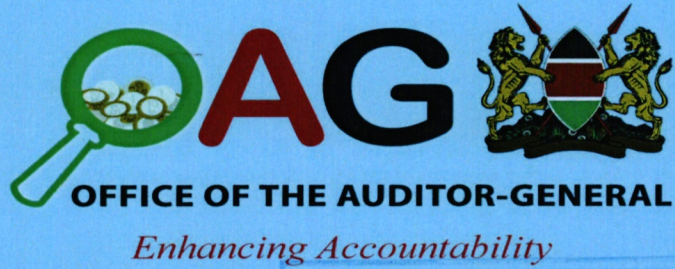


REPUBLIC OF KENYA



REPORT

THE NATIONAL ASSEMBLY PAPERS LAID	
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KENYA DAIRY BOARD

**FOR THE YEAR ENDED
30 JUNE, 2019**



KENYA DAIRY BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2019

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

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

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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. The Board is domiciled in Kenya.

(b) Principal Activities

The mandate of the Board is to Regulate, Promote and Develop the Dairy Industry in Kenya.

(c) Key Management

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

- Board of Directors
- Managing Director
- Director, Regulatory Services
- Director, Corporate Services
- Finance Manager
- Manager - Internal Audit
- Senior Supply Chain Management Officer

(d) Fiduciary Management

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

No. Designation	Name
1. Managing Director	Margaret Rugut Kibogy
2. Director, Regulatory Services	Dr. Philip Cheron
3. Director, Corporate Services	Peter Mutua
4. Finance Manager	Edward Nyoike
5. Manager - Internal Audit	Erastus Mutiso
6. Senior Supply Chain Management Officer	Dorothy Owino

(e) Fiduciary Oversight Arrangement

Audit Committee of the Board

Philip Kibusie
Jonah Wala
Lorna Odera
Daud Ramadhan*
Roy Mugo Kaugi**

Finance and Planning Committee of the Board

Jared Makworo Nyanumba
Jonah Wala
Lorna Odera
Jackson Omaid

Technical, Licensing and Marketing Committee of the Board

Hon. Matua Wamae*
Daud Ramadhan*
Monica Kariithi
Daoud Tari Abkula***
Dishon Mwanzighe Mngoda**
Kennedy Gatheru**

Human Resource and Administration Committee of the Board

Samuel Wanjohi*
Sarah Boit
Daoud Tari Abkula***
Kenneth Pkemoi Lomaibong
Rosemary Mbauni**

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KEY BOARD'S INFORMATION AND MANAGEMENT (Continued)

- * Retired 1 October 2018
- ** Appointed 14 December 2018
- *** Retired 30 May 2019

(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, 0733 521438, 0722 573432
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
Upper Hill Branch, KUSCO Centre, Kilimanjaro Road
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

The Auditor General
Office of the Auditor - General
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

THE BOARD OF DIRECTORS



Anthony Ian Njoroge Mutugi

Mr. Anthony Mutugi is a Non- Executive Chairman of the Board. A holder of Bachelor of Science Degree in Agriculture from University of Nairobi. He has extensive experience in Agronomics, Tea and Coffee Production Management and Resource Management. He currently the General Manager and Director, Riverdale Blooms Limited. Previously, Mr. Mutugi has served as the Mill Operations Manager at Socfinaf Coffee Mills - Oaklands Estate Ruiru, Managing Director, Tropical Farm Management Tanzania Limited in Moshi, among other Senior Management positions.



Margaret Rugut Kibogy, OGW
CEO/Secretary to the Board

Margaret Rugut Kibogy was appointed in May 2016 as the Managing Director, Kenya Dairy Board. Ms. Kibogy brings on board experience in Business Growth, Management and Marketing having served in the Banking Industry in various capacities. She holds Master of Business Administration (MBA), Marketing from University of Nairobi.



Hon. Matu Wamae, EBS

Hon. Matu Wamae served as a Non - Executive Director of the Board in the period between 2 October 2015 to 1 October 2018. He holds a Bachelors Degree in Economics from the University of Delhi, India. Additionally, he had undertaken several other courses including Central Banking and Reserve Banking. Before joining the Board, he had 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 had also served as a member of Parliament for three terms and a Director in many public and private sector institutions including the Chairman of New Kenya Co-operative Creameries Limited. Hon Wamae is a renowned Dairy farmer and an accomplished Businessman.



Jared Nyanumba

Mr. Jared Nyanumba is a Non- Executive Director of the Board. A holder of MSc Procurement and Logistics –Jomo Kenyatta University of Agriculture & Technology and Bachelor of Arts in Education of the University of Nairobi. He is passionate about Business Strategy Development and implementation having worked in various capacities in Fast Moving Consumer Goods, Insurance and Banking Industries.



Mrs. Sarah Boit

Mrs. Sarah Boit is a Non – Executive Director of the Board. She has over 25 years' experience as career educator where she rose to the position of TAC Tutor in charge of Eldoret Municipality. She is also an astute business woman having taken over the proprietorship and management of the Large Scale Kapsuswa Farm as well as Kaptindo Tea Estates turning them into well managed profitable ventures. She has extensive hands on experience in dairy management, production technology and resource management.



Philip Kibusie

Mr. Philip Kibusie is a Non- Executive Director of the Board. He is the Current Chairman of Sirikwa Dairies and has extensive experience in Conservation, Production Management and Resource Management with emphasis on Applied Innovation. He holds Diploma in Technical Education (Mechanical Engineering) from Kenya Technical Teachers College. He has wealth of experience in management, dairy farming and products having worked with various stakeholders in the dairy industry.



Samuel Wanjohi

Late Samuel Wanjohi served as a Non - Executive Director of the Board in the period between 2 October 2015 to 1 October 2018. He had extensive experience in Management of Dairy Cooperatives and a Founder member of Nyala Dairy Co-operative where he served as the Chairman for many years. He was a holder of Diploma in Education Administration from University of Leeds, England and had a wealth of experience in dairy farming and products having worked with various stakeholders in the dairy industry.

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THE BOARD OF DIRECTORS



Kadhengi Dzombo

Mr. Kadhengi Dzombo served as a Non - Executive Director of the Board in the period between 2 October 2015 to 1 October 2018. He was experienced in Community mobilization, Water and Resources Management in his position as the Chairman of Muungano Dairy and Treasurer of Ganze Dairy. He is a Dairy Farmer of repute.



Kenneth Kimoi Lomaibong

Mr. Kenneth P. Lomaibong is a Non -Executive Director of the Board. He is currently serving as the chairman of Lelan Highland Dairy Limited. He is also a member of West Pokot county Budget and economy, Northern Corridor Peace and Conflict Resolution Forum and serves as Board member for a number of Schools.



Monicah Kariithi

Mrs. Monicah Kariithi is a Non-Executive Director of the Board. She graduated from Loreto Convent Limuru in 1966 and Kianda Secretarial College in 1968. She is a seasoned community leader in mobilization of resources and empowerment of community. She is the founder of Kirima Slopes Dairy where she is currently serving as the Coordinator. She has also held various positions in the Church where she is currently serving as the Vice Chair - ACK Kithiru Parish. She has a lot of experience in business particularly in dairy farming among others.



Daud M Ramadhan

Mr. Daud M Ramadhan served as a Non - Executive Director of the Board in the period between 2 October 2015 to 1 October 2018. He had extensive management experience gained in various organizations including Serena Hotel, Kyeni -Runyenje Al-Aswad Hotel, Runvest Limited, Coolbreeze Company Limited and Black Shield Security Services Company Limited. He is also renowned Dairy Farmer.



Daoud Tari Abkula

Mr. Daoud Tari Abkula served as a Non - Executive Director of the Board in the period between 31 May 2016 to 30 May 2019. He had previously worked in various Government Development Agencies before moving to advocacy work on Pastoralism, where he served as the Chairman - Pastoralist Thematic Group in the PRSP Process in Kenya, Advisor in DFID Funded and UN housed Horn of Africa Pastoralist Communication Initiative and founding member of the Partners Coordinating Committee of WISP. At the International level, he has in the past played key role in the establishment of Pastoralist Forum in Ethiopia, Regional Pastoralist Bureau, coordination of Pastoralist gatherings across the Globe and Horn of Africa among others. He is very experienced in community leadership.



Jackson Omaido

Mr. Jackson Omaido is a Non - Executive Director of the Board. He is a holder of Bachelor of Arts Degree in Graphic Design - University of Nairobi. He has extensive experience in training, farming as well as management. He is the current Executor and Trustee (Director) of Amagoro Farm which specialises in Cash Crops and Dairy farming. He has also served as the Founding Director, Environmental Concern in Kenya among other senior positions.



CPA. Jonah Wala

CPA Jonah is an accomplished finance consulting leader with more than 18 years' experience leading cross-functional teams in delivering value for money in both private and public-sector enterprises. He is a member of ICPAK and IFPAK. Jona is currently the Acting Director, Accounting Services at the National Treasury and Planning. Jona holds a Masters in Banking and Finance Development from Giordano Del Amore University in Italy, and a Bachelors of Arts degree in Mathematics and Economics from Egerton University.

**KENYA DAIRY BOARD
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THE BOARD OF DIRECTORS



Lorna Akoth Odero, MBS

Ms. Lorna Akoth Odero is the alternate Director to the Principal Secretary, Ministry of Agriculture, Livestock and Fisheries. She holds a Masters of Business Administration in Public Service (International) from University of Birmingham and Bachelor of Arts degree from the University of Nairobi. In addition, she has attended various courses both locally and internationally as part of her professional development. She has served the Government of Kenya in various Capacities raising through the ranks from Assistant Secretary in the Ministry of Co-operatives to her current position where she is the Director of Administration in the Ministry of Agriculture, Livestock, Fisheries and Irrigation, State Department of Livestock.



Kennedy Gatheru

Mr. Kennedy Gatheru joined the Board as a Non- Executive Director on 14 December 2018. He has over 17 years' experience in management, finance and accounting fields. He has rendered assurance and advisory services to several companies across different industries in the region and in United Kingdom. He has worked for PricewaterhouseCoopers in Kenya and in the UK. He is currently serving in a senior management position in a leading FMCG company in the region. He holds a Bachelor of Commerce degree from the University of Nairobi and is a member of the Institute of Certified Public Accountants of Kenya.



Dishon Mwanzighe Mngoda

Mr. Dishon M. Mngoda joined the Board as a Non- Executive Director on 14 December 2018. He holds Masters of Education from Egerton University, Bachelor of Education from University of Nairobi and currently a candidate for the Doctors of Philosophy in Education Psychology, Moi University. He brings on board wide knowledge and experience in resource management, administration and research. He has previously served as the Dean of Students in Kabarak University (Nakuru Town Campus), Dean of Students Taita Taveta University, Student Counsellor and Assistant Lecturer at Narok University College and part time Lecturer in a number of Public and Private Universities.



Rosemary W. Mbauni

Mrs. Rosemary Wangechi Mbauni joined the Board as a Non- Executive Director on 14 December 2018. She is a seasoned dairy farmer and strong member of Nyala Dairy Multipurpose Co-operative Society Limited. She is excellent in community mobilization as well as organisation and management of public initiatives. She has held various positions in the Church where she is currently serving as the Chairlady to The African Independent Pentecostal Church of Africa (A.I.P.C.A.), Ndaragwa Parish.



Roy Mugo Kaugi

Mr. Roy M. Kaugi joined the Board as a Non- Executive Director on 14 December 2018. He is a trained Accountant and brings on board wide experience in Accountancy and Management. He has previously served as a Supervisor in Finance & Accounting Department, Co-operative Bank of Kenya Limited, Chief Executive Officer, Murata Savings & Credit Co-operative Society Limited, Managing Director - Fosa Management Consultants Limited and an Auditor with Kimani Onyancha & Company, Certified Public Accountants of Kenya, among other consultancies in management and trainings.

**KENYA DAIRY BOARD
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MANAGEMENT TEAM



Margaret Rugut Kibogy, OGW
CEO/Managing Director

Margaret Rugut Kibogy was appointed in May 2016 as the Managing Director, Kenya Dairy Board. Mrs. Kibogy brings on board experience in Business Growth, Management and Marketing having served the banking industry in various capacities. She holds Master of Business Administration (MBA), Marketing from University of Nairobi.



Dr. Philip Cheron, HSC
Director, Regulatory Services

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



Peter Mutua
Director, Corporate Services

Peter Mutua holds Bachelor of Arts graduate from the University of Nairobi, Mr. 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.



Edward Nyoike
Finance Manager

Edward Nyoike holds Bachelor of Agribusiness Management (Egerton University), Master of Business Administration (MBA) - Operations Management from University of Nairobi, Certified Public Accountant, CPA (K) and Certified Internal Auditor (CIA). He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of Internal Auditors, Kenya Chapter. He has over 13 years' experience in audit, finance, tax and accounting fields.



Erastus Mutiso
Manager - Internal Audit

Erastus Mutiso holds Bachelor of Commerce in Finance from University of South Africa (UNISA), Certified Fraud Examiner, Forensic and Investigative Auditor and Certified Internal Auditor (CIA). He is currently pursuing Certified Forensic Investigation Professional (CFIP) Accreditation. He is a member of the Association of Certified Fraud Examiners(ACFE) and Institute of Internal Auditors, (IIA) Kenya Chapter.



