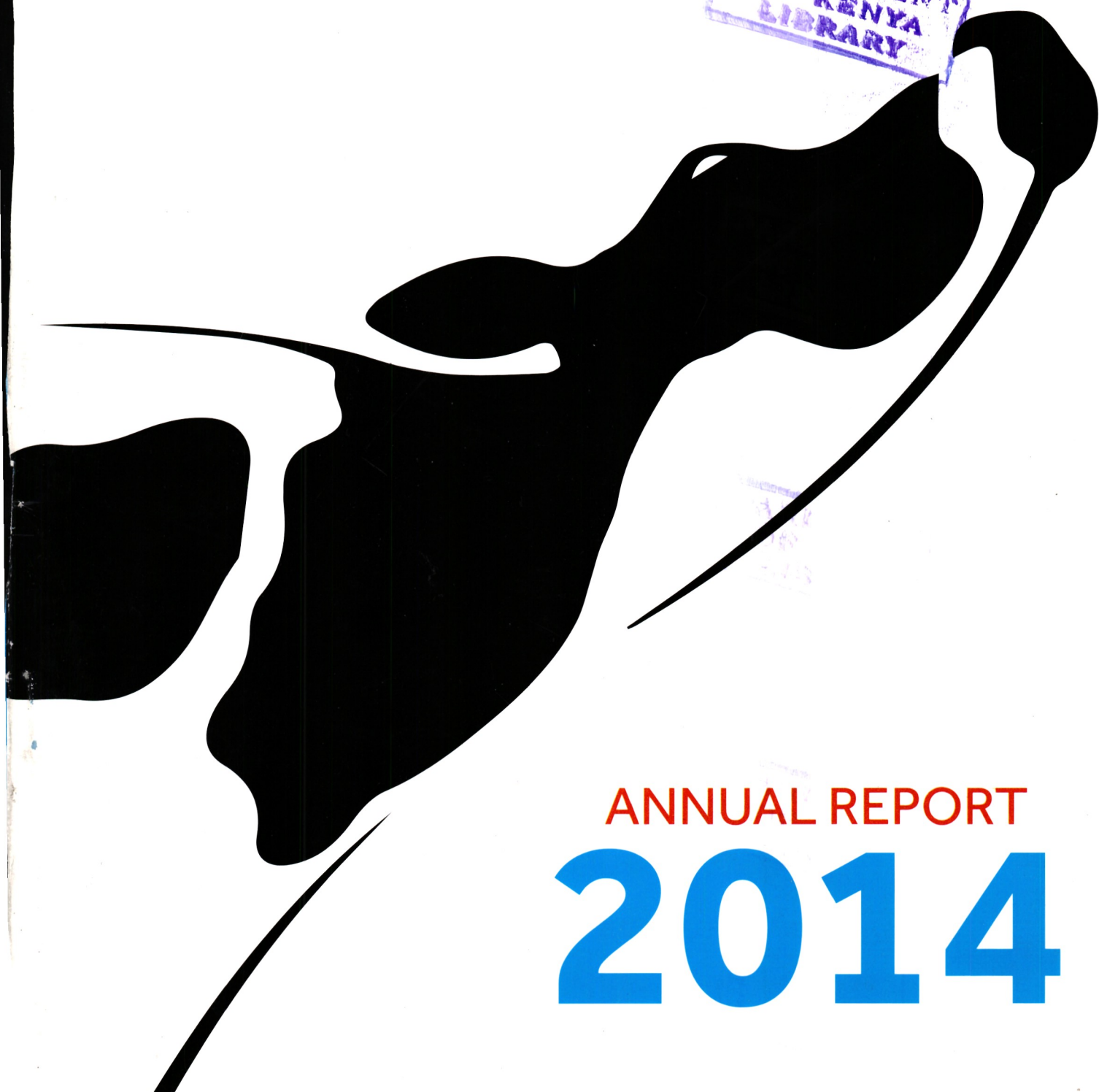


KENYA DAIRY BOARD
dbo

"Quality milk for health"

PARLIAMENT
OF KENYA
LIBRARY



ANNUAL REPORT
2014

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KEY BOARD'S INFORMATION AND MANAGEMENT

(a) Background Information

The Board was established in 1958 through an Act of Parliament, the Dairy Industry Act, Cap 336.

(b) Principal Activities

The mandate of the Board is to regulate, promote and develop Dairy industry in Kenya.

(c) Key Management

The Board's day to day Management is under the following key organs;

- Managing Director
- Technical Services Manager
- Administrative Manager
- Finance Manager

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30 June 2014 and who had direct fiduciary responsibility were:

No. Designation	Name
1. Managing Director	Machira Gichohi
2. Technical Services Manager	Dr. Philip Cherono
3. Administrative Manager	Peter Mutua
4. Finance Manager	Humphrey Maina

(e) Fiduciary Oversight Arrangement

Audit Committee

Alice J. Chesire
Abdullahi Idris Yusuf
Samuel Wachira
Philomena Koech

Finance Committee

Everett S. Wafula
Paul B. M. Ngugi
Abdullahi Idris Yusuf
Teresia K. Nyakweba

(f) Kenya Dairy Board Headquarters

NSSF Building, Block A
Eastern Wing, 10th Floor
P.O. Box 30406
GPO 00100
Nairobi, Kenya

(g) Contacts

Telephone: (020) 310559, 341302
E-mail: info@kdb.co.ke
Website: www.kdb.co.ke

(h) Bankers

Kenya Commercial Bank Limited
Milimani Branch, NSSF Building
P.O. Box 69695
Tom Mboya 00400
Nairobi, Kenya.

Co-operative Bank of Kenya Limited
Coop House Branch, Haile Selassie Avenue
P.O. Box 48231
City Square 00200
Nairobi, Kenya

National Bank of Kenya Limited
Harambee Avenue Branch
P.O. Box 72866
City Square 00200
Nairobi, Kenya

(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

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

BOARD OF DIRECTORS



1

Martha K. Mulwa



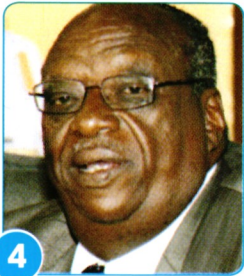
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**Machira Gichohi, MBS
CEO/Secretary to the Board**



