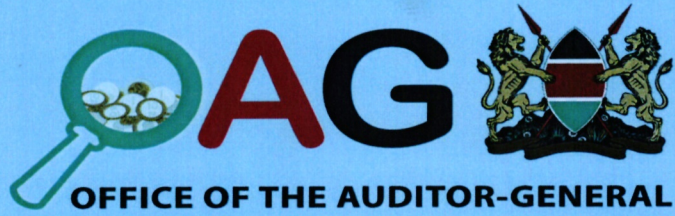


REPUBLIC OF KENYA



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REPORT

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THE AUDITOR-GENERAL

ON

KENYA DAIRY BOARD

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





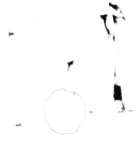
KENYA DAIRY BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2020

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



**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

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**KENYA DAIRY BOARD
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KEY BOARD'S INFORMATION AND MANAGEMENT

(a) Background information

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

(b) Principal Activities

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

(c) Key Management

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

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

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30 June 2020 and who had direct fiduciary responsibility were;

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

(e) Fiduciary Oversight Arrangement

Audit Committee of the Board

Philip Kibusie
Jonah Wala
Lorna Odera
Roy Mugo Kaugi

Finance and Planning Committee of the Board

Jared Makworo Nyanumba
Jonah Wala
Lorna Odera
Jackson Omaid

Technical, Licensing and Marketing Committee of the Board

Dishon Mwanzighe Mngoda
Monica Kariithi
Kennedy Gatheru

Human Resource and Administration Committee of the Board

Sarah Boit
Kenneth Pkemoi Lomaibong
Rosemary Mbauni

**KENYA DAIRY BOARD
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KEY BOARD'S INFORMATION AND MANAGEMENT (Continued)

(f) Kenya Dairy Board Headquarters

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

(g) Contacts

Telephone: (020) 310559, 341302, 0733 521438, 0722 573432
E-mail: info@kdb.co.ke
Website: www.kdb.co.ke

(h) Bankers

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

Co-operative Bank of Kenya Limited
Upper Hill Branch, KUSCO Centre, Kilimanjaro Road
P.O. Box 48231
City Square 00200
Nairobi, Kenya

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

(i) Independent Auditors

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

(j) Principal Legal Adviser

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

**KENYA DAIRY BOARD
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THE BOARD OF DIRECTORS



Anthony Ian Njoroge Mutugi

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



Margaret Rugut Kibogy, OGW
CEO/Secretary to the Board

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



Mrs. Sarah Boit

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



Jared Nyanumba

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



Philip Kibusie

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



Kenneth Kimoi Lomaibong

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



Monicah Kariithi

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



Jackson Omaido

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

**KENYA DAIRY BOARD
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FOR THE YEAR ENDED 30 JUNE 2019**

THE BOARD OF DIRECTORS



CPA. Jonah Wala

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



Lorna Akoth Otero, MBS

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



Kennedy Gatheru

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



Dishon Mwanzighe Mngoda

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



Rosemary W. Mbauni

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



Roy Mugo Kaugi

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

**KENYA DAIRY BOARD
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MANAGEMENT TEAM



Margaret Rugut Kibogy, OGW
CEO/Managing Director

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



Dr. Philip Cherono, HSC
Director, Regulatory Services

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



Peter Mutua
Director, Corporate Services

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



CPA. Edward Nyoike
Finance Manager

Edward Nyoike holds Bachelor of Agribusiness Management (Egerton University), Master of Business Administration (MBA) - Operations Management from University of Nairobi, Certified Public Accountant, CPA (K) and Certified Internal Auditor (CIA). He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of Internal Auditors, Kenya Chapter. He has over 14 years' experience in audit, finance, tax and accounting fields.



Erastus Mutiso
Manager - Internal Audit

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



Dorothy Owino
Senior Supply Chain Management Officer

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

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

CHAIRMAN'S STATEMENT

Kenya Dairy Board is proud to be a key player in the dairy industry in Kenya, which has a rich history dating back to pre-colonial times. Commercialization of the dairy industry at the beginning of the 20th century opened a new chapter for Kenya to establish a modern and vibrant dairy industry. Through this journey, several defining moments have shaped the development of this industry, including the enactment of the Dairy Industry Act Cap 336 in 1958, which established the Kenya Dairy Board to regulate, develop and promote the dairy industry in Kenya.

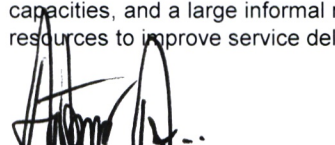
The dairy industry in Kenya has impressive statistics. Annual production of milk has grown from 741 million litres in 1963 to the current 5.2 billion litres. During this period, production of milk shifted from large-scale to smallholder dairy production system, with over 1.8 million smallholder dairy producers currently producing milk for household consumption and sale. The formal milk market made of twenty-nine milk processing companies and several medium and small-scale Dairy Business Operators, handled 691 million litres of raw in 2019/20, a growth of 6% from the 654 million litres handled in the previous period. Overall, the output of the dairy industry in Kenya is valued at Kshs 162 billion per year and contributes approximately 4%, 12% and 44% of the national, agricultural and livestock GDPs respectively. At the EAC region, Kenya is a major producer of milk, with a share of 41% of the 11.9 billion litres produced in 2018.

The Government has continued to invest in an enabling environment for prosperity of the dairy industry in Kenya. These include policy, regulatory and institutional frameworks that are aligned with Kenya's current developmental agendas including Vision 2030, Big Four Agenda, Agriculture Sector Transformation Strategy (ASTGS, 2019-2029) and the Integrated National Export Development and Promotion Strategy (2018-2022), among others.

Core to the Board's services to the dairy industry, is to regulate quality and safety of milk and milk products across the dairy value chain. In the 2019/20 financial period, the Board completed the construction of the national dairy regulatory laboratory, which seeks to provide state of the art testing services for milk and milk products. The laboratory will support the regulatory functions of the Board and provide affordable testing services to stakeholders in the dairy value chain. To improve the regulatory environment and enhance compliance, the drafting of a new set of dairy regulations continued. Led by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives, a multi-stakeholder taskforce was appointed by the Principal Secretary, State Department of Livestock, to spearhead this process. By the close of the financial year, important milestones had been achieved including revision and public review of the draft in over twenty counties, and the commissioning of a regulatory impact assessment study to analyse the benefits and costs of implementing the proposed regulations. This process will culminate in a national validation and submission of the final draft to the Ministry in 2020/21.

The Board is confident that the dairy industry in Kenya will continue to thrive because of increasing demand for quality and safe milk and milk products in the domestic and export markets. Kenya has a high per capita consumption of milk estimated at 110 litres per person per year. This is projected to grow to 130 litres per person per year by 2030. Growth in population, urbanization and improvement in incomes will additionally expand the domestic market for milk and milk products. To meet these demand, the industry seeks to process over 1 billion litres of milk per year by 2022. Achieving this target will contribute to the Big Four Agenda especially the pillars on food security, manufacturing, and universal healthcare. Africa, with a population of 1.3 billion people, is a major importer of milk and milk products. The value of dairy products imported by Africa in 2018 was USD 3.8 billion, approximately Kshs 407 billion (FAO, 2020). The Africa Continental Free Trade Area (ACTFA), EAC, COMESA and other trading blocs provide opportunity for the Kenyan dairy industry to benefit from the large and lucrative market for milk in Africa.

However to fully realize the untapped potential, concerted efforts by stakeholders are required to address the key challenges affecting the dairy industry, which include low productivity per cow, high cost of milk production, low utilization of milk cooling and processing capacities, and a large informal milk market, among others. As an institution, the Board is committed to expand and harness the available resources to improve service delivery to the dairy industry, for the health and wealth of stakeholders.



Anthony Ian N. Mutugi
Chairman of the Board

Nairobi, Kenya

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
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REPORT OF THE MANAGING DIRECTOR

Kenya Dairy Board is a statutory organization established in 1958 by the Dairy Industry Act Cap 336 of the laws of Kenya to improve and control the Kenyan dairy industry and its products. This entails regulatory, developmental and promotional mandates. The establishment of the Board was one of the pre-independence measures implemented to intensify organized and sustainable development of the dairy industry in Kenya. Since independence, the Government has keenly supported the dairy industry, which has transformed to a major source of income, employment and livelihoods.

The Board has a strong service delivery network, including the Head Office located in Nairobi, twenty-seven field offices located in the key milk production and consumption areas, and the national dairy regulatory laboratory located in Kabete, Nairobi. This network is set to expand in future to bring our services closer to stakeholders including the Dairy Business Operators involved in production and marketing of camel and goat milk. This is in line with proposed revisions to the Dairy Industry Act Cap 336, which among other proposals seeks to extend the regulatory scope of the Board to include milk from other species.

The performance of the Kenyan dairy industry in 2019/20 was underscored by high production and supply of milk by dairy farmers, especially from July to December 2019. This however, depressed the producer prices of raw milk, which decreased from an average of Kshs 31.40 per litre in June 2019 to Kshs 22.70 per litre in December 2019. This prompted targeted interventions by Government in January and February 2020 that resulted to improved producer prices, averaging Kshs 33.28 per litre by May 2020. The breakout of the coronavirus pandemic in the country in March 2020, however affected the industry by depressing production and supply of raw milk, mainly due to limited access to concentrates and other conserved fodder and high incidences of foot and mouth in some areas.

The Board's annual budget and work-plan are aligned with the Government's development agendas such as Vision 2030, Big Four Agenda, performance contracting guidelines and our strategic plan (2017-2022), among others. Some of our key strategic objectives are to strengthen dairy policy and regulatory framework, compliance and enforcement; enhance consumer awareness on milk quality and safety; improve capacity of Dairy Business Operators to safely produce and handle milk; expand market access for Kenyan milk and milk products; and institutional capacity building for improved service delivery.

In the 2019/20 FY, the Board had an income of Kshs 446.45 million from two main sources that is, Recurrent grants of Kshs. 35.09 million and internally generated revenue of Kshs 411.36 million. This represents a revenue growth of 12% from the previous financial year. Kenya Dairy Board has a rich licensee base of 726 Dairy Business Operators consisting of processors (29), mini dairies (68), cooling plants (82), cottage industry (46) milk bars (419), milk dispensers (42) and producers (40).

In the course of the financial year, the Board committed resources to deliver quality service to stakeholders in line with our institutional mandate and service charter. On issues of compliance to milk quality and safety requirements, the Board implemented various activities including drafting and public review of the draft dairy regulations; licensing of 726 premises; undertaking over 4,000 inspections of milk handling premises; and conducting over 48,000 conformance tests on sampled milk and milk products. To enforce the requirements of the Dairy industry Act Cap 336, thirty joint enforcement programmes were undertaken across the country. These activities are essential components of food control, whose objectives are to protect consumers from unsafe, unsanitary, unwholesome, mislabelled, and adulterated milk and milk products. To improve our milk testing capacity, construction of the national dairy regulatory laboratory was completed, while analytical equipment and other utilities were procured and partly delivered.

Kenya has a large capacity for milk processing, estimated at 4.5 million litres per day. However, this capacity is under-utilized for several reasons including seasonality of milk production, low per capita consumption of high value products, and competition by the informal market, among others. To improve consumption of processed milk products, the Board conducted a campaign to educate consumers on safe milk and sensitize dairy business operators on compliance. Implementation of school milk programmes provide a market opportunity for processed milk, now and in the future. The Board promoted implementation of school milk by monitoring the performance of the programmes implemented in Meru, Nyandarua, Migori, Embu, Muranga and Mombasa counties. The Board participated in the process of harmonizing the standards for cultured milk and cheeses (Gouda, cream, cottage, mozzarella and cheddar), which will promote intra-regional trade on finalization.