Dorothy Owino
Senior Supply Chain Management Officer

Dorothy Owino holds a Bachelor of Education Degree and a Post Graduate Diploma in Procurement and Supply from Kenyatta University. She is a member of Kenya Institute of Supplies Management (KISM) and The Chartered Institute Procurement & Supply (CIPS).

**KENYA DAIRY BOARD
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CHAIRMAN'S STATEMENT

Kenya Dairy Board is a government body established through an Act of Parliament Cap 336 of the laws of Kenya. Through this act, the Board is mandated to regulate, develop and promote the dairy sector in Kenya. This act has been in existence since 1958. Using the act, the Board has been able to regulate the dairy sector to achieve tremendous growth in the sector over the last few decades.

However, the world and Kenyan market is experiencing tremendous changes in product standards and global trade. This translates to both opportunities and challenges in the Dairy Sector. There is thus a need to look at different ways of conducting our business. Having recognized this fact, the Board reviewed and developed its current Strategic Plan 2017-2022. The Strategic Plan provides a coordinated and systematic approach in addressing the many underlying challenges caused by seasonality in milk production, milk quality issues, inadequate knowledge and skills among stakeholders, high production costs and unstable farm gate pricing among others. This calls for the need for continuous improvement in streamlining the operations of the dairy enterprises, provision of level playing field for all operators, mobilization of stakeholders to form viable groups, consumer education and awareness and creation of a conducive environment for ease of doing business. Further, the Strategic Plan spells out the policy and regulation priorities and allocation of resources for the period.


One of the key result areas in the Strategic Plan is Compliance and Quality Assurance. Our strategic objective arising from this result area is to strengthen policy and regulatory framework and enforcement. This is with the view of ensuring food safety and quality. This will in turn ensure that our consumers consume safe and quality products. It will also in turn make our products more competitive and thus easier access to markets locally, regionally and even globally. Having recognized the critical and strategic importance of safety and quality across the value chain, the Board has committed a large percentage of its meagre resources to achieve this objective. In line with this, the Board with the support of our parent ministry and other industry players have over the period of the strategic plan undertaken a number of programs. These include enforcement and advisory services, consumer education and awareness, training of dealers along the dairy value chain, construction and equipping of National Dairy Laboratory as well as initiating amendments to the Dairy Industry Act.

The other key strategy that we had undertaken to do in this strategic plan is the development of dairy regulations. In order to align the Dairy Industry with the functional requirements of the Board, dairy industry stakeholders realized the need to review the Dairy Policy and Regulations way back in the nineties when the process to review the policy and the regulations commenced. The process has been going on since then including participation of stakeholders in the review process the latest being in March 2019 when a stakeholder forum to sensitise and seek input on the regulations was held at KARLO – Nairobi. Subsequently after that we did receive a lot of feedback through the mainstream and social media as well as from other stakeholders though some of it was a misrepresentation of facts. As a Board therefore, it is important to put the record straight and clarify on some issues:

- i) The Board has no ill intention in the development of these regulations. The regulations are solely aimed at improving the safety and quality of dairy produce marketed locally and internationally and the sustainability of the Kenyan dairy sector.
- ii) The regulations have not been passed and are still at the draft level. Following feedback and public concerns, our parent Ministry through the State Department of Livestock has appointed a task force to further work on these draft dairy regulations. The taskforce will immediately embark on reviewing of the regulations as well inputting the public and other views received so far. After the input of those views, the regulations will be exposed again for public participation for their further input before the agreed document is forwarded to our Cabinet Secretary.

The Board would like to thank all the stakeholders for their input so far and request them to freely continue giving their input when the Draft Regulations goes back for public participation. This is the only way that we will ensure that we come up with the best regulations.

The Government having realized the key role played by Sector has identified dairy as one of the drivers in the achievement of the Big 4 agenda particularly on food security and manufacturing. The Board takes cognisance of its role in ensuring Food and Nutrition Security as well as promotion of Manufacturing and Agro-processing. To this end, every stakeholder has a cardinal duty in supporting the Board's mandate of organising, regulating and developing the dairy industry. The support of the National and County Governments continues to be central to the success of our operations. Partnerships and collaborations with other stakeholders including development partners have been beneficial and will continue to be part of our strategy in order to facilitate a sustainable dairy industry which provide quality and safe products.



Anthony Ian N. Mutugi
Chairman of the Board

Nairobi, Kenya

**KENYA DAIRY BOARD
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REPORT OF THE MANAGING DIRECTOR

Kenya Dairy Board (KDB) was established in 1958 through an Act of Parliament, the Dairy Industry Act Cap 336 of the Laws of Kenya to regulate, promote and develop the dairy industry. The Board has continued to facilitate a value driven and sustainable dairy industry as stipulated in Kenya Vision 2030 and the Act, with the primary focus being the quality and safety of milk and milk products for both local and export markets.

Milk production in Kenya is largely dependent on rainfall patterns, leading to seasonality in production. The country experienced adverse weather during the year, affecting milk production and resulting to decreased formal milk intakes. Despite the adverse weather, the Ministry of Agriculture, Livestock, Fisheries & Irrigation, projects that milk production will grow by between 4.5% and 5 % annually over the next ten years. By the year 2030, it is projected that the annual milk production in Kenya will increase to about 12 billion litres from the current estimate of 5.2 billion litres (Ministry of Agriculture, Livestock, Fisheries & Irrigation, 2019).

Besides the effects of adverse weather in milk production, the cost of production has been reported to be comparatively high in Kenya as compared to neighbouring countries such as Uganda. Kenya has diversified milk production systems including open grazing, zero-grazing and semi-zero grazing which have higher costs of milk production relative to the extensive zero grazing system practiced in Uganda. As a result, the Kenyan dairy industry is under increasing pressure from Ugandan dairy imports, given the low cost of production and the favourable weather. This calls for concerted effort to boost local production while at the same time reduce on the cost of production so as to improve the competitiveness of the Kenyan dairy produce.

The Board continued with the implementation of its 2017-2022 Strategic Plan which is due for mid term evaluation and review in December 2019. The Plan articulates the shared vision, mission, and core values of KDB. The plan further spells out the policy and regulatory priorities and objectives besides the resources required for the period (2017-2022). The Board analysed its strengths, weaknesses, opportunities and threats in the context of the environment in its operations and challenges facing the dairy sector at large. The strategic objectives were designed within their key result areas to enable the Board to effectively carry out its mandate.

In performance of the regulatory function, the Board conducted a total of 4,255 inspections against a target of 4,316 inspections for the year (98.6% coverage). The over 1,000 premises are due for inspection at least once per quarter. Enforcement of the various provisions of the Dairy Industry Act Cap 336 were conducted through joint and station-based work programmes resulting to confiscation and disposal of 18,473 litres of poor quality or unsafe milk and prosecution of 386 cases for non-compliances. Similarly, the Board conducted milk quality surveillances through the bi-annual, branch offices and mobile laboratory based milk quality and safety testing programs. The mobile laboratory based surveillance program covered branches offices covering 17 counties of Meru, Embu, Murang'a, Nyeri, Kirinyaga, Nakuru, Baringo, Uasin Gschu, Nandi, Kakamega, Nandi, Kericho, Narok, Bungoma, Voi, and Mombasa.

Quality and safety of marketed dairy products is central to the Board's mandate. During the year, the Board continued with the construction of the National Dairy Laboratory Complex. The project will ensure health and safety of consumers, promote compliance to international standards and facilitate national and international trade. This will spur growth and sustainability of the Dairy Industry leading to increased employment opportunities in production, transportation, processing and distribution of milk and milk products.

In order to strengthen the regulatory framework, the Board continued with the process of revising the dairy industry regulations. A public consultative forum was held in March 2019 at Kenya Agricultural and Livestock Research Organisation headquarters in Loresho, Nairobi. During and after the forum, a lot of comments have been received by the secretariat and are current being considered by the Taskforce appointed by the Principal Secretary, state Department of Agriculture to drive the finalisation of the Regulations.

In addition to the revision of the regulations, the Board participated in the review of nine EAC harmonized dairy standards (raw milk, pasteurized milk, UHT milk, yoghurt, condensed milk, ghee, milk powder, and ice cream) in 2019. The standards for these produce were first published in 2007 and were due for review in 2012; however, there was a prolonged delay. Specifications for the various products were reviewed in line with international standards and changing market requirements. The draft standards are now due for publication by the EAC Secretariat.

In order to improve the capacity of Dairy Business Operators, the Board carried out a number of activities mainly focused on milk quality and safety, dairy standards, and value addition. The activities undertaken included development of an audio training module on clean milk production. This is a fifteen-minute audio module on clean milk production at the farm level which was developed and disseminated on social media. The also did training of milk dealers on milk quality and safety, dairy standards and value addition where over 2,483 dairy business operators were trained through workshops and field days.

During the year, KDB partnered with Eastern and Southern Africa Dairy Association (ESADA) to initiate, design, and implement the Kenya Dairy Industry Awards. The first cycle was successfully designed and implemented covering six thematic areas. The process was coordinated by a multi-stakeholder committee and conducted in 32 counties. Nominees for dairy farms, fodder producers and breeders were made in consultation with county governments, collection centers were nominated by milk processors, and processors applied to participate. Preliminary evaluations of nominees were conducted by the multistakeholder coordination committee, and the final judgement was conducted by a panel of judges. Presentation of the winners was done on 14 August 2019, as a side event of the African Dairy Conference and Exhibition held in Nairobi.

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REPORT OF THE MANAGING DIRECTOR

The Board has for the last three years committed resources towards consumer education through the mass media and field-based activities. Consumer knowledge and awareness is a powerful driver in promoting quality and safety of food products including milk and milk products. This has been achieved through advertisements on safe milk consumption and guest appearances in 5 mainstream TVs, and over 10 national and vernacular radio station, interactive road shows on safe milk promotion in 26 counties and participation in over 30 national and county field days aimed at promoting good manufacturing practices, good agricultural practices, and good hygiene practices through capacity building, advisory services and technology adoption by dairy business operators across the value chain.

The Board has entered into partnership with various partners in addressing number initiatives in the dairy value chain. The first partnership is with ILRI in the collection of county dairy data and development of county dairy strategic plans in seven counties, that is, Makueni, Homabay, Migori, Siaya, Kisumu, Busia and Vihiga. This is being implemented under the Accelerated Value Chain Development Program (II) implemented by ILRI and funded by USAID. The second partnership is with 3R Kenya and Agri-fin projects to conduct surveys on milk quality and safety. This include conducting survey on 'Milk ATM Growth in Kenya's Milk Retail System – Trends and Policy Scenarios" covering 156 milk dispenser operators and 403 consumers in Nairobi, Machakos, Kajiado, Nakuru, and Uasin Gishu Counties.

Our Corporate Social Responsibility approach that has been integrates with enterprise management system, hence providing an opportunity to manage the internal and external risks efficiently in all areas of responsible citizenship and the core mandate of the Board. During the year, donated Ksh. 2 million towards the project aimed at planting fruit seedlings for onward distribution to farmers, participated in a tree planting exercise in Morop Forest in Baringo County, partnered with the Kaiti Greening champions in planting of 1,500 tree seedlings, donated aluminium milk cans and milk carriage Motorcycle to Mburugu Dairy Cooperative Society to help the society minimise on post harvest losses, supported an international Volleyball Tournament in Uasin Gishu County and the second edition of Eldoret City Marathon.

The Board remains committed to establishing a conducive regulatory environment that will promote the development of our dairy industry, stimulate and nurture investment, while protecting the interests of the consumers.


Margaret Rugut Kibogy
Managing Director.

Nairobi, Kenya

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

CORPORATE GOVERNANCE STATEMENT

THE BOARD OF DIRECTORS

The Board of Directors is the body of appointed members who jointly oversee the activities of the organization. The Board provides strategic direction, exercise control and remain accountable through effective leadership, enterprise, integrity and good judgment. It is diverse in its composition, independent but flexible, pragmatic, objective and focused on balanced and sustainable performance of the organization.

Board Composition

The appointing authority ensures that the Board composition complies with requirements in the Constitution of Kenya and any applicable legislation, its members act independently, each Board member understands the broad outline of the organization's policies, each Board member is in good standing professionally and has sufficient expertise to perform his or her role as a Board member; and at least one member is a financial expert, meaning that he or she has expertise in financial management and accounting.

Independence of Board Members

All Board members, including those nominated to represent special interests, recognize that they owe their duties to the organization and not their respective entities or special groups.

Term Limits

Board members hold office for a period not exceeding three (3) years, and are eligible for reappointment for one more term not exceeding three (3) years. The renewal of a Board Member's tenure for a second is subject to an acceptable evaluation as determined during Board evaluations.

The appointing authority ensured staggering of Board appointments so that the respective expiry dates of the members terms fall at different time to ensure continuity.

Chairperson of the Board

The Chairperson of the Board is primarily responsible for the activities of the Board and its committees. The role of the Chairperson includes approving the agenda for board meetings, chairing the meetings and ensuring that a record of proceedings of all Board activities is kept. The Chairperson should act as the spokesperson for the Board.