3

Everett S. Wafula



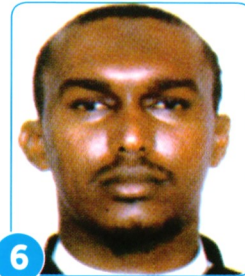
4

Hon. Matu Wamae, EBS



5

Alice J. Chesire



6

Abdullahi Idris Yusuf



7

Saida Shukri Gafu

1. Mrs. Martha K. Mulwa was born in 1952. She is Non - Executive Chairperson to the Board. She holds a Master of Arts degree from the Durham University, Bachelor of Arts degree from University of Nairobi as well as a Post Graduate Diploma in Education from Kenyatta University. She is the Managing Director of Lukenya Group of Schools comprising of Lukenya High School, Lukenya IGCSE School and Lukenya Academy. As an entrepreneur, Mrs. Mulwa brings a wealth of experience in management and commercial experience.
2. Mr. Machira Gichohi was born in 1961. He received his Bachelors degree in Food Science and Technology, Post-graduate Diploma in Production Management and MBA in Strategic Management from the University of Nairobi, Herriot Watt University Scotland and Moi University respectively. He has a wealth of experience in management and administration having worked in different capacities in government organizations as well as the private sector. The most notable includes Production Manager Kenya Tea Development Authority, Production Engineer/ Brewer Kenya Breweries Ltd, Process Manager British American Tobacco Kenya, and Consultant Manager of the UNDP Poverty Alleviation Project.
3. Mr. Everett S. Wafula is Non - Executive Vice chairman to the Board. He holds a Masters of Business Administration (strategic Management) from Moi University and Bachelor of Science in Agriculture from University of Eastern Africa, Baraton. He is a seasoned development expert with over 20 years experience demonstrated in successful coordination and implementation of bi- lateral development projects and non-governmental organisations. He is currently the Chief of Staff, Bungoma County Government. He brings to the Board a huge wealth of experience in Project Planning, implementation and result based monitoring and evaluation.
4. Hon. Matu Wamae was born in 1938. He is a Non - Executive Director representing Processors in the Board. He holds a Bachelors Degree in Economics from the University of Delhi, India. Additionally, he has undertaken several other courses including Central Banking and Reserve Banking. He has served the Government of Kenya in Various capacities, which culminated to his appointment as the Executive Director of the Industrial and Commercial Development Corporation. He has also served as a member of Parliament for three terms and a Director in many public and private sector institutions and currently the Chairman of New KCC. Hon Wamae is a renowned Dairy farmer and an accomplished Businessman.
5. Mrs. Alice Chesire was born in 1958. She is a Non-Executive

BOARD OF DIRECTORS



8

James Karanja Ndung'u



9

Samuel Wachira



10

Shifo Farah



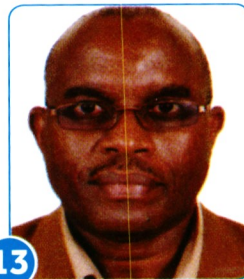
11

Omolo Kayila, HSC



12

Kenny Matampash



13

Paul B. M. Ngugi, MBS



14

Philomena Koech, EBS



15

Teresia K. Nyakweba

Director representing farmers from North Rift Region. She is a holder of a Diploma in Agriculture from Egerton University and a member of Kenya Institute of Directors. She has served as a Board member in Horticultural Crops Development Authority (HCDA), Fresh Produce Exporters Organisation, Mospa Limited among others. She's currently the Managing Director to Mospa Limited and a Director to Indicus E.A Limited, Sote Flowers and Makongji Farm. She is an accomplished Entrepreneur with a passion in agriculture, particularly livestock breeding and maize production.

6. Mr. Abdullahi Yusuf was born in 1985. He is a Non-Executive Director representing farmers in North Eastern Region. He holds a Bachelor of Business Management Degree from GCT Raiwind Lahore University, Pakistan and currently pursuing a Masters Degree in Financial Management in University of South Africa (UNISA). He is also a Director at Azhar Construction Company Limited.

7. Mrs. Saida Shukri Gafu was born in 1961. She is a Non - Executive Director representing farmers

in Upper Eastern Region. She holds a Certificate in East African Business as well as a number of Certificates from the Kenya School of Government. She has previously served in the Ministry of Water and she brings to the Board over 33 years experience in public service.

8. Mr. James Karanja was born in 1937. He is a trained Teacher by profession. He is a Non -Executive Director representing Breeders at the Board. He is a Director of Pokea Dairy Farm. Pokea Dairy Farm is a project that buys dairy genetic products (Bull Semen in straws) from Germany and distributes the same to Dairy Farmers in Kenya through various agents and Dairy Farmers Co-operatives. Similarly, the farm is involved in training farmers on better methods of Dairy farming and advising on the quality bulls for use in artificial insemination for better quality offsprings and maximization of milk production.

9. Mr. Samuel Wachira was born in 1956. He is a Non - Executive Director representing farmers from Central Region. He holds a Bachelor of Arts degree in Theology and Counselling from Tangaza Seminary and an

international certification by the Institute of Data Processing & Management from Inoorero University. He is a former Director of Acacia Pharmacy Limited and Annunciation Pharmacy. He is a renowned businessman in farming and general supplies as well as a Consultant in Guidance and Counselling.

10. Mrs. Shifo Farah was born in 1956. She is a Non - Executive Director representing farmers in Upper Eastern Region. She holds a Diploma in Airline Safety from IATA and Certificate in Flight Attendance. She is currently an Instructor at Kenya Airways, Director - Synopsis Consulting Limited and Chairperson to Community Empowerment and Support Network (CESAN), Isiolo.

11. Mr. Omolo Kayila was born in 1941. He is a Non -Executive Director representing farmers from Nyanza Region. He holds a Masters in Public Administration from Pennsylvania State University, USA and a Bachelor of Commerce Degree from the University of Nairobi. His main area of expertise entails: Training Needs Assessment, Training Design, Implementation,

BOARD OF DIRECTORS CTD

Evaluation, Urban Finance, Organisation Development as well as Development and Management. He has served the Government of Kenya in various capacities in Finance which culminated to his appointment as the Principal, Government Training Institute (Now Kenya School of Government), Mombasa.

12. Mr. Kenny Matampash was born in 1953. He is a Non - Executive Director representing Farmers in the South Rift. He holds a Post Graduate Diploma in Rural Policy and Project Planning from Institute of Social Studies, The Hague, Governance and Democracy Studies at Washington DC, Co-operative membership and Social Policy at Coady Institute - Halifax, Canada. He is the founding member and Executive Director of Neighbours Initiative Alliance, a Non Governmental Organisation in Kajiado County.
13. Mr. Paul Ngugi was born in 1952. He is a Non-Executive Director representing farmers from Central region. He holds a Masters of Social Science in Development Administration from University of Birmingham (UK), Bachelor of Arts Degree from University of Nairobi and Diploma of Professional Development in Management with Specialization in Budgeting and Financial Management from University of Connecticut (USA). He has served the Government in various capacities rising through the rank to Director of Budget, National Treasury. He has also served as Alternate Director in different Boards among them Kenya Roads Board, Housing Finance, Kenya Meat Commission, CDF Board, National Oil Corporation and Humanitarian Fund.
14. Mrs. Philomena Koech was born in 1957. She is the Alternate Director to the PS. Ministry of Agriculture, Livestock and Fisheries. She holds a Masters in Business Administration from Eastern and Southern Africa Management Institute and Bachelor of Arts degree from the University of Nairobi. She has served the Government of Kenya in various Capacities rising through the ranks to Provincial Commissioner. She is the current Director of Administration in the Ministry of Agriculture, Livestock and Fisheries.
15. Mrs. Teresia K. Nyakweba Alternate Director to the PS, National Treasury. She is a holder of a Masters Degree and Certified Public Accountant of Kenya, CPA(K). In addition to that, she is a member of the Institute of Certified Public Accounts of Kenya, ICPAK. She has served the Government of Kenya in Various capacities at the National Treasury where she is the current Deputy Accountant General.

MANAGEMENT TEAM



1

Machira Gichohi, MBS
Managing Director

1. Mr. Machira Gichohi holds a Master of Business Administration (Strategic Management) from Moi University, Bachelors degree in Food Science and Technology from University of Nairobi and a Post-graduate Diploma in Production Management from Herriot Watt University, Scotland.



