

REPUBLIC OF KENYA

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**REPORT**

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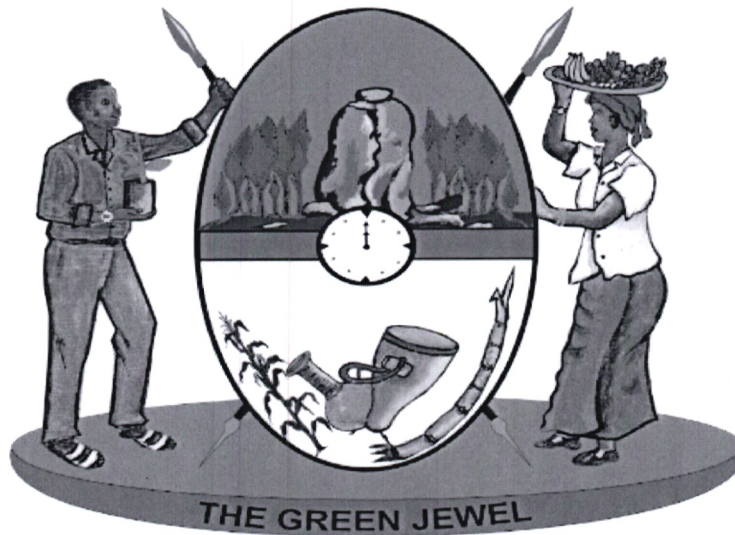
**KAKAMEGA COUNTY DAIRY  
DEVELOPMENT CORPORATION**

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



**REPUBLIC OF KENYA**

**COUNTY GOVERNMENT OF KAKAMEGA  
(KAKAMEGA COUNTY DAIRY DEVELOPMENT CORPORATION)**



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**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDING  
JUNE 30, 2020**

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

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**Kakamega County Dairy Development Corporation  
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For the year ended June 30, 2020**

**1. KEY ENTITY INFORMATION**

**Background information**

Kakamega County Dairy Development Corporation (KDDC) was established by the Kakamega Dairy Development Corporation (KDDC) Act, 2018 as a body corporate with perpetual succession and common seal. The Act makes provisions for the role of corporation in dairy industry in the county and related matters in furtherance of the fourth schedule of the constitution. The Corporation is domiciled under the Ministry of Agriculture, Livestock, Fisheries and Co-operatives.

**Principal Activities**

KDDC Act 2018 mandates the Corporation to engage in the following functions:

- Engage in the commercial rearing and breeding of dairy livestock;
- Develop, promote and adopt the best practices in the dairy value chain;
- Create a ready market for milk for dairy farmers;
- Develop and maintain a milk processing plant in the County;
- Undertake and promote research in the field of dairy farming;
- Promote or assist in the setting up of dairy training facilities;
- Provide advisory services to stakeholders of dairy farming;
- Implement and manage the dairy livestock incentives through the cooperative societies
- Facilitate and negotiate concessions for dairy farming input;
- Facilitate acquisition of farm inputs and machinery subsidy;
- Carry out such other functions as may be assigned to it by this Act or any other written
- Promote Dairy Cooperative activities within the County.

**Directors**

**The Board of Directors**

No	Name	Position	Date of Appointment
1	Dr. Dickens Malanga Chibeu	Chairman	20th Nov 2019
2	Mr. John Kanyanya	Member	20th Nov 2019
3	Mr. Evans Gallo	Member	20th Nov 2019
4	Mr. Reuben Luganu	Member	20th Nov 2019
5	Mrs Roselyne Ambani	Member	20th Nov 2019
6	Mr. Moses Sande	Member	20th Nov 2019
7	Dr. Kelly Nelima	Member	20th Nov 2019
8	Amb. James Ochami	Member	20th Nov 2019

**Corporate Secretary**

Dr. Paul Otsyeno  
P.O. Box 36-50100

**Kakamega County Dairy Development Corporation**  
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Kakamega

**Registered Office**

P.O. Box 36-50100  
Sahajanand Building  
Mumias Road  
KAKAMEGA, KENYA

**Corporate Headquarters**

P.O. Box 36-50100  
Sahajanand Building  
Mumias Road  
KAKAMEGA, KENYA

**Corporate Contacts**

E-mail: [kakamegadairyco@gmail.com](mailto:kakamegadairyco@gmail.com)

**Corporate Bankers**

Kenya Commercial Bank  
Kakamega branch

**Independent Auditors**

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

**Principal Legal Advisers**

County Attorney  
Legal office  
Kakamega Town  
P.O. Box 36  
Kakamega, Kenya

**Kakamega County Dairy Development Corporation**  
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**2. THE BOARD OF DIRECTORS**

Dr. Dickens Malanga Chibeu	Masters of Science in Veterinary Epidemiology and Economics Bachelor of Veterinary Medicine
Mr. John Kanyanya	Bachelor of Science in Botany and Zoology
Mr. Evans Gallo	MA in Communication Studies, BA in Literature Postgraduate diploma in Corporate Communication, Advanced Diploma in Business English
Mr. Reuben Luganu	BCom (Accounting option) Diploma Cooperative Management
Mrs Roselyne Ambani	Masters in Agricultural Production in value Chain Management(Livestock value chain) Bachelor of Science Animal Production
Mr. Moses Sande	Masters of Law, Bachelor of Law Diploma in Law
Dr. Kelly Nelima	Masters in Applied Epidemiology Bachelor of Veterinary Medicine
Amb. James Ochami	MBA in Strategic Management BCom (Finance and Accounting, CPAK, CS.

**Kakamega County Dairy Development Corporation**  
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**3. MANAGEMENT TEAM**

NAME	Position and responsibility
1.Mr. Jeremiah Namunyu	Chief officer ministry of Agriculture livestock fisheries cooperatives and irrigation
2. Amb. James Ochami	Chief officer treasury and planning
3 Dr. Kelly Nelima	Chief officer Livestock
4. CPS. Moses Sande	County Attorney
5.Dr. Paul Otsyeno	Ag.Chief executive officer
6.CPA.Elizabeth Anzelimo	Accountant

**Kakamega County Dairy Development Corporation  
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For the year ended June 30, 2020**

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**4. CHAIRMAN'S STATEMENT**

On behalf of the Board of Directors (BoD) of the Kakamega County Dairy Development Corporation (KDDC), I have the honour to forward the 2019/2020 Annual Financial Reports and Financial Statements.