Chief Executive Officer

The Managing Director/Chief Executive Officer (CEO) is an ex-officio Board member with no voting rights. The CEO and the Board play separate and distinct roles but work together to achieve organizational goals.

The Board is responsible for appointing the CEO, through a competitive process, and for removing them. The CEO is responsible for overseeing the execution of the Board's directions and policies to ensure desirable outcomes. The CEO therefore serves as the link between the Board and the Management.

Relationship between Board and Management

The Board and Management should execute their mandate in an environment of mutual trust and respect having regard to the principles of good governance. In this regard, the Board shall provide clear and distinct lines of responsibility and accountability, and maintain effective channels of communication.

THE BOARD CHARTER

The Board of Directors Charter (the "Charter") defines the Board's roles and responsibilities as well as functions and structures in a way that supports the members in carrying out their strategic oversight function. It provides the Board members with an opportunity to think creatively and critically about how their strategic and operational plans align with the organization's strategic direction and expectations, with respect to governance.

The Charter helps the Board in directing the organization to maximize the long term value of services provided for all stakeholders. The Board of Directors reviews this Charter at least annually and, if appropriate, revise this Charter from time to time.

The Charter was adopted by the Board, acting in accordance with *Mwongozo, Code of Governance for State Corporations* ("the Code"), and is complementary to the requirements regarding the Board and Board members contained in applicable Kenyan laws and regulations. In particular, the principles and policies contained in the Charter are in addition to and are not intended to change or interpret any statute, law or regulation.

The Board of Directors reviews this Charter at least annually and, if appropriate, revise this Charter from time to time.

Kenya Dairy Board has adopted high standards and applies strict rules of conduct, based on the best corporate practices. As part of this commitment, the Board adheres to good corporate governance by embracing the following principles:

- To observe high standards of ethical and moral behaviour.
- Act in the best interests of the organization.
- Remunerate and promote fairness and responsibility.
- Recognize the legitimate interests of all stakeholders
- Ensure that the organization acts as a good corporate citizen.

CORPORATE GOVERNANCE STATEMENT (Continued)

THE COMMITTEES OF THE BOARD

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

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

The Chairperson of each committee, in consultation with the Board, determines the frequency of committee meetings as is necessary to fulfil the Committee's functions. The Chairperson of each committee, in consultation with management, will develop the committee's agenda. The Board will however determine the procedure and process within which committees may take independent professional advice at the organization's expense.

The committees promptly reports to the Board any actions taken for ratification and any major developments that they become aware of. The Board shall, as set out in the terms of reference of the respective committees, receive a report of the committee's findings and actions.

The Board has established the following standing committees;

- Audit Committee
- Finance & Planning Committee
- Technical, Licensing and Marketing Committee
- Human Resources & Administration Committee

The Board may establish any other ad hoc committees to handle any special business. The Terms of Reference of the committees of the Board has been developed by the Board.

BOARD RESPONSIBILITIES

The basic responsibility of the Board members is to exercise their best judgment and to act in a manner that they reasonably believe to be in the best interest of the organization and its stakeholders. In discharging that obligation, the members are entitled to rely on the honesty and integrity of the organization's management, staff and its external professional advisors and auditors.

In furtherance of its responsibilities, the Board determines the organization's mission, vision, purpose and core values, reviews, evaluates and approves, on a regular basis, long-term plans, budget and financial forecasts, major resource allocations and capital investments for the organization, protects the rights of shareholders and optimizes shareholder value.

Responsibilities of Individual Board Members

Each Board member exercises the highest degree of care, skill and diligence in discharging their duties, acts honestly at all times and in the best interest of the organization and not for any other purpose.

Principles of Public Service

The Board, in performing its functions, is guided by the principles of Public Service as provided in Chapter Thirteen of the Constitution of Kenya, which include:

- High standards of professional ethics;
- Efficient, effective and economic use of resources;
- Responsive, prompt, effective, impartial and equitable provision of services;
- Involvement of stakeholders in policy making;
- Accountability for administrative acts;
- Transparent and timely provision to the public of accurate information;
- Fair competition and merit as the basis of appointments and promotions;
- Representation of Kenya's diverse communities; and

BOARD AND COMMITTEES MEETINGS

Board meetings are held at least four (4) times a year, and not more than 4 months elapse between the date of one meeting and the date of the next meeting. A schedule of dates of the meetings is agreed upon by the Board members and set out in the Board work plan. Notices of the location and the timing of meetings are issued prior to the meetings. The Board work plan may be adjusted if deemed necessary by the Board.

The quorum for a Board meeting is two thirds of the (2/3) members where the total Board membership is eight to nine and four where the total membership is seven and below. A summary of the board meetings and attendance is shown below:-

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CORPORATE GOVERNANCE STATEMENT (Continued)

Full Board meetings: Members' attendance for 2018/2019

Board Member	27-Sep-18	16-Jan-19	30-Jan-19	26-Apr-19
Antony Mutugi - Chairman	√	√	√	√
Margaret Rugut Kibogy - CEO	√	√	√	√
Philip Kibusie	√	√	√	√
Daud Ramadhan	√	x	x	x
Kenneth Lomaibong	√	√	√	√
Kadhengi Dzombo	√	x	x	x
Monica W. Kariithi	√	√	√	√
Kennedy Gatheru	xx	√	√	√
Sarah Boit	√	√	√	√
Jared Nyanumba	√	√	√	√
Rosemary W. Mbauni	xx	√	√	√
Roy Mugo Kaugi	xx	√	√	√
Dishon Mwanzighe Mngoda	xx	√	√	√
Daoud Abkula	√	√	√	√
Matu Wamae	√	x	x	x
Samuel N.Wanjohi	√	x	x	x
Jackson Omaido	√	√	√	√
Lorna Odera	√	√	√	√
Jonah Wala	√	√	√	√
George Ombua	xx	xx	xx	√

x - Retired on 1 October 2018

xx - Appointed during the year

Audit Committee

The Audit Committee consists of four non-executive directors and reports to the Board after every committee meeting. The chairperson is an independent non-executive Director. It is noted that the committee only met twice during the year after the expiry of the terms of some of the Directors.

Audit Committee meetings: Members' attendance for 2018/2019

Board Committee Member	Position	24-Sep-18	24-Apr-19
Philip Kibusie	Chairman	√	√
Daud Ramadhan	Member	√	x
Lorna Odera	Member	√	√
Jonah Wala	Member	x*	√
Roy Mugo Kaugi	Member	xx	√
Margaret Rugut Kibogy	CEO	√	√
Erastus Mutiso	Manager, Audit	√	√

x* - Absent with apologies

x - Retired on 1 October 2018

xx - Appointed during the year

Human Resource and Administration Committee

The Committee is constituted in line with section 5 of the Dairy Industry Act Cap 336 to review Board papers touching on Human Resources, Procurement, Security, Governance, Assets management and Legal issues and make recommendations to the full Board for adoption, provide input to the determination of the organization's mission, vision and core values, make recommendations to the Board for the enhancement of the Board's public image and engagement with stakeholders through effective communication.

Human Resources & Administration Committee meetings: Members' attendance for 2018/2019

Board Committee Member	Position	25-Sep-18	17-Apr-19
Samuel N.Wanjohi	Chairman	√	x
Sarah Boit	Chairperson	√	√
Kenneth Lomaibong	Member	√	√
Margaret Rugut Kibogy	CEO	√	√
Rosemary W. Mbauni	Member	xx	√
Kadhengi Dzombo	Member	√	x
Sarah Boit	Member	√	√

x - Retired on 1 October 2018

xx - Appointed during the year

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CORPORATE GOVERNANCE STATEMENT (Continued)

Finance & Planning Committee

This Committee reviews Board papers touching on budget and financial forecast, resource allocations and capital investments, operating and financial results and makes recommendations to the full Board for adoption or approval.

Finance & Planning Committee meetings: Members' attendance for 2018/2019

Board Committee Member	13-Jul-18	24-Sep-18	15-Oct-18	29-Jan-19	15-Apr-19
Jared Nyanumba - Chairman	√	√	√	√	√
Jackson Omaidio	√	√	√	√	√
Lorna Odera	√	√	√	x*	√
Jonah Wala	√	√	√	√	x*
Margaret Rugut Kibogy - CEO	√	√	√	√	√

x* - Absent with apologies

Technical, Licensing and Marketing Committee

The Technical Licensing and Marketing Committee reviews Board papers touching on Technical, Licensing and marketing, and make recommendation to the Full Board for adoption.

Technical, Licensing and Marketing Committee meetings: Members' attendance for 2018/2019

Board Committee Member	Position	26-Sep-18	16-Apr-19
Matu Wamae	Chairman	√	x
Daoud Abkula	Chairman	√	√
Monica W. Kariithi	Member	√	√
Sarah Boit	Member	√	√
Kennedy Gatheru	Member	xx	√
George Ombua	Member	xx	√
Dishon Mngonda	Member	xx	√
Margaret Rugut Kibogy	CEO	√	√

x - Retired on 1 October 2018

xx - Appointed during the year

PROCUREMENT

Policy of the Kenya Dairy Board on Procurement

All funds budgeted and approved for the purpose of procurement are spent on the intended purposes. This applies both to development and recurrent expenditures.

It is also Board's policy to allow open competition for procurement without discrimination in a transparent, fair and accountable manner to ensure achievement of value for money in all procurement.

All transactions for the supply of goods or services, to or execution of work for the Board is be subject to open competitive tendering, quotations (written) or cash imprest except as otherwise provided.

It is the Boards policy to support Kenyan entrepreneurs.

All procurement in Kenya Dairy Board are made centrally and through the Supply Chain Management Division. The top 10 procurement contracts for the financial year 2018-2019 are as listed below:-

Name of the Supplier	Date Awarded	Amount (Kshs)
Juperch Enterprises Limited	2-May-2019	41,952,610
National Hospital Insurance Fund	21-Apr-2019	14,882,671
Isuzu East Africa Limited	6-Jun-2019	6,730,800
Sedgwick Insurance Brokers Limited	1-Nov-2018	3,397,880
Creative Management Consultants Limited	6-Jun-2019	2,592,600
Fine Touch Communications Limited	7-Jun-2019	1,800,000
Steers and Frontiers Enterprises	27-Nov-2018	1,415,000
Maryan Enterprises	7-Dec-2018	1,400,000
Kenya Institute of Curriculum Development	6-Aug-2018	1,300,000
Kenya School of Government	2-May-2019	1,275,000

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MANAGEMENT DISCUSSION AND ANALYSIS

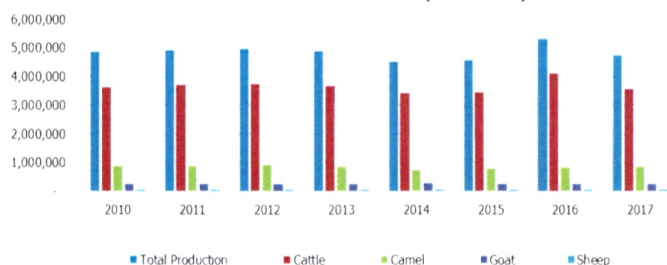
The Dairy Industry Act Cap 336 of the laws of Kenya mandates the Kenya Dairy Board to regulate, develop and promote the dairy industry in the interests of producers, consumers and other stakeholders.

In discharging the above mandate, the Board undertook several dairy regulatory, developmental and promotional activities aimed at improving compliance to milk quality and safety requirements and expanding the volumes of formally marketed milk.

A. PERFORMANCE OF THE DAIRY INDUSTRY

Milk production

Milk Production data in tonnes (2010 - 2017)



Kenya produces an estimated 5.2 billion litres of milk per annum from cattle, camels, goats and sheep. Cow milk is predominant and highly commercialized with a production share of approximately 75%. Production of milk is mainly by smallholder dairy producers under open, zero-grazing and semi-zero grazing systems. Productivity of milk remains low at 7 to 9 litres per cow per day. Poor animal husbandry practices especially feeding contribute to the low productivity. Production of milk over the last five years is as illustrated in the graph;

Milk bulking and cooling

Being a perishable product, raw milk should be cooled to four degrees centigrade within two hours of milking to control multiplication of microorganisms which lead to rapid spoilage of the milk. The milk cooling infrastructure in the country has been greatly expanded through investments by the national and county governments, and dairy business enterprises.

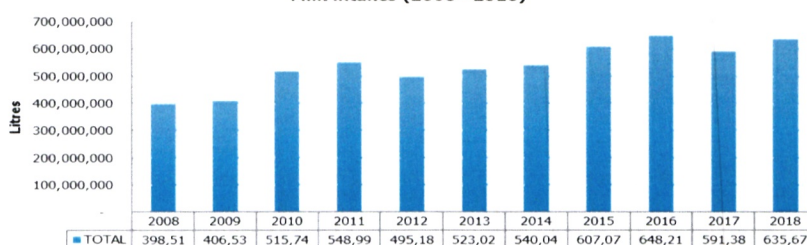
At the close of the year, over 400 dairy farmer groups were active in raw milk collection, bulking and cooling. Combined, the groups had a raw milk cooling capacity of 3.4 million litres per day. However, utilization of this capacity varied from county to county, with a high of 81% in Meru County. On average, the national utilization of the raw milk cooling capacity was approximately 51%.

