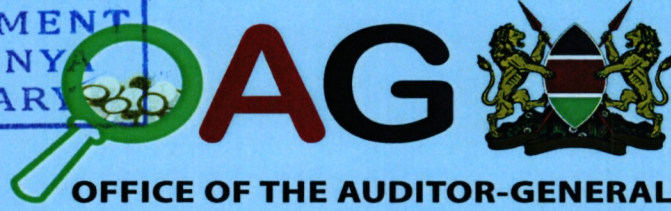



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THE AUDITOR-GENERAL

ON

KENYA DAIRY BOARD

**FOR THE YEAR ENDED
30 JUNE, 2021**



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

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KENYA DAIRY BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2021

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

**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 2021 and who had direct fiduciary responsibility were;

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

* Retired in March 2021

** Appointed in April 2021

(e) Fiduciary Oversight Arrangement

Audit Committee of the Board

Philip Kibusie
Jonah Wala
Lorna Odera*
Munyembo Mwachala**
Roy Mugo Kaugi

* Retired in December 2020

** Appointed in January 2021

Finance and Planning Committee of the Board

Jared Makworo Nyanumba
Jonah Wala
Lorna Odera*
Munyembo Mwachala**
Jackson Omaid

* Retired in December 2020

** Appointed in January 2021

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

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

(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.

**KENYA DAIRY BOARD
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THE BOARD OF DIRECTORS



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 Omaid

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



CPA. Jonah Wala

CPA Jonah is an accomplished finance consulting leader with more than 18 years' experience leading cross-functional teams in delivering value for money in both private and public-sector enterprises. He is a member of ICPAK and 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 Odero, MBS

Ms. Lorna Akoth Odero was the alternate Director to the Principal Secretary, Ministry of Agriculture, Livestock, Fisheries and Cooperatives until her retirement in December 2020. 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 had served the Government of Kenya in various Capacities raising through the ranks from Assistant Secretary in the Ministry of Co-operatives to Director of Administration in the Ministry of Agriculture, Livestock, Fisheries and Cooperatives, State Department for Livestock.

**KENYA DAIRY BOARD
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THE BOARD OF DIRECTORS



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.



Munyembo Mwachala

Mr. Munyembo Mwachala was appointed in January 2021 as the alternate Director to the Principal Secretary, State Department for Livestock - Ministry of Agriculture, Livestock, Fisheries and Cooperatives. He holds Executive Masters of Business Administration (Jomo Kenyatta University of Science and Technology), Master of Arts in International Studies (University of Nairobi) and Bachelor of Arts degree from the University of Nairobi. In addition, he has attended various courses and trainings both locally and internationally as part of his professional development. He has served the Government of Kenya in various capacities raising through the ranks from District Officer Cadet to his current position where he is serving as the Director of Administration in the Ministry of Agriculture, Livestock, Fisheries and Cooperatives - State Department for Livestock.

**KENYA DAIRY BOARD
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MANAGEMENT TEAM



Margaret Rugut Kibogy, OGW
CEO/Managing Director

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



Dr. Philip Cheron, HSC
Director, Regulatory Services

Dr. Phillip Cheron served the Board as the Director incharge of Regulatory Services until his retirement in March 2021. He holds 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.



Dr. William K. Maritim
Director, Regulatory Services

Dr. Kimutai holds a Bachelor of Veterinary Medicine degree and Masters of Science in Veterinary Epidemiology degree both from University of Nairobi. Has attended Senior Management Course and Strategic Leadership Development Programme from Kenya School of Government. He is a member of Kenya Veterinary Association and registered with Kenya Veterinary Board. He has over 24 years' work experience in public service as Veterinary and food safety officer. Former Chairperson, Codex Committee for Africa (CCAFRICA) region.



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 15 years' experience in audit, finance, tax and accounting fields.



Erastus Mutiso
Manager - Internal Audit

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



Dorothy Owino
Senior Supply Chain Management Officer

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

**KENYA DAIRY BOARD
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CHAIRMAN'S STATEMENT

The dairy sector is the leading agricultural activity in value terms globally. The sector was valued at 718.9 billion US dollars in 2019 and is projected to grow to 1,032.7 billion US dollars by 2024. More than 1 billion people globally depend on dairy as a source of livelihood. The sector grew from 883 million metric tonnes in 2019 to 906 million metric tonnes in 2020, a growth of 2.6 %. Growth in milk production occurred in all regions of the world except Africa.

Kenya on the other hand continues to be one of the leading dairy players in Africa and is the leading dairying country within the EAC region. The dairy industry is a major player in the economy contributing significantly to the socio – economic development of the country. It is a source of livelihood to an estimated 1.8 million small scale farmers and contributes an estimated 44 %, 12 % and 4 % to the livestock, agriculture and national GDP. It employs an estimated 750,000 people directly and 500,000 indirectly in input and service provision. Milk production grew from 5.5 billion litres in 2019 to 5.6 billion litres in 2020, a growth of 1.8 %. The formal sector on the other hand grew from 725 million litres in 2019 to 811.58 million litres in 2020, a growth of 11.9 %. This improved performance came against a background of interventions that the Board and other players implemented as briefly discussed below:

Development of the Dairy Industry Regulations, 2021: The new regulations 2021 were gazetted at the beginning of this year after having gone through the requisite statutory and legal requirements and after comprehensive stakeholder consultations. The regulations will go a long way in addressing a myriad of issues affecting the sector including sharing of regulatory roles with the national and county governments, registration of primary producers, licensing and issuance of regulatory permits to dairy business operators, provision for minimum producer pricing of milk, traceability, safety and quality of dairy produce, management of imports and exports among others.

Implementation of the Capital Project: Construction of the National Dairy Regulatory Laboratory was completed and handed over to the Board. The laboratory was equipped state of the art analytical equipment and staff recruited. Official opening of the laboratory was done in March, 2021 and is now fully operational and open to clients. The laboratory will improve our testing capacity of dairy produce for different quality and safety parameters. It will enhance our market surveillance of milk quality and safety, provide competitive milk testing services for our stakeholders and promote trade in the domestic, regional and global markets.

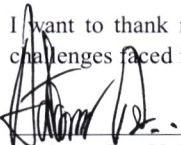
Review of the Board's Strategic Plan: The Board undertook a mid-term review of its Strategic Plan 2017-2022. This was aimed at aligning the strategy to national priorities, aspirations of the dairy industry and incorporating post COVID -19 recovery strategies. Planning for a new strategic plan will be prioritized in the financial year 2021/22 as the current strategy will come to an end in June, 2022.

However, the sector has not been without challenges. The cost of milk production remains high due to high cost and poor quality of fodder and animal feeds, high cost of labour, poor breeds and other inefficiencies at the farm level. The average total cost of producing one litre of milk in 2019 under zero grazing, semi-zero-grazing, and open grazing was estimated at Ksh 27.30, Ksh 23.00, and Ksh 17.24 respectively (Kenya Dairy Board and Tegemeo, 2021). However, despite the relatively high costs, a 21% decline in the overall cost of milk production was observed between 2014 and 2019 (Ksh 28.40 in 2014 and Ksh 22.51 per litre in 2019). The cost of processing is equally high attributed to high cost of energy, labour, packaging and distribution. The Board has continued to engage and partner with relevant authorities and organizations to address these challenges. These efforts will continue moving forward into the new and subsequent years.

The impact of COVID-19 pandemic on the sector cannot be gainsaid. It led to closure of dairy businesses, reduced productivity, shortage of labour, high cost of operations, interruptions in milk supply and in some cases fatalities of players in the sector. The Board implemented measures as advised by the Ministry of Health and other relevant authorities to mitigate potential impact of COVID- 19 pandemic on the operations of the Board and the industry as whole. As a result, I am glad to note that the sector was very resilient and fairly able to absorb the shocks arising from this pandemic.

Moving forward into the next year, dairy outlook in the country continues to look very promising. In fulfilment of our mandate to regulate, develop and promote the Kenyan dairy industry, we will continue to undertake programs and activities with the objective of giving impetus to the growth, profitability and sustainability of the industry. We will further continue to work closely with our parent ministry and other industry players towards this direction. One of the key projects will be to review the Dairy Industry Act Cap 336. This will address emerging industry realities including issues on devolution, inclusion of milk from other species into the regulatory ambit, emerging technologies, food safety and quality concerns and enhance sanctions for non-compliance.

I want to thank my Board of Directors, management and staff for the hard work they put despite the prevailing domestic and global challenges faced in the year. I look forward to a more successful coming year


Anthony Ian N. Mutugi
Chairman of the Board

Nairobi, Kenya

**KENYA DAIRY BOARD
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REPORT OF THE MANAGING DIRECTOR

Kenya Dairy Board is regulatory state corporation established in 1958 by the Dairy Industry Act Cap 336 of the laws of Kenya. The Act, which provides for the improvement and control of the dairy industry and its products, mandates the Board to regulate, develop and promote the Kenyan dairy industry. The Board has an extensive branch network which consists of the Head Office in Nairobi, twenty-seven field offices, and the National Dairy Regulatory Laboratory in Kabete, Nairobi.