Kakamega Dairy development Corporation is a body corporate enacted by the County Assembly of Kakamega in the year 2018 with perpetual succession and a common seal. It is mandated with the development of the dairy value chain in Kakamega County. The current Board of Directors (BoD) took orth of office on 19<sup>th</sup> Dec 2019 and held its inaugural meeting on 6<sup>th</sup> Feb 2020.

The Board comprises nine members including (a) a non-executive chairperson appointed by the governor; (b) accounting officer for the county department responsible for livestock development; (c) chief officer responsible for finance; (d) county attorney; (e) chief executive officer who shall be an ex officio member; (f) three members with relevant qualifications appointed by the Executive Committee Member. (g) One person nominated by Dairy Farmers Cooperatives in the county and appointed by the Executive Committee Member of parent ministry.


The board is fully alive to their mandate and the fact that KDDC, having been established in the year 2018 is still in formative stages and requires unequivocal support and guidance to lay a strong foundation for its future and sustainability.

The Board intends to carry out its statutory duties by steering the corporation in the right direction. The board will support the corporation develop key instruments required for successful corporate governance in line with Mwongozo Code. The embarked on the recruitment of substantive chief executive officer. The board is set out to steer the development of the Corporation's logo, website and a five year strategic Plan as a top priority.

The Board is pleased with the operational and financial results delivered by management. These results, combined with our progress in sustainability initiatives and good governance practices made 2019/ 2020 a successful year. However, the COVID -19 Pandemic heavily affected the Board's and Corporation's activities in the second half of FY 2019/2020.

The Board acknowledges the support it has received from H.E. the Governor and the County Executive Committee members in executing its mandate and functions. We are positive that this support will continue into successive years to enable us complete the construction of Smart Farms in each of the twelve sub-counties and a milk factory at Malava, perpetuate the One-Cow Initiative and enhance the formation of milk producer groups.

The Board acknowledges the good working relationship developed with the Executive and the Ministries of Ministry of Agriculture, Livestock, Fisheries and Cooperatives and Finance, Planning and Information Technology.

Signed  .....

**Dr. Dickens Malanga Chibeu**

## **5. REPORT OF THE CHIEF EXECUTIVE OFFICER**

The Chief Executive Officer of Kakamega Dairy Development Corporation (KDDC) is pleased to submit the 2019/2020 Annual Financial Report and Financial Statements.

The Kakamega Dairy Development Corporation (KDDC) was established by an act of County Assembly of Kakamega in 2018 to provide a legal framework for the development of the dairy value chain in Kakamega County. It envisages the development of dairy Smart Farms in all the twelve (12) sub counties of Kakamega County and the One Cow Initiative (OCI).

The developed smart farms will enable farmers to be trained on best practices in dairy value chain geared towards improving milk production and incomes at household levels. They will also be learning centres for local farmers and students from schools and institutions within.

The One Cow Initiative programme encompasses training of individual farmers and cooperative societies in dairy management following which they are given dairy animals to improve dairy production and household incomes. The farmers also pass on one female calf to selected and trained farmers in the locality.

KDDC has already constructed and operationalized three Smart Dairy Farms namely Bukura Smart Dairy Farm in Lurambi Sub-county, Matungu Smart dairy Farm in Matungu Sub-county and Mbande Smart dairy Farm in Lugari Sub-county. Mbande Smart Farm was launched at the start of the year 2019/2020. The three smart farms produce an average of 4,500 to 5,000 liters of milk per month, producing a monthly revenue of between KES 180,000 and KES 200,000. The heifers born on the three smart farms are bred and prepared for distribution to newly constructed smart farms while bull calves are sold for revenue.

The construction of Khwisero Smart dairy farm is nearing completion and should be operationalized as soon as is completed. KDDC intends to transfer 20 heifers from Bukura Dairy Smart Farm to Khwisero in the FY 2020/2021. The Construction of Shinyalu and Malava Smart Dairy Farms started in the FY year 2019/2020 and is on-going.

The county Treasury disbursed a total of KES 59M to support activities planned for the FY 2019/2020. The total revenue collected from KDDC smart farm activities was KES 1.7M.


It is important to note that KDDC is in its formative stages of inception having been established by an act of County Assembly in the year 2018. KDDC is undergoing reorganization and restructuring to align itself to national and international levels of corporate Governance. Currently the majority staffs working at KDDC including the Ag.CEO is seconded from the County Government mother Ministry of Agriculture.

The Board of Directors is in the process of formulating the necessary instruments for good corporate governance including corporation logo, mission, vision, requisite policies and corporation strategic plan. This is intended to put KDDC on solid foundation to deliver on its mandate to the dairy sector in Kakamega County.

**Kakamega County Dairy Development Corporation**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

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My special thanks to H.E. The Governor, the KDDC Board of Directors, Ministries of Finance and Agriculture, County Attorney and the entire KDDC staff for the support during the year.

  
**Signed.....**  
**Dr. Paul Khatwenu Otsieno**  
**Chief Executive Officer,**  
**Kakamega County Dairy Development Corporation.**

## **6. REVIEW OF KAKAMEGA COUNTY DAIRY DEVELOPMENT CORPORATION'S PERFORMANCE FOR FY 2019/2020**

The Kakamega Dairy Development Corporation (KDDC) was established by an act of County Assembly of Kakamega in 2018 to provide a legal framework for the development of the dairy value chain in Kakamega County. It envisages the development of dairy Smart Farms in all the twelve (12) sub counties of Kakamega County and the distribution of dairy cows to eligible farmers under the One Cow Initiative (OCI).

The Corporation is in its formative stages of inception and is developing key instruments for a sound and solid foundation to enable it deliver on its mandate. It is also undergoing restructuring at the management level to attain national and international standards of corporate governance. The CEO and the Board of Directors will endeavour to achieve relevant strategies, development of strategic plan and policies that will create a sound foundation for service delivery to dairy stakeholders in Kakamega County. The Board developed and approved a work plan for the FY 2019/2020 and implemented its activities as per the approved work plan.