Milk intakes and processing

An estimated 55% of the milk production in Kenya is marketed through formal and informal channels. The formal channel is regulated to facilitate production and marketing of quality and safe milk and milk products. This channel consists of licensed enterprises such as milk processors, mini dairies, milk dispensers and milk bars.

During the period under review, a total of 652 million litres were received by the formal sector for processing, value addition and marketing. This was a growth of 33 million litres, from the 619 million litres handled in 2017/2018. The milk intakes received for processing, value addition and marketing over the last ten years are as illustrated in the graph.

Milk intakes (2008 - 2018)



Exports and imports of dairy products

Kenya exports dairy products mainly in the East and Central African market. However, the value of exports has declined due to increasing population and local demand for processed milk and milk products. The major products are UHT milk, infant formulas, milk powder, cheese and ice cream. Dairy products worth 441.9 million shillings were exported in 2018, a drop of 21% from the 558.5 million shillings' worth of dairy products exported in 2017. On imports, Uganda is the main source of dairy imports to Kenya. These include imports of UHT whole milk and milk powder. Imports outside EAC are regulated by Kenya Dairy Board in the interests of local producers and consumers. However, limited quantities of dairy products are imported outside the EAC to meet specialized needs for institutional, industrial and household consumers.

B. OVERVIEW OF OPERATIONS

The Dairy Industry Act Cap 336 mandates KDB to control the dairy industry and its products through regulation, development and promotion. These mandates are implemented through various programs and activities, with those undertaken in the year summarized below;

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Premise inspections and licensing

A total of 3,517 premise inspections were conducted using the Licensing and Inspection System. These were licensing, routine and ad hoc inspections done in the field with the aim of enhancing compliance. 1,323 licenses were issued comprising processors, mini dairies, cottage industries, cooling plants and milk bars were approved and issued with licenses.

Control of the informal sector

A total of 34 joint anti-hawking, inspection and advisory service activities were carried out within the period. Close to 640 offenders were successfully prosecuted with individual fines ranging from Ksh 2,000 to 70,000 depending on the charges, with a total of about 1.2 million shillings charged as fines on culprits. 25,280 litres of poor-quality milk were confiscated and disposed through the various courts across the country.

Surveillance on quality and safety of marketed milk

55,786 basic quality control tests were routinely carried out by the field stations, including the mobile laboratory out of which 94% of the samples passed. Three annual surveys on the quality of marketed milk and milk products was conducted in July 2018, March and April 2019. Rapid indicative testing kits for Antibiotics, Aflatoxins and Alkaline Phosphatase for milk pasteurization were acquired and have been used to conduct the tests.

Status of Dairy Industry Act and Regulations

The Dairy Industry Act, Cap 336 review through the Miscellaneous Amendment Bill No. 2 of 2018 was discussed in Parliament on 2nd May, 2018, and awaits presidential assent to become law. However, the Board felt that the amendments made were not favourable for sustainable development of the dairy industry and there was need for the ministry of Agriculture, Livestock, Fisheries and Irrigation to seek for amendments on the Act for assent to become law.

A set of twelve (12) dairy regulations were prepared and advanced to the stakeholders through a public consultative forum held on 11 March 2019 at Kenya Agricultural and Livestock Research Organisation headquarters in Loresho, Nairobi. During and after the forum, a lot of comments have been received by the secretariat and are being considered and inputted into the document. The comments are highly commendable and encouraged by the Board as they provide useful enrichment to the document. Arising from the widespread outcry witnessed after the forum, the Board suspended the regulations and removed them from the website. The parliamentary committee on delegated legislation invited the management to shed more light on the said regulations. The meeting agreed that the process should continue while adhering to the laid down process provided in the Statutory Instruments Act. Considering the political atmosphere prevailing in the country, the management felt that the process remains suspended awaiting an appropriate timing in the future. In the meantime, the Board together with selected experts within the dairy stakeholders further reviewed the regulations in Nakuru and Nairobi and consolidated them to a set of ten (10) which are to be exposed to further stakeholder review in the coming financial year.

Capacity Building of dairy dealers in Dairy Standards and Value addition

The Board runs programmes to build the capacity of milk dealers across the dairy value chain on diverse areas including compliance to milk quality and safety requirements, value addition and product diversification. This is implemented through training programme conducted through workshops, agricultural shows and field days. The quality and safety of raw milk is the foundation of processing high quality and safe milk products that satisfies regulatory and market demands. During the period, the Board developed and disseminated an audio training module on clean milk production aimed at building the capacity of dairy farmers on good hygienic practices. In order to promote compliance to dairy standards and promote value addition and product diversification, over 1,500 milk dealers from various counties were trained on milk quality and safety and value addition.

Promotion of school milk programme

The school milk programme has potential to support the growth of the dairy industry while enhancing learning in schools through provision of nutrient rich food. So far, seven counties (Mombasa, Kilifi, Meru, Migori, Embu, Muranga and Nyandarua) have adopted the school milk programme which targets an estimated 350,000 pupils in Early Childhood Development Centres.

To improve the uptake of the programme, the Board provided technical capacity building to four counties (Tana River, Makueni, Kiambu and Siaya) on the implementation of the school milk programme. Milk and other school feeding programmes have been shown to improve enrollment, attendance and retention of pupils in schools. A School Milk Policy, to guide design, implementation and monitoring of the school milk programme, was also drafted for review and adoption by stakeholders.

Facilitation of dairy trade

The Board is mandated under the Dairy Industry Act Cap 336 to regulate exports and imports of dairy products through issuance of export and import permits. This process is embedded in the Kenya Trade Network National Electronic Single Window System. Over 5,500 permits to import or export dairy products were processed in 2018/2019.

The Board participated in the review of nine regional dairy standards (raw milk, pasteurized milk, yoghurt, UHT milk, ice cream, butter, ghee, condensed milk and milk powder) and ten national standards (Cheese, cheddar cheese, Gouda cheese, Tilster cheese, processed cheese, evaporated milk, cheese in brine, Camembert cheese, Brie cheese and Danbo cheese). In addition, the board participated in several regional meetings, conferences and exhibitions, with the objective of promoting access of Kenyan milk and milk products in the regional market.

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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Research and Development

The Board conducted two surveys on the organization of dairy dealers and adoption of dairy technologies and innovations. These surveys identified the key challenges impeding the organization of milk dealers into sustainable groups and the constraints affecting timely and efficient uptake of dairy technologies by various categories of milk dealers.

The findings were disseminated through County Stakeholder Forums in Marsabit, Isiolo, Kakamega and Kirinyaga. Collection of comprehensive dairy data and strategic planning in seven counties (Makueni, Migori, Homabay, Kisumu, Vihiga, Siaya and Busia) were also initiated in collaboration with the Accelerated Value Chain Development Programme.

Dairying in non-traditional areas

The arid and semi-arid (ASSAL) counties have potential to improve production and marketing of cattle, camel and goat milk. The Board is keen to partner with various stakeholders to promote increased production and commercialization of milk in the ASAL counties in order to improve livelihoods and food security.

A rapid appraisal of the status and potential of the dairy industry in Marsabit and Isiolo counties was conducted during the period. Opportunities to improve the dairy industry were identified including promoting commercial fodder production and conservation, upgrading of local breeds, investments in milk collection, cooling and processing and capacity building of milk dealers.

County Dairy Stakeholder Forums were also held in Isiolo and Moyale to promote increased focus on production, bulking and processing of quality and safe dairy products from cow, camel and goat milk.

Partnerships and collaborations

The Board had active engagements with several partners including SNV Kenya, Eastern and Southern African Dairy Association (ESADA), Strategic Sector Cooperation (SCC) Programme, and Accelerated Value Chain Development Programme (AVCD). The output of these partnerships is summarized below;

(a) SNV Kenya: A milk quality and safety workshop was held in Nairobi and attended by 113 stakeholders to discuss milk quality and safety in the dairy value chain. Implementation of Quality Based Milk Payment Systems was a key focus area.

(b) ESADA: A Kenyan Dairy Industry Awards Scheme was initiated and inaugurated to identify, recognize and reward good quality assurance practices in the dairy value chain. Six areas of distinction were identified including milk production, milk bulking and cooling, breeding, product diversification, and social inclusion. This will culminate in presentation of awards to the winners in August 2019.

(c) Strategic Sector Cooperation Programme: Piloting of a clean milk hub in Nyandarua County involving Kinangop and Countryside dairies, their raw milk supplies and market outlets for finished products.

(d) Accelerated Value Chain Development Programme: Initiation of dairy data collection and strategic planning in seven counties namely Makueni, Migori, Homabay, Kisumu, Vihiga, Siaya and Busia.

Key challenges in the dairy value chain

The current challenges in the dairy industry that impede dairy productivity, value addition, compliance and market access include;

(a) Seasonality of milk production due to reliance on rain-fed milk production and increasing sub-division of land which affects sustainability of the dairy industry and other agricultural enterprises.

(b) High cost of milk production especially under zero-grazing systems.

(c) Low productivity per cow at 1,800 litres per year. Productivity in developed countries is almost nine times that of Kenya (e.g. productivity per cow is over 10,000 litres per annum).

(d) Low utilization of milk cooling and processing capacities.

(e) Unstable producer prices for raw milk.

(f) Growth of dairy imports from East African Community.

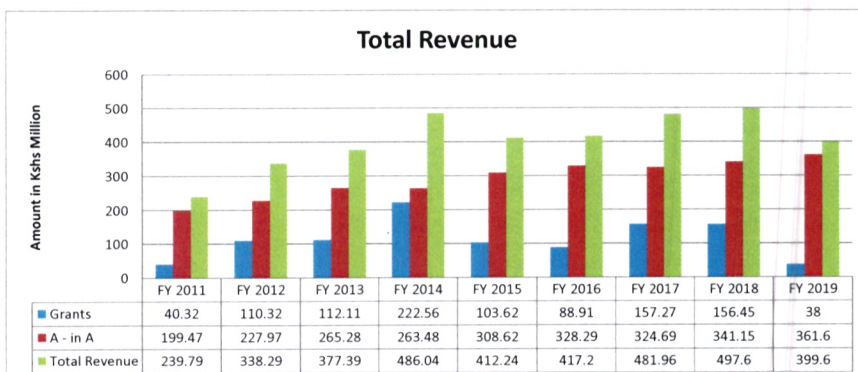
(g) Pending policies and regulations (animal feeds policy, breeding policy, dairy regulations) continue to create gaps in the policy and regulatory framework.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

C. FINANCIAL PERFORMANCE

i) Revenue performance

The Board funds its operations through the internally generated revenue mainly cess, processors' levy, import levy and license fees as well as grants from the parent Ministry of Agriculture, Livestock, Fisheries & Irrigation. In the year ended 30 June 2019, the Board received a total of Kshs. 38 million as Recurrent Grants. The grants received were Ksh. 1.79 million from development partners and Ksh. 36.21 million from Government of Kenya. In addition, the Board received Ksh. 80 Million in Development Grants from the Government of Kenya to finance the ongoing construction and equipping of the National Dairy Laboratory Project.



In total, the Board recorded a total revenue of Ksh. 399.60 million which is made up of Ksh. 361.60 million generated from the A in A and Ksh. 38 million from the grants as recognised in the statement of the financial performance.

Despite the drought which affected local milk production and intakes in the formal sector, the Board posted a 6% increase on internally generated revenue. The Board collected a total of Ksh. 361.60 million as compared to the revenue realised in the year ended 30 June 2018 of Ksh. 341.15 million. The positive outlook was maintained by increased importation of specialised dairy products and continued surveillance on the informal milk marketing which resulted to increased collection on import levy as well as permit and license fees.

Cess, processors levy and License fees.

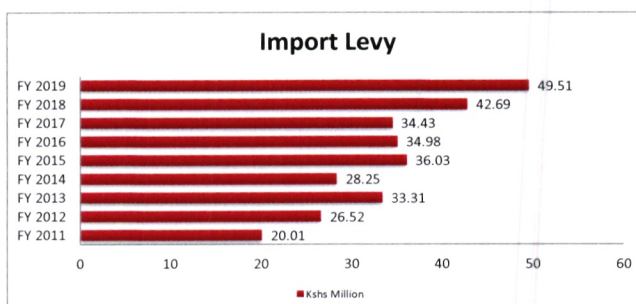
The performance of the three key internal revenue sources during the year was as follows;



Cess which is charged at the rate of 20 Cents per litre increased by 5.01% from Ksh. 125.05 million in the year ended June 2018 to Ksh. 131.31 million, while processors levy increased by 7.04% to close at Ksh. 135.68 million from Ksh. 126.76 recorded in the year ended 30 June 2018. However, both Cess and processors' levy fell short of the budget for the year given the adverse weather experienced in the year and which had a negative impact on the intakes in the formal sector. The continued surveillance on informal milk marketing and the rolling out of the Online Licensing & Inspection System resulted to the overall increase in revenue generated from licenses by 33.05% from Ksh. 17.64 million in June 2018 to Ksh. 23.47 million in the year ended June 2019.