To address capacity gaps by dairy business operators, capacity building of 1,529 Dairy Business Operators was conducted in 32 counties on diverse areas including value addition, milk safety testing and export procedures and requirements. In addition, the Board collaborated with Eastern and Southern Africa Dairy Association to implement the first phase of the Kenya Dairy Industry Awards Scheme that competitively identified and awarded model Dairy Business Operators in six categories namely milk production, fodder production, breeding, milk bulking, product diversity and social inclusion.

**KENYA DAIRY BOARD
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REPORT OF THE MANAGING DIRECTOR

To facilitate planning and decision making by Government and other stakeholders, the Board conducted routine monitoring of the dairy industry by collecting, analysing and disseminating data on milk intakes by cooling plants and the formal milk market, producer prices and dairy imports and exports, among others.

I wish to take this opportunity to thank the Government and the stakeholders for their continued support to the Board and the dairy industry. We look forward to continued collaboration to build a world class dairy industry.



Margaret Rugut Kibogy, OGW
Managing Director.

Nairobi, Kenya

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
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REVIEW OF KENYA DAIRY BOARD PERFORMANCE FOR THE YEAR 2019/2020

Kenya Dairy Board has five key result areas (KRA) and several objectives within its Strategic Plan for the financial year 2017/2018 to 2022/2023. The key result areas are:

KRA I: Compliance and quality assurance of milk and milk products

KRA II: Customer focus

KRA III: Industry support

KRA IV: Research, innovation and learning

KRA V: Institutional capacity development

Kenya Dairy Board develops its annual work plans based on the above five key result areas. Performance is monitored and reported quarterly. The Board achieved the set targets in the review period as indicated in the below:

Key Result Area	Objective(s)	KPI	Activities	Achievements
Compliance and quality assurance of milk and milk products	Strengthen dairy policy and regulatory framework, compliance and enforcement	Appointment letters	Appointment of a taskforce to guide finalization of draft regulations	Taskforce appointed
		Reviewed regulations	Review and update the draft dairy regulations	Regulations reviewed and updated
		Sensitization Report	Sensitize National Assembly's committee on delegated legislation on the draft regulations	National Assembly's committee on delegated legislation sensitized
		No. of public review forums conducted	Conduct public reviews on the draft dairy regulations	Fourteen public review forums conducted across the country
		Regulatory impact assessment report	Conduct Regulatory Impact Assessment on the draft regulations	Regulatory Impact Assessment conducted
		Draft EAC standards	Harmonization of six EAC dairy standards	EAC standards for cultured milk, and Gouda, cream, cottage, mozzarella and cheddar cheeses drafted
		No. of tests conducted	Conduct surveillance tests on the quality and safety of marketed dairy produce	A total of 48,986 tests conducted
		No. of enforcement programmes conducted	Undertake quarterly programmes to enforce the Dairy Industry Act Cap 336	Thirty enforcement programmes conducted nationally
		No. of premises inspected	Undertake quarterly inspection of milk handling premises	A total of 4,124 inspections conducted across the country
	Increase consumer awareness on milk quality and safety	Report of consumer education campaign	Conduct campaign to educate consumers and dairy business operators on milk safety and compliance respectively.	Radio campaigns implemented in radio stations, print media, TV, social media and promotional materials
Customer focus	Enhance visibility and awareness on the Board's functions	Compliance report	100% implementation of the Board's service charter	Service charter fully implemented
Dairy Industry support	Enhance capacity of Dairy Business Operators on milk quality and safety and value addition	Training reports	Build capacity of Dairy Business Operators on milk quality and safety	A total of 1,529 Dairy Business Operators trained
	Expand market access for milk and milk products in the domestic and export markets.	Training reports	Build capacity of Dairy Business Operators on export procedures and requirements	A total of 70 Dairy Business Operators trained
		No. of export permits issued	Prompt issuance of export permits for dairy produce	A total of 205 permits issued valued at Kshs 205 million

**KENYA DAIRY BOARD
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REVIEW OF KENYA DAIRY BOARD PERFORMANCE FOR THE YEAR 2019/2020

Key Result Area	Objective(s)	KPI	Activities	Achievements
Dairy Industry support	Expand market access for milk and milk products in the domestic and export markets.	Volume of milk handled	Promote increased throughput of milk in the formal sector	The volume of milk increased to 775 million litres in 2019/20 from 678.39 million litres in 2018/19
Research, innovation and learning	Promote quality research and innovations	Implementation report	Partner with stakeholders to implement a Kenya Dairy Industry Awards Scheme	Scheme implemented under five award categories
		Concept paper on Cooperative Dairy Farming (CODAF) model	Develop concept paper and sensitize ten counties on model dairy farming	Concept developed and twenty one counties sensitized
		Study report	Undertake relevant research, studies and surveys	Collaborated with 3R Project to conduct study on trends and scenario analysis of milk dispensing in Kenya.
Institutional capacity building	Achieve full automation of core processes	Service contract	Implementation of Enterprise Resource Planning System	Service provider procured
	Ensure adequate availability of working tools (physical facilities, tools and equipment)	Handover certificate	Construction of national dairy regulatory laboratory	Construction of laboratory completed
		No. of equipment delivered	Equipping of the national dairy regulatory laboratory	Equipment procured and some delivered
	Maintain optimal staff with requisite competence	No. of staff trained	Conduct staff training, learning and development.	A total 139 staff trained on relevant areas
		Newspaper advertisements	Recruitment to fill vacant positions	Vacant positions advertised

**KENYA DAIRY BOARD
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FOR THE YEAR ENDED 30 JUNE 2020**

CORPORATE GOVERNANCE STATEMENT

THE BOARD OF DIRECTORS

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

Board Composition

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

Independence of Board Members

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

Term Limits and succession planning

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

The appointing authority ensures staggering of Board appointments so that the respective expiry dates of the members terms fall at different time to ensure proper succession planning and continuity of the Board affairs. The Board of Directors undergo an induction and training organised every year by State Corporations Advisory Committee.

Chairperson of the Board

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

Chief Executive Officer

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

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

Relationship between Board and Management

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

THE BOARD CHARTER

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

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

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

The Board of Directors reviews the Charter at least annually or when necessary.

ETHICS AND CONDUCT

Kenya Dairy Board has adopted high standards and applies strict rules of conduct, based on the best corporate practices. The Board of Directors have signed the Board's Code of Conduct and Ethics in line with Public Officers' Code of Conduct and Ethics, which embrace the following principles:

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

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CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD PERFORMANCE AND REMUNERATION

Board members undertake an annual evaluation of performance which is conducted by the State Corporation Advisory Committee (SCAC). The Board of Directors are paid sitting allowances, travelling and or mileage allowances as well as subsistence and accommodation after the attendance of the Board meetings. In addition, the Chairperson to the Board receives a monthly honoraria. The payment of the Board allowances, honoraria to the chairperson and other expenses are in line with the established Government of Kenya guidelines. The total expenditure in Board allowances and related expenses for the last two financial years are as summarised below;

Board members expenses	2019-2020	2018-2019
	Kshs	Kshs
Mileage, accommodation and sitting allowances	10,415,692	11,466,013
Chairperson's monthly allowance	1,044,000	1,044,000
Directors' Medical insurance	577,614	762,863
Provision for performance incentives	1,580,000	-
	13,617,306	13,272,876

THE COMMITTEES OF THE BOARD

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

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

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

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

The Board has established the following standing committees;

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

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

BOARD RESPONSIBILITIES

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

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

Responsibilities of Individual Board Members

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

Principles of Public Service

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

- High standards of professional ethics;
- Efficient, effective and economic use of resources;
- Responsive, prompt, effective, impartial and equitable provision of services;
- Involvement of stakeholders in policy making;
- Accountability for administrative acts;

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CORPORATE GOVERNANCE STATEMENT (Continued)

- Transparent and timely provision to the public of accurate information;
- Fair competition and merit as the basis of appointments and promotions;
- Representation of Kenya's diverse communities; and

BOARD AND COMMITTEES MEETINGS

Full Board meetings

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

The quorum for a Board meeting is two thirds of the (2/3) members where the total Board membership is eight to nine and four where the total membership is seven and below. The Board held five full board meetings in the financial year 2019/2020 and the attendance of the Board members was as follows;

Board Member	18-Sep-19	17-Jan-20	30-Jan-20	20-May-20	27-May-20
Antony Mutugi - Chairman	√	√	√	√	√
Sarah Boit	√	√	√	√	√
Margaret Rugut Kibogy - CEO	√	√	√	√	√
Philip Kibusie	√	√	√	√	√
Kenneth Lomaibong	√	√	√	√	√
Monica W. Kariithi	√	√	√	√	√
Kennedy Gatheru	√	√	√	√	√
Sarah Boit	√	√	√	√	√
Jared Nyanumba	√	√	√	√	√
Rosemary W. Mbauni	√	√	√	√	√
Roy Mugo Kaugi	√	√	√	√	√
Dishon Mwanzighe Mngoda	√	√	√	√	√
Jackson Omaido	√	√	√	√	√
Lorna Odero	√	√	√	√	√
Jonah Wala	√	√	√	√	√
George Ombua	√	√	√	√	√

Audit Committee

The Audit Committee consists of four non-executive Directors and reports to the Board after every committee meeting. The chairperson is an independent non-Executive Director. The Audit committee held five meetings during the year and the attendance was as follows;

Board Committee Member	Position	17-Sep-19	13-Dec-19	13-Jan-20	24-Apr-20	12-May-20
Philip Kibusie	Chairman	√	√	√	√	√
Lorna Odero	Member	√	√	√	√	√
Jonah Wala	Member	x	√	√	√	√
Roy Mugo Kaugi	Member	√	√	√	√	√
George Ombua*	Member	√	√	√	√	x
Margaret Rugut Kibogy	CEO	√	√	√	√	√
Erastus Mutiso - Secretary	Manager, Audit	√	√	√	√	√

x - Absent with apologies

* - Representing Inspectorate of State Corporations

Human Resource and Administration Committee

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

The Human Resources & Administration Committee held six meetings during the year and the attendance was as follows;

Board Committee Member	15-Jul-19	12-Sep-19	14-Oct-19	14-Jan-20	17-Apr-20	08-May-20
Sarah Boit - Chairperson	√	√	√	√	√	√
Margaret Rugut Kibogy - CEO	√	√	√	√	√	√
Kenneth Lomaibong	√	√	√	√	√	√
Rosemary W. Mbauni	√	√	√	√	√	√

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CORPORATE GOVERNANCE STATEMENT (Continued)

Finance & Planning Committee

This Committee reviews Board papers touching on budgets and financial resource allocations and capital investments as well as financial reporting and makes recommendations to the full Board for adoption or approval. The Committee held six meeting during the year and the attendance was as follows;

Board Committee Member	15-Jul-19	16-Sep-19	15-Oct-19	15-Jan-20	15-Apr-20	13-May-20
Jared Nyanumba - Chairman	√	√	√	√	√	√
Jackson Omaidio	√	√	√	√	√	√
Lorna Odera	√	√	√	√	√	√
Jonah Wala	√	√	√	√	√	√
Margaret Rugut Kibogy - CEO	√	√	√	√	√	√

Technical, Licensing and Marketing Committee

The Technical Licensing and Marketing Committee reviews Board papers touching on Technical, Licensing and marketing, and make recommendation to the Full Board for adoption. The Committee held four meeting during the year whose attendance was as follows;

Board Committee Member	Position	13-Sep-19	16-Jan-20	11-May-20	18-May-20
Dishon Mngonda	Chairman	√	√	√	√
Monica W. Kariithi	Member	√	√	√	√
Kennedy Gatheru	Member	√	√	√	√
George Ombua	Member	√	√	√	√
Margaret Rugut Kibogy	CEO	√	√	√	√

PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

Policy of the Kenya Dairy Board on Procurement

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

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

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

It is the Boards policy to support Kenyan entrepreneurs. All procurement in Kenya Dairy Board are made centrally and through the Supply Chain Management Division. The top 10 procurement contracts for the financial year 2019-2020 are as listed below:-

Name of the Supplier	Date Awarded	Amount (Kshs)
Sedgwick Kenya Insurance Brokers Limited	28-Oct-2019	2,581,939
Aquachem Technologies Limited	29-Nov-2019	2,276,550
Case Lab Limited	29-Nov-2019	57,054,000
Educational Scientific & Technical Equipment Ltd	29-Nov-2019	9,023,760
Nesvax Innovations Limited	29-Nov-2019	4,464,240
Faram East Africa Limited	29-Nov-2019	3,392,242
Resolution Insurance Company Limited	21-Apr-2020	17,249,337
Aquawetts Enterprises Limited	15-May-2020	2,872,296
Contralink Solutions & Services Limited	15-May-2020	6,399,060
Royal Media Services Limited	12-Jun-2020	6,477,440

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MANAGEMENT DISCUSSION AND ANALYSIS

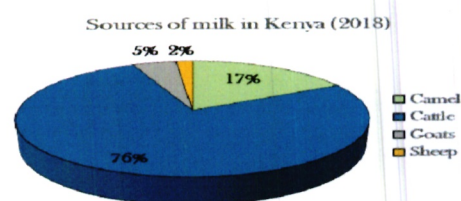
A. PERFORMANCE OF THE DAIRY INDUSTRY

Globally, approximately 150 million households produce milk. Between 1988 and 2018, the world milk production increased by more than 59 percent, from 530 million tonnes to 843 million tonnes (FAO, 2020). Within the East Africa Community, Kenya is the leading milk producing country with a share of 41% of the 11.9 billion litres produced in 2018.

The dairy industry is a major socio-economic enterprise in Kenya. It contributes approximately 44%, 12%, and 4% of the livestock, agricultural, and national GDPs respectively. It provides livelihoods to 1.8 smallholders, and is an important source of food and nutritional security to thousands of households.

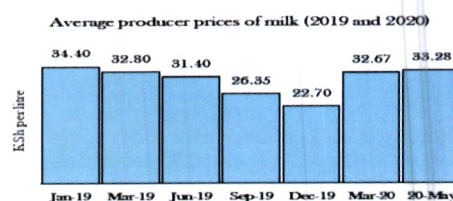
Milk production

Kenya produces approximately 5.2 billion litres of milk per year from cattle, camels, goats and sheep. Cattle is the major milk producing species and accounts for approximately 76% of the total production in the country. Growth in the national dairy herd population and increased intensification in dairy farming are projected to increase the annual production of milk by between 4.5 to 5% in the next ten years, to reach 12 billion litres by 2030 (Ministry of Agriculture, Livestock & Fisheries, 2010).



Producer prices for raw milk

Producer prices of raw milk are highly sensitive to milk production trends. As a result, the prices fluctuate across seasons depending on weather conditions. Due to increased production of milk in the second half of 2019, the producer prices of raw milk dropped to an average of Kshs 22.70 per litre in December from an average of Kshs 34.40 per litre in January. The average producer price however increased to Kshs 32.67 in March 2020 following interventions by the Government.



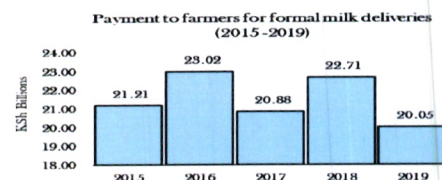
Retail prices for processed milk

The price of one litre of pasteurized milk decreased to an average of Kshs 112.52 in 2019 from an average Kshs 121.18 in 2018, a decrease of 7.15% (National Economic Survey, 2020). The good weather conditions in the second half of 2019 led to increased production and supply of raw milk. This in turn depressed the producer and consumer prices of milk.



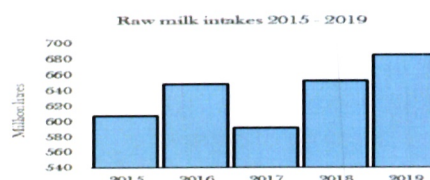
Payment to farmers for formal milk deliveries

The payment to farmers for formal milk deliveries decreased by 9.7% from Kshs 22.71 billion in 2018 to Kshs 20.05 billion in 2019 (National Economic Survey, 2020), mainly as a result of lower producer prices in the second half of 2019.



Milk intakes and processing

The quantity of raw milk received by the formal sector increased to 686 million litres in 2019 from 652 million litres in 2018, a growth of 5.1%. This is projected to grow in the coming years due to increasing demand for processed milk and milk products in the local and regional markets.



B. OVERVIEW OF OPERATIONS

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

Inspection and licensing of milk handling premises

Inspection and licensing of milk handling premises are automated. Licensing is conducted yearly, while inspections are conducted at least once per quarter. This ensures premises continuously comply with milk quality and safety requirements. Over the period, 726 licenses were issued and 30,433 inspections conducted. The licenses issued included producer licenses (40), milk bars licenses (419), mini dairy licenses (68), milk dispenser licenses (42), cottage industry licenses (46), cooling plant licenses (82) and processor licenses (29).

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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Surveillance on the quality and safety of milk and milk products

Milk and milk products were sampled across the country and subjected to 35,923 tests to evaluate conformance with relevant dairy standards. The overall compliance rate of the samples was 95.5%. The findings complemented implementation of both internal and external corrective measures to enhance the level of compliance.

Joint Enforcement programs

Thirty (30) Joint Enforcement Programs were undertaken nationally to enforce the requirements of the Dairy Industry Act Cap 336. These resulted to 163 successful prosecutions, and disposal of 9,795 litres of unsafe milk.

Consumer education campaign

The Board conducted a campaign to educate consumers and dairy business operators on milk safety and compliance requirements respectively. This was implemented through programmes in radio, TV, and print and social media and by use of promotional materials.

Drafting of Dairy Regulations 2020

Public Participation on the draft dairy regulations was carried out in Kapenguria, Eldoret, Nakuru, Thika, Makueni, Nyeri, Meru, Marsabit, Garissa, Kisii and Kakamega from 9th to 14th March, 2020. These meetings clustered stakeholders in the host county and from surrounding counties. Thereafter, a Regulatory Impact Assessment was successfully conducted to assess the costs and benefits of implementing the regulations.

Construction and equipping of the national dairy regulatory laboratory

Construction of the laboratory was completed, and some of the procured equipment, furniture and other utilities delivered. The laboratory, which will be operationalized in the first quarter of 2020/21, will provide capacity to test milk and milk products for compliance with the relevant national, regional and international standards. This will promote consumer safety and facilitate trade in milk and milk products.

Capacity building of stakeholders

The capacities of 1,529 Dairy Business Operators in 32 counties were enhanced through trainings on the following key areas:

- Milk safety testing and management
- Dairy export requirements and procedures
- Efficient production and marketing of dairy produce.

Dairy trade facilitation

The Board participated in the process of harmonizing six new dairy standards in the East African Community. These are standards for cultured milk and cheeses (Gouda, cream, cottage, mozzarella and cheddar). The standards will facilitate intra-regional trade in milk and milk products when the harmonization process is completed. The standards for raw milk, pasteurized milk, UHT milk, butter, ghee, ice cream, condensed milk, milk powders and yoghurt were harmonized in 2007 and reviewed in 2019. Four national standards for cheeses (Danbo, Harvati, Emmental and Edam) were revised.

The Board continued to issue permits to export and import milk and milk products. Milk imports are primarily from Uganda and are transacted under the protocols of the East African Community. In this regard, the Board participated in a verification mission conducted on the dairy industry in Uganda. This mission involved participants from the State Departments of Trade, Livestock and Foreign Affairs, Kenya Dairy Processors Association (KDPA), Kenya Dairy Processors Association (KDPA) and Kenya Dairy Farmers Federation (KDFF).

County dairy data collection

To support sustainability of the dairy industry, the Board collaborated with the International Livestock Research Institute (ILRI) to collect comprehensive dairy data in Makueni, Migori, Siaya, Kisumu, Homa Bay, Busia and Vihiga counties. These data addresses milk production, bulking, marketing, value addition, and provision of dairy inputs and services, among others. These will facilitate strategic planning to improve the status of the dairy industry in the respective counties.

Dairy Industry Awards 2019

The Board collaborated with the Eastern and Southern African Dairy Association (ESADA) and other stakeholders to pilot and implement the National Dairy Industry Awards Scheme (2019), which had six competitive categories, namely;

- o Dairy Breeder of Distinction Award
- o Fodder producer of distinction Award
- o Dairy Farm of Distinction Award
- o Milk Collection Centre of distinction Award
- o Dairy Products Diversity Award
- o Dairy Social Inclusion Award:

The top three winners in each category were presented in a colourful ceremony held on August 15, 2019 at the Radisson Blu Hotel, Nairobi.

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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Research and surveys

The Board contracted service providers to conduct the following studies.

- (a) Cost of milk production in Kenya
- (b) Status, challenges and opportunities for fodder and feeds production in Kenya.
- (c) Assessment of structures and profitability of milk distribution and retailing in Kenya

The findings of the studies will inform stakeholders on areas in need of policy and other operational interventions. In addition, the Board collaborated with the 3R project to conduct a study on milk dispensing in Kenya. The study, which sought to analyse the trends and future scenario of milk dispensing, was conducted in six counties with high concentration of milk dispensers namely Nairobi, Kiambu, Nakuru, Kajiado, Uasin Gishu and Machakos.

Monitoring and evaluation

The Board monitored the performance of the dairy industry in Kenya on the following key areas:

- (a) Raw milk intakes by the formal sector
- (b) Raw milk intakes by cooling centres
- (c) Producer and consumer prices of milk
- (d) Production and stocks of long life milk products
- (e) Imports and exports of dairy products

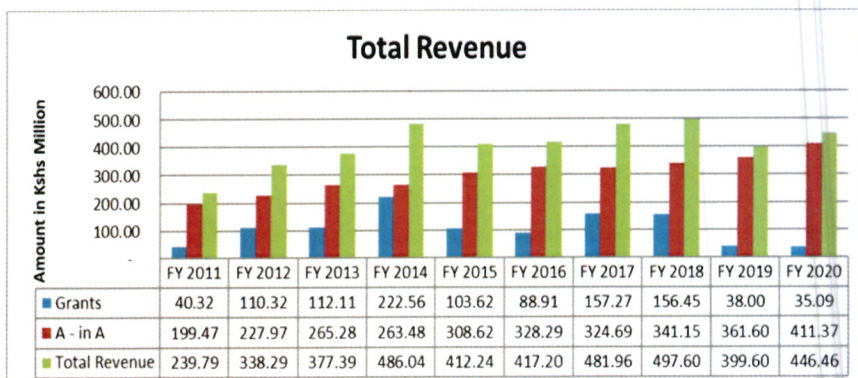
Monitoring and reporting of producer prices for raw milk facilitated interventions by Government in January and February 2020 to stabilize declining prices of raw milk. Some of the interventions implemented by Government included:

- (a) Allocation of Kshs 500 million to New Kenya Co-operative Creameries to buy milk from farmers for conversion to long life milk products.
- (b) Allocation of Kshs 550 million to New Kenya Co-operative Creameries to modernize and increase milk-processing capacity.
- (c) Directive to New Kenya Co-operative Creameries to raise producer prices of milk to a minimum of Kshs 33 per litre.
- (d) Directive to dairy cooperatives to pay producers a minimum of 85% of the pay-out price from milk processors and other buyers of milk.
- (e) Drafting of producer pricing regulation to guarantee farmers a minimum producer price.