## **7. CORPORATE GOVERNANCE STATEMENT**

The current Board was competitively recruited and sworn in in the FY 2019/2020. The board held three meetings attended by all members in the FY 2019/2020. Board committees were also constituted and their terms of references developed. These committees were Finance & Administration committee (seven members), Technical committee (six members) and Audit and risk Committee (two members).

At the beginning of every board meeting members were requested to declare if they had any conflict of interest issues on the agenda at hand.

The board also made key decisions in restructuring of corporation management by making a resolution to recruit a substantive CEO through competitive process. Measures were also put in place to kick-start process of developing the Board charter.

The roles and functions of the board will be well spelled out in an induction course planned in due course.

The Board chairman is entitled to monthly honoraria of KES 50,000. Board members are paid sitting allowances of between KES 4,000 and KES 15,000 while attending board meetings. Independent Board members are also reimbursed travel allowances.

## **8. MANAGEMENT DISCUSSION AND ANALYSIS**

KDDC received KES 59M for its recurrent and development activities for FY 2019/2020. Development funds were used in the construction of 2 Smart Dairy Farms and payment for biological assets (pedigree dairy animals for smart farms and One Cow Initiative cows).

KDDC has three operational smart dairy farms (Bukura, Matungu and Mbande). These farms have pedigree dairy animals in different stages of lactation and milk production. The farms are managed by farm managers employed by KDDC. Milk produced on these farms is sold to locally and revenue collected is banked in KDDC accounts.

The construction of Khwisero Smart Farm is on-going and is 90% complete.

**9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

**1. Sustainability strategy and profile -**

KDDC is already in the process of developing its Strategic Plan. The board has recommended for the recruitment of a substantive CEO whose process has commenced. KDDC in its implementation of farming activities is already using its own land to grow fodder for its animal feeds thus reducing cost of feed inputs. KDDC Smart Farms are open to locals living nearby, schools and institutions for learning visits and tours. KDDC is also allowing students from various colleges in the county to carry out internship activities on our farms. All the milk produced on our farms is sold to the local community at reasonable rates.

The milk produced on the Smart Dairy Farms is sold to the local community and revenue banked to sustain KDDC activities. The male bull calves born on the farm are sold and revenue banked while female calves are raised into heifers that are later distributed to newly constructed Smart Farms thus saving the corporation cash that would have been used to procure cows from outside.

The completed KDDC Smart Farms intend to feed into the Dairy Plant being constructed in Malava sub-county by providing milk to the plant for processing. This will provide a stable market for milk from the Smart Farms and revenue for KDDC.

**1. Environmental performance**

KDDC is in the process of developing its strategic plan and its environmental policy which will also be captured in this plan. However all KDDC –completed, on-going and planned comply with requisite environmental laws and seek approval from bodies implementing environmental laws including NEMA and department of Public Health. Our staff is also well trained on issues of biodiversity and waste management especially on our dairy smart farms.

KDDC intends to develop and embed environmental policy in future as it develops into a strong corporation.

**2. Employee welfare**

KDDC is currently relying on seconded staff from the parent ministry of Agriculture, Livestock, fisheries and cooperatives. KDDC intends to develop its policies guiding staff hiring process, job descriptions, terms of references and performance contracting. The current staff conform to Public Service hiring and appraisal policies. The ministry has respected the gender ratio while seconding this staff to KDDC. KDDC has also applied the gender ratio while hiring farm managers and farm hands/casuals. The KDDC management conducts monthly meetings with all staff allowing them to share their success stories and challenges while preparing monthly work plans. Where possible and when resources allow, KDDC staff attend short courses, professional development courses, workshops and seminars to improve their skills and work performance.

KDDC is also in compliance with Occupational Safety and Health Act of 2007 on all its farms and headquarters office.

**3. Market place practices-**

- a) KDDC being a County corporation has trained all its staff on code of conduct of public servants and the Ethics and Anticorruption Act. KDDC is funded by the public funds and ensures high standards of corporate governance. Our farm products are fairly

priced and even attract young Kenyans who buy milk from KDDC and continue to retail it at a profit to the public.

All KDDC staff conforms and adheres to the public service code of conduct and remains apolitical while delivering services to the public.

- b)* KDDC being a public entity works within structures created by the national and county governments that govern public procurement. KDDC works within the confines of public procurement act and public finance management act. KDDC respects its suppliers and is open to scrutiny in the public procurement process. Our procurement officer is regularly allowed to attend trainings and workshops that help her improve skills in public procurement management.
- c)* KDDC sells milk which is its major product at reasonable market rate prices ensuring that it does not undercut upcoming dairy farmers in the locality.
- d)* All KDDC smart farms are managed with consumer rights and interests as a first considering. They adhere to public health regulations and guidelines while producing and selling milk products.

**4. Community Engagements-**

The KDDC Act of 2018 mandates KDDC to construct and operationalize Smart dairy farms as centres of excellence in the dairy value chain. The smart farms are centre of learning for local farmers, schools and other institutions. The Smart farms are open to students from local schools and institutions for learning visits and tours. The smart farms also admit students from agricultural colleges across the country for internships while the head office also admits students undertaking finance and procurement courses for internship. Bukura Smart farm is a major client to Ekapwonje Self-help group water project where it gets its water supply from. Matungu smart farm has offered part of its unused land to the neighbouring Matungu Polytechnic for student agricultural demonstration plots.

**Kakamega County Dairy Development Corporation**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

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**10. REPORT OF THE DIRECTORS**

The Directors submit their report together with the financial statements for the year ended June 30, 2020 which show the state of the Kakamega county Dairy Development Corporation affairs.

**Results**

The results of the entity for the year ended June 30, 2020 are set out on page 1. Below is summary of the profit or loss made during the year.

**Directors**

The members of the Board of Directors who served during the year are shown on page V in accordance with Regulation of the Kakamega County Dairy Development Corporation's Act of 2018

**Auditors**

The Auditor General is responsible for the statutory audit of the Kakamega County Dairy Development Corporation in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

**11. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 83 of the Public Finance Management Act, 2012 requires an Accounting Officer for a National/County Government owned Entity to prepare a report for the financial year in respect of the entity.