2

Dr. Phillip Cheron, HSC
Technical Services Manager

2. Dr. Phillip Cheron holds a degree in Veterinary Medicine from the University of Nairobi and a post graduate Diploma in International Food Audit Systems. He has vast work experience in public and private sector. He is a Certified Trainer on Corporate Governance and a member of the Institute of Directors, Kenya.



3

Peter Mutua
Administrative Manager

3. Mr. Peter Mutua is a Bachelor of Arts graduate from the University of Nairobi. Mutua has undergone extensive professional training in the fields of human resource, administration, quality management systems and corporate governance. He has over 20 years' experience in the area of human resources and administration gained both in the public and private sectors.



4

Humphrey Maina
Finance Manager

4. Mr. Humphrey Maina holds a Master of Business Administration (Strategic Management) from Catholic University of Eastern Africa, Bachelor of Commerce Degree (Accounting option) from University of Nairobi and is a Certified Public Accountant, CPA (K).



Martha K. Mulwa

Population of major livestock species in Kenya by 2012



CHAIRMAN'S STATEMENT

The importance of the livestock sector in Kenya is manifested by its contribution of 12% to Kenya's Gross Domestic Product (GDP), 40% to the agricultural GDP and employment of 50% of the agricultural labour force.

The Kenyan dairy industry is an important component in livestock. It plays a significant part of the nation's economy and provides income to an estimated 1.8 million small-scale farmers. Apart from milk, dairy animals also provide manure, other marketed products such as calves and cullings as well as other intangible benefits such as insurance and status symbol. The dairy industry contributes to 14% of agricultural GDP and 4% of the national GDP. The industry is currently growing at an average rate of 5 to 7% per year.

The population of major livestock species in Kenya in 2012 was estimated at 4.2 million dairy cattle, 12 million beef cattle, 15.4 million sheep, 21 million goats and 2.8 million camels.

The landscape in the Kenyan Dairy Industry is dynamic with the most recent changes being the devolution of agriculture and livestock functions to the counties. This has created a complementary balance where the counties will be in charge of agricultural production including crops and animal husbandry, livestock sale yards, county abattoirs, plant and animal disease control and fisheries while the national government will be in charge of agricultural policy and consumer protection (including regulation) among others.

The Ministry of Agriculture, Livestock and Fisheries, our parent ministry, is continuously reviewing and developing dairy policies to create an enabling environment for the prosperity of the dairy industry. The policies that have already been developed and are guiding the development of the industry include the National Livestock Policy of 2008 and National Dairy Master Plan of 2010. Several dairy standards have also been revised and harmonized at the East Africa Community (EAC) level over the last few years.

The Kenya Dairy Board was established under the Dairy Industry Act Cap 336 of the laws of Kenya with the aim of regulating, organizing and developing the efficient production, marketing, distribution and supply of quality and safe dairy produce. The regulatory role of the Board is key for the following reasons (1) protecting public health and safety by assuring the supply of quality and safe milk products to consumers (2) stopping consumer fraud from the sale of sub-standard milk and milk products (3) suppressing unfair competition in the dairy value chain. Indeed, these are some of the fundamental rights guaranteed by the Constitution of Kenya 2010.

My Board recognizes there is a growing demand for milk and milk products in Kenya and in the export market given the growing population, increasing urbanization and an emerging middle class. In this regard, we are committed to delivering on our mandate of assuring the consumers that our milk meets the established quality and safety standards. To achieve this, we are continuously re-engineering our processes, investing in service delivery mechanisms and engaging with our stakeholders.

The support of the Government to the industry and the Board has been instrumental to our achievements. However more support will be required in certain critical areas that can drive the industry forward; these include stabilizing dairy production, managing the costs of milk production and processing, establishing strategic reserves for milk and milk products and implementing a countrywide public school milk program.

Martha Mulwa
Chairperson

Nairobi, Kenya



Machira Gichohi, MBS
Managing Director

MANAGING DIRECTOR'S STATEMENT

The importance of the Kenyan livestock sector has been recognized by Government through its various past and present national development policy documents such as the National Development Plan of 2002 to 2008, Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) of 2003 to 2007, Strategy for Revitalizing Agriculture (SRA) of 2004 of 2014, and the Kenya Vision 2030.

This recognition and support has led to the continuous growth of the Kenyan dairy industry to become the most developed within the livestock sector and among the most vibrant in Africa. Going by the last decade, milk production has grown at an average rate of 5.3% increasing from 3.2 billion litres in 2003 to 5.2 billion litres in 2013. Over the same period, the volumes of milk undergoing processing and value addition has also grown by an average rate of 7% per annum increasing from 197 million litres in 2003 to 523 million litres in 2013. This growth has maintained the status of the dairy industry as a key contributor to the national GDP (currently at 4%), employment generation (over 1.2 million Kenyans are employed by the



industry directly and indirectly) and an important source of quality nutrition to almost every household in Kenya.

The contribution of the Kenya Dairy Board to the development of the country's dairy industry has been achieved through our mandate of regulation, promotion and development. The regulatory role is primarily focused on consumer protection by assuring safe quality milk and milk products; the promotional role aims at increasing consumption and expanding markets for milk and milk products; while the developmental role aims at organizing stakeholders for the efficient production, processing and marketing of milk and milk products.

Our regulatory role is key to consumer safety as milk is a very perishable product that is highly susceptible to contamination by physical, biological and chemical hazards and also to the deliberate adulteration by unscrupulous milk dealers. In this regard we inspect and license milk handling facilities, undertake quality and safety surveillance on the milk and milk products in the market and certify milk imports and exports among other activities.

4%

The percentage the Dairy Industry is contributing to the GDP employment generation

The operations of the Board are guided by our strategic objectives which are to (a) Improve the quality of Kenyan dairy produce (b) Enhance consumption of milk and milk production (c) Develop the capacity for service delivery and stakeholder support (d) Stabilize milk production (e) Provision of timely and accurate dairy information to stakeholders (f) Improve the financial sustainability of the Board.

The operations of the Board are funded from fees, cess and levies from the dairy industry and grants from Government. The Board has continuously worked towards being funded by the industry with less reliance on Government especially on recurrent expenditures. Strategies are also being developed to diversify our income to other sources.

In the 2013/2014 period, the Board collected a total of Kshs. 241,798,637 from the industry, a drop of 4% from the Kshs. 252,494,941 million in 2012/2013. The drop was attributed to a decrease in the output of milk at the farm level which affected intakes by the formal sector. Over the same period, there was an increase in government grants from Kshs. 112,107,200 in 2012/2013 to Kshs. 231,759,557 in 2013/2014, an increase of over 100%. The increase in support was directed towards enhancing our activities on the management of the informal milk markets, promotion of milk quality,

4%

Drop in revenue from the dairy industry due to decreased output at the farm level which affected intakes at the formal level.

safety, standards, consumption and value addition among others.