C. FINANCIAL PERFORMANCE

i) Revenue performance

The Board funds its operations through the internally generated revenue mainly cess, processors' levy, import levy and license fees as well as grants from the parent Ministry of Agriculture, Livestock, Fisheries and Cooperatives. In the year ended 30 June 2020, the Board received a total of Kshs. 33.30 million as Recurrent Grants from the Government of Kenya and a further Kshs. 1.79 million from development partners. In addition, the Board received Kshs. 80 Million in Development Grants from the Government of Kenya to finance the ongoing construction and equipping of the National Dairy Laboratory Project.



In total, the Board recorded a total revenue of Kshs. 446.46 million which is made up of Kshs. 411.37 million generated from the A in A and Kshs. 35.09 million from the grants as recognised in the statement of the financial performance.

The Board posted a 13.76% increase on internally generated revenue. The Board collected a total of Kshs. 411.37 million as compared to the revenue realised in the year ended 30 June 2019 of Kshs. 361.60 million. The positive outlook was maintained by good weather which resulted to increased formal milk intakes, introduction of cess and levy on milk imported from EAC member countries as well as continued surveillance on the informal milk marketing which resulted to increased collection on import levy.

Cess, processors levy and License fees.

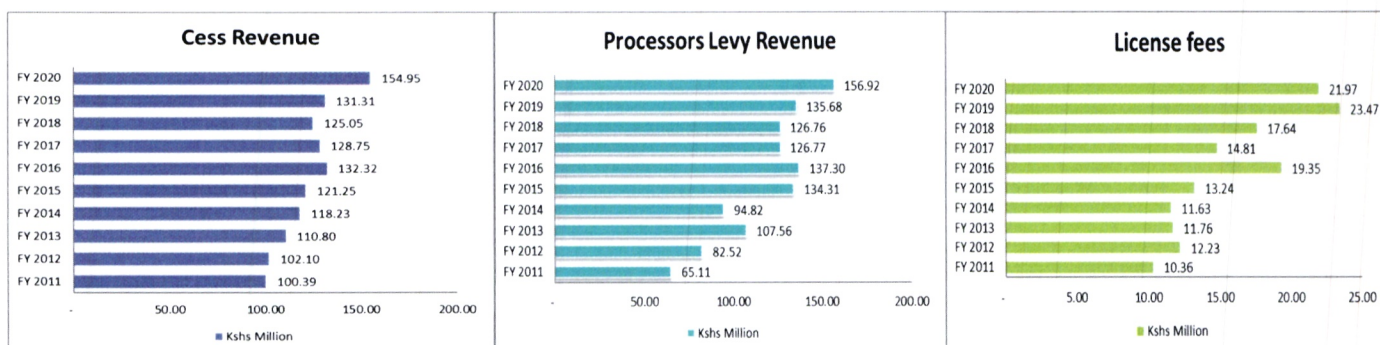
Cess which is charged at the rate of 20 Cents per litre increased by 18% from Kshs. 131.30 million in the year ended June 2019 to Kshs. 154.95 million, while processors levy increased by 16% to close at Kshs. 156.92 million from Kshs. 135.68 recorded in the year ended 30 June 2019. The increased collection on cess and processors levy is attributable to conducive weather which boosted production in the country as well as introduction of cess and levy on milk and milk products originating from the EAC member countries.

However, the need to observe the Ministry of Health guidelines on Covi-19 had an impact on licensing and resulted to closure of selected dairy related enterprises. This resulted to a decline of 6.39% on license fees from Kshs. 23.47 million recorded in the year ended 30 June 2019 to Kshs. 21.97 million.

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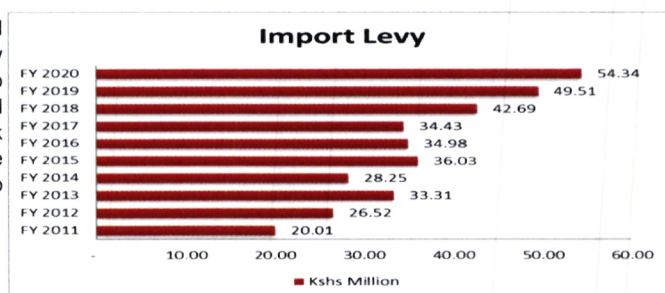
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Further analysis on cess, processors levy and license fees is as analysed below;

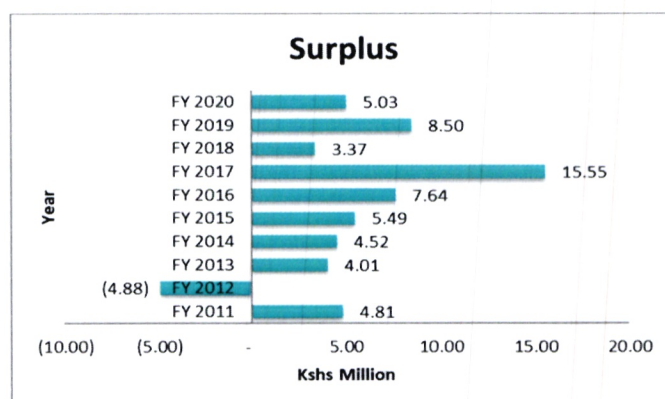
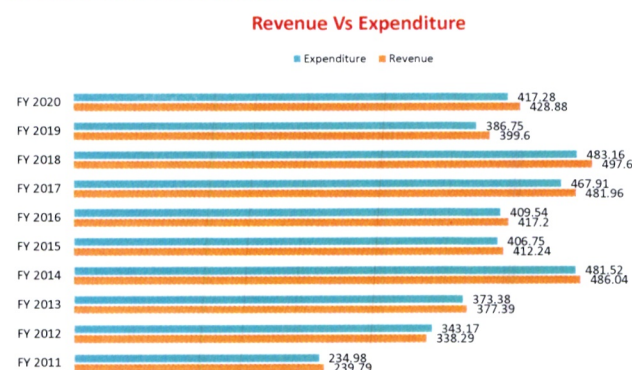


Import levy

Import levy is charged at the rate of 7% on CIF value of the imported dairy products. The revenue generated from the import increased by 9.76% from Kshs. 49.51 million recorded in the previous financial year to Kshs. 54.34 million. The increase was as a result of the continued surveillance and enforcement on the illegally imported milk and milk products, which contributed to increased compliance in adhering to the established requirements for importation of the dairy related products into the country.



ii) Expenditure and surplus for the year



The total revenue for the Board in the year ended 30 June 2020 was Kshs. 446.46 million as compared to Kshs. 399.60 million recorded in the previous financial year. The increase in total revenue is attributable to the good performance in the collection of the internally generated revenue. The recurrent expenditure during the year under review was Kshs. 417.28 million as compared to Kshs. 386.75 million recorded in the year ended June 2019. This resulted to a surplus of Kshs. 5.03 million (after the impairment loss of Kshs. 24.16 Million) as compared to a surplus of Kshs. 8.50 million posted the year ended June 2019.

iii) Material arrears in Statutory and financial obligations

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

iv) Key projects and investment decisions the Board is implementing

During the year, the Board continued with the construction of the National Dairy Laboratory Complex. This project is funded by Government Grants. The erection and completion of Boundary Wall, Gate House and Electric Fence as well as civil works were completed in the last financial year. A certificate of practical completion on the erection and completion of National Dairy Laboratory block was issued in June 2020. Similarly, the Board has concluded the procurement of the necessary laboratory equipment in readiness for the operationalisation in the year 2020/2021.

The project will ensure health and safety of consumers, promote compliance to international standards and facilitate national and international trade. This will spur growth and sustainability of the Dairy Industry and allied sectors leading to increased employment opportunities in production, transportation, processing and distribution of milk and milk products.

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CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate social responsibility (CSR) is an organization's commitment to manage the social, environmental and economic effects of its operations responsibly and in line with public expectations. Kenya Dairy Board recognize CSR as a tool aimed at positively transforming the lives of communities around us.

The dairy industry has many stakeholders who directly and indirectly depend on the dairy industry for survival. Kenya Dairy Board is committed to putting our customer first by meeting and exceeding their expectations through our service delivery. The CSR activities undertaken by the Board are briefly summarized below;

Sustainability strategy and profile

Sustainability is key to the prosperity of the dairy industry now and in the future. Dairying can severely affect the environment if mitigation measures are not implemented. Consequently, at the global and national levels, good dairying practices are encouraged to reduce carbon emissions by dairy cows, address animal health and welfare, and improve livelihoods of dairy farmers and other stakeholders who depend on dairy. A growing population and improving incomes are likely to increase demand for milk and milk products, which augers well for the long-term sustainability of the dairy industry. However, the industry is vulnerable to various factors including changes in weather patterns and health dynamics such as the coronavirus pandemic. The Government policies such as Vision 2030 and the Big Four Agenda recognize the socio-economic importance of the agricultural sector including dairy.

At the institutional level, the Board is strengthening the institutional capacity and expanding the revenue base to enhance service delivery to stakeholders and therefore promote the long-term sustainability of the organization.

Environmental conservation



Kenya Dairy Board has a workplace environment policy that outlines our commitment to providing quality services in a manner that ensures a safe and healthy workplace for our stakeholders and employees and minimizes negative impact on the environment. The Board operates in full compliance with all relevant environmental and statutory requirements.

In the year 2019/2020, the Board mainly focussed on tree planting in order to support the Government's target of increasing the national forest cover to 10 % by the year 2022 and to protect riparian lands and wetlands. The Board planted more than 11,500 trees. The tree planting activities covered the following areas;

- Keitany Sabor Kaptagat Forest of the larger Cherangany Forest, which is one of the country's five-water towers. The activity was officiated by the Cabinet Secretary, Ministry of Environment and Forestry, Hon. Keriako Tobiko, and attended by the Governors of Uasin Gishu and Elgeyo Marakwet among other dignitaries. The Board, represented by the Managing Director, donated 10,000 seedlings.
- Kabete - The Board planted 1,000 trees at its Kabete plot to protect the adjacent riparian land. This was done in partnership with the local community, to whom the Board donated 500 seedlings for planting within their neighbourhood. Engagement of the community will ensure the trees are taken care of, enhancing the survival rate.

The planted trees will conserve the riparian land in Kabete, which is an important source of water for agricultural activities by the resident community. Availability of water throughout the year will improve agricultural output and therefore incomes. The water body is an important habitat for both plants and animal species, whose survival depends on conservation of the riparian land. Other environmental conservation measures undertaken by the Board within the period included;

- Proper waste management in the workplace as provided by the relevant regulations.
- Promoting paperless transactions and double sided printing to save on paper and reduce waste.
- Energy conservation by switching off lights and other power consuming devices when not in use.
- Sensitizing dairy farmers on the management of manure including its utilization for of bio-gas production.
- Sensitizing dairy farmers on new solar milk cooling innovations.
- Good fleet management including scheduled servicing and maintenance.

Employee welfare

The Board has a total workforce of 153 employees on permanent, internship or contract basis. These employees are distributed at the head office and the twenty-seven branch offices located in the key milk production and consumption areas. The Board implements the following measures to enhance the welfare of employees;

(a) Policy on hiring of staff.

The Board is an equal opportunity employer. The Board's Human Resource Policies and Procedures Manual guide hiring of staff. This prohibits discrimination based on gender, race, religion, ethnicity or any other form of discrimination. In addition, the Board complies with constitutional requirement on mainstreaming of gender and persons with disabilities and other policies issued by the National Cohesion and Integration Commission.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

(b) Internship Policy.

In engaging students and graduates, the Board is guided by the Board's internship policy, which is anchored in the values and principles of public service guidelines and labour laws. The duration for internship is 12 months and 3 months for students on attachment.