The Directors are responsible for the preparation and presentation of the Kakamega County Dairy Development Corporation financial statements, which give a true and fair view of the state of affairs as at the end of the financial year ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (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 Corporation (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Kakamega County Dairy Development Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act). The Directors are of the opinion that the Kakamega County Dairy Development Corporation's financial statements give a true and fair view of the state of Corporation transactions during the financial year ended June 30, 2020, and of the Corporation financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation 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 Kakamega County Dairy Development Corporation 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 Kakamega County Dairy Development Corporation financial statements were approved by the Board on 30/09/2020 ~~2020~~ and signed on its behalf by:

  
.....

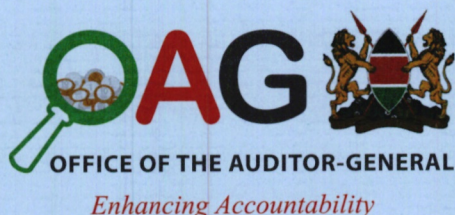
Chairperson of the Board.

  
.....

Chief Executive Officer

# REPUBLIC OF KENYA

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

## **REPORT OF THE AUDITOR-GENERAL ON KAKAMEGA COUNTY DAIRY DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE, 2020**

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### REPORT ON THE FINANCIAL STATEMENTS

#### **Adverse Opinion**

I have audited the accompanying financial statements of Kakamega County Dairy Development Corporation set out on pages 1 to 33, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Kakamega County Dairy Development Corporation as at 30 June, 2020, 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 do not comply with the Public Finance Management Act, 2012 and the Kakamega County Dairy Development Corporation Act, 2018.

#### **Basis for Adverse Opinion**

##### **1. Non Compliance with the Prescribed Reporting Format**

The financial statements submitted for audit were not prepared in accordance with International Public Sector Accounting Standards (IPSAS) - Accrual Basis and in the format prescribed by the Public Sector Accounting Standards Board (PSASB). The following anomalies were noted:

- i. Details on the Corporation Management, positions held, responsibilities and Board of Directors, Directors bio data, experience and passport photos have not been provided as required by the prescribed reporting format.
- ii. The report on Corporation performance against predetermined objectives has not been included in the report and financial statements as required.

- iii. The corporate governance statement and management discussion and analysis do not provide adequate details as per the guidelines provided by the PSASB.
- iv. The fiduciary oversight arrangements have not been identified, described or explained.
- v. The significant accounting policies have been replicated as given in the prescribed reporting format for International Financial Reporting Standards without customizing them to the nature and operations of the Corporation.
- vi. Disclosures of the projects implemented and the details of inter-entity transfers together with the recordings of the transfers from other government entities have also not been provided.

Consequently, the financial statements as presented are not in compliance with the prescribed format.

## **2. Inaccuracies in Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.17,478,178 as at 30 June, 2020 which includes cash on hand balance of Kshs.4,553,660. However, the cash on hand was not supported by the cashbook and board of survey report as at 30 June, 2020.

Consequently, the accuracy and completeness of the cash balance of Kshs.4,553,660 as at 30 June, 2020 could not be confirmed.

## **3. Lack of Ownership Documents for Property, Plant and Equipment**

The statement of financial position and as disclosed in Note 13 to the financial statements reflects property, plant and equipment balance of Kshs.37,521,963 as at 30 June, 2020. Included in this balance is land and buildings balance of Kshs.34,517,277 whose ownership could not be confirmed due to lack of ownership documents and valuation. Also, the assets movement schedule has no comparative figures for the year ended 30 June, 2019. Further, the Corporation did not maintain an assets register.

Consequently, the accuracy, completeness, valuation and ownership of the property, plant and equipment balance of Kshs.37,521,963 as at 30 June, 2020 could not be confirmed.

## **4. Misclassification of Biological Assets**

The statement of financial performance and as disclosed in Note 11 to the financial statements reflects acquisition of biological assets amount of Kshs.35,235,473. The biological assets were expensed contrary to the provisions of the Paragraph 13 of the International Public Sector Accounting Standards (IPSAS) No 27 on Agriculture which provides that entity shall recognize a biological asset when and only when the entity controls the asset as a result of past events, it is probable that future economic benefits

or service potential associated with the asset will flow to the entity and the fair value or cost of the asset can be measured reliably.

Consequently, the Corporation's expenditure is overstated by an amount of Kshs.35,235,473 in respect of acquisition of biological assets while the assets have been understated by the same amount.

#### **5. Unreconciled Transfers from the County Government**

The statement of financial performance and as disclosed in Note 6 to the financial statements reflects transfers from County Treasury amount of Kshs.59,322,792. However, the financial statements of the County Executive of Kakamega reflects an amount of Kshs.40,322,792 resulting to an unexplained and unreconciled variance of Kshs.19,000,000.

Consequently, the completeness and accuracy of the transfers from County Government figure of Kshs.59,322,792 for the year ended 30 June, 2020 could not be confirmed.

#### **6. Irregular Transfers to the County Government**

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects transfers of Kshs.6,500,000 to the County Treasury. The amount was said to have been transferred from the revenue collection account. Review of the financial statements of the Corporation revealed revenue collection of Kshs.1,725,842 resulting to an unexplained and unreconciled variance of Kshs.4,774,158. The Corporation therefore transferred back part of disbursements from the County Treasury. In addition, the financial statements of County Executive of Kakamega have not recorded the transfer as a receipt.

Consequently, the accuracy, completeness and validity of the transfer of Kshs.6,500,000 for the year ended 30 June, 2020 could not be confirmed and the transfer was irregular.

#### **7. Unsupported Board Remuneration**

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects employee costs amount of Kshs.4,441,811 which include Board Members remuneration of Kshs.1,060,000 and chairman's remuneration of Kshs.600,000 all totalling Kshs.1,660,000. However, the following was noted:

- i. The Corporation has not prepared a policy setting the rates of allowances payable to the Board members and the number of meetings held during the year has not been disclosed.
- ii. The minutes of the meetings held together with the attendance register had not been signed.
- iii. The work plan of the Board indicating the activities and meetings towards which the allowances were paid during the year was not provided for audit

iv. Copies of letters of appointment of the Board Members were not provided for audit.