Milk is one of the most produced and valuable agricultural commodities worldwide. Global production of is increasing. According to the Food and Agricultural Organization (FAO) production of milk increased to 906 billion kilograms in 2020 from 807.1 billion kilograms in 2015. Milk and dairy products account for about 14% of global agricultural trade. In particular, whole milk powder (WMP), skimmed milk powder (SMP), cheese and butter are among the most traded agricultural commodities globally. Data by FAO show Kenya is a major producer of milk in Africa, contributing 12% (5.53 billion kilograms) of the 48.1 billion kilograms of milk produced by the continent in 2019. In the EAC region, Kenya's share of milk production is approximately 40% of the production of 13.8 billion kilograms. The dairy industry touches millions of lives in Kenya. These include provision of livelihoods and business opportunities to over 1.8 million small-scale farmers and 1,966 dairy business operators licensed by the Board, and a source of quality nutrition in almost all the 12.2 million households in Kenya.

Kenya Dairy Board plays an important role in the development of the dairy industry in Kenya. This is reflected very well in our strategic mission, which is 'to regulate and facilitate a value driven and sustainable dairy industry' that contributes to the health and wealth of the nation. Our commitment to the development of the industry is demonstrated in our strategic and financial plans, which focus on supporting the industry to improve productivity, market access, and compliance to milk quality and safety requirements.

The outbreak of the COVID-19 pandemic in the country in March 2020 posed several challenges to the dairy industry and the operations of the Board. However, given the sensitivity of the dairy industry and the need to facilitate the safe delivery of milk to consumers, the Board implemented strategies to ensure continuity of critical operations, while observing the health guidelines put in place by the Ministry of Health

The much-needed gazette of the Dairy Industry Regulations (2021) was done on 26th February 2021 by the Cabinet Secretary for Agriculture, Livestock, Fisheries & Cooperatives, Hon. Peter Munya. The gazette of the regulations came after extensive consultations with stakeholders in 2019/2020 and national validation in December 2020. The Board embarked on sensitization of stakeholders soon after the gazette to facilitate their smooth implementation. Sensitizations were conducted for staff and stakeholders in several counties including Meru, Taita Taveta, Makueni, Kitui, Bungoma, Busia, Kisumu, and Siaya. This process will continue in the coming financial period to ensure coverage of the remaining counties and increase outreach to the key stakeholders in the dairy value chain.

The official opening of the National Dairy Regulatory Laboratory in March 2021 was another major milestone for the Board and the Kenyan Dairy Industry. The laboratory has capacity to test for all the relevant quality and safety parameters for milk and milk products. This is a big plus in our endeavour to improve the quality and safety of dairy produce, promote exports of dairy produce and build the capacity of our stakeholders on dairy compliance and value addition. Within the short time of its operationalization, the laboratory conducted 6,137 quality and safety tests on a range of dairy produce. This number was complimented by the 42,013 platform and rapid tests conducted by our twenty-seven branches across the country. The Board made follow-ups where non-compliances were reported to ensure corrective actions were implemented by the affected Dairy Business Operators. The Board is working with the relevant authorities to certify and accredit the laboratory in the near future.

During the period under review the Board issued a total of 1,966 licenses or dairy regulatory permits to dairy business operators including milk processors, mini dairies, cottage industries, dairy produce dispensers, milk bars, importers and cooling plants. Inspections of Dairy Business Operators were conducted to evaluate compliance to the relevant requirements. In total, 7,598 inspections were conducted against a target of 4,000 inspections.

Enforcement of the Dairy Industry Act Cap 336 is one of our core activities. This aims to address non-compliances that are likely to impact on public health. During the period under review, the Board conducted major operations against illegal importation of dairy produce, which not only poses a risk to consumers but also leads to loss of revenue to Government and unfairly competes with the local dairy produce. Enforcement also focused on poor quality and unsafe dairy produce and unhygienic milk handling practices. Overall, 214 cases were prosecuted and 10,215 kilograms of unsafe milk confiscated and disposed under the guidance of the courts.

Capacity building is an important focus area to the Board. The prevalence of small-scale farmers and small to medium scale dairy business operators calls for continuous and sustained capacity building programs to enhance their skills, knowledge and information. In total 4,236 stakeholders including primary producers and dairy business operators were trained through workshops, field days and mini exhibitions. Areas covered included value addition and safe production and handling of dairy produce.

**KENYA DAIRY BOARD
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REPORT OF THE MANAGING DIRECTOR

To generate accurate, timely and relevant information for decision making by stakeholders including Government, the Board contracted professional service providers to undertake and disseminate to stakeholders four studies on the following areas - cost of milk production; fodder and feeds production status, challenges and opportunities; structures and profitability of milk distribution and retailing; and assessment of the size of the informal market in Kenya. The Board engaged in routine collection of data on milk intakes, producer prices, and import and export of milk among others. The surveillance on producer prices revealed high farm gate prices for milk within the period averaging Ksh. 37.88 to Ksh. 41.12.

Other important activities undertaken by the Board during the period included sensitization of twelve county governments on the implementation of school milk programs, participation in the development and review of eight dairy produce standards, dairy trade facilitation and education of consumers on milk quality and safety. To strengthen institutional capacity for service delivery, the Board recruited twenty-four staff and initiated the process of automating the core functions of the institution through an Enterprise Resource Planning (ERP) solution.

The 2020/21 FY was a remarkable period for the Board with key and important milestones achieved. Despite the restrictions and the losses occasioned by the outbreak of the COVID-19 pandemic, the Kenyan dairy industry proved to be resilient and adapted well to the many unforeseen challenges. This could not have been possible without the support of the Government at national and county levels, our licensees, the Board, Management, Staff and general stakeholders. I take this opportunity to sincerely thank these stakeholders.



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 2020/2021

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	Regulatory Impact Assessment (RIA) report	Conduct one regulatory impact assessment of the draft dairy industry regulations	Regulatory Impact Assessment (RIA) done
		Strategic Forum with Sector Working Group on Agriculture	Convene a strategic forum with the Sector Working Group on Agriculture (SWAG) to harmonize the operational framework for dairy industry regulations	Strategic Forum held
		Finalized regulations	Finalize the dairy industry regulations and forward to the Cabinet Secretary for Agriculture Livestock, Fisheries and Cooperatives	National validation conducted, draft regulations finalized, forwarded, approved and gazetted by the Cabinet Secretary
		Compliance report	Monitor and prepare report on the extent of compliance by the dairy business operators to the requirements of the dairy industry regulations	Monitoring done and reported
	Assess level of compliance to quality and safety requirements	No. of tests conducted	Conduct monthly routine basic surveillance tests on the quality and safety of marketed dairy produce through the branch offices and initiate corrective measures for non-compliance. The Board was to conduct 60,000 milk quality tests annually through its stations, Mobile laboratory and National laboratory.	A total of 48,150 tests conducted
		No of validation and surveillance programs conducted.	Conduct quarterly validation and surveillance programs on formally marketed milk intakes and imported dairy products	Quarterly validation and surveillance programs conducted
		No. of programs conducted	Undertake biannually supervision and mentorship programme for the branches.	Two supervision and mentorship programmes were conducted to all staff in our branch offices.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

REVIEW OF KENYA DAIRY BOARD PERFORMANCE FOR THE YEAR 2020/2021

Key Result Area	Objective(s)	KPI	Activities	Achievements
Compliance and quality assurance of milk and milk products	Assess level of compliance to quality and safety requirements	No. of sensitization done, no. of standards procured and distributed	Sensitize and distribute revised EAC harmonized dairy standards to all twenty-seven (27) KDB branches for implementation.	Sensitization done to 27 KDB branches. 9 EAC standards procured and distributed to 27 KDB branches
		No. of standards developed or reviewed	Develop and review six (6) dairy standards	8 product standards developed or reviewed and 12 international analytical standards adopted
		No of Equipment set up	Set up the equipment for National Dairy Regulatory laboratory.	All required equipment set up. Laboratory officially opened and now fully operational
	Protect consumers against unsafe dairy produce and promote domestic, regional and international trade	No. of SOPs prepared and documented	Prepare and document Standard Operation Procedures (SOPs) for the laboratory.	A total of 51 SOPs prepared and documented
		No. of staff trained	Training of laboratory staff on equipment and test methods	6 laboratory staff trained on equipment and test methods
	Enhance Manufacturing through increased processing and consumption of value-added dairy produce.	Increase the volume of processed and marketed milk by 50 million litres to 775 million litres	Volume of milk handled	Promote increased throughput of milk in the formal sector
Increase consumer awareness on milk quality and safety		Report of consumer education campaign	Review and conduct public education campaign on consumption of safe milk, sensitization on dairy industry regulations 2021 and promotion of the national dairy regulatory laboratory	Campaign implemented through dairy stakeholder forums, field days, social media, promotional materials, supermarket activations and news items on TV, radio and
Create awareness and encourage consumption of high value-added products		No. of promotional activities conducted	Promote consumption of diversified value-added dairy products namely cheese, yoghurt, milk powder, butter and long-life milk products every quarter.	6 promotional activities conducted
Monitor performance and supply of raw milk to the formal market		Quarterly reports	Monitor raw milk intakes by the formal sector and report quarterly	Quarterly reports prepared and submitted