(c) Career development and performance appraisal.

The Board has a comprehensive career guideline. The Board routinely conducts training needs assessment for all staff to identify skill gaps. These gaps are addressed through short-term courses sponsored by the Board. In addition, staff are encouraged to pursue self-initiated relevant trainings.

Staff Performance Appraisal is done at the end of every financial year. It is based on predetermined work objectives and performance targets, and linked to other HR systems and processes including employee development, career guidelines, placement, rewards and sanctions.

(d) Compliance with OSHA 2007

The Board is committed to achieving the highest standards of health and safety in the workplace, and the elimination or minimization of health and safety hazards and risks that may affect its employees. In line with the provisions of the Occupational Safety and Health Act, 2007, and other Labour laws, the Board has policy guidelines on general safety, emergency preparedness, fire precautions, fire prevention, notification of fires, compensation of employees in case of injury or death based on WIBA, reporting of accidents and occupational diseases and approval and distribution of compensation.

Market place practices

As a regulatory institution, the Board licenses Dairy Business Operators to carry out dairy businesses along the value chain. To promote fair competition amongst operators engaged in the same type of dairy business, the Board applies the same licensing standards and other requirements. Since the dairy is a sensitive sector, the Board regulates the importation of milk and milk products as provided by the Dairy industry (imports and exports) regulations, 2004, to enhance domestic market access for Kenyan milk and milk products.



The Public Financial Management Act and the Public Procurement and Disposal Act guide, among others guide the Board in procurement and disposal of goods and services. The Board endeavours to honour contractual obligations and pay suppliers within 30 days of invoicing.

The marketing and advertisement programs conducted by the Board are done in strict conformity to the marketing and advertising ethics of the Marketing Society of Kenya, Media Council of Kenya and other relevant government regulations.

To protect consumers of milk and milk products, the Board regulates the hygienic practices of dairy business operators through routine inspections and licensing, and routine sampling and testing of marketed milk and milk products.

Community engagements

To give back to the community for the support that they have given to the sector over the years and support needy cases, the Board undertook a number of community engagements through donations and partnerships with other stakeholders. This is also aimed at bringing the community closer to us and thus enhance our relationship and support to the Board and the sector. These included:

(a) Healthcare

The Board collaborated with Devyani Food Industries to donate milk and other food products worth Kshs 6.3 million to Kenyatta National Hospital and its satellite centres. This donation was given to support the hospital battle the coronavirus pandemic and benefited health workers and patients in the hospital. The donation was handed over by Mr. Harry Kimtai, the Principal Secretary, State Department for Livestock, in the company of the Chairman and Managing Director, Kenya Dairy Board, and the Chief Executive Officer, Devyani Food Industries.

In addition, the Board supported Beyond Zero Campaign to organize a medical Safari to raise funds in aid of integrated and specialized healthcare to the public including immunization, reproductive health services, free screening, treatment and referral services.

(b) Sports



Sports improves the physical, social and mental wellbeing of a person. It is therefore complements consumption of milk. In recognition of this, the Board supported and participated in the Sports Personality of the Year (SOYA) Awards held in Mombasa. The marathon record-breaker Eliud Kipchoge was crowned the 2019 Sports Personality of the Year during the year.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

(c) Milk collection and bulking

Dairy is a key agricultural activity in Kenya contributing significantly to the socio-economic development of the country. Being a highly perishable commodity, milk should be handled hygienically and transported to cooling facility within two hours of milking. To promote good practices in milk collection and bulking, the donated 100 aluminium milk cans and 3 motorcycles to farmer groups including Kaplesa Farmers Co-op society, Ngenia Dairy Farmers Cooperative and Thigingi Action Group, among others.



**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

REPORT OF THE DIRECTORS

The Directors submit their report together with Audited Financial Statements for the year ended 30 June 2020 which show the state of the Board's affairs.

Principal activities

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

Results

The results of the Board for the year ended 30 June 20 are set out on Page 24.

Directors

The members of the Board of Directors who served during the year are shown on Pages 3 to 4.

Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, Regulatory Entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. In the year ended 30 June 2020, Kenya Dairy Board reported a surplus of Kshs. 5,025,552 and has made a provision of Kshs. 4,522,997 (FY 2019 - Kshs. 7,648,142) as surplus remission to Consolidated fund.

Auditors

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

By Order of the Board



Margaret Rugut Kibogy, OGW
Secretary to the Board
Nairobi, Kenya

Date: 28/09/2020

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and the Dairy Industry Act, Cap 336 of the Laws of Kenya requires the Directors to prepare financial statements in respect of the Board, which give a true and fair view of the state of affairs of the Board at the end of the financial year and the operating results of the Board for that year. The Directors are also required to ensure that the Board keeps proper accounting records which disclose with reasonable accuracy the financial position of the Board. The Directors are also responsible for safeguarding the assets of the Board.


The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year ended on 30 June 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 Board; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Board's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the Dairy Industry Act, Cap 336. The Directors are of the opinion that the Board's financial statements give a true and fair view of the state of Board's transactions during the financial year ended 30 June 2020, and of the Board's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board's financial statements as well as the adequacy of the systems of internal financial control.

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


Approval of the financial statements

The Board's financial statements were approved for issue by the Board of Directors on 28 September 2020, and signed on behalf of the Board by:



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

Date: 28/09/2020

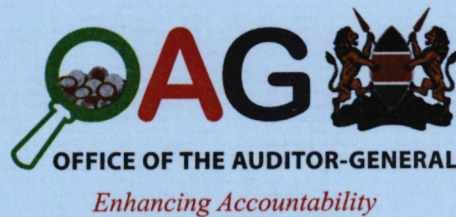


Margaret Rugut Kibogy, OGW
Managing Director
Nairobi, Kenya

Date: 28/09/2020

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA DAIRY BOARD FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Dairy Board set out on Pages 24 to 45, which comprise of the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Dairy Board as at 30 June, 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 comply with the Public Finance Management Act, 2012 and Dairy Industry Act, Cap 336 of the Laws of Kenya.

Basis for Qualified Opinion

1.0 Property, Plant And Equipment - Land Without Title

As reported in the previous years, the statement of financial position reflects property, plant and equipment balance of Kshs.245,647,784. The balance includes an amount Kshs.1,500,000 being the value of a parcel of land situated in Narok town that was allocated to the Board in 2000. A review of the position during the year under review revealed that the Board has not obtained the title deed.

Consequently, the ownership of the plot and the value of the parcel of land of Kshs.1,500,00 included in the property, plant and equipment balance of Kshs.245,647,784 as at 30 June, 2020 cannot be confirmed.

2.0 Wrong Classification of Expenditure - Repairs and Maintenance

As disclosed under Note 15 to the financial statements, the statement of financial performance reflects an amount of Kshs.6,851,752 in respect of repairs and maintenance.

Analysis of schedules and ledgers provided revealed that the balance constitutes expenses totalling to Kshs.774,691 which are not related to repairs and maintenance. Management has not given any explanation for the anomalies.

In the circumstances, the accuracy of repairs and maintenance expenditure of Kshs.774,691 could not be ascertained.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but

is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

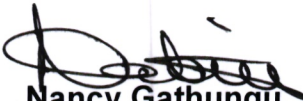
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

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

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

21 July, 2021

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2019-2020 Kshs	2018-2019 Kshs
Revenue from non-exchange transactions			
Levies, fines and penalties	6	370,735,550	321,600,470
Licenses and permits	7	21,966,100	23,466,600
Transfers from the Government and others	8	<u>35,088,270</u>	<u>38,004,170</u>
		<u>427,789,920</u>	<u>383,071,240</u>
Revenue from exchange transactions			
Interest income	9	18,499,310	14,921,818
Other income	10	<u>162,785</u>	<u>167,100</u>
		<u>18,662,095</u>	<u>15,088,918</u>
Total revenue		<u>446,452,015</u>	<u>398,160,158</u>
Expenses			
Use of goods and services	11	14,331,410	12,556,377
Employee costs	12	188,654,158	180,857,206
Board members expenses	13	13,617,306	13,272,876
Depreciation and amortisation expense	14	19,270,548	21,286,685
Repairs and maintenance	15	6,851,752	4,122,103
General and operating expenses	16	174,552,658	154,658,569
Total expenses		<u>417,277,832</u>	<u>386,753,816</u>
Other gains / (losses)			
Gain on sale of assets	17	9,163	1,438,038
Provision for bad and doubtful debts	18	<u>(24,157,794)</u>	<u>(4,346,444)</u>
Surplus for the year		<u>5,025,552</u>	<u>8,497,936</u>
Remission to National Treasury	38	<u>(4,522,997)</u>	<u>(7,648,142)</u>
Net surplus for the year		<u>502,555</u>	<u>849,794</u>

The notes set out on pages 29 to 44 form an integral part of the financial statements.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020**

Assets	Notes	2019-2020 Kshs	2018-2019 Kshs
Non current assets			
Property, plant and equipment	19	245,647,784	119,429,576
Intangible assets	20	3,028,681	5,787,731
Finance leases	21	163,835,859	166,007,576
Long term receivables from non-exchange transactions	22	<u>40,418,663</u>	<u>32,389,795</u>
		<u>452,930,987</u>	<u>323,614,678</u>
Current assets			
Cash and cash equivalents	23	371,089,305	315,241,788
Receivables from non-exchange transactions	24	12,515,090	21,849,505
Other receivables and prepayments	25	<u>32,133,512</u>	<u>25,682,309</u>
		<u>415,737,907</u>	<u>362,773,602</u>
Total assets		<u>868,668,894</u>	<u>686,388,280</u>
Liabilities			
Net assets			
Revaluation reserves	26	163,835,859	166,007,576
Accumulated surplus	27	96,716,471	72,978,380
Capital funds	28	<u>59,608,953</u>	<u>58,462,277</u>
		<u>320,161,283</u>	<u>297,448,233</u>
Non current liabilities			
Gratuity provision	29	<u>1,896,580</u>	<u>185,380</u>
Current liabilities			
Gratuity provision	29	1,127,086	-
Trade and other payables from non-exchange transactions	30	141,166,804	76,575,884
Current provisions	31	10,303,308	2,632,343
Deferred Income	32	387,758,170	309,546,440
Refundable deposits	33	<u>6,255,663</u>	-
		<u>546,611,031</u>	<u>388,754,667</u>
Total net assets and liabilities		<u>868,668,894</u>	<u>686,388,280</u>

The financial statements set out on pages 24 to 44 were approved by the Board of Directors on 28 September 2020 and signed on its behalf by:



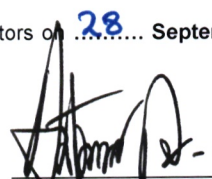
Margaret Rugut Kibogy, OGW
Managing Director

Date: 28/09/2020



CPA Edward Nyoike
Finance Manager
ICPAK Member No. 5668

Date: 28/09/2020



Anthony Ian N. Mutugi
Chairman of the Board

Date: 28/09/2020

The notes set out on pages 29 to 44 form an integral part of the financial statements.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	Revaluation reserve Kshs	Accumulated surplus Kshs	Capital Funds Kshs	Total Kshs
At 1 July 2018		168,179,293	69,956,869	57,000,000	295,136,162
Surplus for the year	27	-	849,794	-	849,794
Interest on Staff Car Loan charged during the year	28	-	-	664,261	664,261
Interest earned on Staff Housing Mortgage Funds	28	-	-	798,016	798,016
Transfer of amortisation to accumulated surplus	26	(2,171,717)	2,171,717	-	-
At 30 June 2019		166,007,576	72,978,380	58,462,277	297,448,233
At 1 July 2019		166,007,576	72,978,380	58,462,277	297,448,233
Surplus for the year	27	-	502,555	-	502,555
Interest on Staff Car Loan charged during the year	28	-	-	694,772	694,772
Interest earned on Staff Housing Mortgage Funds	28	-	-	451,904	451,904
Transfer of amortisation to accumulated surplus	26	(2,171,717)	2,171,717	-	-
Prior year adjustment	27	-	21,063,819	-	21,063,819
At 30 June 2020		163,835,859	96,716,471	59,608,953	320,161,283