Import levy

Import levy is charged at the rate of 7% on CIF value of the imported dairy products. The revenue generated from the import increased by 15.98% from Ksh. 42.69 million recorded in the previous financial year to Ksh. 49.51 million. The increase was as a result of the adverse weather experienced in the last financial year which resulted to more importation of specialised dairy products which were not available in the local markets as result of reduced intakes and the processors concentrated more in satisfying fresh milk demand.

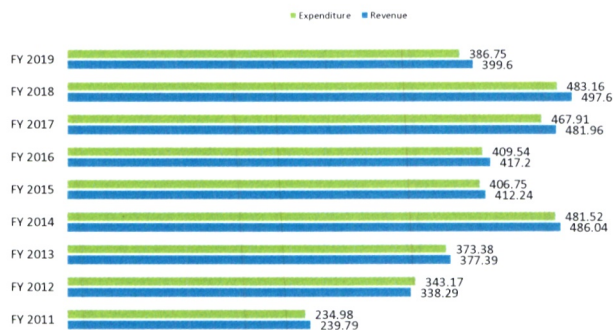


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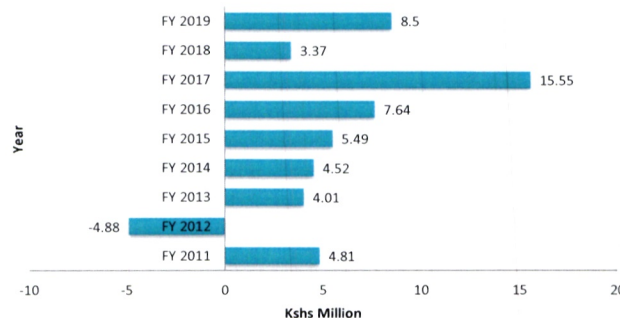
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

ii) Expenditure and surplus for the year

Revenue Vs Expenditure



Surplus



The total revenue for the Board in the year ended 30 June 2019 was Ksh. 399.60 million as compared to Ksh. 497.60 million recorded in the previous financial year. The reduction in the operating revenue was a result of the reduction of GoK recurrent grant. The expenditure during the year under review was Ksh. 386.75 million as compared to Ksh. 483.16 million recorded in the year ended June 2018. This resulted to a surplus of Ksh. 8.50 million (after the impairment loss of Kshs. 4.35 Million) as compared to a surplus of Ksh. 3.37 million posted the year ended June 2018.

iii) Material arrears in Statutory and financial obligations

The Board does not have any arrears in statutory or financial obligations. The Board's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Board's reputation. The Board ensures that it has sufficient cash on demand to meet expected operating expenses through the use of cash flow forecasts.

iv) Key projects and investment decisions the Board is implementing

During the year, the Board continued with the construction of the National Dairy Laboratory Complex. This project is funded by Government Grants. The erection and completion of Boundary Wall, Gate House and Electric Fence is now complete while erection and completion of National Dairy Laboratory is due by end of September 2019. The procurement of the necessary equipment and accessories is underway for purposes of equipping the Laboratory and develop the capacity to test and disseminate quality and safety results on marketed milk.

The project will ensure health and safety of consumers, promote compliance to international standards and facilitate national and international trade. This will spur growth and sustainability of the Dairy Industry leading to increased employment opportunities in production, transportation, processing and distribution of milk and milk products. Further, this will influence growth in other allied sectors such as animal feed processing, equipment manufacturer and distribution, animal breeding, health services, extension/consultancy services pharmaceutical among others.

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CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Kenya Dairy Board recognizes the importance of our social commitment with the society, the economy and the environment in line with the Board's strategic objectives. KDB has therefore strived to build mutual trust and transparency in its relationship with the external and internal environment.

KDB's CSR approach that has been adopted integrates with enterprise management system, hence providing an opportunity to manage the internal and external risks efficiently in all areas of CSR and the core business of the Board. KDB's CSR strategy takes into account our corporate, public interest and environmental issues, while increasing the value of the organisation, strengthening reputation, developing new networks, as well as improving relations with stakeholders.

In 2018-2019, Kenya Dairy Board's Corporate Social Responsibility incorporated many issues in its CSR. The main goal was to impact on the bottom line which is social contribution, sporting contribution, environmental contribution and economic contribution. The main CSR activities were on environment, sports & enterprise development, interventions which all impact on the bottom-line of the KDB. All these have been stipulated to enhance the improvement of the economy in the sector.

Food Nutrition and Security

One of the key government's big 4 agenda is food nutrition and security. In line with this, the Board through the Ministry of Agriculture, Livestock, Fisheries and Irrigation – State Department of Crops set up nurseries to grow fruit seedlings worth Kshs. 2 million for onward distribution to farmers.

Environmental Social Responsibility



Kenya Dairy Board participated in a tree planting exercise in Morop Forest in Baringo County. A total of 7,000 tree seedlings were planted. 3,600 were planted at the venue while 1,400 tree seedlings were issued to farmers and 1,800 to 9 schools within the locality. This was aimed at helping to achieve the government's target of 10 % forest cover nationally. A total of 15 bee hives were also donated to two conservancy groups to serve as an alternative source of income. During the exercise, the Board had an opportunity to articulate the mandate and role of the Board as well as the need to ensure that traders comply to safety and quality requirements and consumers consume safe and quality milk and milk products.



Effort to minimise post harvest losses



In contribution to the economy, the Board donated aluminium milk cans and two milk carriage motorcycles to Mburugu Dairy Cooperative Society held in a ceremony held at Manyatta, Ruguru Location, Kiriari Sub County of Embu County. The presentation was graced by the Cabinet Secretary Hon. Mwangi Kiunjuri. The motorcycles are aimed at improving transport for their milk from their catchment areas, improve turn around time and thus reduce post-harvest losses. The milk cans on the other hand ensure compliance to safety and quality requirements as they are the recommended containers. During the event, the speakers particularly the MD –KDB emphasised on the need to improve on safety and quality of our milk and products.



Support to Sports



To sensitize the public on its role as a regulator of the dairy industry, the Board supported and participated in the 2nd edition of Eldoret City Marathon. This brought together more than 5,000 runners- including elite athletes as well as amateur and leisure runners. The theme of the marathon was "running for climate change". Apart from promoting the physical and health wellness of the participants, the marathon aims at fundraising for funds to plant a total of 1 million trees in Uasin Gishu County. The county is a major agricultural and milk production area but the changing weather patterns has largely affected agricultural and dairy activities in the area and thus need to mitigate against adverse weather conditions.



Kenya Dairy Board in Partnership with AMACO Ltd held an International Volleyball Tournament in Uasin Gishu County which greatly enhanced our Corporate visibility and offered a platform to showcase the participants that we value their skills and ready to contribute in their day to day lives and nurturing talents. Milk is a healthy product and thus complements well with supports which also aims at enhancing the health wellbeing of individuals.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

REPORT OF THE DIRECTORS

The Directors submit their report together with Audited Financial Statements for the year ended 30 June 2019 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, 2019 are set out on Page 21.

Directors

The members of the Board of Directors who served during the year are shown on Pages 3 to 5. During the year, five Directors retired and four Directors were appointed with effect from 14 December 2018.

Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, Regulatory Entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. In the year ended 30 June 2019, Kenya Dairy Board reported a surplus of Ksh. 8,497,936 and has made a provision of Ksh. 7,648,142 (FY 2018 - Kshs. 3,030,780) as surplus remission to Consolidated fund.

Auditors

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

By Order of the Board



Margaret Rugut Kibogy
Secretary to the Board
Nairobi, Kenya

Date: 14/05/2020

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and 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 Board 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, 2019. 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 misstatements, 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 (IPSAS), and in the manner required by the PFM Act, 2012 and the Dairy Industry Act, Cap 336. 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, 2019, 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.

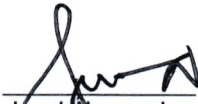
Approval of the financial statements

The Board's financial statements were approved for issue by the Board of Directors on **18 September 2019**, and signed on behalf of the Board by:



Anthony Ian N. Mutugi
Chairman of the Board
Nairobi, Kenya

Date: 15/05/2020



Jared Nyanumba
Director
Nairobi, Kenya

Date: 22/05/2020

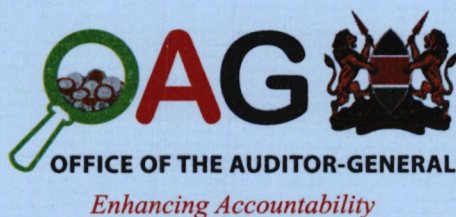


Margaret Rugut Kibogy
Managing Director
Nairobi, Kenya

Date: 14/05/2020

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA DAIRY BOARD FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Dairy Board set out on pages 22 to 42, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Dairy Board as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and Dairy Industry Act, Cap 336 of the Laws of Kenya.

Basis for Qualified Opinion

Land without Title

As reported in the previous years, the statement of financial position reflects property, plant and equipment balance of Kshs.119,429,576. The balance includes an amount Kshs.1,500,000 being the value of a parcel of land situated in Narok town that was allocated to the Board in 2000. A review of the position during the year under review revealed that the Board has not obtained the title deed.

Consequently, the ownership of the plot and the value of the parcel of land of Kshs.1,500,00 included in the property, plant and equipment balance of Kshs.119,429,576 as at 30 June, 2019 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Dairy Board Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

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, I confirm that, nothing 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

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 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.

Responsibilities of Management and Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied

in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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


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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board'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 Board 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 Board 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

21 July, 2021

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2019**

	Notes	2018-2019 Kshs	2017-2018 Kshs
Revenue from non-exchange transactions			
Fines, penalties, fees and levies	6	345,067,070	315,841,484
Transfers from the Government and others	7	38,004,170	156,453,660
		383,071,240	472,295,144
Revenue from exchange transactions			
Interest income	8	14,921,818	25,294,667
Other income	9	167,100	14,396
		15,088,918	25,309,063
Total revenue		398,160,158	497,604,207
Expenses			
Use of goods and services	10	12,556,377	14,274,289
Employee costs	11	180,857,206	169,966,655
Board members expenses	12	13,272,876	14,108,635
Depreciation and amortisation expense	13	21,286,685	23,811,691
Repairs and maintenance	14	4,122,103	8,811,147
General and operating expenses	15	154,658,569	252,189,931
Total expenses		386,753,816	483,162,348
Other gains / (losses)			
Gain on sale of assets	16	1,438,038	-
Provision for bad and doubtful debts	17	(4,346,444)	(11,074,326)
Surplus for the year		8,497,936	3,367,533
Remission to National Treasury	36	(7,648,142)	(3,030,780)
Net surplus for the year		849,794	336,753

The notes set out on pages 26 to 40 form an integral part of the financial statements.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019**

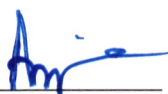
Assets	Notes	2018-2019 Kshs	2017-2018 Kshs
Non current assets			
Property, plant and equipment	18	119,429,576	59,604,224
Intangible assets	19	5,787,731	9,526,401
Finance leases	20	166,007,576	168,179,293
Long term receivables from non-exchange transactions	21	<u>32,389,795</u>	<u>13,669,453</u>
		<u>323,614,678</u>	<u>250,979,371</u>
Current assets			
Cash and cash equivalents	22	315,241,788	293,634,205
Receivables from non-exchange transactions	23	21,849,505	22,369,003
Other receivables and prepayments	24	<u>25,682,309</u>	<u>14,835,517</u>
		<u>362,773,602</u>	<u>330,838,725</u>
Total assets		<u>686,388,280</u>	<u>581,818,096</u>
Liabilities			
Net assets			
Revaluation reserves	25	166,007,576	168,179,293
Accumulated surplus	26	72,978,380	69,956,869
Capital funds	27	<u>58,462,277</u>	<u>57,000,000</u>
		<u>297,448,233</u>	<u>295,136,162</u>
Non current liabilities			
Gratuity provision	28	<u>185,380</u>	<u>-</u>
Current liabilities			
Gratuity provision	28	-	3,565,000
Trade and other payables from non-exchange transactions	29	76,575,884	54,357,980
Current provisions	30	2,632,343	1,000,784
Deferred Income	31	<u>309,546,440</u>	<u>227,758,170</u>
		<u>388,754,667</u>	<u>286,681,934</u>
Total net assets and liabilities		<u>686,388,280</u>	<u>581,818,096</u>

The financial statements set out on pages 21 to 40 were approved by the Board of Directors on **18 September 2019** and signed on its behalf by:



Margaret Rugut Kibogy
Managing Director

Date: 14/05/2020



CPA Edward Nyoike
Finance Manager
ICPAK Member No. 5668

Date: 14/05/2020



Anthony Ian N. Mutugi
Chairman of the Board

Date: 15/05/2020

The notes set out on pages 26 to 40 form an integral part of the financial statements.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2019**

