994
Cash at Bank - Grant Account	8.13 A	95,253	2,129,892
Prior Year Adjustment	8.15	(21,665)	(2,196,815)
		10,304,135	13,891,071
RECEIPTS:			
Government Counterpart Funds	8.3	82,000,000	57,549,456
External Assistance:			
- IFAD Funds (transfer from Special A/c)			
Loan Revenue	8.5	164,129,647	428,598,759
Grant Revenue	8.4	-	2,074,558.00
- IFAD Direct Payments Loan	8.5	116,283,282	100,000,000
- IFAD Direct Payments Grant		-	-
- Other Donor Funds (Financing Facility Grant)		-	-
- Foreign Exchange Gain/Loss		-	502
- Other Receipts		10,962,182	-
TOTAL RECEIPTS		373,375,111	588,223,275
TOTAL FUNDS AVAILABLE		383,679,246	602,114,346
PAYMENTS:			
A/ Loan Expenditure			
- Non Current Assets:			
Civil Works		16,176,218	13,254,356
Vehicles, Equipment & Materials		116,689,892	125,813,969
- Technical Assistance, Training & W/Shops		182,142,890	298,020,168
- Contracts for Service Provision		-	-
- Grants for Dairy Enterprises		-	-
- Incremental Operating Costs:			
Salaries & Allowances		55,807,372	86,008,537
Vehicles & Office Operating Expenses		12,053,467	68,691,515
B/ Grant Expenditure			
- Financing Facility Costs		-	-
- National Technical Assistance & Policy		-	-
Dairy Goat Development Costs		-	-
-Exchequer Transfers	8.11	-	-
TOTAL PAYMENTS		382,869,840	591,788,545
BALANCE C/F			
Cash at Hand - Loan	8.13 B	-	-
Cash at Bank - Loan Account	8.13 A	714,153	10,230,547
Cash at Bank - Grant Account	8.13 A	95,253	95,253
		809,406	10,325,800

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10. STATEMENT OF OPERATING PERFORMANCE FOR THE PERIOD ENDED 31ST MARCH 2020 (BY COMPONENT)

	2019/20	2018/19	CUMULATIVE TO DATE
	Kshs	Kshs	Kshs
BALANCE B/F			
Cash at Hand - Loan	8.13 B	-	-
Cash at Bank - Loan Account	8.13 A	10,230,547	13,957,994
Cash at Bank - Grant Account	8.13 A	95,253	-
Prior Year Adjustment	8.15	(21,665)	(2,196,815)
	10,304,135	13,891,071	-
RECEIPTS:			
Government Counterpart Funds	8.3	82,000,000	57,549,456
External Assistance:			
- IFAD Funds (transfer from Special A/c)			
Loan Revenue	8.5	164,129,647	428,598,759
Grant Revenue	8.4	-	2,074,558.00
- IFAD Direct Payments Loan	8.5	116,283,282	100,000,000
- IFAD Direct Payments Grant		-	12,359,108
- Other Donor Funds (Financing Facility Grant)		-	3,393,280
- Foreign Exchange Gain/Loss		502	37,164
- Other Receipts		10,962,182	-
TOTAL RECEIPTS		373,375,111	588,223,275
TOTAL FUNDS AVAILABLE		383,679,246	602,114,346
PAYMENTS:			
Expenditure By Component			
Non A Current Assets:			
A/1 - Organization and Enterprise Skills		75,785,907	88,150,075
B/2 - Technical Support to Smallholder Dairy Producers		64,420,720	97,504,193
C/3- Development of the Milk Marketing Chain		100,440,510	173,284,227
D - Support to Policy and Institutions			175,694,238
E/4 - Programme Management and Coordination		142,222,703	232,850,050
-Exchequer Transfers	8.11		222,502
TOTAL PAYMENTS		382,869,840	591,788,545
BALANCE C/F			
Cash at Hand - Loan	8.13 B	-	-
Cash at Bank - Loan Account	8.13 A	714,153	10,230,547
Cash at Bank - Grant Account	8.13 A	95,253	95,253
		809,406	10,325,800

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11. TRIAL BALANCE AS AT 31 MARCH 2020

GENERAL LEDGER ITEM DESCRIPTION	DR	CR
Opening Balance		10,325,800
GOK Counterpart Funds		82,000,000
IFAD Loan Revenue		164,129,647
IFAD Direct Payments (AIA)		116,283,282
Prior Year Adjustment		(21,665)
Other Receipts		10,962,443
Basic wages of temporary employees	45,916,714	
Utilities, supplies and services	1,020,000	
Communication, supplies and services	997,833	
Domestic travel and subsistence	30,418,455	
Foreign travel and subsistence	608,455	
Printing, advertising and information supplies & services	2,651,462	
Training expenses	67,704,067	
Hospitality supplies and services	5,235,696	
Insurance costs	445,737	
Office and general supplies and services	2,102,657	
Fuel oil and Lubricants	2,658,693	
Other operating expenses	69,215,072	
Routine maintenance – vehicles and other transport equipment	896,593	
Routine maintenance – other assets	2,651,113	
Government pension and retirement benefits	12,606,715	
Construction of buildings	16,051,514	
Purchase of vehicles & other transport equipment	20,200,000	
Purchase of office furniture & general equipment	2,398,285	
Purchase of specialised plant, equipment and machinery	96,387,779	
Transfers to lower levels of government e.g schools	2,703,000	
Closing Bank Balance	809,406	
TOTAL	383,679,246	383,679,246