The Board also undertook activities aimed at enhancing the organization and representation of stakeholders at the national and county levels to mainstream dairy production and marketing. This resulted to the creation of stakeholders and regulators forums in 22 counties and the formation of a national association of dairy farmers- Kenya Dairy Farmers Federation (KDFF). The stakeholders were also supported through capacity building on areas of milk quality, safety, standards and traceability. Four farmer groups benefited from the deployment and training on the eDairy Information Management System, a system pioneered by the Board to automate the operations of dairy farmer groups and thus enable efficient registration of dairy farmers, enhanced service delivery and traceability of dairy produce among others.

Through our inspectorate activities, the Board was also able to monitor and take corrective and preventive actions on the quality of milk and milk products in our market. The key challenges in milk quality along the Kenyan dairy value are continuously being addressed with the support of various stakeholders.

To improve the capacity for service delivery, the Board maintained the ISO 9000:2008 QMS, undertook training

22

The number of counties where stakeholders and regulators forums were created.

of staff and procured additional working tools among others.

The priorities of the Board in the coming years will be to expand our branch network to all the major milk producing counties, enhance our regulatory control on the industry for the purpose of consumer protection, transform the informal milk market, expand the marketing opportunities for Kenyan dairy produce and strengthen our partnership and collaborations with the stakeholders.

The Kenyan dairy industry has great opportunities to enhance efficiency and productivity across the value chain. Towards this end, the Board will work with the National and County Governments and other stakeholders such producers, processors, consumers and development partners to design and implement appropriate intervention measures.



**Machira Gichohi, MBS
Managing Director.**

Nairobi, Kenya

CORPORATE GOVERNANCE STATEMENT

This Statement of Corporate Governance has been established by the Board of Directors (the "Board") of Kenya Dairy Board, a state corporation established by an Act of Parliament and is intended to be a flexible framework within which the Board may conduct its business.

Ethical Standards

The Board is committed to acting with the utmost integrity and expects the same of every employee at every level of the Corporation. The Board has adopted "Standards of Business Conduct." The full text of the Standards may be found on the Board's website. The Standards of Business Conduct confirm the Corporation's policy to conduct its affairs in compliance with all applicable laws and regulations and observe the highest standards of business ethics. The Corporation intends that the spirit as well as the letter of those standards is followed by all Directors, officers and employees of the Corporation. This is communicated to each new Director, officer and employee and has already been communicated to those in positions at the time the Standards of Business Conduct were adopted. The Standards of Business Conduct deal with the following main areas:

- i) Corporate assets and information
 - (a) Board's funds and property;
 - (b) Corporate records and accounting;
 - (c) Confidential and proprietary information;
 - (d) Legal disputes;
- ii) Conflicts of interest;
- iii) Dealings with others:
 - (a) Government officials;
 - (b) Business hospitality;
 - (c) Prohibited payments;
- iv) Equal opportunity and unlawful harassment;
- v) Safety of the workplace and environmental protection; and
- vi) Relationships with competitors and other trade practices.

Employees are encouraged to raise any matters of concern with their supervisor or the relevant general counsel. The Standards of Business Conduct also apply to ensure compliance with statutory requirements and to ensure accountability at a senior management level for that compliance.

Code of Ethics for the CEO and Senior Financial Officers

To further promote ethical and responsible decision making, the Board has established a Code of Ethics for the CEO and senior officers that is included in the Board's Standards of Business Conduct.

Protection for Company "whistle-blowers"

The Board has established procedures which have been incorporated into the Corporation's Standards of Business Conduct to facilitate the submission and review of complaints from employees regarding questionable accounting, internal controls or auditing matters on a confidential and anonymous basis. These procedures enable employees to make their concerns known without fear of retaliation and in the knowledge that procedures are in place to act upon their complaints.

Stakeholder Communication

Stakeholders play an integral part in corporate governance and the Board ensures that stakeholders are kept fully informed through:

- i) Information provided on the Corporation's website (www.kdb.co.ke);
- ii) Reports and other disclosures made quarterly by the Corporation to the Ethics & Anti-Corruption Commission;
- iii) Notices and press statements of special and unprecedented events affecting the Dairy Industry.

It is the policy of the Corporation to facilitate communication of stakeholders and other interested parties with the Board and its various committees. Stakeholders may raise matters of concern at their annual meetings. In addition, any stakeholder or other interested party wishing to communicate with any Director, any committee of the Board or to the Board as a whole, may do so by submitting such communication in writing and sending it by regular mail to the attention of The Managing Director, Kenya Dairy Board, NSSF Building Block A, Eastern Wing 10th floor, P.O. Box 30406-00100 Nairobi. This information is also posted on the Corporation's website at www.kdb.co.ke.

Communication with Third Parties

The Board believes that it is, in general, the responsibility of management to speak for the Corporation in communications to outside parties (e.g. investors, the press and industry associations). Directors should only engage in such communications at the request of or after consultation with management.

Corporate Governance Review

The Audit & Governance Committee shall review this Statement no less than annually and shall recommend any changes to the Board for its approval.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

As corporate citizen, Kenya Dairy Board has been integrating the Social Responsibility in contribution to the social and environmental concerns. This is through the understanding that CSR is the only way through which the Board achieves a balance of economic, environmental and social imperatives while at the same time addressing the expectations of stakeholders.

In 2013/2014 financial year, Kenya Dairy Board with other stakeholders in the dairy industry undertook or participated in the following CSR activities:-

World Food Day

The World Food Day is celebrated annually in all counties of Kenya with the aim of creating awareness on access to food as a human right and mobilization of available resources for the eradication of poverty and hunger. The National Celebrations were held in Bungoma County at Ms. Gladys Muyundo's farm.

As Key player and Partner in the efforts to ensure food security, KDB participated as an exhibitor in the event as well as in donating items such as milk cans and sprayers to outstanding farmers and groups during the occasion.

Ahadi Kenya Trust Initiatives

As part of our CSR in caring for the jigger infested, the Board joined Ahadi Kenya and other corporates during the



7th Anniversary of Ahadi Kenya. By virtue of participating in the race we contributed to jigger eradication and also had an opportunity to join Ahadi Kenya team in its jigger removal and treatment outreach.

Renovation of Kieni East Farmers Cooling Plant

The Board assisted the above group to put up an office in their recently installed cooling plant in Kieni East. This will assist the group improve their infrastructure and capacity to bulk their milk and deliveries to processors.

MILK DONATIONS



The Board donated milk and milk products during the Mukurweini South Zone and Mathira District Education days where exemplary performance by both students and teachers were awarded. The

Board also donated milk products to Chakama Primary School in Malindi.

Umoja 1 Nursery School

In line with the CSR function, the Board participated in Umoja 1 Nursery School sports day. Each child had a role to play.



This involvement made all the children active during the games. There were different games ranging from football, marching to songs and dances.

The parents, teachers and all the visitors were not left out, they also engaged in different sports.

Objectives

1. To promote a health diet in children.
2. Encouraging the teachers to do more.
3. Sharing with the children by extending our hands to them.

The activity brought together 250 children from baby class to pre-unit school. About 100 parents and teachers attended the event. At the end of the event the staff of Kenya Dairy Board presented milk and other gifts to the children.