	Notes	Revaluation reserve Kshs	Accumulated surplus Kshs	Capital Funds Kshs	Total Kshs
At 1 July 2017		170,351,010	88,745,124	-	259,096,134
Surplus for the year	26	-	336,753	-	336,753
Transfer from Deferred Grants	27	-	-	35,000,000	35,000,000
Interest on car loan charged during the year	27	-	-	703,275	703,275
Transfer to Staff Car Loan Scheme	26	-	(21,296,725)	21,296,725	-
Transfer of amortisation to accumulated surplus	26	(2,171,717)	2,171,717	-	-
At 30 June 2018		168,179,293	69,956,869	57,000,000	295,136,162
At 1 July 2018		168,179,293	69,956,869	57,000,000	295,136,162
Surplus for the year	26	-	849,794	-	849,794
Interest on Staff Car Loan charged during the year	27	-	-	664,261	664,261
Interest earned on Staff Housing Mortgage Funds	27	-	-	798,016	798,016
Transfer of amortisation to accumulated surplus	26	(2,171,717)	2,171,717	-	-
At 30 June 2019		166,007,576	72,978,380	58,462,277	297,448,233

The notes set out on pages 26 to 40 form an integral part of the financial statements.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019**

	Notes	2018-2019 Kshs	2017-2018 Kshs
Cash flows from operating activities			
Receipts			
Fines, penalties, fees and levies	6	345,067,070	311,846,978
Transfers - Government and others	7	38,004,170	40,592,180
Other income	9	167,100	14,396
Total receipts		383,238,340	352,453,554
Payments			
Use of goods and services	10	12,556,377	12,448,127
Employee costs	11	180,857,206	173,300,777
Board members expenses	12	13,272,876	14,454,485
Repairs and maintenance	13	4,122,103	4,032,007
General and operating expenses	14	154,756,626	219,759,048
Total payments	15	365,565,188	423,994,444
Net cash flows from operating activities	37	17,673,152	(71,540,890)
Cash flow from investing activities			
Purchase of property, plant and equipment	18	(75,310,743)	(32,491,890)
Purchase of intangible assets	19	-	(240,000)
Interest income	8	14,921,818	25,294,667
Proceeds from disposal of property, plant and equipment	16	1,581,421	-
Increase in deposit, staff car loans and staff advances	24	-	(1,948,495)
Deposits for purchase disposed assets	29	-	25,496
Increase in non current receivables	21	(18,720,342)	(1,374,551)
Net cash flow used in investing activities		(77,527,846)	(10,734,773)
Cash flow from financing activities			
Capital grant received	7	80,000,000	22,000,000
Interest credited on staff car loan and staff Housing Mortgage Funds		1,462,277	703,275
Net cash flows from financing activities		81,462,277	22,703,275
Net (decrease) / increase in cash and cash equivalents		21,607,583	(59,572,388)
Cash and cash equivalents at 1 July	22	293,634,205	353,206,593
Cash and cash equivalents at 30 June	22	315,241,788	293,634,205

The notes set out on pages 26 to 40 form an integral part of the financial statements.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2019**

	Original Budget	Adjustment	Final Budget	Actual	Performance
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Fines, penalties, fees and levies	331,099,400	11,800,000	342,899,400	345,067,070	2,167,670
Transfers from the Government and others	180,000,000	(141,626,280)	38,373,720	38,004,170	(369,550)
Interest income	7,000,000	7,000,000	14,000,000	14,921,818	921,818
Other income and Gain on sale of assets	500,000	290,000	790,000	1,605,138	815,138
Total revenue - Note (a)	518,599,400	(122,536,280)	396,063,120	399,598,196	3,535,076
Expenses					
Use of goods and services	13,278,000	(1,116,000)	12,162,000	12,556,377	394,377
Employee costs	212,806,909	(30,732,070)	182,074,839	180,857,206	(1,217,633)
Board members expenses	14,602,376	(1,108,376)	13,494,000	13,272,876	(221,124)
Depreciation and amortisation expense - Note (b)	36,101,679	(9,037,156)	27,064,523	21,286,685	(5,777,838)
Repairs and maintenance - Note (c)	12,855,000	(7,960,000)	4,895,000	4,122,103	(772,897)
General and operating expenses	228,731,200	(72,360,800)	156,370,400	154,658,569	(1,711,831)
Total expenditure	518,375,164	(122,314,402)	396,060,762	386,753,816	(9,306,946)
Surplus for the period - Note (d)	224,236	(221,878)	2,358	12,844,380	12,842,022

During the year, the Board requested for Ksh. 180 Million in Government of Kenya (GoK) Grants to finance the recurrent expenditure. However, the Board was allocated Ksh. 36.2 Million as recurrent grant for the year. The reduction in GoK funding, anticipated increase in interest on the deferred capital development funds as well as anticipated increase on import levy necessitated the revision of the budgeted revenue from Ksh. 518.6 Million to Ksh. 396.1 Million.

Notes

a) Total revenue - Despite the adverse weather which affected milk production in the country, the Board exceeded the budgeted collection on total revenue with Ksh. 3.61 million as a result of increased importation of specialised dairy products and continued surveillance on the informal milk marketing which resulted to increased collection on import levy as well as permit and license fees.

b) Depreciation and amortisation expense - Provision for depreciation and amortisation for non current assets was Ksh. 5.7 Million (21.1%) below budget as a result of the delays experienced in the procurement of Inspectorate Vehicles and the Enterprise Resource Planning System.

c) Repairs and maintenance - The delay in the procurement of the Enterprise Resource Planning System resulted to decline in the absorption of the repairs and maintenance expenses since some software required to support the system could not be procured.

d) Surplus for the period - In overall, the Board realised a surplus of Ksh. 12.84 Million as compared to the Budgeted surplus of Ksh. 2,358 as a result of surpassed collection on internally generated revenue and unabsorbed expenditure of Ksh. 9.23 million.

e) Reconciliation of surplus as per the Statement of Comparison of Budget and Actual Amounts and net surplus as per the Statement of Financial Performance.	Final Budget 2018-2019 Kshs	Actual 2018-2019 Kshs
Surplus as per statement of comparison of Budget and actual amounts	2,358	12,844,380
Provision for bad and doubtful debts	-	(4,346,444)
Provision for Remission to National Treasury	-	(7,648,142)
Net surplus as per Statement of Financial Performance	2,358	849,794

**ENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

1. General information

Kenya Dairy Board is established by and derives its authority and accountability from The Dairy Industry Act Cap 336. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to regulate, promote and develop Dairy Industry in Kenya.

2. Statement of compliance and basis of preparation

The financial statements have been prepared on historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment at fair value and impaired assets at their estimated recoverable amounts. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Board's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Board.

The financial statements have been prepared in accordance with the PFM Act, the Dairy Industry Act, Cap 336, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. Adoption of New and revised Standards

(i) Relevant new standards and amendments to published standards effective in the year ended 30 June 2019

Standard	Impact
IPSAS 40: Public Sector Combinations	(Applicable: 1 January 2019). The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations. The Board is not planning for any Public Sector amalgamation and therefore the standard does not apply.

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

IPSAS 41: Financial Instruments	(Applicable: 1 January 2022). The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. The Board has reported the Financial Instruments within the scope of IPSAS 29 - Financial Instruments and therefore the standard does not apply.
IPSAS 42: Social Benefits	(Applicable: 1 January 2022): The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess: (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows. The Board incurs no expenditure which is within the scope of IPSAS 42: Social Benefits and therefore the standard does not apply.

(iii) Early adoption of Standards

The Board did not early - adopt any new or emended Standards in the year ended 30 June 2019.

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4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

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. Specifically;

Cess

Cess is payable to Kenya Dairy Board by all producers who produces milk for sale or converts milk to any other dairy produce for sale. Cess is collected by all licensed milk traders on behalf of the Board at a rate of twenty cents per litre. Cess is payable to the Board on or before the tenth (10th) day after the month of production and it is accounted for on accrual basis.

Processors' levy

Processors' levy payable to Kenya Dairy Board by all licensed processors at a rate of twenty cents per litre of milk processed. The levy is payable to the Board on or before the tenth (10th) day after the month of processing and it is accounted for on accrual basis.

Import levy

Import levy is payable by any person who imports milk or any other Dairy produce at a rate of 7% of gross cost, insurance and freight (landed value) of the milk or dairy produce.

Penalties

Penalties are charge to any person who fails to remit the cess or levies to the Board. As required by law. Interest on cess is charged at a rate of 12% for the first of month in which the cess remain unpaid and 6% compound interest for each subsequent month. Any person who fails to pay the levy is liable to pay interest of 25% for the first month in which the levy remains unpaid and 12% compound interest for each subsequent month.

Licenses and permit fees

Licensing fees is paid by licensed trader on annual basis, while permit is paid by Dairy transporters and importers. Licenses and permit fees are accounted for on accrual basis.

Transfers from Government and other entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Board and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

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 Board.

Interest income

Interest income is accrued using the effective yield method and recognised net of withholding tax. 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 original budget for FY 2018-2019 was approved by The National Treasury in August 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Board upon receiving the respective approvals in order to conclude the final budget.

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

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Summary of significant accounting policies (Continued)

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on Page 25 of these financial statements.

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 other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. 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 and amortisation is calculated using the straight-line method to allocate their cost or revalued amounts less their residual values over their estimated useful lives at a rate of 30%.

f) Finance leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Board. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Board also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

An asset held under a finance lease is amortised over the useful life of the asset. However, if there is no reasonable certainty that the Board will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

g) Research and Development costs

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

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

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Summary of significant accounting policies (Continued)

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

h) Financial instruments

i) 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:

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

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Board determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognised in surplus or deficit when the liabilities are derecognised as well as through the effective interest method amortization process.

Amortised 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.

i) 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 Members of key management are regarded as related parties and comprise the Directors, the Chief Executive Officers and Heads of Departments.

j) 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.

Summary of significant accounting policies (Continued)

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.

k) Nature and purpose of reserves

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

l) 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.

m) Employee benefits

Retirement benefit plan

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

Gratuity for contracted employees are charged against income in the year in which they are earned and are payable at the end of the contract period.

n) 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.

o) Comparative figures

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

p) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

5. 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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Board based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Board. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

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Summary of significant accounting policies (Continued)

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Notes 28 and 30.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. The Board maintains provision for bad and doubtful debts, gratuity provision, accrued leave provision and provision for audit fee.

6. Fines, penalties, fees and levies	2018-2019 Kshs	2017-2018 Kshs
Cess receipts	131,311,232	125,054,030
Processors levy	135,678,529	126,755,306
Permit and licence fees	23,466,600	17,641,650
Import levy	49,513,786	42,694,842
Penalties	5,096,923	3,583,137
Confiscated milk sale	-	112,519
	345,067,070	315,841,484

7. Transfers from the Government and others	2018-2019 Kshs	2017-2018 Kshs
(a) Unconditional grants		
Operational grants from G.o.K	36,215,900	153,900,000
Other Organisational grants	3,576,540	2,553,660
	39,792,440	156,453,660
Conditional grants		
Capital expenditure grants from G.o.K	80,000,000	22,000,000
	119,792,440	178,453,660

(b) Amount recognised to statement of financial performance	2018-2019 Kshs	2017-2018 Kshs
Deferred amount from previous financial year	-	115,861,480
Transfers from Ministries, Departments and Agencies	36,215,900	38,900,000
Other organisational grants	1,788,270	1,692,180
	38,004,170	156,453,660

(c) Transfers from Ministries, Departments and Agencies

Name of the Entity sending	Amount recognised to statement of Comprehensive Income Kshs	Amount deferred under Deferred Income Kshs	Amount recognised in the Capital Fund Kshs	Total Grants Income during the year Kshs	Total Grants 2017-2018 Kshs
State Department of Livestock	9,238,750	-	-	9,238,750	31,725,000
State Department of Livestock	8,499,650	-	-	8,499,650	9,725,000
State Department of Livestock	-	40,000,000	-	40,000,000	-
State Department of Livestock	9,423,525	-	-	9,423,525	-
State Department of Livestock	-	40,000,000	-	40,000,000	9,725,000
State Department of Livestock	9,053,975	-	-	9,053,975	9,725,000
Total	36,215,900	80,000,000	-	116,215,900	60,900,000

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(d) Other organisational grants

Name of the Entity sending	Amount recognised to statement of Comprehensive Income Kshs	Amount deferred under Deferred Income Kshs	Amount recognised in the Capital Fund Kshs	Total Grants Income during the year Kshs	Total Grants 2017-2018 Kshs
Smallholder Dairy Commercialization Programme	1,192,180	-	-	1,192,180	1,192,180
Smallholder Dairy Commercialization Programme	596,090	-	-	596,090	-
Smallholder Dairy Commercialization Programme	-	1,788,270	-	1,788,270	-
Majid Al Futtaim Carrefour	-	-	-	-	300,000
Meru Dairy Co-op Union Limited	-	-	-	-	200,000
Total	1,788,270	1,788,270	-	3,576,540	1,692,180