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REVIEW OF KENYA DAIRY BOARD PERFORMANCE FOR THE YEAR 2020/2021

Key Result Area	Objective(s)	KPI	Activities	Achievements
Customer focus	Enhance awareness on the Board's services	Compliance report	Monitor implementation to the Board's service charter commitments and standards	100 % achievement to Service charter commitments and standards
Dairy Industry support	Enhance capacity and sensitize milk bars on safe dispensing of milk	No. of milk bar operators trained	Build capacity of 200 milk bar operators on safe dispensing of milk.	A total of 234 milk bar operators trained on safe milk dispensing
	Capacity build Dairy Business Operators on milk quality and safety and value addition	No. of dairy business operators trained	Build capacity of 100 small and medium Dairy Business Operators on value addition and product certification in Nairobi, Mombasa, Kisumu, Uasin Gishu, Nyeri and Nakuru	385 small and medium dairy business operators trained Nairobi, Mombasa, Kisumu, Uasin Gishu, Nyeri and Nakuru, Bomet, Kericho, Kakamega & Bungoma
	Identify inefficiencies and advice stakeholders on interventions to improve profitability in distribution and retailing	Study report	Conduct and disseminate a study to assess the structures and profitability of milk distribution and retailing in Kenya	Study conducted and reported
	Monitor compliance to dairy industry (producer pricing) regulations - 2021	Monitoring reports	Monitor pay-out and producer prices of raw milk across the country and report quarterly	Quarterly reports prepared and submitted by 27 KDB Branches
	Improved utilization of cooling plants and preserve quality of raw milk	Dairy farmers and stakeholders mobilized	Promote utilization of milk cooling plants in the country by conducting quarterly mobilization of dairy farmers and other stakeholders	Quarterly mobilization of dairy farmers and stakeholders conducted
	Improve capacity of dairy business operators on safety and quality dairy produce	No. of dairy business operators trained	Build capacity of 300 Dairy Business Operators on efficient and safe production, handling and marketing of dairy produce.	3,617 dairy business operators trained
	Link dairy stakeholders to service providers	Dairy service providers directory	Promote linkages between dairy service providers and dairy business operators to access dairy related equipment and services by updating and availing dairy service provider directory	Directory developed and availed on-line
	Support dairy development in the counties	No. of development strategies developed	Develop and promote implementation of dairy development strategies in two counties	Strategies to support dairy development for Meru and West Pokot counties developed. National Strategy for revitalization and post covid recovery of the dairy industry in Kenya developed

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REVIEW OF KENYA DAIRY BOARD PERFORMANCE FOR THE YEAR 2020/2021

Key Result Area	Objective(s)	KPI	Activities	Achievements
Dairy Industry support	Promote County adoption and implementation of county-based school milk programmes	No. of counties supported	Support five county governments to develop policy guidelines and standards for implementation of school milk programme	12 counties sensitized including Mombasa, Kilifi, Kisumu, Siaya, Homabay, Kisii, Machakos, Kajiado, Kericho, Kakamega, Nakuru and Laikipia
Research, innovation and learning	Promote exports and manage imports for a stable dairy industry	Quarterly reports	Monitor exports and imports of dairy produce and report quarterly	Monitoring done and quarterly reports submitted
	Identify and propose measures to manage the key cost components in milk production	Survey report	Conduct and disseminate a study on the cost of milk production in Kenya	Survey completed and disseminated. Report officially launched by the Cabinet Secretary for Agriculture, Livestock, Fisheries and Cooperatives.
	Estimate the size and reasons behind consumer preference for informally marketed milk	Survey report	Undertake a study to assess the size of informal milk market and determine factors contributing for its prevalence	Study contracted and initiated.

**KENYA DAIRY BOARD
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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.

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CORPORATE GOVERNANCE STATEMENT (Continued)

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.

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;

Remuneration of Directors	2020-2021	2019-2020
	Kshs	Kshs
Mileage, accommodation and sitting allowances	15,297,598	10,415,692
Chairperson's monthly allowance	1,044,000	1,044,000
Directors' Medical insurance	668,481	577,614
Provision for performance incentives	-	1,580,000
	<u>17,010,079</u>	<u>13,617,306</u>

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.

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CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD RESPONSIBILITIES

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

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

Responsibilities of Individual Board Members

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

Principles of Public Service

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

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

BOARD AND COMMITTEES MEETINGS

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 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 2020/2021 and the attendance of the Board members was as follows;

Board Member	Designation	28-Sep-20	17-Jan-20	25-Jan-21	29-Mar-21	23-Apr-21
Antony Mutugi	Chairman	√	√	√	√	√
Sarah Boit	Vice - Chairman	√	√	√	√	√
Margaret R. Kibogy	Managing Director	√	√	√	√	√
Philip Kibusie	Director	√	√	√	√	√
Kenneth Lomaibong	Director	√	√	√	√	√
Monica W. Kariithi	Director	√	√	√	x	x
Kennedy Gatheru	Director	√	√	√	√	√
Sarah Boit	Director	√	√	√	√	√
Jared Nyanumba	Director	√	√	√	√	√
Rosemary W. Mbauni	Director	√	√	√	√	√
Roy Mugo Kaugi	Director	√	√	√	√	√
Dishon Mwanzighe Mngoda	Director	√	√	√	√	√
Jackson Omaido	Director	√	√	√	√	√
Lorna Odero*	Director	√	√	x	x	x
Munyembo Mwachala	Director	x	x	√	√	√
Jonah Wala	Director	√	√	√	√	√
George Ombua	Representative - ISC	√	√	√	√	√

x - Absent with apologies

* Retired in December 2020

**KENYA DAIRY BOARD
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CORPORATE GOVERNANCE STATEMENT (Continued)

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-20	13-Dec-20	18-Jan-21	19-Apr-21
Philip Kibusie	Chairman	√	√	√	√
Lorna Odero*	Member	√	√	x	x
Munyembo Mwachala	Member	x	x	√	√
Jonah Wala	Member	x	√	√	√
Roy Mugo Kaugi	Member	√	√	√	√
George Ombua	Representative - ISC	√	√	√	√
Margaret Rugut Kibogy	Managing Director	√	√	√	√
Erastus Mutiso - Secretary	Manager, Internal Audit	√	√	√	√

x - Absent with apologies

* Retired in December 2020

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 and Administration Committee held six meetings during the year and the attendance was as follows;

Board Committee Member	Position	15-Jul-20	12-Sep-20	14-Oct-20	20-Jan-21	14-Apr-21
Sarah Boit	Chair Person	√	√	√	√	√
Margaret R. Kibogy	Managing Director	√	√	√	√	√
Kenneth Lomaibong	Member	√	√	√	√	√
Rosemary W. Mbauni	Member	√	√	√	√	√

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	Position	15-Jul-20	16-Sep-20	15-Oct-20	15-Jan-21	15-Apr-21
Jared Nyanumba	Chairman	√	√	√	√	√
Jackson Omaido	Member	√	√	√	√	√
Lorna Odero*	Member	√	√	√	x	x
Munyembo Mwachala	Member	x	x	x	√	√
Jonah Wala	Member	√	√	√	√	√
Margaret R. Kibogy	Managing Director	√	√	√	√	√

* Retired in December 2020

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-20	19-Jan-21	16-Apr-21
Dishon Mngonda	Chairman	√	√	√
Monica W. Kariithi	Member	√	√	√
Kennedy Gatheru	Member	√	√	√
George Ombua	Representative - ISC	√	√	√
Margaret Rugut Kibogy	Managing Director	√	√	√

MANAGEMENT DISCUSSION AND ANALYSIS

A. PERFORMANCE OF THE DAIRY INDUSTRY

1.1 Introduction

According to the Food and Agricultural Organization (FAO), global production of milk increased by 2% to 906 million tonnes in 2020, from 888 metric tonnes in 2019. The increase occurred in all geographical regions, except in Africa, where production remained stable. Milk production increases were highest in Asia, followed by Europe, the Americas, Oceania and Central America and the Caribbean.