The Pioneer School Sports Day



The Pioneer School celebrated its annual sports day on Saturday June 28, 2014 at the School's playground. The theme of the Sports day was promoting peace through sports and talents. The school has a population of 1,080 pupils and every student participated in at least one activity that included chess, cards, scrabble, table tennis, badminton, football, swimming and others. This offered

an opportunity to students in different levels and streams to mingle beyond the assembly time. The teachers as well as the parents were also involved in various sports. As part of the Board's CSR, a team from KDB participated in this wonderful event where they also had a chance to meet the students and the Board representative gave a motivational speech. In sponsoring the event, the Board donated milk products as well as branded sports materials which included dartsets, bats, balls and rackets.

DONATIONS TO CHARITABLE INSTITUTION

Little Sisters of the Poor - Nyumba ya Wazee



Nyumba ya Wazee it's an elderly house that is owned and managed by the Catholic Nuns of the Archdiocese of Nairobi. It hosts and gives home to the elderly people who have no relatives as well as those abandoned by them. As the sun dawned on September 28, 2013 all eyes at St Francis Nyumba ya Wazee were turned to the gates. The sisters had informed the elderly that they were expecting visitors and they really pestered the sisters with questions about the expected visitors. When the day came and the team of Kenya Dairy Board arrived in style with goods loaded in their double cabin pick up, a group of women started their ululations to welcome the much awaited guests. KDB staff took most of the time chatting with the elderly who narrated all sorts of stories from the Mau Mau tales to their experiences in their early days. KDB staff were also taken round the home for a familiarisation tour.

Environmental Conservation



One of the Boards corporate duty is to conserve the environment. In line with this and the National Government's initiative to increase the national forest cover to 10% the Board planted in excess of 15,000 agro-forestry trees in all its 18 stations as well as in Kabete.

Trees were planted in collaboration with our stakeholders especially in schools, riparian areas and Government forests.

Construction of Gabion/Sand Dam

In pursuit of environmental protection and conservation the Board partnered with stakeholders in construction of gabions and sand dams in Makueni County.

REPORT OF THE DIRECTORS

The Directors submit their report together with Audited Financial Statements for the year ended 30 June 2014 which show the state of the Board's affairs.

Principal activities

The principal activities of the Board are to organise, regulate and develop the efficient production, marketing, distribution and supply of dairy produce.

Results

The results of the Board for the year ended June 30, 2014 are set out on Page 18.

Directors

The members of the Board of Directors who served during the year are shown on Page 4 to 6.

Auditors

The Auditor General is responsible for statutory audit of the Board in accordance with Section 68 of the Public Finance Management (PFM) Act, 2012.

By Order of the Board



Machira Gichohi, MBS
Secretary to the Board
Nairobi, Kenya

Date: 26th September 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Dairy Industry Act, Cap 336 of the Laws of Kenya requires the Directors to prepare financial statements in respect of the Board, which give a true and fair view of the state of affairs of the Board at the end of the financial year and the operating results of the Board for that year. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the Board. The Directors are also responsible for safeguarding the assets of the Board.

The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year ended on June 30, 2014. 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 Board; (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 mis-statements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Board's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Accounting Standards, and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Board's financial statements give a true and fair view of the state of Board's transactions during the financial year ended June 30, 2014, and of the Board's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board'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 Board 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 Board's financial statements were approved by the Board of Director's on 26th September 2014 and signed on its behalf by:



Martha Mulwa
Chairperson

Nairobi, Kenya



Machira Gichohi, MBS
Managing Director

REPORT OF THE AUDITOR - GENERAL ON KENYA DAIRY BOARD**REPUBLIC OF KENYA**

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OFFICE OF THE AUDITOR-GENERAL**REPORT OF THE AUDITOR-GENERAL ON KENYA DAIRY BOARD FOR THE YEAR ENDED 30 JUNE 2014****REPORT ON THE FINANCIAL STATEMENTS**

I have audited the accompanying financial statements of Kenya Dairy Board set out on pages 17 to 31, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, statement of cash flows, 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 14 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing (ISA). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

REPORT OF THE AUDITOR - GENERAL ON KENYA DAIRY BOARD (CTD)

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

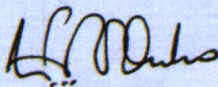
I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion**Property, Plant and Equipment**

As similarly reported in previous years, the property, plant and equipment balance of Kshs.49,324,942.00 as at 30 June 2014 includes a plot No. PDB/R163/99/15 in Narok valued at Kshs.300,000.00 allocated to the Board in the year 2000 for office development. However, despite the valuation, the Board has not obtained a title deed for the plot from the Ministry of Land, Housing and Urban Development. Consequently, it has not been possible to confirm the ownership status of the plot and that the property, plant and equipment balance of Kshs.49,324,942.00 is fairly stated as at 30 June 2014.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Dairy Board as at 30 June 2014 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Dairy Industry Act, Cap 336 of the Laws of Kenya.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

23 March 2015

STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2013-2014 Kshs	2012-2013 Kshs
Revenue from Non-exchange transactions			
Cess, levies and penalties	3	241,798,637	252,494,941
Licenses and permits	4	11,629,035	11,764,071
Transfers from the Government and others	5	231,759,557	112,107,200
		485,187,229	376,366,212
Revenue from exchange transactions			
Interest income	6	489,914	797,134
Other income	7	362,594	225,265
		852,508	1,022,399
Total revenue		486,039,737	377,388,611
Expenses			
Administration expenses	8	40,794,637	33,539,278
Board members expenses	9	8,670,356	10,108,960
Depreciation and amortization expense	10	15,019,166	14,903,814
Employee costs	11	123,213,991	110,142,025
Operating expenses	12	89,295,308	88,083,529
Development expenses	13	196,599,148	110,124,389
Other expenses	14	7,929,107	6,480,915
Total expenses		481,521,713	373,382,910
Surplus for the year		4,518,024	4,005,701

STATEMENT OF FINANCIAL POSITION

Assets	Notes	2013-2014 Kshs	2012-2013 Kshs
Current assets			
Cash and cash equivalents	19	10,759,383	10,300,240
Receivables from non-exchange transactions	17	7,360,216	20,641,214
Other receivables and prepayments	18	<u>18,979,689</u>	<u>13,962,100</u>
		<u>37,099,288</u>	<u>44,903,554</u>
Non current assets			
Property, plant and equipment	15	49,324,942	42,997,456
Intangible assets	16	<u>2,321,891</u>	<u>2,994,195</u>
		<u>51,646,833</u>	<u>45,991,651</u>
Total assets		<u>88,746,121</u>	<u>90,895,205</u>
Liabilities			
Current liabilities			
Trade and other payables from non-exchange transactions	22	8,649,489	17,057,398
Provisions	24	841,000	737,000
Gratuity provision	23	<u>3,273,600</u>	<u>1,636,800</u>
		<u>12,764,089</u>	<u>19,431,198</u>
Net assets			
Revaluation reserves	20	18,100,000	17,958,456
Accumulated surplus	21	<u>57,882,031</u>	<u>53,505,551</u>
		<u>75,982,032</u>	<u>71,464,007</u>
Total net assets and liabilities		<u>88,746,121</u>	<u>90,895,205</u>

The financial statements were approved by the Board Member's on 26th September 2014 and signed on behalf by:

Martha K. Mulwa
Chairperson



Signature

Machira Gichohi, MBS
Managing Director



Signature

STATEMENT OF CHANGES IN NET ASSETS

	Notes	Revaluation reserve Kshs	Accumulated surplus Kshs	Total Kshs
At 1 July 2012	20	17,958,456	49,499,849	67,458,305
Surplus for the year		-	4,005,701	4,005,701
At 30 June 2013		17,958,456	53,505,550	71,464,006
At 1 July 2013		17,958,456	53,505,551	71,464,007
Surplus for the year		-	4,518,024	4,518,024
Prior year adjustment	21	141,544	(141,544)	-
At 30 June 2014		18,100,000	57,882,031	75,982,031

STATEMENT OF CASH FLOWS

Cash flows from operating activities	Notes	2013-2014 Kshs	2012-2013 Kshs
Receipts			
Cess, levies and penalties		250,035,446	238,570,043
Licenses and permits		11,655,635	11,764,071
Transfers from the Government and others		231,759,557	112,107,200
Interest income		489,914	797,134
Other income		362,594	225,265
		<u>494,303,146</u>	<u>363,463,713</u>
Payments			
Administration expenses	8	40,794,637	33,539,278
Board members expenses	9	8,670,356	10,108,960
Employee costs	11	129,881,099	99,590,015
Operating expenses	12	89,295,308	88,083,529
Development expenses	13	196,599,148	110,124,389
Other expenses	14	7,929,107	6,480,915
		<u>473,169,655</u>	<u>347,927,086</u>
Net cash flow from operating activities	25	<u>21,133,491</u>	<u>15,536,627</u>
Cash flow from investing activities			
Purchase of property, plant and equipment	15	(19,508,848)	(17,406,928)
Purchase of intangible assets	16	(1,165,500)	(3,524,164)
Proceeds from sale of property, plant and equipment		-	61,215
Net cash flow used in investing activities		<u>(20,674,348)</u>	<u>(20,869,877)</u>
Net increase/(decrease) in cash and cash equivalents		<u>459,143</u>	<u>(5,333,250)</u>
Cash and cash equivalents at beginning of period	19	10,300,240	15,633,490
Cash and cash equivalents at end of period	19	<u>10,759,383</u>	<u>10,300,240</u>

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original Budget	Adjustment	Final Budget	Actual	Performance difference
	2013-2014	2013-2014	2013-2014	2013-2014	2013-2014
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Cess, levies and penalties	268,000,000	(13,000,000)	255,000,000	250,035,446	(4,964,554)
Licenses and permits	14,014,500	(1,350,000)	12,664,500	11,655,635	(1,008,865)
Transfers from the Government and others	363,400,000	(131,640,443)	231,759,557	231,759,557	-
Interest income	500,000	200,000	700,000	489,914	(210,086)
Other income	800,000	(200,000)	600,000	362,594	(237,406)
Total revenue	646,714,500	(145,990,443)	500,724,057	494,303,146	(6,420,911)
Expenses					
Administration expenses	34,445,318	6,690,311	41,135,629	40,794,637	(340,992)
Board members expenses	8,460,000	1,044,000	9,504,000	8,670,356	(833,644)
Employee costs	112,633,157	18,037,931	130,671,088	129,881,099	(789,989)
Operating expenses	95,051,600	(5,949,760)	89,101,840	89,295,308	193,468
Development expenses	237,884,491	(41,561,414)	196,323,077	196,599,148	276,071
Other expenses	6,485,000	1,100,000	7,585,000	7,929,107	344,107
Capital expenditure	151,400,000	(125,200,000)	26,200,000	20,674,348	(5,525,652)
Total expenditure	646,359,566	(145,838,932)	500,520,634	493,844,003	(6,676,631)
Surplus for the year	354,934	(151,511)	203,423	459,143	255,720

Notes

1. The revenue shortfall realised in cess, levies and penalties is attributable to the cancellation of some licences during the year. Similarly, there was a delay in the resolution of the case between the Board and Guthunguri, Lari and Limuru processors on payment of Processors' Levy, who started remitting the levy in the second half of the year.
2. Revenue shortfall realised in licenses and permits was as a result of cancellation of some licenses during the year.
3. The variance realised in capital expenditure was a result of the postponement of the procurement of the Online Licensing and Inspection system. With the shortfall in revenue collection, the project was postponed to be undertaken in the year 2014/2015.

1. Pronouncements, Statement of Compliance and Basis of Preparation

a) Pronouncements from the Public Sector Accounting Standards Board (PSASB)

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazettted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, Kenya Dairy Board has adopted the pronouncements made by the IPSAS Board in preparation of its current year financial statements.

b) Statement of compliance and basis of preparation

"The Board'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 Board. The accounting policies have been consistently applied to all the years presented.

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

2. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Cess, levies, penalties, licenses and permit fees

The Board recognizes revenues from cess, levies, penalties and fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from Government and other entities

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

ii) Revenue from exchange transactions

Sale of tenders and publications

Revenue from the sale of tenders and publications 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.

b) Budget information

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

c) Taxation

No tax provision has been made in these financial statements since the income of Kenya Dairy Board is exempt from taxation under the First Schedule, Part 1 of the Income Tax Act.

d) Property, plant and equipment

All property, plant and equipment are stated at cost or valuation 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. Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts less their residual values over their estimated useful lives, as follows:

Rate (%)

Motor vehicles	25.00%
Office and laboratory equipment	12.50%
Furniture and fittings	12.50%
Computers	30.00%

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the statement of financial performance. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to accumulated surplus.

e) Intangible assets

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

The useful life of the intangible assets is assessed as finite.

f) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Board determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Impairment of financial assets

The Board assesses at each reporting date whether there is objective evidence that a financial asset or a 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:

- Ø The debtors or a entity of debtors are experiencing significant financial difficulty
- Ø Default or delinquency in interest or principal payments
- Ø The probability that debtors will enter bankruptcy or other financial reorganization
- Ø Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

g) Related parties

The Board 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 Board, or vice versa. Members of key management are regarded as related parties and comprise the Managing Director, the Technical Services Manager, Administrative Manager and the Finance Manager.

h) Provisions

Provisions are recognized when the Board 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.

Where the Board 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 Board 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.

Contingent assets

The Board does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Board in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

i) Nature and purpose of reserves

The Board creates and maintains reserves in terms of accumulated surplus and revaluation reserves.

j) Changes in accounting policies and estimates

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

k) Employee benefits

Retirement benefit plan

The Board operates a defined contribution pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Board and employees. Benefits are paid to retiring staff in accordance with the scheme's rules and regulations. The Board and all its employees also contribute to the National Social Security Fund, a statutory defined contribution pension scheme. The Board's obligation under the scheme is limited to the specific contributions legislated from time to time and are currently limited to a maximum of Kshs. 200 per month per employee.

The Board's contribution in respect of retirement benefit costs are charged to the income statement in the year in which they relate.

Gratuity for contracted employees are charged against income in the year in which they become payable.

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. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and which were not surrendered or accounted for 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.

Pronouncements, statement of compliance and basis of preparation

n) Significant judgements and sources of estimation uncertainty

The preparation of the Board'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.

o) Estimates and assumptions

The Board makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The present value of the pension obligations depends on a number of factors that are determined on an a defined contribution using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Board determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Board considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 11.