8. Interest income	2018-2019	2017-2018
	Kshs	Kshs
Interest on bank deposits	14,921,818	25,294,667
	<u>14,921,818</u>	<u>25,294,667</u>
9. Other income	2018-2019	2017-2018
	Kshs	Kshs
Tender sales	9,000	6,000
Sale of publications	9,300	8,396
Miscellaneous income	148,800	-
	<u>167,100</u>	<u>14,396</u>
10. Use of Goods and Services	2018-2019	2017-2018
	Kshs	Kshs
Printing and stationery expenses	3,785,690	4,814,906
Electricity and water expenses	352,171	308,173
Postage and courier expenses	913,510	1,118,378
Bank service charges	567,216	555,155
Professional and legal fees	378,930	1,310,497
Audit fees	754,000	754,000
Telephone and internet services	5,660,860	4,948,180
Uniform and clothing expenses	144,000	465,000
	<u>12,556,377</u>	<u>14,274,289</u>
11. Employees costs	2018-2019	2017-2018
	Kshs	Kshs
Personnel basic salaries	91,294,743	86,487,174
Gratuity and pension contribution	18,174,200	17,731,407
House allowances	30,164,500	29,243,500
Transport and commuter allowance	14,982,000	14,313,341
Acting allowance	1,164,837	402,492
Entertainment allowance	6,608,000	6,034,000
Extraneous allowance	6,686,000	7,846,236
Relocation and leave allowance	11,782,926	7,908,505
	<u>180,857,206</u>	<u>169,966,655</u>

The Board makes defined contribution to a Pension Scheme administered by Kenindia Assurance Company Limited and the National Social Security Fund (NSSF). The contributions to the Pension Scheme are at a rate of 10% of basic salary by employees and employer 20% and NSSF Kshs. 200 per month. The Board also provides for gratuity to contracted staff at a rate of 31% of the Basic salary payable at the end of the contract period. The contributions and provision made during the year were as follows:

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	2018-2019	2017-2018
	Kshs	Kshs
Gratuity and Employer contribution to staff pension		
NSSF Employer contributions	367,400	335,800
Employer pension contributions	16,052,820	15,684,407
Gratuity provision for contracted staff	1,753,980	1,711,200
	18,174,200	17,731,407
12. Board members expenses	2018-2019	2017-2018
	Kshs	Kshs
Mileage allowances	1,293,533	1,722,040
Travel and accommodation allowances	5,632,480	6,217,298
Sitting allowances	4,540,000	4,500,000
Chairperson's monthly allowance	1,044,000	1,044,000
Directors' Medical insurance	762,863	625,297
	13,272,876	14,108,635
13. Depreciation and amortisation expenses	2018-2019	2017-2018
	Kshs	Kshs
Depreciation of plant, property and equipment	15,376,298	19,719,104
Amortisation of intangible assets	3,738,670	1,920,870
Amortisation of operating leases	2,171,717	2,171,717
	21,286,685	23,811,691
14. Repairs and maintenance	2018-2019	2017-2018
	Kshs	Kshs
Maintenance of plant and equipment	365,720	173,826
Maintenance of Offices	1,628,836	4,860,013
Information technology services	2,127,547	3,777,308
	4,122,103	8,811,147
15. General and Operating expenses	2018-2019	2017-2018
	Kshs	Kshs
Training expenses	4,348,962	6,076,482
Staff medical and benevolent insurance expenses	16,965,079	10,804,184
Motor vehicle and general insurance	3,213,939	2,326,501
Staff welfare	7,187,437	13,431,527
Advertising and publicity	1,928,038	3,133,334
Rent and rates	19,420,707	19,016,620
Donations and environmental conservation	2,612,240	1,580,186
Motor vehicle running expenses	12,006,626	9,400,537
Show expenses	2,729,400	3,150,571
Travel and accommodation expenses	36,773,721	35,601,112
Laboratory expenses	3,444,420	7,614,967
Control of informal milk marketing and consumer education	25,585,335	107,773,425
Conference, exhibitions and training of stakeholders	1,942,222	4,724,800
Marketing and Benchmarking	1,166,364	2,520,169
Promotion of milk consumption	422,505	8,423,080
Product value addition	1,724,262	1,156,150
Organisation of stakeholders	1,300,900	735,550
Research and Dairy development	4,166,500	4,719,900
Policy and strengthening of regulatory framework	7,719,912	10,000,836
	154,658,569	252,189,931
16. Gain on sale of Assets	2018-2019	2017-2018
	Kshs	Kshs
Gain on disposal of property, plant and equipment	1,438,038	-
17. Provision for bad and doubtful debts	2018-2019	2017-2018
	Kshs	Kshs
Provision for bad and doubtful debts	4,346,444	11,074,326

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18. Property, plant and equipment

<u>Year ended 30 June 2018</u>	Capital Work in progress 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 2017	3,029,377	88,754,042	15,637,867	39,020,555	7,404,378	153,846,219
Additions	22,450,914	5,804,000	502,030	4,140,000	1,517,945	34,414,889
As at 30 June 2018	25,480,291	94,558,042	16,139,897	43,160,555	8,922,323	188,261,108
Accumulated depreciation						
As at 30 June 2017	-	61,217,820	9,115,528	33,629,104	4,975,327	108,937,779
Charge for the year	-	12,772,362	1,396,009	4,800,528	750,206	19,719,105
As at 30 June 2018	-	73,990,182	10,511,537	38,429,632	5,725,533	128,656,884
Net Book Value						
As at 30 June 2018	25,480,291	20,567,860	5,628,360	4,730,923	3,196,790	59,604,224

<u>Year ended 30 June 2019</u>	Capital Work in progress Kshs	Motor vehicles Kshs	Furniture and fitting Kshs	Computers and accessories Kshs	Office and lab equipment Kshs	Total assets Kshs
As at 30 June 2018	25,480,291	94,558,042	16,139,897	43,160,555	8,922,323	188,261,108
Additions	65,337,219	6,730,800	627,900	2,421,529	193,295	75,310,743
Disposals during the year	-	(3,033,298)	(455,145)	(3,208,333)	(50,919)	(6,747,695)
As at 30 June 2019	90,817,510	98,255,544	16,312,652	42,373,751	9,064,699	256,824,156
Accumulated depreciation						
As at 30 June 2018	-	73,990,182	10,511,537	38,429,632	5,725,533	128,656,884
Charge for the year	-	10,409,862	1,315,900	2,936,408	714,128	15,376,298
Disposals during the year	-	(3,033,298)	(455,145)	(3,123,305)	(26,854)	(6,638,602)
As at 30 June 2019	-	81,366,746	11,372,292	38,242,735	6,412,807	137,394,580
Net Book Value						
As at 30 June 2019	90,817,510	16,888,798	4,940,360	4,131,016	2,651,892	119,429,576

19. Intangible assets

	2018-2019 Kshs	2017-2018 Kshs
Cost		
At 1 July	23,347,114	23,107,114
Additions	-	240,000
At 30 June	23,347,114	23,347,114
Amortisation		
At 1 July	13,820,713	11,899,843
Charge for the year	3,738,670	1,920,870
At 30 June	17,559,383	13,820,713
Net book value		
At 30 June	5,787,731	9,526,401

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.

20. Finance Leases

	2018-2019 Kshs	2017-2018 Kshs
Balance brought forward	216,500,000	216,500,000
Revaluation during the year	-	-
At 30 June	216,500,000	216,500,000
Amortisation		
At 1 July	48,320,707	46,148,990
Charge for the year	2,171,717	2,171,717
At 30 June	50,492,424	48,320,707
Net book value		
At 30 June	166,007,576	168,179,293

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Finance leases relates to Land L.R. No. 21707 in Kabete Area, Nairobi County valued at Ksh. 215,000,000 and Plot No. 205 situated in Narok Town valued at Ksh. 1,500,000. The lease for Kabete land runs for a period of 99 years from 1 April 1996. The Board has not been able to ascertain the period of lease for the plot in Narok since the Title documents have not been obtained. The value of the Kabete land is amortised with effect from 1 April 1996 over 99 years being the lease period.

21. Long term receivables from non-exchange transactions	2018-2019	2017-2018
	Kshs	Kshs
Staff Car Loan Scheme - Non current portion	13,479,270	13,669,453
Staff Housing Mortgage Scheme - Non current portion	18,910,525	-
	<u>32,389,795</u>	<u>13,669,453</u>

22. Cash and cash equivalents	2018-2019	2017-2018
	Kshs	Kshs
Bank balances	315,044,180	291,949,549
Cash on hand and in transit	197,608	1,684,656
	<u>315,241,788</u>	<u>293,634,205</u>

22. Cash and cash equivalents

Detailed analysis of the cash and cash equivalents

(a) Bank balances

Name of the Bank	Bank Account Number	Currency	2018-2019 Kshs	2017-2018 Kshs
Co-operative Bank of Kenya Limited	01136010006600	Kshs	5,908,877	1,284,429
KCB Bank of Kenya Limited	1103250906	Kshs	10,943,144	11,747,798
KCB Bank of Kenya Limited	1102653993	Kshs	282,713,986	243,716,729
KCB Bank of Kenya Limited	1233692348	Kshs	15,277,580	35,000,000
National Bank of Kenya Limited	01003002830700	Kshs	200,593	200,593
Total		Kshs	<u>315,044,180</u>	<u>291,949,549</u>

(b) Cash on hand and in transit

Form of cash holding	Currency	2018-2019 Kshs	2017-2018 Kshs
Undeposited cash	Kshs	102,252	522,753
Mpesa Account - Pay Bill No. 799 524	Kshs	95,356	1,161,903
Total	Kshs	<u>197,608</u>	<u>1,684,656</u>

23. Receivables from non-exchange transactions	2018-2019	2017-2018
	Kshs	Kshs
Receivables from non-exchange transactions comprises of the following:-		
Fines, penalties, fees and levies receivable	39,194,339	35,367,393
Provision for bad and doubtful debts	(17,344,834)	(12,998,390)
	<u>21,849,505</u>	<u>22,369,003</u>

24. Other receivables and prepayments	2018-2019	2017-2018
	Kshs	Kshs
Staff Car Loan Scheme - Current portion	7,078,051	7,871,062
Staff Housing Mortgage Scheme - Current portion	1,609,910	-
Deposits	3,107,988	3,104,988
Staff salary advances	1,115,752	2,285,691
Ex- Staff receivables	400,782	400,782
Provision for bad and doubtful debts	(400,782)	(400,782)
Prepayments	12,770,608	1,573,776
	<u>25,682,309</u>	<u>14,835,517</u>

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

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25. Revaluation reserves	2018-2019 Kshs	2017-2018 Kshs
At start of year	168,179,293	170,351,010
Transfer of excess depreciation on revaluation	(2,171,717)	(2,171,717)
	166,007,576	168,179,293

Revaluation reserve is as a result of valuation of land received from the Government of Kenya as grant. The two parcels of land were revalued to Ksh. 216,500,000 by Chief Government Valuer, Ministry of Lands, Housing and Urban Development in the reports dated February 2015.

26. Accumulated surplus	2018-2019 Kshs	2017-2018 Kshs
This comprises of accumulated surplus over the years.		
At start of the year	69,956,869	88,745,124
Surplus for the year	849,794	336,753
Transfer of amortisation from revaluation reserves to accumulated surplus	2,171,717	2,171,717
Transfer from accumulated surplus to Staff Car Loan Scheme Fund	-	(21,296,725)
	72,978,380	69,956,869

27. Capital Funds	2018-2019 Kshs	2017-2018 Kshs
Staff Car Loan Scheme	22,664,261	22,000,000
Staff Housing Mortgage Scheme	35,798,016	35,000,000
	58,462,277	57,000,000

The Capital Funds movement during the year was as follows;	Staff Car Loan Scheme Kshs	Staff Housing Mortgage Kshs	Total Kshs
Balance brought forward	22,000,000	35,000,000	57,000,000
Interest earned during the year	664,261	798,016	1,462,277
Balance carried forward	22,664,261	35,798,016	58,462,277

28. Gratuity provision	2018-2019 Kshs	2017-2018 Kshs
Balance at 1 July	3,565,000	1,853,800
Provision for the year	1,753,980	1,711,200
Payment during the year	(5,133,600)	-
Balance at 30 June	185,380	3,565,000

Gratuity provision are payable as follows;

Within one year	-	3,565,000
Payable after one year	185,380	-
	185,380	3,565,000

29. Trade and other payables from non-exchange transactions	2018-2019 Kshs	2017-2018 Kshs
Payables from non exchange transactions	57,267,357	45,922,477
Payroll liabilities	9,710,370	4,614,814
KMR Staff Pension	109,299	109,299
KNAC Staff Pension	341,051	341,051
Alico Insurance claims	35,082	35,082
Withheld Taxes	1,464,583	278,980
Deposits for purchase disposed assets	-	25,497
Remission to National Treasury	7,648,142	3,030,780
	76,575,884	54,357,980

30. Current provisions	2018-2019 Kshs	2017-2018 Kshs
Leave provision	1,878,343	246,784
Audit fees	754,000	754,000
	2,632,343	1,000,784

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The movement of provision during the year was as follows;	Leave Provision	Audit fees	Total
	Kshs	Kshs	Kshs
Balance at the beginning of the year	246,784	754,000	1,000,784
Payment during the year	-	(754,000)	(754,000)
Additional provision	1,631,559	754,000	2,385,559
Balance at the end of the year	1,878,343	754,000	2,632,343

31. Deferred Income

	2018-2019	2017-2018
	Kshs	Kshs
National Government	307,758,170	227,758,170
International Funders	1,788,270	-
	309,546,440	227,758,170

The deferred income movement during the year was as follows;	National Government	International Funders	Total
	Kshs	Kshs	Kshs
Balance brought forward	227,758,170	-	227,758,170
Received during the year	116,215,900	3,576,540	119,792,440
Recognised in the statement of financial performance	(36,215,900)	(1,788,270)	(38,004,170)
Balance carried forward	307,758,170	1,788,270	309,546,440

32. Financial risk management

The Board's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Board's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Board does not hedge any risks and has in place policies to ensure that timely recovery of debts.