The notes set out on pages 29 to 44 form an integral part of the financial statements.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2019-2020 Kshs	2018-2019 Kshs
Cash flows from operating activities			
Receipts			
Levies, fines and penalties	6	365,956,865	309,571,594
Licenses and permits	7	21,966,100	23,466,600
Transfers - Government and others	8	35,088,270	38,004,170
Other income	10	162,785	167,100
Total receipts		423,174,020	371,209,464
Payments			
Use of goods and services	11	14,331,410	12,556,377
Employee costs	12	188,654,158	180,857,206
Board members expenses	13	13,617,306	13,272,876
Repairs and maintenance	15	6,851,752	4,372,143
General and operating expenses	16	174,552,658	154,408,529
Total payments		398,007,284	365,467,131
Adjustment for changes in working capital			
Decrease in receivables from non-exchange transactions		9,334,415	519,498
Increase in other receivables and prepayments		(6,451,203)	(10,846,792)
Increase in trade and other payables from non-exchange transactions		64,590,920	22,217,904
Increase/(decrease) in provisions		7,670,965	(1,748,061)
Increase in deferred income		(1,788,270)	1,788,270
Increase in refundable deposits		6,255,663	-
		79,612,489	11,930,819
Net cash flows from operating activities	37	104,779,225	17,673,152
Cash flow from investing activities			
Purchase of property, plant and equipment	19	(140,557,989)	(75,310,743)
Proceeds from disposal of property, plant and equipment	17	9,163	1,581,421
Interest income	9	18,499,310	14,921,818
Increase in long term receivables from non-exchange transactions	22	(8,028,868)	(18,720,342)
Net cash flow used in investing activities		(130,078,384)	(77,527,846)
Cash flow from financing activities			
Capital grant received	8	80,000,000	80,000,000
Interest credited to staff car loan and staff Housing Mortgage Funds	28	1,146,676	1,462,277
Net cash flows from financing activities		81,146,676	81,462,277
Net (decrease) / increase in cash and cash equivalents		55,847,517	21,607,583
Cash and cash equivalents at 1 July	23	315,241,788	293,634,205
Cash and cash equivalents at 30 June	23	371,089,305	315,241,788

The notes set out on pages 29 to 44 form an integral part of the financial statements.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2020**

	Original Budget	Adjustment	Final Budget	Actual	Performance
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Levies, fines and penalties - Note (a)	358,644,400	(6,174,400)	352,470,000	370,735,550	18,265,550
Licenses and permits	21,112,400	-	21,112,400	21,966,100	853,700
Transfers from the Government and others	37,000,000	(1,911,730)	35,088,270	35,088,270	-
Interest income	4,500,000	13,000,000	17,500,000	18,499,310	999,310
Other income and gain on sale of assets	-	-	-	171,948	171,948
Total revenue - Note (b)	421,256,800	4,913,870	426,170,670	446,461,178	20,290,508
Expenses					
Use of goods and services	13,252,000	2,162,000	15,414,000	14,331,410	(1,082,590)
Employee costs	191,503,340	-	191,503,340	188,654,158	(2,849,182)
Board members expenses	13,594,000	750,000	14,344,000	13,617,306	(726,694)
Depreciation and amortisation expense	32,859,180	(12,971,650)	19,887,530	19,270,548	(616,982)
Repairs and maintenance	6,880,000	85,000	6,965,000	6,851,752	(113,248)
General and operating expenses	163,163,400	14,893,400	178,056,800	174,552,658	(3,504,142)
Total expenditure	421,251,920	4,918,750	426,170,670	417,277,832	(8,992,838)
Surplus for the period - Note (c)	4,880	(4,880)	-	29,183,346	29,183,346

During the year, the Board requested for Kshs. 37 Million in Government of Kenya (GoK) Grants to finance the recurrent expenditure. However, the Board was allocated Kshs. 33.30 Million as recurrent grant for the year. The reduction in GoK funding, anticipated increase in interest generated from deferred capital development funds as well as anticipated decrease in levies, fines and penalties necessitated the revision of the budgeted recurrent revenue from Kshs. 421.26 Million to Kshs. 426.17 Million.

Notes

a) Levies, fines and penalties - The Board exceeded the revenue generated by Kshs. 18.27 million as a result the improved compliance, favourable weather which promoted intakes in the formal sector as well as cess and levies charged on import from East Africa Community member Countries.

b) Total revenue - The Board exceeded the budgeted collection on total revenue with Kshs. 20.29 million (4.8%) as a result good weather, levies on imports from EAC member Countries and continued surveillance on the informal milk marketing which resulted to increased collection

c) Surplus for the period - In overall, the Board realised a surplus of Kshs. 29.18 Million as a result of surpassed collection on internally generated revenue and unabsorbed expenditure of Kshs. 8.89 million.

d) Reconciliation of surplus as per the Statement of Comparison of Budget and Actual Amounts and net surplus as per the Statement of Financial Performance.	Final Budget 2019-2020 Kshs	Actual 2019-2020 Kshs
Surplus as per statement of comparison of Budget and actual amounts	-	29,183,346
Provision for bad and doubtful debts	-	(24,157,794)
Provision for Remission to National Treasury	-	(4,522,997)
Net surplus as per Statement of Financial Performance	-	502,555

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

1. General information

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

2. Statement of compliance and basis of preparation

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

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

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

3. Adoption of New and revised Standards

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

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

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

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

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Standard	Effective date and impact
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1 January 2022:</p> <p>(a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>(b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>(c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p>The Board has reported the Financial Instruments within the scope of IPSAS 29 - Financial Instruments and therefore the standard does not apply.</p>
Other Improvements to IPSAS	<p>Applicable: 1 January 2021</p> <p>(a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks;</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved;</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets;</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.</p> <p>The Board will review the impacts of the proposed improvements and put the same in consideration in the financial reporting for the year ended 30 June 2021.</p>

(iii) Early adoption of Standards

The Board did not early - adopt any new or emended Standards in the year ended 30 June 2020.

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4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

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

Cess

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

Processors' levy

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

Import levy

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

Penalties

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

Licenses and permit fees

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

Transfers from Government and other entities

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

ii) Revenue from exchange transactions

Sale of tenders and publications

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

Interest income

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

b) Budget information

The original budget for FY 2019-2020 was approved by The National Treasury and Planning in September 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 Board upon receiving the respective approvals in order to conclude the final budget.

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

**KENYA DAIRY BOARD
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Summary of significant accounting policies (Continued)

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on Page 28 of these financial statements.

c) Taxation

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

d) Property, plant and equipment

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

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

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

e) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as finite and amortisation is calculated using the straight-line method to allocate their cost or revalued amounts less their residual values over their estimated useful lives at a rate of 30%.

f) Finance leases

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

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

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) Research and Development costs

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

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

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Summary of significant accounting policies (Continued)

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

h) Financial instruments

i) Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Impairment of financial assets

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowings

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Related parties

The Board regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Board, or vice versa. Members of key management are regarded as related parties and comprise the Members of key management are regarded as related parties and comprise the Directors, the Chief Executive Officers and Heads of Departments.

j) Provisions

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

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

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

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Summary of significant accounting policies (Continued)

Contingent liabilities

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

Contingent assets

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

k) Nature and purpose of reserves

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

l) Changes in accounting policies and estimates

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

m) Employee benefits

Retirement benefit plan

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

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

n) Cash and cash equivalents

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

o) Comparative figures

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

p) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30 June 2020.

5. Significant judgements and sources of estimation uncertainty

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

Estimates and assumptions

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

Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Board.
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes.

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Summary of significant accounting policies (Continued)

- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Notes 29 and 31.

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

6. Levies, fines and penalties	2019-2020	2018-2019
	Kshs	Kshs
Cess receipts	154,950,589	131,311,232
Processors levy	156,916,214	135,678,529
Import levy	54,337,356	49,513,786
Penalties	4,531,391	5,096,923
	370,735,550	321,600,470

7. Licenses and permits	2019-2020	2018-2019
	Kshs	Kshs
Licenses and permits application fees	6,328,800	7,311,100
Movement permits	8,264,000	9,810,000
Premise licenses	7,373,300	6,345,500
	21,966,100	23,466,600

8. Transfers from the Government and others	2019-2020	2018-2019
	Kshs	Kshs
(a) Unconditional grants		
Operational grants from G.o.K	33,300,000	36,215,900
Other Organisational grants	-	3,576,540
	33,300,000	39,792,440
Conditional grants		
Capital expenditure grants from G.o.K	80,000,000	80,000,000
	80,000,000	80,000,000
Total transfers from the Government and others	113,300,000	119,792,440

(b) Amount recognised to statement of financial performance	2019-2020	2018-2019
	Kshs	Kshs
Recurrent transfers from State Department for Livestock	33,300,000	36,215,900
Other organisational grants	-	1,788,270
Amount transferred from deferred income	1,788,270	-
	35,088,270	38,004,170

(c) Transfers from Ministries, Departments and Agencies

Name of the Entity sending	Amount recognised to statement of Comprehensive Income	Amount deferred under Deferred Income	Amount recognised in the Capital Fund	Total Grants Income during the year	Total Grants 2018-2019
	Kshs	Kshs	Kshs	Kshs	Kshs
State Department of Livestock	8,325,000	-	-	8,325,000	9,238,750
State Department of Livestock	-	40,000,000	-	40,000,000	8,499,650
State Department of Livestock	8,325,000	-	-	8,325,000	40,000,000
State Department of Livestock	-	40,000,000	-	40,000,000	9,423,525
State Department of Livestock	8,325,000	-	-	8,325,000	40,000,000
State Department of Livestock	8,325,000	-	-	8,325,000	9,053,975
Total	33,300,000	80,000,000	-	113,300,000	116,215,900

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(d) Other organisational grants

Name of the Entity sending	Amount recognised to statement of Comprehensive Income Kshs	Amount deferred under Deferred Income Kshs	Amount recognised in the Capital Fund Kshs	Total Grants Income during the year Kshs	Total Grants 2018-2019 Kshs
Smallholder Dairy Commercialization Programme	-	-	-	-	1,192,180
Smallholder Dairy Commercialization Programme	-	-	-	-	596,090
Smallholder Dairy Commercialization Programme	-	-	-	-	1,788,270
Total	-	-	-	-	3,576,540

9. Interest income	2019-2020 Kshs	2018-2019 Kshs
Interest on bank deposits	18,499,310	14,921,818
	18,499,310	14,921,818

10. Other income	2019-2020 Kshs	2018-2019 Kshs
Tender sales	2,000	9,000
Sale of publications	2,100	9,300
Miscellaneous income	158,685	148,800
	162,785	167,100

11. Use of Goods and Services	2019-2020 Kshs	2018-2019 Kshs
Printing and stationery expenses	3,179,457	3,785,690
Electricity and water expenses	607,423	352,171
Postage and courier expenses	1,010,069	913,510
Bank service charges	462,125	567,216
Professional and legal fees	3,284,532	378,930
Audit fees	754,000	754,000
Telephone and internet services	4,772,954	5,660,860
Uniform and clothing expenses	260,850	144,000
	14,331,410	12,556,377