In the process of applying the Board's accounting policies, management has made judgements in determining:

- Whether assets are impaired
- The classification of financial assets
- Provision and contingencies

3 Cess, levies and penalties	2013-2014	2012-2013
	Kshs	Kshs
Cess receipts	118,231,195	110,797,553
Processors levy	94,815,257	107,561,698
Import levy	28,254,270	33,312,801
Confiscated milk sale	417,224	264,263
Penalties	80,691	558,625
	241,798,637	252,494,941
4 Licences and permits		
Licence fees	9,577,035	9,665,624
Application fees	2,052,000	2,098,447
	11,629,035	11,764,071
Transfers from the Government and others		
G.o.K Recurrent Grants	117,556,480	19,507,200
G.o.K Development Grants	105,000,000	92,600,000
Research Grants	9,203,077	-
	231,759,557	112,107,200
6 Interest income		
Interest from bank deposits and staff loans	489,914	797,134

7	Other income		
	Tender sales	356,000	208,000
	Sale of publications	6,594	17,265
		362,594	225,265
8	Administration expenses	2013-2014	2012-2013
		Kshs	Kshs
	Electricity expenses	185,672	44,598
	Bank charges	757,274	551,543
	Professional fees	688,960	1,398,412
	Audit fees	858,000	754,000
	Insurance	4,515,178	3,995,586
	Medical expenses	7,496,357	5,170,316
	Postal and courier expenses	414,880	651,055
	Printing and stationery expenses	2,972,882	2,884,211
	Rent and rates	16,648,837	12,963,339
	Staff welfare	6,256,597	5,126,219
		40,794,637	33,539,278
9	Board members expenses		
	Mileage allowances	2,051,866	1,546,801
	Travel and accommodation allowances	2,971,490	4,986,159
	Sitting allowances	2,603,000	2,532,000
	Chairperson's honoraria	1,044,000	1,044,000
		8,670,356	10,108,960
10	Depreciation and amortisation expenses	2013-2014	2012-2013
		Kshs	Kshs
	Depreciation	13,181,362	13,004,800
	Amortization of intangible assets	1,837,804	1,899,014
		15,019,166	14,903,814
11	Employee costs	2013-2014	2012-2013
		Kshs	Kshs
	Gratuity and pension contribution	13,456,868	14,357,337
	Passage and leave expenses	9,662,653	6,271,255
	Salaries and wages	100,094,470	89,513,432
		123,213,991	110,142,025
<p>The Board makes defined contribution to a provident fund scheme administered by CFC Life Limited and the National Social Security Fund. The Board will continue paying contributions to the provident fund at a rate of 10% of basic salary by employees and employer 20% and NSSF Kshs. 200 per month. The contributions made during the year were as follows:</p>			
	Employer contribution to staff pension	2013-2014	2012-2013
		Kshs	Kshs
	NSSF Employer contributions	259,200	226,400
	Employer pension contributions	11,560,868	12,494,137
	Gratuity provision for contracted staff	1,636,800	1,636,800
		13,456,868	14,357,337
	Salaries and wages	2013-2014	2012-2013
		Kshs	Kshs
	Staff salaries and wages	93,854,470	83,443,432
	Managing Director's emoluments: - Basic salary	5,280,000	5,110,000
	- House allowance	960,000	960,000
		100,094,470	89,513,432

12 Operating expenses	2013-2014	2012-2013
	Kshs	Kshs
Advertising and publicity	7,276,994	10,568,497
External travelling and accommodation	1,721,357	2,338,254
Information technology services	3,636,517	2,930,123
Laboratory expenses	2,768,563	1,930,593
Show expenses	4,859,835	6,941,782
Standardization and traceability	3,211,314	2,795,300
Internet and telephone expenses	6,159,513	2,510,439
Training expenses	18,563,710	17,377,171
Transport and operating expenses	22,493,575	21,797,882
Travelling and accommodation expenses	18,603,930	18,893,488
	89,295,308	88,083,529
13 Development expenses		
Marketing and benchmarking	9,524,953	8,362,494
Product value addition	3,912,426	3,412,330
Research and Dairy development	15,744,907	5,765,587
Generic milk consumption campaign	7,315,750	7,499,283
Export promotion activities	11,501,579	10,966,014
Support to Stakeholder Organisations	19,936,787	21,204,639
World School milk programme	2,681,400	7,480,045
Control of informal milk marketing	99,101,082	13,415,435
Milk consumption promotions	4,335,547	9,485,349
School milk programme	11,985,981	10,453,439
Corporate Social Responsibility	2,078,256	1,652,200
Conference and exhibitions	8,480,480	10,427,575
	196,599,148	110,124,389
14 Other expenses		
Donations	2,004,017	1,060,000
Maintenance of plant and equipment	2,001,776	2,881,947
Maintenance of stations	3,909,614	1,968,590
Uniform and clothing expenses	13,700	519,820
Loss on disposal of assets	-	50,558
	7,929,107	6,480,915

15 Property, plant and equipment

	Land Kshs	Motor vehicles Kshs	Furniture and fitting Kshs	Computers and accessories Kshs	Office and lab equipment Kshs	Total assets Kshs
Cost						
As at 30 June 2012	18,100,000	36,300,468	8,678,979	18,006,081	6,052,860	87,138,388
Additions	-	9,385,374	77,075	7,843,979	100,500	17,406,928
Disposal	-	-	(1,137,850)	(4,632,331)	(1,137,298)	(6,907,479)
As at 30 June 2013	18,100,000	45,685,842	7,618,204	21,217,729	5,016,062	97,637,837
Accumulated depreciation						
As at 30 June 2012	-	24,494,695	5,756,984	13,768,911	4,461,254	48,481,844
Disposal	-	-	(1,137,850)	(4,622,441)	(1,085,973)	(6,846,264)
Charge for the year	-	7,469,311	556,130	4,669,835	309,525	13,004,801
As at 30 June 2013	-	31,964,006	5,175,264	13,816,305	3,684,806	54,640,381
Net Book Value						
As at 30 June 2013	18,100,000	13,721,836	2,442,940	7,401,424	1,331,256	42,997,456

Property, plant and equipment

	Land Kshs	Motor vehicles Kshs	Furniture and fitting Kshs	Computers and accessories Kshs	Office and lab equipment Kshs	Total assets Kshs
Cost						
As at 30 June 2013	18,100,000	45,685,842	7,618,204	21,217,729	5,016,062	97,637,837
Additions	-	12,439,200	1,767,185	4,259,928	1,042,535	19,508,848
As at 30 June 2014	18,100,000	58,125,042	9,385,389	25,477,657	6,058,597	117,146,685
Accumulated depreciation						
As at 30 June 2013	-	31,964,006	5,175,264	13,816,305	3,684,806	54,640,381
Charge for the year	-	6,860,024	772,696	5,116,629	432,013	13,181,362
As at 30 June 2014	-	38,824,030	5,947,960	18,932,934	4,116,819	67,821,743
As at 30 June 2014	18,100,000	19,301,012	3,437,429	6,544,723	1,941,778	49,324,942

16 Intangible assets

	2013-2014 Kshs	2012-2013 Kshs
Cost		
At 1 July 2012	3,654,550	2,690,800
Additions	3,524,164	963,750
At 30 June 2013	7,178,714	3,654,550
Amortisation		
At 1 July 2012	2,285,505	1,189,140
Charge for the year	1,899,014	1,096,365
At 30 June 2013	4,184,519	2,285,505
Net book value		
At 30 June 2013	2,994,195	1,369,045
Cost		
At 1 July 2013	7,178,714	3,654,550
Additions	1,165,500	3,524,164
At 30 June 2014	8,344,214	7,178,714
Amortisation		
At 1 July 2013	4,184,519	2,285,505
Charge for the year	1,837,804	1,899,014
At 30 June 2014	6,022,323	4,184,519
Net book value		
At 30 June 2014	2,321,891	2,994,195

Intangible Assets consist of computer software licences costs and website development costs. They are amortised on the straight-line method to write them off over their expected useful life at the rate of 30% per annum.