The Board's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Board has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with set limits. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Board's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Board's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

Financial assets	Total amount	Fully Performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2019				
Receivables from non-exchange transactions	39,194,339	21,849,505	17,344,834	17,344,834
Other receivables and prepayments	26,083,091	25,682,309	400,782	400,782
Cash and cash equivalents	315,241,788	315,241,788	-	-
	380,519,218	362,773,602	17,745,616	17,745,616
At 30 June 2018				
Receivables from non-exchange transactions	35,367,393	22,369,003	12,998,390	12,998,390
Other receivables and prepayments	15,236,299	14,835,517	400,782	400,782
Cash and cash equivalents	293,634,205	293,634,205	-	-
	344,237,897	330,838,725	13,399,172	13,399,172

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Board has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

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The Board has significant concentration of credit risk on amounts due from New Kenya Co-operative Creameries Limited and Lari Dairy Alliance (Under Receivership).

The board of directors sets the Board's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board's directors, who have built an appropriate liquidity risk management framework for the management of the Board's short, medium and long-term funding and liquidity management requirements. The Board manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Board under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Payables	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2019				
Gratuity provision	-	-	185,380	185,380
Trade and other payables	76,575,884	-	-	76,575,884
Current provisions	2,632,343	-	-	2,632,343
Deferred Income	-	-	309,546,440	309,546,440
	79,208,227	-	309,731,820	388,940,047

Payables	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2018				
Gratuity provision	-	-	3,565,000	3,565,000
Trade and other payables	54,357,980	-	-	54,357,980
Current provisions	1,000,784	-	-	1,000,784
Deferred Income	-	-	227,758,170	227,758,170
	55,358,764	-	231,323,170	286,681,934

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Board on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

The Board's Finance & Accounting Department is responsible for the development of detailed risk management policies (subject to review and approval by Board of Directors) and for the day to day implementation of those policies.

There has been no change to the Board's exposure to market risks or the manner in which it manages and measures the risk.

(a) Foreign currency risk

The Board has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. However, the Board did not have any outstanding invoice denominated in foreign currency as at 30 June 2019.

(b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The Board's interest rate risk arises from bank deposits. This exposes the Board to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Board's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on surplus or deficit of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

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Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates decrease by one percentage point would cause a decrease in surplus from Kshs. 8,497,936 to Kshs. 6,366,248. A rate decrease to 5% would result in a decrease in surplus from Kshs. 8,497,936 to a deficit of Kshs. 2,160,505.

Capital risk management

The objective of the Board's capital risk management is to safeguard the institution's ability to continue as a going concern. The Board's capital structure comprises of the following funds:

	2018-2019	2017-2018
	Kshs	Kshs
Revaluation reserves	166,007,576	168,179,293
Accumulated surplus	72,978,380	69,956,869
Capital funds	<u>58,462,277</u>	<u>57,000,000</u>
Total funds	<u>297,448,233</u>	<u>295,136,162</u>
Less: Cash and bank balances	<u>(315,241,788)</u>	<u>(293,634,205)</u>
Net debt / (excess cash and cash equivalents)	<u>(17,793,555)</u>	<u>1,501,957</u>
Gearing	<u>-6.0%</u>	<u>0.5%</u>

33. Related Party Balances

Nature of related party relationship

The Board regards a related party as a person or an authority with the ability to exert control individually, jointly or to exercise significant influence over the Board, or vice versa. The Board is related to;

Government of Kenya

The Government of Kenya is the principal shareholder of the Board, holding 100% of the entity's equity interest. Other related parties include:

- i) Ministry of Agriculture, Livestock, Fisheries & Irrigation
- ii) New Kenya Co-operative Creameries Limited
- iii) Key management
- iv) Board of Directors

	2018-2019	2017-2018
	Kshs	Kshs
(a) Related party transactions		
Revenue received from New Kenya Co-operative Creameries Limited	45,368,189	40,934,061
Car loans and advances granted to Key management	2,692,111	5,872,888
Staff Housing Mortgage Loans advanced Key management	<u>20,866,477</u>	<u>-</u>
(b) Grants from Government		
Grants received from Government of Kenya	<u>116,215,900</u>	<u>60,900,000</u>
(c) Key management compensation		
Allowances paid to Board Members	13,272,876	14,108,635
Compensation to Managing Director	12,960,873	7,274,683
Compensation to key management	<u>24,532,658</u>	<u>22,594,469</u>
(d) Due from related parties		
Due from New Kenya Co-operative Creameries Limited	17,222,336	9,959,020
Car loans and advances due from Key management	6,467,908	8,597,093
Staff Housing Mortgage Loans due from Key management	<u>20,520,435</u>	<u>-</u>

34. Contingent liabilities

a) Litigations

HCCC No. 763 of 2003 - Dairycom (K) Limited Vs Kenya Dairy Board and Kenya Bureau of Standards seeking compensation for lost business following confiscation of imported Butter. The case had not been determined as at 30 June 2019. Consequently, the Board members are however not aware of any other litigation arising from normal operations of the Board which may have material effect on the financial position.

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b) Operating lease rentals

The Board as Lessee: Future minimum lease payments under non-cancellable operating leases;

	2018-2019	2017-2018
	Kshs	Kshs
Office lease rentals		
Due within one year	14,337,295	13,917,484
Due within two and five years	45,386,139	47,710,988
Later than five years	1,375,895	11,585,916
Total operating lease expense commitments	61,099,329	73,214,388

c) Outstanding Insurance Claim

During the financial year ended 30 June 2018, the Board lost a Computer and a Scanner through theft in its Branch Office in Olkalau. The total cost of the assets was Ksh. 101,470 and a net book value was nil as at 30 June 2019. The Board lodged a claim with the Insurance Company and the cost of the lost items is still included in the cost element of Property, Plant and Equipment.

35. Capital commitments

	2018-2019	2018-2019
	Ksh	Ksh
a) Authorised and contracted for: Proposed erection and completion of National Dairy Laboratory at Upper Kabete, Nairobi.	67,314,385	98,992,910
b) Authorised and contracted for: Proposed erection and completion of Boundary Wall, Gate House and Electric Fence at Upper Kabete, Nairobi	-	11,125,635
c) Authorised and contracted for: Proposed erection and completion of National Dairy Laboratory at Upper Kabete Nairobi - Civil Works	19,038,310	-
d) Authorised for: Proposed erection and completion of National Dairy Laboratory at Upper Kabete Nairobi - Supply, installation and commissioning of Laboratory Equipment.	80,000,000	-
	166,352,695	110,118,545

36. Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year.

37. (a) Cash generated from operations

	2018-2019	2018-2019
	Kshs	Kshs
Surplus from operating activities	849,794	336,753
Add back: Depreciation	15,376,298	19,719,105
Amortisation of intangible assets	3,738,670	1,920,870
Amortisation of finance leases	2,171,717	2,171,717
Contribution to provision	1,753,980	1,711,200
Less: Gain on disposal of non current assets	(1,438,038)	-
Interest income	(14,921,818)	(25,294,667)
	7,530,603	564,978
Adjustment for changes in working capital		
Decrease / (decrease) in receivables from non-exchange transactions	519,498	7,079,819
(Increase) / decrease in other receivables and prepayments	(10,846,792)	(1,805,388)
Increase / (decrease) in trade and other payables from non-exchange transactions	22,217,905	39,781,640
Decrease in provisions	(1,748,061)	(1,300,459)
(Decrease) / increase in deferred income	-	(115,861,480)
	10,142,550	(72,105,868)
Net cash flow (used) / generated from operating activities	17,673,152	(71,540,890)

38. Ultimate Holding Entity

The Board is a State Corporation established by The Dairy Industry Act Cap 336, under the Ministry of Agriculture, Livestock, Fisheries & Irrigation. Its ultimate parent is the Government of Kenya.

39. Currency

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


40. Events after the reporting period

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

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APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS

Reference No.	Issue/Observations from Auditor	Management comment	Focal point Person	Status	Time Frame
Property, plant and equipment	As similarly reported in the previous years, the Property, Plant and equipment balance of Kshs. 59,604,224 as at 30 June 2018 includes a parcel of land , Plot No. 205 (Formerly Ref. No. PDB/R163/99/15) valued at Ksh. 1,500,000 after revaluation, situated in Narok Town, that was allocated to the Board in the year 2000 for office development. However, the Board has not obtained a title of ownership to date for the plot from the Ministry of Lands and Physical Planning. Consequently, it has not been possible to confirm the ownership status of the plot.	The National Lands Commission issued a letter of allotment to the Board in October 2016 together with a demand for charges amounting to Ksh. 11,395. The payment was promptly effected and the National Lands Commission has now written to the Director of Surveys in the Ministry of Lands and Physical Planning requesting for the amended Registry Index Map (R.I.M) which was provided. Narok County Government recently verified the ownership documents for the plot. Similarly, the Board has continued to pay the Annual Rates as charged by the County Government of Narok. The Board is now awaiting issuance of the title deed.	Margaret Rugut Kibogy, Managing Director	Not resolved	


Anthony Ian N. Mutugi
Chairman of the Board

Date: 15/05/2020


Margaret Rugut Kibogy
Managing Director

Date: 14/05/2020

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APPENDIX II: PROJECTS IMPLEMENTED BY THE BOARD

Projects

Projects implemented by the Board funded by development partners

Project Title	Project No.	Donor	Duration	Donor Commitment	Separated reporting as per the agreement	Consolidated in the financial statements
None	N/A	N/A	N/A	N/A	No	No

Status of Project completion

During the year, the Board initiated the construction of the National Dairy Laboratory Complex. This project is funded by Government Grants.

Project	Total Project Cost Ksh	Total Expended to Date Ksh	Completion % to date	Budget Kshs	Actual Ksh	Sources of funds
Proposed erection and completion of Boundary Wall, Gate House, Electric Fence and proposed erection, completion and equipping of National Dairy Laboratory Complex at Upper Kabete, Nairobi.	857,000,000	90,817,510	10.6%	302,000,000	90,817,510	GoK

The ongoing project had received a total funding of Kshs. 302 million as at the 30 June 2019. However the completion rate as at the close of the year was 10.6% with total payments of Ksh. 90.82 million. This was as a result of the initial delays in the design and approval by the relevant Government Agencies as well erection and completion of National Dairy Laboratory which is due for completion in October 2019. The Boundary wall, Gate House and Electric fence were completed and handed over during the financial year, while the process of procuring the Laboratory Equipment was ongoing as at the end of the year.

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APPENDIX III: INTER ENTITY TRANSFERS

ENTITY NAME: KENYA DAIRY BAORD

Breakdown of Transfers from the State Department of Livestock

(a) Recurrent Grants	Bank statement date	Amount (Kshs)	Financial year to which the amount relate
		12-Sep-18	9,238,750
	14-Nov-18	8,499,650	2018/2019
	13-Feb-19	9,423,525	2018/2019
	28-May-19	9,053,975	2018/2019
	Total	36,215,900	

(b) Development Grants	Bank statement date	Amount (Kshs)	Financial year to which the amount relate
		10-Dec-18	40,000,000
	20-Feb-19	40,000,000	2018/2019
	Total	80,000,000	

The above amounts have been communicated to and reconciled with the Ministry of Agriculture, Livestock, Fisheries & Irrigation (State Department of Livestock)



Finance Manager
Kenya Dairy Board

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APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of MDA/ Donor Transferring the funds	Date Received as per Bank Statements	Nature: Recurrent or Development	Total Amount (Kshs)	Where recognised		Total Transfer during the year (Kshs)
				Statement of Financial performance (Kshs)	Deferred income (Kshs)	
State Department of Livestock	12-Sep-18	Recurrent	9,238,750	9,238,750	-	9,238,750
State Department of Livestock	14-Nov-18	Recurrent	8,499,650	8,499,650	-	8,499,650
State Department of Livestock	10-Dec-18	Development	40,000,000	-	40,000,000	40,000,000
State Department of Livestock	13-Feb-19	Recurrent	9,423,525	9,423,525	-	9,423,525
State Department of Livestock	20-Feb-19	Development	40,000,000	-	40,000,000	40,000,000
State Department of Livestock	28-May-19	Recurrent	9,053,975	9,053,975	-	9,053,975
SDCP	10-Sep-18	Donor fund*	1,192,180	1,192,180	-	1,192,180
SDCP	12-Sep-18	Donor fund*	596,090	596,090	-	596,090
SDCP	14-May-19	Donor fund*	1,788,270	-	1,788,270	1,788,270
			119,792,440	38,004,170	81,788,270	119,792,440

Donor fund* - Recurrent Donor Funds

SDCP - Smallholder Dairy Commercialization Programme