Consequently, the accuracy, completeness and validity of the payment of Board Members remuneration of Kshs.1,060,000 and chairman's remuneration of Kshs.600,000 all totalling Kshs.1,660,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kakamega County Dairy Development Corporation 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 Adverse 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.

### Other Matter

#### Budgetary Control and Performance

According to the statement of comparison of budget and actual amounts for the year ended 30 June, 2020, the Corporation had a revenue budget of Kshs.100,243,800 out of which Kshs.61,048,634 or approximately 61% of the budget was realized. Similarly, the Corporation also had an expenditure budget of Kshs.78,962,200 but recorded actual expenditure of Kshs.70,095,229 resulting in underutilization of budget by Kshs.8,866,971 or approximately 11% as below:

Expenditure Item	Approved Budget Kshs.	Actual Expenditure Kshs.	Budget Utilization Difference Kshs.	Budget Under-Utilization %
Staff Costs	3,992,000	2,781,811	1,210,189	30
General Expenses	25,900,000	25,577,945	322,055	1
Transfers	6,500,000	6,500,000	-	-
Acquisition of Assets	42,570,200	35,235,473	7,334,727	17
<b>Total</b>	<b>78,962,200</b>	<b>70,095,229</b>	<b>8,866,971</b>	<b>11</b>

The Corporation therefore failed to meet its revenue target by Kshs.39,195,166 or approximately 39% of the budgeted amount. In addition, the corporation did not utilize Kshs.8,866,971 or 11% of its budgeted expenditure and no reasons or explanations have been provided for this state of affairs.

Failure to realize the targeted revenue and utilize the budgeted funds is an indication that the programs of the Corporation were not implemented as envisaged.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

### Basis for Conclusion

#### 1. Expenditure Not Properly Supported

During financial year ended 30 June, 2020, the Corporation made various payments amounting to Kshs.1,046,100 which were not properly supported by authorization, relevant reports, signed attendance lists, warrants, contract documents and other necessary documentation as detailed below.

Date	Details	Amount Kshs	Findings
	Imprest Board Selection Panel	482,100	1. The minutes and attendance list not signed, not dated and do not indicate the venue. 2. Imprest warrant not signed. 3. Imprest requested, processed and cash received by the same officer-Jason Michieka.
29-Aug-2019	Supply of Polythene Papers	400,000	Contract agreement not availed, together with list of prequalified suppliers.
9-Oct-2019	Imprest	10,000	No Imprest Warrant
9-Oct-2019	Imprest	50,000	No Imprest Warrant
21-Oct-2019	Imprest	94,000	No Imprest Warrant
9-Oct-2019	Imprest	10,000	No Imprest Warrant
<b>Total</b>		<b>1,046,100</b>	

Consequently, the propriety of the expenditure of Kshs.1,046,100 included in general expenses figure of Kshs.23,917,945 for the year 30 June, 2020 cannot be ascertained.

#### 2. Lack of Procurement Plan

The Corporation did not provide for audit an approved procurement plan. This was contrary to the provisions of Section 53(2) of the Public Procurement and Asset Disposals

Act, 2015 which states that an accounting officer shall prepare an annual procurement plan which is realistic in a format set out in the Regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process. Consequently, Management breached the law.

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, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### Basis for Conclusion

#### 1. Lack of Authorised Staff Establishment

The Corporation did not have a staff establishment record or plan to support achievement of goals and objectives in their strategic plan. The Corporation does not have statistics on the number of staff required and available for every position and the roles played in the Corporation.

#### 2. Poor Controls Over Imprest Management

During the financial year 2019/2020, the Corporation incurred an expenditure of Kshs.4,553,660 through imprest. However, the vouchers in respect of surrender of the imprest were not authorised by the accounting officer and the warrants for the issue of the imprests were not signed by the imprest holders.

Consequently, the required controls were not in place and/or observed over the use of imprest in running the activities of the Corporation.

#### 3. Poor Controls Over Revenue Collection at the Smart Farms

Audit verification of the Bukura and Malava (Mbande) smart farms revealed that proper revenue records were not maintained. There were no records showing the amount of revenue collected during the year. There was also no evidence of supervision by responsible officers to ensure revenue was collected and accounted for as envisaged.

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 governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and the Board of Directors**

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

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Corporation 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 are responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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

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

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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

Corporation'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 Corporation 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 Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

17 February, 2022

**Kakamega County Dairy Development Corporation**  
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**13. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2019/2020	2018/2019
		Kshs	Kshs
<b>Revenue from non-exchange transactions</b>			
Transfers from County Treasury	6	59,322,792	90,000,000
Receipts from sale of Milk	7	1,725,842	2,357,208
<b>Total revenue</b>		<b>61,048,634</b>	<b>92,357,208</b>
<b>Expenses</b>			
Employee costs	8	4,441,811	4,536,610
General expenses	9	23,917,945	28,978,921
Transfers	10	6,500,000	-
Acquisition of Biological Assets(Heifers)	11	35,235,473	29,894,500
Depreciation			3,387,566
<b>Total expenses</b>		<b>70,095,229</b>	<b>66,797,497</b>
<b>Deficit for the year</b>		<b>(9,046,595)</b>	<b>25,559,711</b>

The financial statements were approved by the Board on 30/09/2020 ~~2021~~ and signed on its behalf by:



Chief Executive Officer

Name:

Paul  
Otsyeno



Head of Finance

Name:

CPA ANZELMO  
ELIZABETH  
ICPAK M/NO: 19204



Chairman of the Board

Name:

Dr. Sicken  
Malanga Shibu

**Kakamega County Dairy Development Corporation**  
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**14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

	Note	FY2019/2020	FY2018/2019
		KShs	KShs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	12A	17,478,178	16,773,804
Current portion of long term receivables from exchange transactions	12B		21,498,762
<b>Non-current assets</b>			
Property, plant and equipment	13	37,521,963	17,829,761
<b>Total assets</b>		<b>55,000,141</b>	<b>56,102,326</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	14		
<b>Non-current liabilities</b>			
<b>Total liabilities</b>			
<b>Net assets</b>		<b>55,000,141</b>	<b>56,102,326</b>
Capital Fund		38,487,025	30,542,615
Accumulated surplus		(9,046,595)	25,559,711
<b>Total net assets and liabilities</b>		<b>55,000,141</b>	<b>56,102,326</b>