17 Receivables from non-exchange transactions

Receivables from non-exchange transactions comprises of the following:-

	2013-2014 Kshs	2012-2013 Kshs
Levies and cess receivable	10,620,487	23,901,485
Other receivables (IFAD)	175,001	175,001
Provision for bad and doubtful debts	<u>(3,435,272)</u>	<u>(3,435,272)</u>
	<u>7,360,216</u>	<u>20,641,214</u>

Provision for bad and doubtful debts has been made for long outstanding receivables from non-exchange transactions.

18 Other receivables and prepayments

	2013-2014 Kshs	2012-2013 Kshs
Staff car loan	12,887,650	9,064,807
Deposits	2,709,835	2,639,835
Staff salary advances	1,622,202	1,741,905
Ex- Staff receivables	400,782	400,782
Prepayments	1,760,002	515,553
Provision for bad and doubtful debts	<u>(400,782)</u>	<u>(400,782)</u>
	<u>18,979,689</u>	<u>13,962,100</u>

Provision for bad and doubtful debts has been made for ex-staff receivables who owes the Board but have since left the service.

19 Cash and cash equivalents

	2013-2014 Kshs	2012-2013 Kshs
Co-operative Bank of Kenya - Current account	2,058,968	1,462,763
Kenya Commercial Bank - Saving account	428,909	319,550
Kenya Commercial Bank - Current account	5,585,517	3,077,721
National Bank of Kenya - Current account	119,936	534,537
Undeposited funds	1,723,438	202,776
Staff imprest	<u>842,615</u>	<u>4,702,893</u>
	<u>10,759,383</u>	<u>10,300,240</u>

20 Revaluation reserves

	2013-2014 Kshs	2012-2013 Kshs
At start of year	17,958,456	17,958,456
Prior year adjustment	<u>141,544</u>	<u>-</u>
	<u>18,100,000</u>	<u>17,958,456</u>

Revaluation reserve is as a result of valuation of land received from the Government of Kenya as grant.

21 Accumulated surplus

	2013-2014 Kshs	2012-2013 Kshs
This comprises of accumulated surplus over the years.		
At start of year	53,505,551	49,499,850
Prior year adjustment	<u>(141,544)</u>	<u>-</u>
Surplus for the year	<u>4,518,024</u>	<u>4,005,701</u>
	<u>57,882,031</u>	<u>53,505,551</u>

Prior year adjustment relates to correction of an understatement of revaluation reserves with the gain arising from the disposal of land in the year 2008.

22 Trade and other payables from non-exchange transactions		2013-2014	2012-2013
		Kshs	Kshs
Payables from non exchange transactions		8,240	8,240
Accrued expenses		29,722	31,489
Payroll liabilities		8,126,096	16,408,342
KMR Staff Pension		109,299	109,299
KNAC Staff Pension		341,050	354,095
Alico Insurance claims		35,082	145,933
		8,649,489	17,057,398
23 Gratuity provision			
Balance at 1 July		1,636,800	-
Additional provision		1,636,800	1,636,800
Balance at 30 June		3,273,600	1,636,800
24 Provisions			
Audit fee provision		754,000	650,000
Chairlady honoraria		87,000	87,000
		841,000	737,000
25 Cash generated from operations		2013-2014	2012-2013
	Notes	Kshs	Kshs
Surplus for the year		4,518,024	4,005,701
Adjustments			
Depreciation for the year	15	13,181,362	13,004,263
Amortization of intangible assets	16	1,837,804	1,899,014
Profit on disposal of assets		-	(15,081)
Operating surplus before working capital changes		19,537,190	18,893,897
Decrease/(increase) in receivables and prepayments		8,263,410	(13,909,278)
(Decrease)/increase in current liabilities		(6,667,109)	10,552,008
Net cash flow from operating activities		21,133,491	15,536,627
26 Related parties		2013-2014	2012-2013
		Kshs	Kshs
Remuneration and allowances for key management		22,591,920	21,123,400
27 Contingent liabilities and assets			
The Board members are not aware of any litigation arising from normal operations of the Board which may have material effect on the financial position.			
28 Events after the reporting period			
There are no material non-adjusting events after the reporting date.			

PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS

Audit recommendation	Status
<p>1. Property, plant and equipment</p> <p>As similarly reported in the previous year, the Property, Plant and equipment balance of Kshs. 42,997,457 as at 30 June 2013 includes a Plot No. PDB/R163/99/15 in Narok valued at Kshs. 300,000 allocated to the Board in the year 2000 for office development. However, despite the valuation, the Board has not obtained a title deed for the plot from the Ministry of Lands. Consequently, it has not been possible to confirm the ownership status of the plot and that the property, plant and equipment balance of Kshs. 42,997,457 is fairly stated as at 30 June, 2013.</p>	<p>The Board is still following up on the Title Deed from the Ministry of Land, Housing and Urban Development.</p>
<p>2. Long outstanding debtors</p> <p>i. The trade and other Receivables balance of Kshs. 39,306,207 as at 30 June 2013 includes a balance of Kshs. 3,405,271 representing trade debtors due from various institutions. Although according to the records available the amounts have been outstanding for considerably long period of time, no concrete measures appear to have been taken by the management to recover them.</p> <p>ii. Further, included in trade and other receivables figure of Kshs. 39,306,209 are impress of Kshs. 207,800 outstanding for long period of time. The debts also include an amount of Kshs. 400,782 outstanding from ex-employees. Although a provision for bad and doubtful debts has been made in the financial statements, the recovery of the entire amount owed by ex-employees appear doubtful. In the circumstances, it has not been possible to confirm the full recoverability of trade and other receivables of Kshs. 39,306,207 as at 30th June 2013.</p>	<p>The Board has already provided for bad debts amounting to Kshs. 3,405,271 due from various institutions. Subsequently, the Board is planning to seek for an approval from the National Treasury to write off the debts.</p> <p>The Board has already provided for bad debts amounting to Kshs. 400,782 due from ex-employees. Subsequently, the Board is planning to seek for an approval from the National Treasury to write off the debts.</p>
<p>3. Trade and other payables</p> <p>The trade and other payables balance of Kshs. 17,144,398 includes a figure of Kshs. 823,055 which, according to records available, has been outstanding for a considerable long period of time. However, the management has not provided a satisfactory reason for not settling these debts.</p> <p>Consequently, it has not been possible to confirm whether the trade and other payables balance of Kshs. 17,144,398 is fairly stated as at 30 June 2013.</p>	<p>The Board is planning to seek the approval from the National Treasury for the write back to reserves of the long outstanding payables in the current financial year, 2014/2015.</p>



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