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**12. SOEs WITHDRAWAL APPLICATION STATEMENT FOR THE PERIOD ENDED
31ST MARCH 2020**

WA No.	Date	Payment Method	Total (KES)	USD Equiv.	Rejected/Justified (USD)	Reimbursed (KES)	Reimbursed (USD)
Loan No. 2000001408							
25	30.09.2019	Replenishment	73,369,703	727,056.24	363,528.12	37,705,136	363,528.12
26	30.09.2019	Replenishment	94,932,735	543,014.40	108,602.88	45,057,163	434,411.52
28	10.12.2019	Replenishment	266,231,010	2,080,136.88	1,456,095.81	63,602,266	624,041.07
33	19.02.2020	Replenishment	90,974,342	877,114.75	701,691.80	17,765,082	175,422.95
34	18.03.2020	Replenishment	33,104,839	319,175.07	319,175.07	-	-
35	18.03.2020	Replenishment	26,127,122	256,349.31	256,349.31	-	-
Total (Replenishment WAs)			584,739,751	4,802,846.65	3,205,442.99	164,129,647	1,597,403.66
29	08.01.2020	Direct Payment	50,459,120	504,908.51	-	50,459,120	504,908.51
30	08.01.2020	Direct Payment	27,423,931	274,411.76	-	27,423,931	274,411.76
31	08.01.2020	Direct Payment	22,103,570	221,174.70	-	22,103,570	221,174.70
32	08.01.2020	Direct Payment	16,296,661	162,428.37	-	16,296,661	162,428.37
Total (Direct Payment WAs)			116,283,282	1,162,923.34	-	116,283,282	1,162,923.34
GRAND TOTAL			701,023,033	5,965,769.99	3,205,442.99	280,412,929	2,760,327.00

Notes:

1. Withdrawal Applications (WA) 25, 26 and 28 were funded in the year under review, but they relate to expenditure incurred for the year 2018/19.
2. Withdrawal Application (WA) for direct payment refers to the current financial year under review but not for reimbursement as they were paid directly to the supplier by the donor.

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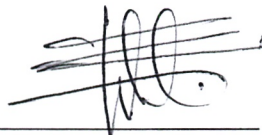
13. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
N/A	N/A	N/A	N/A	N/A	N/A



Principal Secretary
Name: Harry Kimtai, CBS



Programme Coordinator
Name: Dr. Moses Kembe, PhD



Programme Accountant
Name: Christopher Kingi
ICPAK Member Number: 9467

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ANNEX 1: VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities	82,000,000	82,000,000	-	100%	
Proceeds from domestic and foreign grants	-	-	-	-	
Proceeds from borrowings	337,973,100	280,412,929	57,560,171	83%	(i)
Miscellaneous receipts	-	10,962,182	(10,962,182)	-	
Total Receipts	419,973,100	373,375,111	46,597,989	89%	
Payments					
Compensation of employees	46,000,000	45,916,714	83,286	100%	
Purchase of goods and services	206,927,461	186,605,833	20,321,628	90%	
Social security benefits	12,665,234	12,606,715	58,519	100%	
Acquisition of non-financial assets	151,675,405	135,037,578	16,637,827	89%	(ii)
Transfers to other government entities	-	-	-	-	
Other grants and transfers	2,705,000	2,703,000	2,000	100%	
Total payments	419,973,100	382,869,840	37,103,260	91%	

Explain all variance below 90% and above 100%

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- i) *Some activities could not be carried out due to the short period of only three months for implementation of the activities up to 30th September 2019 the completion date, after which only closure activities were allowed and therefore no reimbursement of expenditures was allowed.*
- ii) *Lengthy evaluation process of the proposals together with delayed receipt of funds delayed disbursement of grants to the beneficiaries.*

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ANNEX 2: ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2020	Outstanding Balance 2019	Comments
	a	b	c	d=a-c		
Construction of buildings	-		-	-		
Sub-Total	-		-	-		
Construction of civil works	-		-	-		
Sub-Total	-		-	-		
1. Supply of goods						
Finken Holdings Ltd	169,676,800	29.11.2018	154,280,620	15,396,180		
Superex General Merchants	2,372,286	25.03.2019	2,045,074	327,212		
Sub-Total	172,049,086		156,325,694	15,723,392		
2. Supply of services						
CMC Motors	1,084,436	23.09.2019	-	1,084,436		
Sub-Total	1,084,436		-	1,084,436		
Grand Total	173,133,522		156,325,694	16,807,828		

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ANNEX 3: SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost	*Purchases/Additions in the Year	**Disposals in the Year	Transfers in/(out)	Closing Cost
	(KShs)	(KShs)	(KShs)	Kshs	(KShs)
	2019/20	2019/20	2019/20	2019/20	2019/20
	(a)	(b)	(c)		(d)= (a)+(b)-(c)-(d)
Land					-
Buildings and structures	61,033,407	16,051,514		(77,084,921)	-
Transport equipment	135,081,224	20,200,000		(155,281,224)	-
Office equipment, furniture and fittings	88,376,879	2,398,285		(90,775,164)	-
ICT Equipment, Software and Other ICT Assets	-	-		-	-
Other Machinery and Equipment	124,286,758	96,387,779		(220,674,537)	-
Heritage and cultural assets	-			-	-
Biological assets	12,209,840	-		(12,209,840)	-
Infrastructure assets roads, rails					-
Intangible assets					-
Work in Progress					-
Total	420,988,108	135,037,578	-	(556,025,686)	-