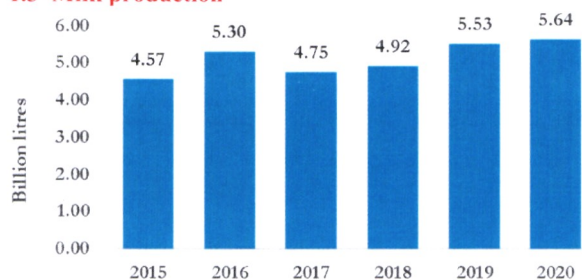
The dairy industry in Kenya is a major socio-economic enterprise in the country. It is estimated to provide livelihoods to over 1.8 small-scale farmers and employs 750,000 people directly, while another 500,000 are employed indirectly by the inputs and service provision industry. Milk is an important component of the diet in many Kenyan households. The per capita consumption of milk in Kenya, at 110 litres per person per year, is among the highest in Africa. This is projected to grow to 130 litres by the year 2030 (National Dairy Masterplan 2010 – 2030).

1.2 Structure of the industry

Dairy farmers are the foundation of the dairy industry in Kenya. Over 80% of the milk production is by smallholder dairy farmers who keep an average of 3 to 5 cows. The milk sold by the farmers is channelled to consumers through various market pathways involving several dairy business operators. These operators, who perform specific roles in the dairy value chain, include transporters, collection centres, cooling centres, milk processors, mini dairies, cottage industries, milk dispensers, milk bars, and traders.

Marketing of milk is both formal and informal, with the later estimated to be dominant mainly because of neighbour-to-neighbour sales in rural areas, where the majority of the Kenyan population resides. The Board is undertaking a study to quantify the sizes of the formal and informal milk markets in rural and urban setups in Kenya.

1.3 Milk production



Estimated milk production in Kenya (2015-2020)

Production of milk in the country, from cattle, camels, goats and sheep, is estimated to have increased from 5.5 billion litres in 2019 to 5.6 billion litres in 2020 (a growth of 1.8%). Cow milk constitutes over 70% of this production, translating to approximately 4 billion litres in 2020.

A study conducted by Kenya Dairy Board and Tegemeo Institute of Agricultural Policy and Development in 2020 estimated the national average productivity per dairy cow per day at 7.9 litres. This is still low by global standards, but an increase of 23% was observed relative to the national average of 6.4 litres in 2014. The study found out that on average farmers sell 81% of their milk production.

1.4 Cost of milk production

The cost of producing milk in Kenya is a major challenge, mainly due to the high costs of fodder, commercial concentrates and labour. The average total cost of producing one litre of milk in 2019 under zero grazing, semi-zero-grazing, and open grazing was estimated at Ksh 27.30, Ksh 23.00, and Ksh 17.24 respectively (Kenya Dairy Board and Tegemeo, 2021). However, despite the relatively high costs, a 21% decline in the overall cost of milk production was observed between 2014 and 2019 (Ksh 28.40 in 2014 and Ksh 22.51 per litre in 2019).

Purchase of fodder and commercial concentrates was estimated to constitute an average of 42.5% of the total variable direct costs of producing milk in Kenya under various milk production systems. The second highest cost component was labour at an average of 36.4%.

1.5 Producer prices of milk

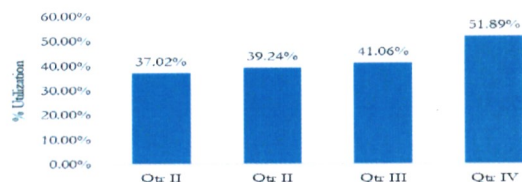
Producer prices of milk remained high during 2020/21. This was driven by regulatory interventions by government and favourable market conditions. The Ministry of Agriculture, Livestock, Fisheries & Cooperatives gazetted the Dairy Industry Regulations, 2021, which among other things provide for seasonal review and gazettement of minimum producer prices. The gazetted minimum farm gate prices for milk are currently Ksh 33 and 35 per kilogram of unchilled and chilled milk respectively. However, the prevailing average farm gate prices were higher ranging from an average of Ksh. 37.88 to Ksh. 41.12 during the period.

1.6 Milk bulking and cooling

Bulking and cooling promotes organized marketing of quality raw milk, which attracts better producer prices from buyers and promotes value addition and diversification of dairy products. The milk cooling infrastructure in the country has expanded in recent years with major investments by the National Government, County Governments, primary producers and dairy business operators. Between 2015 and 2020, the national Government procured and distributed over 350 coolers of varying capacities to dairy farmer groups.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

There was however under-utilization of the over 3.3 million litres milk cooling capacity in the country, which varied across counties and seasons. However, the situation improved towards the end of 2020/21 mainly due to improved producer prices of milk.



Quarterly utilization of milk cooling capacity 2020/21

1.7 Formal milk intakes

Formal milk intakes refer to the raw milk received by organized and regulated dairy business operators such as milk processors, mini dairies, cottage industries, milk dispensers, and milk bars. The milk is mainly received from farmers, farmer groups and cooling centres for processing and marketing. The formal milk market is growing due to increasing population and highly sensitized consumers who are demanding quality and safe milk.

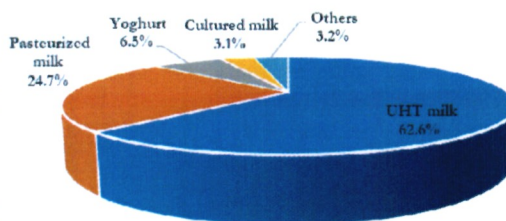


Formal milk intakes from farmers (2015/16 to 2020/21)

The formal milk intakes from local farmers increased by 4% to 717.1 million litres in 2020/21 from 691.3 million litres in 2019/20. Milk imports that primarily serve the retail market such as UHT milk and milk powder from Uganda are also a component of the formal milk market. In 2020/21, 94.48 million litres in liquid milk equivalent were imported from Uganda, increasing the size of the formal milk market to 858 million litres.

1.8 Milk processing and value addition

Milk processing and value addition increases turnover and profitability of the dairy industry. The major products manufactured by the Kenyan milk processors include pasteurized milk, UHT milk and fermented milk products. Other products include milk powder (skimmed and full cream), cheese, butter and ice cream.



Dairy products mix by quantity processed (2020/21)

Production and market for UHT milk has tremendously grown over the last few years to overtake that of pasteurized milk. This is mainly attributed to the convenience of the product as it can be stored for long without the need for refrigeration. Yoghurt is also growing in popularity.

B OVERVIEW OF OPERATIONS

The mandate of Kenya Dairy Board is to improve and control the dairy industry and its products. This entails regulatory, developmental and promotional functions. Despite the restrictions imposed by the COVID-19 global outbreak, the Board implemented strategies to ensure continuity of critical operations while observing and promoting the control measures put in place by the Government. The activities undertaken by the Board in 2020/21 in respect to the above mandate are briefly summarized below;

2.1 Licensing and issuance of regulatory permits

With the gazette of the Dairy Industry Regulations 2021, on 26th February 2021, licensing of dairy business operators was devolved to County governments. However, the regulations mandate the Board to issue annual regulatory permits to dairy business operators prior to licensing by County governments. These permits are issued subject to compliance with the relevant sanitary requirements. No fee is charged with the exception of milk processing plants handling above 10,000 kilograms per day

The Board issued 1,960 licenses/regulatory permits to the following categories of dairy business operators in 2020/21: Milk processors (40); mini dairies (181); cottage industries (115); milk dispensers (226); milk bars (1,100); cooling plants (280) and dairy importers (18).

2.2 Premise inspections

Dairy business operators are routinely inspected by the Board to evaluate compliance with the Dairy Industry Act Cap 336, the Dairy Industry Regulations 2021, and relevant dairy standards, among others. Every premise should be inspected at least once per quarter, or more depending on the risk categorization of the business. A total of 7,598 premises were inspected during the period, out of a targeted 4,000 inspections (190% target achievement).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2.3 Launch of the National Dairy Regulatory Laboratory

Construction and equipping of the Board's National Dairy Regulatory Laboratory in Kabete, Nairobi County, was completed. The laboratory was officially launched on March 2021 by the Cabinet Secretary for Agriculture, Livestock, Fisheries & Irrigation, Hon. Peter Munya. The lab has capacity to test milk and milk products for all the quality and safety parameters. The laboratory will compliment the Board's market surveillance activities and provide competitive milk testing services to stakeholders including primary producers and dairy business operators.



Official launch of the laboratory by Hon. Peter Munya

2.4 Dairy produce sampling and testing

The Board undertakes sampling and testing of dairy produce through the National Dairy Regulatory Laboratory and field offices. The Laboratory conducted 6,137 tests on various types of dairy produce across the value chain. On the other hand, the 27 field offices, which normally conduct basic and rapid analysis tests on dairy produce, undertook 42,013 tests, bringing the total number of tests conducted to 48,150 against a target of 60,000. The under performance was attributed to the restrictions imposed by the COVID-19 pandemic control measures. Some non-compliances were observed mainly arising from poor hygienic practices in milk production, collection, processing and marketing. Samples of mursik associated with the food poisoning that took place in Bomet in May 2021 were examined and found to be heavily contaminated with *coliforms*, *yeasts and molds*, indicating poor milk hygiene practices in production and handling of the product.