The financial statements were approved by the Board on 30/09/2020 ~~2021~~ and signed on its behalf by:



Chief Executive Officer

Name:

Paul  
Ottyeno



Head of Finance

Name: CPA ANZELIMO  
ELIZABETH  
ICPAK M/NO: 19204



Chairman of the Board

Name: Dr. Dickens  
Malanga Ouben

**Kakamega County Dairy Development Corporation**  
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**15. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020**

	Accumulated Surplus	Capital/ Development Grants/Fund	Total
<b>At July 1, 2018</b>			
Capital Funds		30,542,615	30,542,615
Surplus for the year	25,559,711		25,559,711
<b>At June 30, 2019</b>	<b>25,559,711</b>	<b>30,542,615</b>	<b>56,102,326</b>
<b>At July 1, 2019</b>	<b>25,559,711</b>	<b>30,542,615</b>	<b>56,102,326</b>
Capital/Development grants received during the year		7,974,410	7,974,410
Surplus for the year	(9,046,595)		(9,046,595)
<b>At June 30, 2020</b>	<b>16,513,116</b>	<b>38,487,025</b>	<b>55,000,141</b>

**Kakamega County Dairy Development Corporation**  
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**16. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30 JUNE 2020**

	Note	FY2019/2020	FY2018/2019
		KShs	KShs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Transfers from the County Government	6	59,322,792	90,000,000
Receipts from other operating activities	7	1,725,842	2,357,208
<b>Total Receipts</b>		<b>61,048,634</b>	<b>92,357,208</b>
<b>Payments</b>			
Staff costs	8	4,441,811	4,536,610
General expenses	9	17,198,136	28,978,921
Transfers	10	6,500,000	-
Acquisition of Biological Assets(Heifers)	11	35,235,473	29,894,400
Depreciation		-	3,387,566
<b>Total Payments</b>		<b>63,375,420</b>	<b>66,797,497</b>
<b>Net cash flows from operating activities</b>		<b>(2,326,786)</b>	<b>25,557,711</b>
Changes in Working Capital		-	(16,426,414)
<b>Net Changes in Working Capital</b>		<b>-</b>	<b>(16,426,414)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets	15	(14,725,064)	(17,829,761)
<b>Net cash flows used in investing activities</b>		<b>(14,725,064)</b>	<b>(17,829,761)</b>
<b>Cash flows from financing activities</b>			
<b>Net cash flows used in financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(17,051,850)</b>	<b>(8,696,464)</b>
Cash and cash equivalents at 1 July		34,530,028	25,470,267
<b>Cash and cash equivalents at 30 JUNE2020</b>		<b>17,478,178</b>	<b>16,773,804</b>

The financial statements were approved by the Board on 30/09/2020 ~~2021~~ and signed on its behalf by:



Chief Executive Officer

Name:

**PAUL OTISEWO**



Head of Finance

Name: **CPA ANZELIMO ELIZABETH**  
 ICPAK M/NO: **19204**



Chairman of the Board

Name: **Dr. Dickson Malangu Oshor**

**Kakamega County Dairy Development Corporation**  
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**17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020**

	<b>Original budget</b>	<b>Adjustments</b>	<b>Final budget</b>	<b>Actual on comparable basis</b>	<b>Performance difference</b>
	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>
<b>Revenue</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>
Revenue	KShs	KShs	KShs	KShs	KShs
Balances b/d from the previous year	17,243,800		17,243,800		17,243,800
Transfers from County Govt.	75,000,000	-	75,000,000	59,322,792	15,677,208
Other income	8,000,000	-	8,000,000	1,725,842	6,274,158
<b>Total income</b>	<b>100,243,800</b>	<b>-</b>	<b>100,243,800</b>	<b>61,048,634</b>	<b>39,195,166</b>
<b>Expenses</b>					
Staff costs	3,992,000	-	3,992,000	2,781,811	1,210,189
General expenses	25,900,000	-	25,900,000	25,577,945	322,055
Transfers	6,500,000	-	6,500,000	6,500,000	
Acquisition of Assets	42,570,200		42,570,200	35,235,473	7,334,727
<b>Total expenditure</b>	<b>78,962,200</b>		<b>78,962,200</b>	<b>70,095,229</b>	<b>8,866,971</b>

## **18. NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

Kakamega County Dairy Development Corporation is established by and derives its authority and accountability from PFM Act. The Corporation is wholly owned by the Government of Kenya and is domiciled in Kenya. The Corporation principal activity is engaging in the commercial rearing and breeding of dairy livestock

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

### **2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity'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 9.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

### **3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

#### **i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

##### ***IFRS 16: Leases***

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)**

**i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020(Continued)**

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee.

***IFRIC 23: Uncertainty Over income tax treatments***

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

***Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)***

The amendments, applicable to annual periods beginning on or after 1 January 2020, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

***Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)***

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

***Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.***

The amendments, applicable to annual periods beginning on or after 1st January 2020, provide additional guidance on applying the acquisition method to particular types of business combination.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)**

**i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020(Continued)**

*Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017*

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

*Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017*

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

*Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017*

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

*Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2019)*

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2020, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)**

***Amendments to IAS 1 and IAS 8 Definition of material***

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted

**ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

***IFRS 17 Insurance Contracts (Issued 18 May 2017)***

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

***Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2019- Applicable for annual periods beginning 1 January 2020)***

Together with the revised *Conceptual Framework* published in March 2019, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. *The document contains* amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2019) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)**

**iii) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2019.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**a) Revenue recognition**

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Corporation's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the Corporation delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Grants from National Government are recognised in the year in which the Corporation actually receives such grants. 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) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iii) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- iv) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- v) **Other income** is recognised as it accrues.

**b) In-kind contributions**

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c) Property, plant and equipment**

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

**d) Depreciation and impairment of property, plant and equipment**

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **e) Intangible assets**

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

#### **f) Amortisation and impairment of intangible assets**

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

#### **g) Investment property**

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

#### **h) Leases**

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**i) Fixed interest investments (bonds)**

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

**j) Quoted investments**

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

**k) Unquoted investments**

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

**l) Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

**m) Trade and other receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

**n) Taxation**

***Current income tax***

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) Taxation (Continued)**

*Current income tax (Continued)*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) Taxation (Continued)**

*Deferred tax (Continued)*

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**o) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**p) Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

**q) Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**r) Retirement benefit obligations**

The entity operates a defined contribution scheme for all full-time employees from July 1, 2018. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

**s) Provision for staff leave pay**

Employees' entitlements to annual leave are recognised as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

**t) Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

**u) Budget information**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**u) Budget information (Continued)**

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

**v) Service concession arrangements**

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**w) Comparative figures**

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

**x) 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 JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Entity's financial statements in conformity with IFRS 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.