12. Employees costs	2019-2020 Kshs	2018-2019 Kshs
Personnel basic salaries	92,084,066	91,294,743
Gratuity and pension contribution	19,056,972	18,174,200
House allowances	30,978,100	30,164,500
Transport and commuter allowance	15,320,508	14,982,000
Acting allowance and responsibility allowances	1,361,060	1,164,837
Entertainment allowance	7,456,000	6,608,000
Extraneous allowance	7,787,000	6,686,000
Relocation and leave allowance	7,395,144	11,782,926
Performance incentives and bonuses	7,215,308	-
	188,654,158	180,857,206

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

Gratuity and Employer contribution to staff pension	2019-2020 Kshs	2018-2019 Kshs
NSSF Employer contributions	346,200	367,400
Employer pension contributions	15,872,486	16,052,820
Gratuity provision for contracted staff	2,838,286	1,753,980
	19,056,972	18,174,200

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	2019-2020	2018-2019
	Kshs	Kshs
13. Board members expenses		
Mileage allowances	1,520,032	1,293,533
Travel and accommodation allowances	4,395,660	5,632,480
Sitting allowances	4,500,000	4,540,000
Chairperson's monthly allowance	1,044,000	1,044,000
Directors' Medical insurance	577,614	762,863
Performance incentives	1,580,000	-
	13,617,306	13,272,876
14. Depreciation and amortisation expenses		
	Kshs	Kshs
Depreciation of plant, property and equipment	14,339,781	15,376,298
Amortisation of intangible assets	2,759,050	3,738,670
Amortisation of operating leases	2,171,717	2,171,717
	19,270,548	21,286,685
15. Repairs and maintenance		
	Kshs	Kshs
Maintenance of plant and equipment	588,131	365,720
Maintenance of Offices	2,252,479	1,628,836
Information technology services	4,011,142	2,127,547
	6,851,752	4,122,103
16. General and Operating expenses		
	Kshs	Kshs
Training expenses	6,180,823	4,348,962
Staff medical and benevolent insurance expenses	14,057,433	16,965,079
Motor vehicle and general insurance	2,980,311	3,213,939
Staff welfare	6,682,955	7,187,437
Advertising and publicity	3,987,103	1,928,038
Rent and rates	20,022,600	19,420,707
Donations and environmental conservation	1,232,750	2,612,240
Motor vehicle running expenses	11,097,069	12,006,626
Show expenses	1,450,870	2,729,400
Travel and accommodation expenses	27,073,848	36,773,721
Laboratory expenses	1,532,000	3,444,420
Control of informal milk marketing and consumer education	21,234,729	25,585,335
Conference, exhibitions and training of stakeholders	3,281,326	1,942,222
Marketing and Benchmarking	3,192,216	1,166,364
Promotion of milk consumption	362,000	422,505
Product value addition	2,083,921	1,724,262
Organisation of stakeholders	1,257,772	1,300,900
Research and Dairy development	24,392,110	4,166,500
Policy and strengthening of regulatory framework	22,450,822	7,719,912
	174,552,658	154,658,569
17. Gain on sale of Assets		
	Kshs	Kshs
Gain on disposal of property, plant and equipment	9,163	1,438,038
18. Provision for bad and doubtful debts		
	Kshs	Kshs
Provision for bad and doubtful debts	24,157,794	4,346,444

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19. Property, plant and equipment

<u>Year ended 30 June 2019</u>	Capital Work in progress	Motor vehicles	Furniture and fitting	Computers and accessories	Office and lab equipment	Total assets
Cost	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1 July 2018	25,480,291	94,558,042	16,139,897	43,160,555	8,922,323	188,261,108
Additions	65,337,219	6,730,800	627,900	2,421,529	193,295	75,310,743
Disposals during the year	-	(3,033,298)	(455,145)	(3,208,333.00)	(50,919)	(6,747,695)
As at 30 June 2019	90,817,510	98,255,544	16,312,652	42,373,751	9,064,699	256,824,156
Depreciation and impairment						
As at 1 July 2018	-	73,990,182	10,511,537	38,429,632	5,725,533	128,656,884
Charge for the year	-	10,409,862	1,315,900	2,936,408	714,128	15,376,298
Disposals during the year	-	(3,033,298)	(455,145)	(3,123,305)	(26,854)	(6,638,602)
As at 30 June 2019	-	81,366,746	11,372,292	38,242,735	6,412,807	137,394,580
Net Book Value						
As at 30 June 2019	90,817,510	16,888,798	4,940,360	4,131,016	2,651,892	119,429,576
<u>Year ended 30 June 2020</u>	Capital Work in progress	Motor vehicles	Furniture and fitting	Computers and accessories	Office and lab equipment	Total assets
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1 July 2019	90,817,510	98,255,544	16,312,652	42,373,751	9,064,699	256,824,156
Additions	55,967,135	417,600	4,060,810	2,316,457	77,795,987	140,557,989
As at 30 June 2020	146,784,645	98,673,144	20,373,462	44,690,208	86,860,686	397,382,145
Depreciation and impairment						
As at 1 July 2019	-	81,366,746	11,372,292	38,242,735	6,412,807	137,394,580
Charge for the year	-	9,043,100	1,731,845	2,932,252	632,584	14,339,781
As at 30 June 2020	-	90,409,846	13,104,137	41,174,987	7,045,391	151,734,361
Net Book Value						
As at 30 June 2020	146,784,645	8,263,298	7,269,325	3,515,221	79,815,295	245,647,784

20. Intangible assets

Cost	2019-2020 Kshs	2018-2019 Kshs
At 1 July	23,347,114	23,347,114
At 30 June	23,347,114	23,347,114
Amortisation		
At 1 July	17,559,383	13,820,713
Charge for the year	2,759,050	3,738,670
At 30 June	20,318,433	17,559,383
Net book value		
At 30 June	3,028,681	5,787,731

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

21. Finance Leases

	2019-2020 Kshs	2018-2019 Kshs
Balance brought forward	216,500,000	216,500,000
Revaluation during the year	-	-
At 30 June	216,500,000	216,500,000
Amortisation		
At 1 July	50,492,424	48,320,707
Charge for the year	2,171,717	2,171,717
At 30 June	52,664,141	50,492,424
Net book value		
At 30 June	163,835,859	166,007,576

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

22. Long term receivables from non-exchange transactions	2019-2020 Kshs	2018-2019 Kshs
Staff Car Loan Scheme - Non current portion	12,168,509	13,479,270
Staff Housing Mortgage Scheme - Non current portion	28,250,154	18,910,525
	40,418,663	32,389,795

23. Cash and cash equivalents	2019-2020 Kshs	2018-2019 Kshs
Current accounts	22,159,718	17,052,614
On-call deposits	342,875,716	282,713,986
Staff Housing Mortgage account	5,726,896	15,277,580
Others	326,975	197,608
	371,089,305	315,241,788

Detailed analysis of the cash and cash equivalents

Financial Institution	Account Number	2019-2020 Kshs	2018-2019 Kshs
(a) Current accounts			
Co-operative Bank of Kenya Limited	01136010006600	2,282,313	5,908,877
KCB Bank Kenya Limited	1103250906	19,678,012	10,943,144
National Bank of Kenya Limited	01003002830700	199,393	200,593
Sub-total		22,159,718	17,052,614
(b) On - call deposits			
KCB Bank Kenya Limited	1102653993	342,875,716	282,713,986
(c) Staff Housing Mortgage Scheme			
KCB Bank Kenya Limited	1233692348	5,726,896	15,277,580
(d) Others			
Undeposited cash		60,727	102,252
Mpesa Pay Bill No. 799 524		266,248	95,356
		326,975	197,608
Total cash and cash equivalents		371,089,305	315,241,788

24. Receivables from non-exchange transactions	2019-2020 Kshs	2018-2019 Kshs
Receivables from non-exchange transactions comprises of the following:-		
Levies, fines and penalties receivable	54,017,718	39,194,339
Provision for bad and doubtful debts	(41,502,628)	(17,344,834)
	12,515,090	21,849,505

25. Other receivables and prepayments	2019-2020 Kshs	2018-2019 Kshs
Staff Car Loan Scheme - Current portion	7,764,380	7,078,051
Staff Housing Mortgage Scheme - Current portion	2,271,805	1,609,910
Deposits	3,737,988	3,107,988
Staff salary advances	3,123,758	1,115,752
Ex- Staff receivables	400,782	400,782
Provision for bad and doubtful debts	(400,782)	(400,782)
Prepayments	15,235,581	12,770,608
	32,133,512	25,682,309

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

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26. Revaluation reserves	2019-2020	2018-2019
	Kshs	Kshs
At start of year	166,007,576	168,179,293
Transfer of excess depreciation on revaluation	<u>(2,171,717)</u>	<u>(2,171,717)</u>
	<u>163,835,859</u>	<u>166,007,576</u>

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

27. Accumulated surplus	2019-2020	2018-2019
	Kshs	Kshs
This comprises of accumulated surplus over the years.		
At start of the year	72,978,380	69,956,869
Surplus for the year	502,555	849,794
Transfer of amortisation from revaluation reserves to accumulated surplus	2,171,717	2,171,717
Prior year adjustment	<u>21,063,819</u>	<u>-</u>
	<u>96,716,471</u>	<u>72,978,380</u>

Prior year adjustment relates to penalties and interest charged on New Kenya Co-operative Creameries Limited in the prior year and the same had not been included in the respective years Statement of financial Performance thus understating the accumulated surplus.

28. Capital Funds	2019-2020	2018-2019
	Kshs	Kshs
Staff Car Loan Scheme	23,359,033	22,664,261
Staff Housing Mortgage Scheme	<u>36,249,920</u>	<u>35,798,016</u>
	<u>59,608,953</u>	<u>58,462,277</u>

The Capital Funds movement during the year was as follows;

	Staff Car Loan Scheme	Staff Housing Mortgage	Total
	Kshs	Kshs	Kshs
Balance brought forward	22,664,261	35,798,016	58,462,277
Interest earned during the year	694,772	451,904	1,146,676
Balance carried forward	23,359,033	36,249,920	59,608,953

29. Gratuity provision	2019-2020	2018-2019
	Kshs	Kshs
Balance at 1 July	185,380	3,565,000
Provision for the year	2,838,286	1,753,980
Payment during the year	-	<u>(5,133,600)</u>
Balance at 30 June	<u>3,023,666</u>	<u>185,380</u>

Gratuity provision are payable as follows;

Within one year	1,127,086	-
Payable after one year	<u>1,896,580</u>	<u>185,380</u>
	<u>3,023,666</u>	<u>185,380</u>

30. Trade and other payables from non-exchange transactions	2019-2020	2018-2019
	Kshs	Kshs
Payables from non exchange transactions	132,894,768	57,267,357
Payroll liabilities	2,425,597	9,710,370
KMR Staff Pension	109,299	109,299
KNAC Staff Pension	341,051	341,051
Alico Insurance claims	35,082	35,082
Withheld Taxes	573,022	1,464,583
Remission to National Treasury	4,522,997	7,648,142
Board members expenses	<u>264,988</u>	<u>-</u>
	<u>141,166,804</u>	<u>76,575,884</u>

31. Current provisions	2019-2020	2018-2019
	Kshs	Kshs
Leave provision	-	1,878,343
Audit fees	1,508,000	754,000
Performance incentives	<u>8,795,308</u>	<u>-</u>
	<u>10,303,308</u>	<u>2,632,343</u>

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The movement of provision	Performance Incentives Kshs	Leave Provision Kshs	Audit fees Kshs	Total Kshs
Balance at the beginning of the year	-	1,878,343	754,000	2,632,343
Provision utilised during the year	-	(1,878,343)	-	(1,878,343)
Additional provision	8,795,308	-	754,000	9,549,308
Balance at the end of the year	8,795,308	-	1,508,000	10,303,308