2.5 Gazettement and implementation of the Dairy Industry Regulations 2021

The Dairy Industry Regulations 2021 were gazetted and came into force on 26th February 2021. This was after successful public consultations in over 20 counties in 2019/2020 and a national validation in December 2020. The regulations address several issues in the dairy industry including sharing of regulatory roles between national and county governments; registration of primary producers; licensing of dairy business operators; appointment, conduct and duties of compliance officers; safety, traceability and recall of dairy produce; milk sales contracts; pricing of dairy produce; and management of dairy imports and exports.



Launch of the Dairy Industry Regulations 2021 by the CS, Agriculture, Livestock, Fisheries & Cooperatives, Hon. Peter Munya, in March 2021.

2.6 Enforcement of the Dairy Industry Act Cap 336.

Enforcement of the Dairy Industry Act Cap 336 is undertaken to address major non-compliances that are likely to compromise the safety of dairy produce and ultimately public health. Enforcement may lead to issuance of closure notices, prosecutions, and confiscation and disposal of dairy produce, among others. In 2020/21, 2014 cases were prosecuted, out of which 124 were successfully concluded, with the rest still under the judicial process. Some of the cases resulted to confiscation and subsequent disposal of 10,215 kilograms of poor quality, unsafe, unhygienically handled and illegally imported dairy produce. A total of eight closure notices were issued to non-compliant premises. Most of these notices were lifted after the affected premises successfully addressed the non-compliances.

2.7 Capacity building of primary producers and dairy business operators

In 2020/21, the Board planned to train 200 milk bar operators on safe dispensing of milk, 100 small and medium dairy business operators on value addition, and 300 dairy business operators on efficient and safe production, handling and marketing of dairy produce. A total of 4,236 stakeholders were trained as follows; 234 milk bar operators on safe dispensing of milk; 285 small and medium scale dairy business operators on value addition of milk (mainly yoghurt, mala, and cheese); and 3,617 stakeholders (mainly farmers) on improving productivity and safe handling of milk. Three field days and mini exhibitions were conducted in different parts of Meru County. Over fourteen exhibitors attended and showcased their products and services to stakeholders including dairy farmers.



Field day and mini exhibition held in Meru County

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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2.8 Research and surveys

With the gazettelement of the Dairy Industry Regulations 2021, several sets of data will be required to facilitate implementation of the regulations and also inform stakeholders on the trends and areas of improvement in the industry. During the year, four surveys were undertaken or initiated on the following areas: cost of milk production; status, challenges and opportunities in fodder and feeds production; structures and profitability of milk distribution and retailing; and assessment of the size of the informal milk market.

The surveys on the cost of milk production; structures and profitability of milk distribution and retailing; and status, challenges and opportunities for fodder and feed production were successfully undertaken, while the one on assessment of the size of the informal milk market was initiated. All the studies were contracted and executed by professional research organizations.

2.9 Development and review of dairy standards

Kenya Dairy Board is represented and chairs the Milk and Milk Products Technical Committee at Kenya Bureau of Standards. A total of six dairy standards were to be developed or reviewed in 2020/21 to support dairy trade and enhance consumer protection. Six standards were harmonized at the EAC, namely the standards for cultured milk, gouda, cheddar, cottage, mozzarella and cream cheeses. The national standard for flavoured milk was reviewed, while that for lactose milk was developed. Twelve international analytical standards for dairy produce were adopted.

2.10 Promotion of school milk programme

In order to promote adoption of school milk programme by County Governments, the Board sensitized twelve counties, through meetings with County CECs, Chief Officers, and Directors in charge of Education, livestock and other relevant docketts. The counties covered were Mombasa, Kilifi, Kisumu, Siaya, Homabay, Kisii, Machakos, Kajiado, Kericho, Kakamega, Nakuru and Laikipia.

2.11 Dairy trade facilitation

Imports and exports of milk are regulated under the Dairy Industry (imports and exports) regulations, 2021. In 2020/21, the Board facilitated international trade in milk and milk products by issuing 135 export permits and 3,461 import permits. Exports of dairy produce have stagnated due to increased demand for milk in the domestic market. Imports are managed to prevent dumping and oversupply of key dairy produce in the market. However, because of trade protocols and demand for specialized dairy products such as infant formulas and certain cheeses, some approvals were necessary.

The Board participated in bilateral meetings between Kenya and Tanzania, and Kenya and Burundi, which addressed bi-lateral trade in milk and milk products, among others. The Non-Technical Barriers affecting exports of Kenyan milk and milk products to the United Republic of Tanzania were discussed during the bi-lateral meeting. Key among them was the discriminatory veterinary fees imposed on Kenyan dairy imports at the rate of Ksh 2,000 (approximately Ksh 100) per kilogram of milk or milk product.

2.12 Consumer education

The Board carried out a consumer education campaign aimed at educating and sensitizing dairy farmers, dairy business operators, consumers and the public at large on milk hygiene, safety and quality, and regulatory requirements in production and handling of dairy produce. The campaign also sensitized stakeholders on the Dairy industry regulations 2021, the testing services provided by the National Dairy Regulatory Laboratory, and promoted marketing and consumption of high value-added dairy produce including cheese, UHT, yoghurt and mala. The campaign was implemented through dairy stakeholder forums, field days, supermarket activations, social media, promotional materials and news items on TV, radio and print media.

2.13 Partnerships and collaborations

The Board collaborated with several organizations to support the development of the dairy industry. These included AU-IBAR and USAID/RTI international on the Dairy Industry Regulations 2021, Micro-Enterprise Support Programme Trust through AgriFi project on sampling and testing of dairy produce and Promaco EA on value addition trainings, among others.

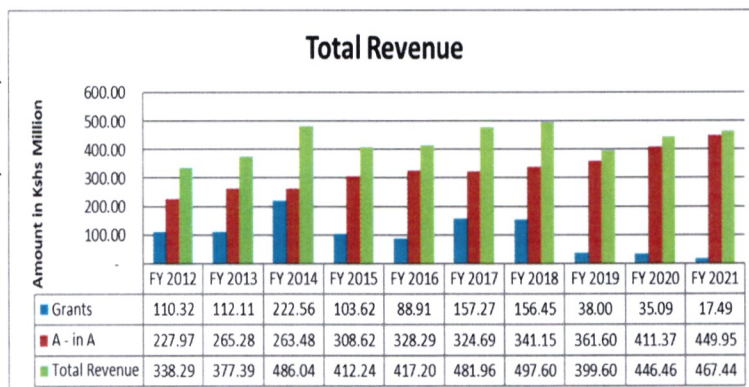
**KENYA DAIRY BOARD
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MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

C. FINANCIAL PERFORMANCE

i) Revenue performance

The Board funds its operations through the internally generated revenue mainly cess, processors' levy, import levy and license fees as well as grants from the parent Ministry of Agriculture, Livestock, Fisheries and Cooperatives. In the year ended 30 June 2021, the Board received a total of Kshs. 16.65 million as Recurrent Grants from the Government of Kenya and a further Kshs. 0.84 million from development partners. In addition, the Board received Kshs. 32.5 Million in Development Grants from the Government of Kenya to finance the ongoing construction and equipping of the National Dairy Laboratory Project.



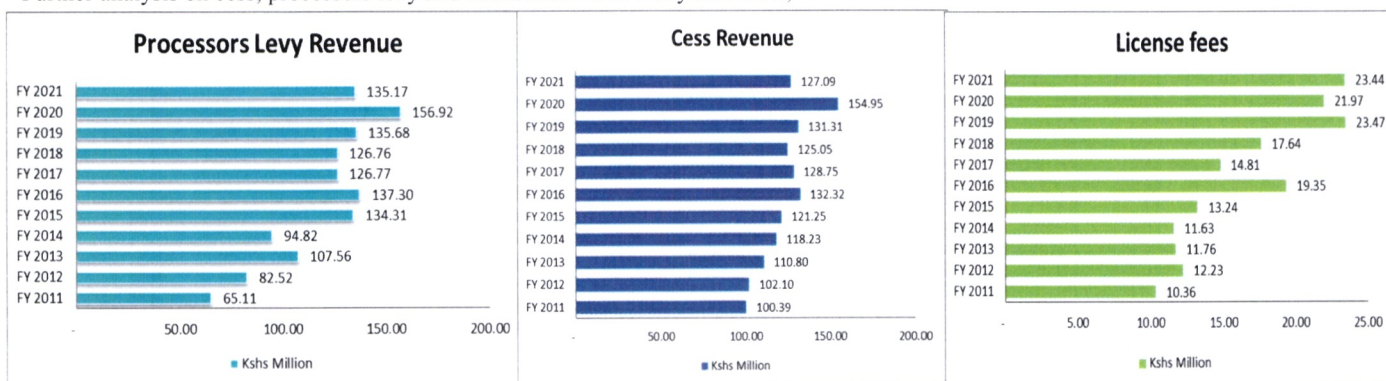
In total, the Board recorded a total revenue of Kshs. 467.44 million which is made up of Kshs. 449.95 million generated from the A in A and Kshs. 17.49 million from the grants as recognised in the statement of the financial performance.