**5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**  
**(Continued)**

**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 Entity 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 Entity. Such changes are reflected in the assumptions when they occur.

**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:

- The condition of the asset based on the assessment of experts employed by the Entity
- 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 assets
- Changes in the market in relation to the asset

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**6. TRANSFERS FROM COUNTY TREASURY**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs</b>	<b>Kshs</b>
Transfers from County Govt. – operations	59,322,792	90,000,000
Payments by County on behalf of the entity	-	-
<b>Total</b>	<b>59,322,792</b>	<b>90,000,000</b>

**7. OTHER INCOME**

	<b>2019- 2020</b>	<b>2018-2019</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Miscellaneous income-Sale of milk	1,725,842	2,357,208
<b>Total</b>	<b>1,725,842</b>	<b>2,357,208</b>

**8 (a) Staff costs**

<b>Description</b>	<b>FY2019/2020</b>	<b>FY2018/2020</b>
	<b>KShs</b>	<b>KShs</b>
Salaries and wages	2,781,811	2,132,298
Chairman remuneration	600,000	1,250,000
Board Members remuneration	1,060,000	1,154,312
<b>Total</b>	<b>4,441,811</b>	<b>4,536,610</b>

**8 (b) STAFF COSTS**

Salaries and allowances of permanent employees	-	1,250,000
Wages of temporary employees	2,781,811	3,286,610
Compulsory national health insurance schemes	-	-
Compulsory national social security schemes	-	-
<b>Total</b>	<b>2,781,811</b>	<b>4,536,610</b>
<b>The average number of employees at the end of the year was:</b>	<b>25</b>	<b>24</b>
Permanent employees – Management	5	4
Permanent employees – Unionisable	-	-
Temporary and contracted employees	20	20
<b>Total</b>	<b>25</b>	<b>24</b>

Note permanent Employees are paid from the County Executive Payroll

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**9 General expenses**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Consumables-Supplies for production	12,321,484	7,688,155
Electricity and water expenses	644,105	2,118,249
Fuel and oil costs	986,038	1,574,045
Insurance costs	203,954	-
Postage	77,892	500
Printing and stationery	152,353	798,414
Rental costs	149,479	-
Telecommunication	174,000	496,545
Hospitality	822,210	4,738,404
Depreciation and amortization costs	6,719,809	-
Other expenses	480,640	63,962
Domestic Travel and subsistence	1,185,980	7,908,400
Maintenance	-	3,592,247
<b>Total</b>	<b>23,917,945</b>	<b>28,978,921</b>

**10 TRANSFERS**

Description	2019-2020	2018-2019
	Kshs	Kshs
Transfers to County Treasury	6,500,000	-
<b>Total</b>	<b>6,500,000</b>	<b>-</b>

**11 ACQUISITION OF ASSETS**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Purchase of Animals	35,235,473	29,894,400
Intangible assets	-	
<b>Total</b>	<b>35,235,473</b>	<b>29,894,400</b>

**12 A. CASH AND BANK BALANCES**

Financial institution	Account number	FY2019/2020	FY2018/2019
		KShs	KShs
a) Fixed deposits account			
Kenya Commercial bank		11,865,210	25,504,271

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Kenya Commercial bank		1,059,308	11,136,415
Kenya Commercial bank-Cash		4,553,660	5,637,389
<b>Sub- total</b>		<b>17,478,178</b>	<b>16,773,804</b>

**12B RECEIVABLES**

Financial institution	Account number	FY2019/2020	FY2018/2019
		KShs	KShs
Kenya Commercial bank-Cash		-	21,498,762
<b>Sub- total</b>		<b>-</b>	<b>21,498,762</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**13 PROPERTY, PLANT AND EQUIPMENT**

	Land and Buildings	Motor Vehicles	Furniture and fitting	Computers and office equipment	Total
Cost	KShs	KShs	KShs	KShs	KShs
<b>At 1<sup>st</sup> July 2019</b>	<b>23,273,413</b>	<b>5,860,000</b>	<b>207,794</b>	<b>175,500</b>	<b>29,516,707</b>
Additions	11,243,864	-	-	3,481,200	14,725,064
Disposals	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-
<b>At 30<sup>th</sup> June 2020</b>	<b>34,517,277</b>	<b>5,860,000</b>	<b>207,794</b>	<b>3,656,700</b>	<b>44,241,771</b>
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfer/adjustments					
<b>At 30<sup>th</sup> June 2020</b>	<b>34,517,277</b>	<b>5,860,000</b>	<b>207,794</b>	<b>3,656,700</b>	<b>44,241,771</b>
<b>Depreciation and impairment</b>	<b>4,314,660</b>	<b>1,465,000</b>	<b>25,974</b>	<b>914,175</b>	<b>6,719,809</b>
At 1 <sup>st</sup> July 2019	-	-	-	-	-
Depreciation	4,314,660	1,465,000	25,974	914,175	6,719,809
Impairment					
<b>At 30<sup>th</sup> June 2020</b>	<b>4,314,660</b>	<b>1,465,000</b>	<b>25,974</b>	<b>914,175</b>	<b>6,719,809</b>
<b>At 1<sup>st</sup> July 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	<b>4,314,660</b>	<b>1,465,000</b>	<b>25,974</b>	<b>914,175</b>	<b>6,719,809</b>
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Transfer/adjustment					
<b>At 30<sup>th</sup> June 2019</b>					
<b>Net book values</b>	<b>30,202,618</b>	<b>4,395,000</b>	<b>181,820</b>	<b>2,742,525</b>	<b>37,521,963</b>
<b>At 30<sup>th</sup> June 2020</b>	<b>30,202,618</b>	<b>4,395,000</b>	<b>181,820</b>	<b>2,742,525</b>	<b>37,521,963</b>

**14. PURCHASE OF PROPERTY, PLANT EQUIPMENT AND INTANGIBLE ASSETS**

	<b>FY2019/2020</b>	<b>FY2018/2019</b>
	<b>KShs</b>	<b>KShs</b>
Computers and Office Equipment and Other Equipment	3,481,200	-
Construction Of Buildings	11,243,864	-
<b>Total</b>	<b>14,725,064</b>	<b>-</b>

**15. REVALUATION RESERVE**

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

**16. FAIR VALUE ADJUSTMENT RESERVE**

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

**17. RETAINED EARNINGS**

The retained earnings represent amounts available for distribution to the Corporation's shareholders. Undistributed retained earnings are utilised to finance the Corporation's business activities.