32. Deferred Income

	2019-2020 Kshs	2018-2019 Kshs
National Government	387,758,170	307,758,170
International Funders	-	1,788,270
	387,758,170	309,546,440

The deferred income movement during the year was as follows;	National Government Kshs	International Funders Kshs	Total Kshs
Balance brought forward	307,758,170	1,788,270	309,546,440
Received during the year	113,300,000	-	113,300,000
Recognised in the statement of financial performance	(33,300,000)	(1,788,270)	(35,088,270)
Balance carried forward	387,758,170	-	387,758,170

33. Refundable deposits

	2019-2020 Kshs	2018-2019 Kshs
Client deposits	6,255,663	-
	6,255,663	-

34. Financial risk management

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

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

(i) Credit risk

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

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

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

Financial assets	Total amount Kshs	Fully Performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2020				
Receivables from non-exchange transactions	54,017,718	12,515,090	41,502,628	41,502,628
Other receivables and prepayments	32,534,294	32,133,512	400,782	400,782
Cash and cash equivalents	371,089,305	371,089,305	-	-
	457,641,317	415,737,907	41,903,410	41,903,410
At 30 June 2019				
Receivables from non-exchange transactions	39,194,339	21,849,505	17,344,834	17,344,834
Other receivables and prepayments	26,083,091	25,682,309	400,782	400,782
Cash and cash equivalents	315,241,788	315,241,788	-	-
	380,519,218	362,773,602	17,745,616	17,745,616

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

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

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

(ii) Liquidity risk management

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

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

Payables	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2020				
Gratuity provision	-	-	3,023,666	3,023,666
Trade and other payables	141,166,804	-	-	141,166,804
Current provisions	10,303,308	-	-	10,303,308
Deferred Income	-	-	387,758,170	387,758,170
	151,470,112	-	390,781,836	542,251,948

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

(iii) Market risk

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

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

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

(a) Foreign currency risk

The Board has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. However, the Board did not have any outstanding invoice denominated in foreign currency as at 30 June 2020.

(b) Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

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

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Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates decrease by one percentage point would cause a decrease in surplus from Kshs. 5,025,552 to Kshs. 2,558,977. A rate decrease to 5% would result in a decrease in surplus from Kshs. 5,025,552 to a deficit of Kshs. 7,307,321.

Capital risk management

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

	2019-2020 Kshs	2018-2019 Kshs
Revaluation reserves	163,835,859	166,007,576
Accumulated surplus	96,716,471	72,978,380
Capital funds	<u>59,608,953</u>	<u>58,462,277</u>
Total funds	<u>320,161,283</u>	<u>297,448,233</u>
Less: Cash and bank balances	<u>(371,089,305)</u>	<u>(315,241,788)</u>
Net debt / (excess cash and cash equivalents)	<u>(50,928,022)</u>	<u>(17,793,555)</u>
Gearing	<u>-15.9%</u>	<u>-6.0%</u>

35. Related Party Balances

Nature of related party relationship

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

Government of Kenya

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

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

	2019-2020 Kshs	2018-2019 Kshs
(a) Related party transactions		
Revenue received from New Kenya Co-operative Creameries Limited	52,384,626	45,368,189
Car loans and advances granted to Key management	3,907,114	2,692,111
Staff Housing Mortgage Loans advanced Key management	<u>6,500,000</u>	<u>20,866,477</u>
(b) Grants from Government		
Grants received from Government of Kenya	<u>113,300,000</u>	<u>116,215,900</u>
(c) Key management compensation		
Allowances paid to Board Members	13,617,306	13,272,876
Compensation to Managing Director	7,785,455	12,960,873
Compensation to key management	<u>24,540,730</u>	<u>24,532,658</u>
(d) Due from related parties		
Due from New Kenya Co-operative Creameries Limited	38,609,552	17,222,336
Car loans and advances due from Key management	6,996,914	6,467,908
Staff Housing Mortgage Loans due from Key management	<u>25,521,959</u>	<u>20,520,435</u>

36. Contingent liabilities

	2019-2020 Kshs	2018-2019 Kshs
Court case No. HCCC No. 763 of 2003 - Dairycom (K) Limited	<u>2,640,000</u>	<u>-</u>

HCCC No. 763 of 2003 - Dairycom (K) Limited Vs Kenya Dairy Board and Kenya Bureau of Standards seeking compensation for lost business following confiscation of imported Butter. The case was determined in a ruling dated 24 February 2020 in favour of Dairycom (K) Limited. The Board has provided Kshs. 2,640,000 in its Trade and other payables from non exchange transactions to cater for the Court award. Consequently, the Board members are however not aware of any other litigation arising from normal operations of the Board which may have material effect on the financial position.

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b) Outstanding Insurance Claim

During the financial year ended 30 June 2018, the Board lost a Computer and a Scanner through theft in its Branch Office in Olkalau. The total cost of the assets was Kshs. 101,470 and a net book value was nil as at 30 June 2020. The Board lodged a claim with the Insurance Company and the cost of the lost items is still included in the cost element of Property, Plant and Equipment.

37. Capital commitments	2019-2020	2018-2019
	Kshs	Kshs
a) Authorised and contracted for: Proposed erection and completion of National Dairy Laboratory at Upper Kabete, Nairobi.	29,699,318	67,314,385
b) Authorised and contracted for: Proposed erection and completion of National Dairy Laboratory at Upper Kabete Nairobi - Civil Works	2,022,046	19,038,310
c) Authorised and contracted for: Proposed erection and completion of Transformer House at Upper Kabete Nairobi - Civil Works	769,475	-
d) Authorised and contracted for: Supply, Delivery, Installation, Testing and Commissioning of Low Level Water Tank at Upper Kabete, Nairobi	2,872,296	-
e) Authorised and contracted for: Supply, Delivery, Installation, Testing and Commissioning of 1 No. 200KVA Standby Generator and Installation Works at Upper Kabete, Nairobi	6,399,060	-
f) Authorised for: Supply, Installation, Configuration, Testing and Commissioning of an Enterprise Resource Planning (ERP) Solution	13,676,600	-
g) Authorised for: Proposed erection and completion of National Dairy Laboratory at Upper Kabete Nairobi - Supply, installation and commissioning of Laboratory Equipment.	-	80,000,000
	<u>55,438,795</u>	<u>166,352,695</u>

38. Surplus remission

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

39. Cash generated from operations	2019-2020	2018-2019
	Kshs	Kshs
Surplus from operating activities	502,555	849,794
Add back: Depreciation	14,339,781	15,376,298
Amortisation of intangible assets	2,759,050	3,738,670
Amortisation of finance leases	2,171,717	2,171,717
Contribution to provision	2,838,286	1,753,980
Less: Gain on disposal of non current assets	(9,163)	(1,438,038)
Interest income	(18,499,310)	(14,921,818)
	<u>4,102,916</u>	<u>7,530,603</u>
Adjustment for changes in working capital		
Decrease / (decrease) in receivables from non-exchange transactions	9,334,415	519,497
(Increase) / decrease in other receivables and prepayments	(6,451,203)	(10,846,792)
Increase / (decrease) in trade and other payables from non-exchange transactions	64,590,920	22,217,905
Decrease in provisions	7,670,965	(1,748,061)
(Decrease) / increase in deferred income	(1,788,270)	-
Increase in refundable deposits	6,255,663	-
Prior year adjustment	21,063,819	-
	<u>100,676,308</u>	<u>10,142,549</u>
Net cash flow (used) / generated from operating activities	<u>104,779,225</u>	<u>17,673,152</u>

40. Ultimate Holding Entity

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

41. Currency

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

42. Events after the reporting period

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

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APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS

Reference No.	Issue/Observations from Auditor	Management comment	Focal point Person	Status	Time Frame
Property, plant and equipment	As similarly reported in the previous years, the Property, Plant and equipment balance of Kshs. 119,429,576 as at 30 June 2019 includes a parcel of land, Plot No. 205 (Formerly Ref. No. PDB/R163/99/15) valued at Kshs. 1,500,000 after revaluation, situated in Narok Town, that was allocated to the Board in the year 2000 for office development. However, the Board has not obtained a title of ownership to date for the plot from the Ministry of Lands and Physical Planning. Consequently, it has not been possible to confirm the ownership status of the plot.	The National Lands Commission issued a letter of allotment to the Board in October 2016 together with a demand for charges amounting to Kshs. 11,395. The payment was promptly effected and the National Lands Commission has now written to the Director of Surveys in the Ministry of Lands and Physical Planning requesting for the amended Registry Index Map (R.I.M) which was provided. Narok County Government recently verified the ownership documents for the plot. Similarly, the Board has continued to pay the Annual Rates as charged by the County Government of Narok. The Board is now awaiting issuance of the title deed.	Margaret Rugut Kibogy, Managing Director	Not resolved	


Anthony Ian N. Mutugi
Chairman of the Board
Date: 28/09/2020


Margaret Rugut Kibogy
Managing Director
Date: 28/09/2020

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APPENDIX II: PROJECTS IMPLEMENTED BY THE BOARD

Projects

Projects implemented by the Board funded by Development Partners

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

Status of Project completion

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

Project	Total Project Cost Kshs	Total Expended to Date Kshs	Completion % to date	Budget Kshs	Actual Kshs	Sources of funds
Proposed erection and completion of Boundary Wall, Gate House, Electric Fence and proposed erection, completion and equipping of National Dairy Laboratory Complex at Upper Kabete, Nairobi.	857,000,000	225,519,082	26.3%	382,000,000	225,519,082	GoK

The ongoing project had received a total funding of Kshs. 382 million as at the 30 June 2020. However the completion rate as at the close of the year was 26.3% with total payments of Kshs. 225.52 million. This was as a result of the initial delays in the design and approval by the relevant Government Agencies. The Boundary wall, Gate House and Electric fence were completed and handed over in the previous year, while the Civil works were completed during the year. Similarly, the certificate of practical completion on the Laboratory Wing has been issued and the Board has completed the procurement of the first phase of the equipment.

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APPENDIX III: INTER ENTITY TRANSFERS

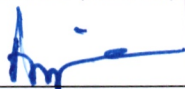
ENTITY NAME: KENYA DAIRY BAORD

Breakdown of Transfers from the State Department for Livestock

(a) Recurrent Grants	Bank statement date	Amount (Kshs)	Financial year to which the amount relate
	23-Aug-19	8,325,000	2019/2020
	24-Dec-19	8,325,000	2019/2020
	03-Jun-20	8,325,000	2019/2020
	03-Jun-20	8,325,000	2019/2020
Total	33,300,000		

(b) Development Grants	Bank statement date	Amount (Kshs)	Financial year to which the amount relate
	20-Nov-19	40,000,000	2019/2020
	17-Mar-20	40,000,000	2019/2020
Total	80,000,000		

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



Finance Manager
Kenya Dairy Board

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APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of MDA/ Donor Transferring the funds	Date Received as per Bank Statements	Nature: Recurrent or Development	Total Amount (Kshs)	Where recognised		Total Transfer during the year (Kshs)
				Statement of Financial performance (Kshs)	Deferred income (Kshs)	
State Department for Livestock	23-Aug-19	Recurrent	8,325,000	8,325,000	-	8,325,000
State Department for Livestock	20-Nov-19	Development	40,000,000	-	40,000,000	40,000,000
State Department for Livestock	24-Dec-19	Recurrent	8,325,000	8,325,000	-	8,325,000
State Department for Livestock	17-Mar-20	Development	40,000,000	-	40,000,000	40,000,000
State Department for Livestock	03-Jun-20	Recurrent	8,325,000	8,325,000	-	8,325,000
State Department for Livestock	03-Jun-20	Recurrent	8,325,000	8,325,000	-	8,325,000
			113,300,000	33,300,000	80,000,000	113,300,000