The Board posted a 9.38% increase on internally generated revenue. The Board collected a total of Kshs. 449.95 million as compared to the revenue realised in the year ended 30 June 2020 of Kshs. 411.37 million. The positive outlook was maintained by the gazette of the Dairy Industry Regulations, 2021 which helped in improving the farm gate prices for raw milk thus maintaining consistent intakes in the formal sector as well as the introduction of consumer safety levy on milk imported from EAC member countries.

Cess, processors levy and License fees.

Prior to the gazette of the Dairy Industry Regulations, 2021, Cess was charged at the rate of 20 Cents per litre decreased by 17.98% from Kshs. 154.95 million in the year ended June 2020 to Kshs. 127.09 million, while processors levy decreased by 15.65% to close at Kshs. 135.17 million from Kshs. 156.92 recorded in the year ended 30 June 2020. The decrease was as result of the introduction of Consumer safety levy by the new regulations which realised Kshs. 65.17 million in the last quarter of the financial year. Revenue generated from licensing increased from Kshs. 21.97 million realised in the year ended 30 June 2020 to Kshs. 23.44 million.

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

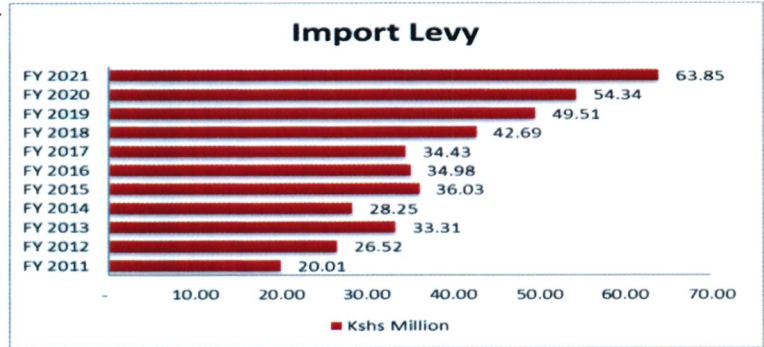


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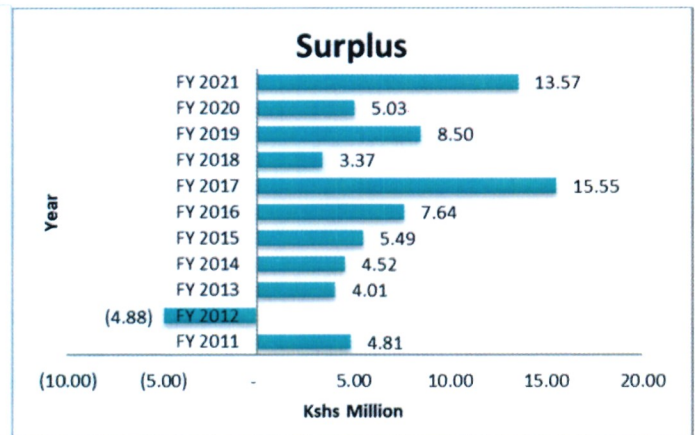
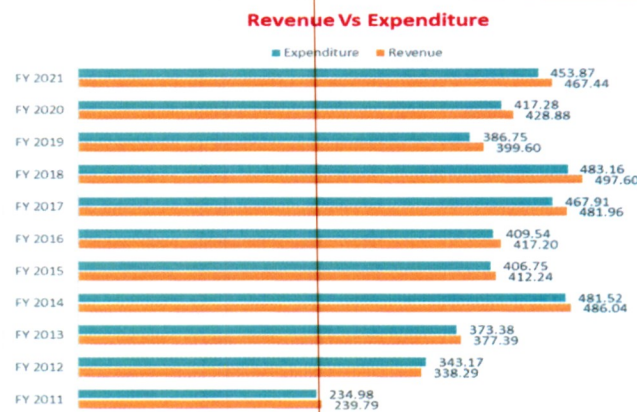
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Import levy

Import levy was increased from 7% to 10% on CIF value of the imported dairy products through the new Dairy Regulations. The revenue generated from the import increased by 17.50% from Kshs. 54.34 million recorded in the previous financial year to Kshs. 63.85 million. The increase was as a result increase on charge rate from 7% to 10% and 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 2021 was Kshs. 467.44 million as compared to Kshs. 428.88 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. 453.87 million as compared to Kshs. 417.28 million recorded in the year ended June 2020. This resulted to a surplus of Kshs. 13.57 million (after the impairment loss of Kshs. 2.96 Million) as compared to a surplus of Kshs. 5.03 million posted the year ended June 2020.

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

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 and civil works were completed in the previous financial year. The erection, completion and equipping of the National Dairy Laboratory block was done during the year and the facility is now fully in use. Construction of the Administration is ongoing.

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.

ENVIRONMENTAL AND SUSTAINABILITY REPORT

Kenya Dairy Board as a public entity exists to transform the lives of Kenyan citizens especially those engaged in dairy as a source of livelihood and income generation. This is what guides us in the development and implementation of our strategies and programs. We aim to improve on our operational efficiency while offering services to our stakeholder to meet and exceed their expectations. This is with the ultimate objective of assuring sustainability of dairy in the country. This is because the dairy industry has many stakeholders who directly and indirectly depend on the industry for their survival. In order to achieve this, we undertook a number of activities and programs as outlined below:

i) Sustainability strategy and profile

Sustainability is key to any agricultural activity including dairy. Dairy farming can severally affect the environment if not well managed. This is because it is a major contributor to green gas emissions. Therefore, at global, regional and national levels, good dairy practices are encouraged, animal health and welfare addressed and much more importantly livelihoods are improved for all stakeholders who engage in dairy as an economic activity. A growing population will lead to a corresponding increase in demand for dairy produce. This will in turn lead to increased dairy farming activity to meet this demand. This will augur well for the long-term sustainability of the sector.

The sector is however prone to various external shocks including variations in weather patterns and for the last more than one year to the COVID-19 pandemic. The government having recognized the critical socio-economic role played by the dairy sector has instituted measures to protect the sector from these shocks. These measures are clearly outlined in its development policies including Vision 2030, MTPs and Big Four Agenda.

At the institutional level, the Board has continuously strengthened its institutional capacity at both human and financial levels while having an increased presence in the country so as to enhance our capacity to serve our stakeholders and ensure long-term sustainability of the sector.

ii) Environmental performance

Human activities have led destruction of the environment with catastrophic impact of agriculture including dairy. The Board has therefore in partnership with other organizations or on its own undertaken a number of activities aimed at helping in responsible management of the environment and its resources for present and future use.

The Board has in place a workplace environment policy that outlines our commitment to providing quality services in a manner that ensures a safe and healthy workplace and environment for our stakeholders and employees and minimizing negative impact on the environment. The Board operates in full compliance with all relevant environmental and statutory requirements. In the financial year, the Board carried out a number of environmental activities, primarily tree planting. This is aimed at helping achieve the government's target of 10% forest cover by the year 2022. It is further aimed at protecting the riparian and wet lands. The expected net result will be improved environment and weather patterns which is a prequisite for improved dairy farming. During the year we planted a total of 16,000 indigenous trees through the following activities:



Planting of trees at Wautu Primary School, Makueni County.

Masai Mau Forest – Narok County. The Mau Forest is a major water catchment area which had been destroyed as people encroached in the forest and cut down trees to engage in agricultural activities. In partnership with the Ministry of Environment and Forestry and other corporates, the Board supported the activity with a total of 6,000 indigenous tree seedlings. This will help improve water levels throughout the year and thus dairy farming leading to improved incomes and poverty reduction for the communities and the country at large

Tree planting in Kaiti, Makueni County: In partnership with the Kaiti Greening Champions, the Board donated 10,000 indigenous tree seedlings and participated in tree planting of 1,000 trees at Wautu Primary School in Kaiti Constituency. The balance of the trees were donated for onward planting to schools and the community neighbouring those schools.

A total of 5 schools each from Ukia, Kee, Ilima and Kilungu wards benefited from this donation. Partnering with the schools and community would ensure a high rate of survival for the trees as they will be responsible for taking care of them. This area is fairly dry. The planting of trees therefore helps improve on weather patterns and thus improved rainfall for the area, helping the community in improved agricultural activities and livelihoods.