**18. BORROWINGS**

There were no borrowings

**19. DEFERRED TAX LIABILITY**

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**20. RELATED PARTY DISCLOSURES**

**(a) County Government of Kakamega**

The Government of Kenya is the principal shareholder of the Corporation holding 100% of the Corporation equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

- i) Ministry of Agriculture Livestock and fisheries
- ii) Key management
- iii) Board of directors

**Transactions with related parties**

	<b>2019-2020</b>	<b>2018-2019</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>a) Sales to related parties</b>		
<b>Total</b>		
<b>b) Grants from the Government</b>		
Grants from County Government	59,322,792	90,000,000
<b>Total</b>	<b>59,322,792</b>	<b>90,000,000</b>
<b>c) Expenses incurred on behalf of related party</b>		
Payments of salaries and wages for Corporation employees	5,241,340	
Payments for goods and services for the Corporation		
<b>Total</b>		
<b>d) Key management compensation</b>		
Directors' emoluments		
Compensation to the CEO		
Compensation to key management		
<b>Total</b>		

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**21. CAPITAL COMMITMENTS**

Capital commitments at the year- end for which no provision has been made in these financial statements are:

	2019-2020	2018-2019
	Kshs	Kshs
Amounts authorised and contracted for		
Amounts authorizes but not contracted for		
Less: Amounts included in Work in progress		

**22. FINANCIAL RISK MANAGEMENT**

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The entity'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 entity does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

**(i) Credit risk**

The entity 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 and available-for-sale financial investments.

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 limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity'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 entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**22. FINANCIAL RISK MANAGEMENT (Continued)**

**(i) Credit risk (Continued)**

	<b>Total amount Kshs</b>	<b>Fully performing Kshs</b>	<b>Past due Kshs</b>	<b>Impaired Kshs</b>
<b>At 30 June 2020</b>				
Receivables from exchange transactions	-	-	-	-
Receivables from non exchange transactions	-	-	-	-
Bank balances	-	-	-	-
<b>Total</b>	-	-	-	-
<b>At 30 June 2019</b>				
Receivables from exchange transactions	-	-	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
<b>Total</b>	-	-	-	-

**ii) Liquidity risk management**

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

The table below represents cash flows payable by the company 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.

	<b>Less than 1 month Kshs</b>	<b>Between 1-3 months Kshs</b>	<b>Over 5 months Kshs</b>	<b>Total Kshs</b>
<b>At 30 June 2020</b>				
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	-	-	-
<b>Total</b>	-	-	-	-

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<b>At 30 June 2019</b>			-	-
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	-	-	-
<b>Total</b>	-	-	-	-

**(iii) Market risk**

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

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

**a) Foreign currency risk**

The entity 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.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	<b>Ksh</b>	<b>Other currencies</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>At 30 June 2020</b>			
<b>Financial assets</b>			
Investments	-	-	-
Cash	-	-	-
Debtors	-	-	-
<b>Financial Liabilities</b>			
Trade and other payables	-	-	-

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Borrowings	-	-	-
		-	-
Net foreign currency asset/(liability)	-	-	-

The entity manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
<b>At 30 June 2019</b>			
<b>Financial assets</b>			
Investments	-	-	-
Cash	-	-	-
Debtors	-	-	-
<b>Financial Liabilities</b>			
Trade and other payables	-	-	-
Borrowings	-	-	-
Net foreign currency asset/(liability)	-	-	-

**b) Foreign currency sensitivity analysis**

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
<b>2020</b>			
Euro	10%	-	-
USD	10%	-	-
<b>2019</b>			
Euro	10%	-	-
USD	10%	-	-

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**22. FINANCIAL RISK MANAGEMENT (Continued)**

**Fair value of financial assets and liabilities**

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*a) Financial instruments measured at fair value*

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Corporation considers relevant and observable market prices in its valuations where possible.

*a) Financial instruments measured at fair value (Continued)*

There were no transfers between levels 1, 2 and 3 during the year.

*b) Financial instruments not measured at fair value*

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

**iv) Capital Risk Management**

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern.

**23. INCORPORATION**

The entity is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**24. EVENTS AFTER THE REPORTING PERIOD**

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

**25. CURRENCY**

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

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**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

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

There was no Audit report for the year 2018/2019

Chief Executive Officer

Date: 30/09/2020

Chairman of the Board

Date: 30/09/2020

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**APPENDIX II: PROJECTS IMPLEMENTED BY THE KAKAMEGA COUNTY DAIRY  
DEVELOPMENT CORPERATION**

**Projects**

Projects implemented by the Kakamega County Dairy Development Corporation

Project title	Project Number	Donor	Period/duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1						
2						

**Status of Projects completion**

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1							
2							
3							

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**APPENDIX III: INTER-ENTITY TRANSFERS**

ENTITY NAME:				
Break down of Transfers from the County Treasury				
FY 2019/2020				
<b>b.</b>	<b>Development Grants</b>			
		<u>Bank Statement</u> <u>Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to</u> <u>which the amounts</u> <u>relate</u>
		Jul-19	9,000,000	2019/2020
		Jul-19	10,000,000	2019/2020
		March 2020	20,000,000	2019/2020
		March 2020	20,000,000	2019/2020
		Dec-19	322,792	2019/2020
		<b>Total</b>	<b>59,322,792</b>	

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

Finance Manager

Kakamega County Dairy Corporation

Sign -----

Head of Accounting Unit  
Ministry-County Treasury

Sign -----