Other environmental sustainability activities that we promoted by the Board during the year included:

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ENVIRONMENTAL AND SUSTAINABILITY REPORT

- Proper waste management in the workplace as provided by the relevant regulations.
- Promoting paperless transactions and double sided printing to save on trees 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.

iii) Employee welfare

The Board has a total workforce of 166 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.

(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.

iv) 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.

ENVIRONMENTAL AND SUSTAINABILITY REPORT

v) Corporate Social Responsibility and Community Engagement

Corporate Social Responsibility (CSR) are practices and policies undertaken by organizations that are intended to have a positive influence on the world around us. CSR is therefore core in our business operations. This is because we recognize the fact that our survival is highly hinged on the support and cooperation of those around us. We have therefore carried out a number of community engagements with a view of helping to positively transform the communities around us. These activities are as follows:



The Cabinet Secretary, Ministry of Agriculture, Livestock, Fisheries & Cooperatives Hon. Peter Munya accompanied by the Managing Director Kenya Dairy Board Ms. Margaret Kibogy officially opens the New block at Muthara Police Post.

Support to the security function: Security is very important for the welfare of the society and for business to thrive. Business people and the citizenry need to be assured of their security for them to engage in their day to day economic activities. To complement the government efforts in providing security in the country and further support efforts to promote compliance to quality and safety requirements in the Dairy Sector, the Board supported the extension of physical infrastructure of Muthara Police Post in Meru County. The new block comprising of female, male and children cells and well as toilet facilities was commissioned on 19th June 2021 by the Cabinet Secretary Ministry of Agriculture, Livestock, Fisheries and Cooperatives Hon. Peter Munya.

Milk quality improvement and sensitization on compliance: Milk is a highly sensitive product and can easily become contaminated. It thus needs to be handled with utmost care. One of the key requirements towards this is the use of recommended food grade milk containers. The Board donated a total of 20 milking cans to Maasai Women Dairy Group as part of the Boards efforts in capacity building of farmer groups towards improving quality and safety of milk as well as empowering women in dairy.



Right: Donation of milk cans to Masaai Women Dairy Group in Kajiado at an event held at the Kajiado County Headquarters. Present during the handing over is Hon. Jackline Koin – CECM Agriculture & Livestock, Managing Director, Kenya Dairy Board. Ms. Margaret Kibogy and the Deputy Governor, Kajiado County, Hon. Martin Moshisho.

Promotion of the school milk programme: As part of our promotional mandate, the Board is engaged in promoting consumption of milk in schools so as to improve on nutrition status of pupils and students and create a milk drinking culture as well as provide a market for our dairy produce.



Presentation of milk products to the Head Teacher and students of Giribe Integrated School, Migori County. The presentation was done by the Chief Administration Secretary, State Department for Livestock Hon. Linah Jebii Kilimo and Managing Director, Kenya Dairy Board

Support to Sports: Sports improves the physical, social and mental wellbeing of a person. It complements consumption of milk which is aimed at improving the overall physical and health wellbeing of an individual. In recognition of this, the Board supported the Eldoret Marathon which has gained a national status attracting well known national and international athletes. It also serves as a platform for tapping talent in athletics thus assisting the youth grow their talents. It also helps community and the country gain recognition.

Support and sensitization dairy farming: Dairy farming is a key agricultural activity in the country and is a major source of livelihood and job creation in the country. To help dairy development, as part of CSR activities and giving back to the community, the Board donated four in-calf heifers to farmer groups in Giribe, Migori County. This was done by Chief Administration Secretary for Livestock, Hon. Linah Jebii Kilimo accompanied by the Chairman and Managing Director, Kenya Dairy Board.



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REPORT OF THE DIRECTORS

The Directors submit their report together with Audited Financial Statements for the year ended 30 June 2021 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 21 are set out on Page 1.

Directors

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

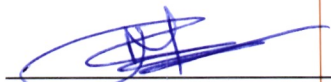
Surplus remission

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 2021, Kenya Dairy Board reported a surplus of Kshs. 13,571,847 and has made a provision of Kshs. 12,214,662 (FY 2020 - Kshs. 4,522,997) 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: 07/01/2022

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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.

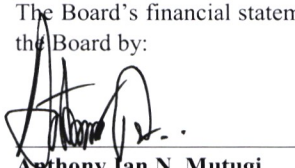
The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year ended on 30 June 2021. This responsibility includes: (i) maintaining adequate financial 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 2021, 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 ^{23rd}..... September 2021, and signed on behalf of the Board by:



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

Date: _____

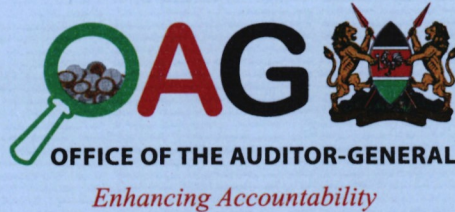


Margaret Rugut Kibogy, OGW
Managing Director
Nairobi, Kenya

Date: 07/01/2022

REPUBLIC OF KENYA

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Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA DAIRY BOARD FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Dairy Board set out on pages 1 to 26, which comprise of the statement of financial position as at 30 June, 2021,

and the 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 effects 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, 2021, 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 the Dairy Industry Act, Cap 336.

Basis for Qualified Opinion

Property, Plant and Equipment

As reported in the previous years, the statement of financial position reflects property, plant and equipment balance of Kshs.284,730,669. 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 had not obtained the title deed.

In the circumstances, the ownership of the plot and the value of the parcel of land of Kshs.1,500,000 included in the property, plant and equipment balance of Kshs.284,730,669 as at 30 June, 2021 could not be confirmed.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing

else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Officers Acting Beyond the Allowable Six Months

The statement of financial performance reflects employee costs of Kshs.203,440,650 as further disclosed in Note 12 to the financial statements. Included in the costs is an amount of Kshs.1,373,490 in respect of acting and responsibility allowance. However, review of records provided revealed that the acting appointments dates back to the year 2014 contrary to the Board's Human Resource Policy Manual which requires the acting allowance to be paid to an employee for a period not exceeding six months.

In the circumstances, Management was in breach of the Board's Human Resource Policy.

2. Defects on Works for Proposed Laboratories in Upper Kabete

The statement of financial position reflects property, plant and equipment balance of Kshs.284,730,669 as further disclosed in Note 22 to the financial statements. Included in the amount is capital work in progress of Kshs.19,662,254 incurred during the year under review on the construction of proposed laboratories for Kenya Dairy Board in Upper Kabete. Following the end of the defects liability period, the Board (employer) wrote to the contractor informing him of the defects on the assessed works which included gas leakage in the laboratory due to faulty gas pipe connections, the leakage of gents' toilet located on first floor and contamination of the floor by toilet liquid waste, missing fire-suppression cylinder cover and inoperable fire extinguisher system due to faulty pump system. Further, the CCTV camera previously installed on the premises was removed by the data and network sub-contractor. Although the Management indicated that the final payment was not made, the Contractor appears to be taking too long to correct the defects.

In the circumstances, the Board may not have realized value for money due to poor workmanship by the contractor.

3. Non-Compliance with Two-Thirds Rule on Salary Deductions

Analysis of the payroll records revealed that, employees of the Board were paid net salaries that were less than a third of their basic pay, for all the twelve months of the financial year 2020/2021. This was contrary to Section 19(3) of the Employment Act, 2007, which provides that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages or such additional or other amount as may be prescribed in law.

In the circumstances, Management was in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 the Board of Directors

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of 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 Board's 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 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 the Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 July, 2022

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2021**

	Notes	2020-2021 Kshs	Restated 2019-2020 Kshs
Revenue from non-exchange transactions			
Levies, fines and penalties	6	396,886,275	370,735,550
Licenses and permits	7	23,441,200	21,966,100
Transfers from the Government and other recurrent grants	8	17,494,353	35,088,270
		<u>437,821,828</u>	<u>427,789,920</u>
Revenue from exchange transactions			
Interest income	9	17,761,336	18,499,310
Other income	10	11,069,852	162,785
		<u>28,831,188</u>	<u>18,662,095</u>
Total revenue		<u>466,653,016</u>	<u>446,452,015</u>
Expenses			
Use of goods and services	11	19,191,397	15,106,101
Employee costs	12	203,440,650	188,654,158
Remuneration of Directors	13	17,010,079	13,617,306
Depreciation and amortisation expense	14	28,277,258	19,270,548
Repairs and maintenance	15	5,865,020	6,077,061
General and operating expenses	16	177,123,538	174,552,658
Total expenses		<u>450,907,942</u>	<u>417,277,832</u>
Other gains / (losses)			
Gain on sale of assets	17	790,799	9,163
Provision for bad and doubtful debts	18	(2,964,026)	(24,157,794)
Surplus for the year		<u>13,571,847</u>	<u>5,025,552</u>
Remission to National Treasury	38	(12,214,662)	(4,522,997)
Net surplus for the year		<u>1,357,185</u>	<u>502,555</u>

The financial statements set out on pages 1 to 25 were approved by the Board of Directors on ^{23rd}..... September 2021 and signed on its behalf by:



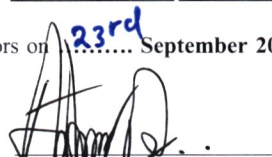
Margaret Rugut Kibogy, OGW
Managing Director

Date: 07/01/2022



CPA Edward Nyoike
Finance Manager

ICPAK Member No. 5668
Date: 07/01/2022



Anthony Ian N. Mutugi
Chairman of the Board

Date: _____

The notes set out on pages 6 to 25 form an integral part of the financial statements.

KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

Assets	Notes	2020-2021 Kshs	2019-2020 Kshs
Current assets			
Cash and cash equivalents	19	305,376,478	371,089,305
Receivables from non-exchange transactions	20	9,495,312	12,515,090
Other receivables and prepayments	21	32,650,672	32,133,512
		<u>347,522,462</u>	<u>415,737,907</u>
Non current assets			
Property, plant and equipment	22	284,730,669	245,647,784
Intangible assets	23	4,852,981	3,028,681
Finance leases	24	161,664,142	163,835,859
Long term receivables from non-exchange transactions	25	37,270,211	40,418,663
		<u>488,518,003</u>	<u>452,930,987</u>
Total assets		<u>836,040,465</u>	<u>868,668,894</u>
Liabilities			
Current liabilities			
Gratuity provision	26	3,607,780	1,127,086
Trade and other payables from non-exchange transactions	27	75,141,582	141,166,804
Current provisions	28	2,262,000	10,303,308
Deferred Income	29	420,258,170	387,758,170
Refundable deposits	30	12,449,715	6,255,663
		<u>513,719,247</u>	<u>546,611,031</u>
Non current liabilities			
Gratuity provision	26	-	1,896,580
Net assets			
Revaluation reserves	31	161,664,142	163,835,859
Accumulated surplus	32	100,245,373	96,716,471
Capital funds	33	60,411,703	59,608,953
		<u>322,321,218</u>	<u>320,161,283</u>
Total net assets and liabilities		<u>836,040,465</u>	<u>868,668,894</u>


The financial statements set out on pages 1 to 25 were approved by the Board of Directors on ^{23rd}..... September 2021 and signed on its behalf by:


Margaret Rugut Kibogy, OGW
 Managing Director

Date: 07/01/2022


CPA Edward Nyoike
 Finance Manager
 ICPAK Member No. 5668

Date: 07/01/2022


Anthony Ian N. Mutugi
 Chairman of the Board

Date: _____

The notes set out on pages 6 to 25 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 2021**


	Notes	Revaluation reserve Kshs	Accumulated surplus Kshs	Capital Funds Kshs	Total Kshs
At 1 July 2019		166,007,576	72,978,380	58,462,277	297,448,233
Surplus for the year	32	-	502,555	-	502,555
Interest earned from staff car loans scheme	33	-	-	694,772	694,772
Interest earned from staff housing mortgage scheme	33	-	-	451,904	451,904
Transfer of amortisation to accumulated surplus	32	(2,171,717)	2,171,717	-	-
Prior year adjustment	32	-	21,063,819	-	21,063,819
At 30 June 2020		163,835,859	96,716,471	59,608,953	320,161,283
At 1 July 2020		163,835,859	96,716,471	59,608,953	320,161,283
Surplus for the year	32	-	1,357,185	-	1,357,185
Interest earned from staff car loans scheme	33	-	-	605,448	605,448
Interest earned from staff housing mortgage scheme	33	-	-	197,302	197,302
Transfer of amortisation to accumulated surplus	32	(2,171,717)	2,171,717	-	-
At 30 June 2021		161,664,142	100,245,373	60,411,703	322,321,218

The notes set out on pages 6 to 25 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 2021**


Cash flows from operating activities	Notes	Restated	
		2020-2021	2019-2020
Receipts		Kshs	Kshs
Levies, fines and penalties	6	396,886,275	365,956,865
Licenses and permits	7	23,441,200	21,966,100
Transfers from the Government and other recurrent grants	8	17,494,353	35,088,270
Other income	10	11,069,852	162,785
Total receipts		448,891,680	423,174,020
Payments			
Use of goods and services	11	19,191,397	15,106,101
Employee costs	12	203,440,650	188,654,158
Remuneration of Directors	13	17,010,079	13,617,306
Repairs and maintenance	15	5,865,020	6,077,061
General and operating expenses	16	177,123,538	174,552,658
Total payments		422,630,684	398,007,284
Adjustment for changes in working capital			
Decrease in receivables from non-exchange transactions		3,019,778	9,334,415
Increase in other receivables and prepayments		(517,160)	(6,451,203)
(Decrease) /increase in trade and other payables from non-exchange transactions		(66,025,222)	64,590,920
(Decrease) increase in provisions		(7,457,194)	7,670,965
Increase in deferred income		-	(1,788,270)
Increase in refundable deposits		6,194,052	6,255,663
Provision for doubtful debts and remission to National Treasury		(15,178,688)	-
		(79,964,434)	79,612,490
Net cash flows from operating activities	39	(53,703,438)	104,779,226
Cash flow from investing activities			
Purchase of property, plant and equipment	22 & 23	(67,012,726)	(140,557,989)
Proceeds from disposal of property, plant and equipment	17	790,799	9,163
Interest income	9	17,761,336	18,499,310
Decrease /(increase) in long term receivables	25	3,148,452	(8,028,868)
Net cash flow used in investing activities		(45,312,139)	(130,078,384)
Cash flow from financing activities			
Capital grant received	8	32,500,000	80,000,000
Interest credited to staff car loan and staff housing mortgage funds	33	802,750	1,146,676
Net cash flows from financing activities		33,302,750	81,146,676
Net (decrease) / increase in cash and cash equivalents		(65,712,827)	55,847,518
Cash and cash equivalents at 1 July	19	371,089,305	315,241,787
Cash and cash equivalents at 30 June	19	305,376,478	371,089,305

The financial statements set out on pages 1 to 25 were approved by the Board of Directors on 23rd September 2021 and signed on its behalf by:


Margaret Rugut Kibogy, OGW
Managing Director

Date: 07/01/2022


CPA Edward Nyoike
Finance Manager
ICPAK Member No. 5668
Date: 07/01/2022


Anthony Ian N. Mutugi
Chairman of the Board

Date: _____

The notes set out on pages 6 to 25 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 2021**

	Original Budget	Adjustment	Final Budget	Actual	Performance
	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Levies, fines and penalties - Note (a)	412,462,716	(29,813,316)	382,649,400	396,886,275	14,236,875
Licenses and permits	23,038,500	-	23,038,500	23,441,200	402,700
Transfers from the Government and other recurrent grant:	33,300,000	(15,182,836)	18,117,164	17,494,353	(622,811)
Interest income	15,000,000	1,000,000	16,000,000	17,761,336	1,761,336
Other income and gain on sale of assets	2,100,000	10,870,208	12,970,208	11,860,651	(1,109,557)
Total revenue - Note (b)	485,901,216	(33,125,944)	452,775,272	467,443,815	14,668,543
Expenses					
Use of goods and services	19,692,000	(364,000)	19,328,000	19,191,397	(136,603)
Employee costs	216,021,551	(10,893,035)	205,128,516	203,440,650	(1,687,866)
Remuneration of Directors	14,854,000	2,000,000	16,854,000	17,010,079	156,079
Depreciation and amortisation expense	47,402,265	(19,739,909)	27,662,356	28,277,258	614,902
Repairs and maintenance	11,065,000	(3,855,000)	7,210,000	5,865,020	(1,344,980)
General and operating expenses	176,866,400	(274,000)	176,592,400	177,123,538	531,138
Total expenditure	485,901,216	(33,125,944)	452,775,272	450,907,942	(1,867,330)
Surplus for the period - Note (c)	-	-	-	16,535,873	16,535,873

During the year, the Board was allocated Kshs. 33.30 million in Government of Kenya (GoK) Grants to finance the recurrent expenditure. However, the amount was reviewed downward through the Supplementary Estimates. The Board received Kshs. 16.65 million as GoK recurrent grant for the year and further Kshs. 844,353 from a Development Partner. The reduction in GoK funding, anticipated increase in interest generated from deferred capital development funds as well as anticipated changes in revenue with the implementation of the Dairy Industry Regulations, 2021 necessitated the revision of the recurrent budget from Kshs. 485.90 million to Kshs. 452.78 million.

Notes

a) Levies, fines and penalties - The Board exceeded the revenue generated by Kshs. 14.24 million (3.7%) as a result of the improved compliance, favourable farm gate prices which promoted intakes in the formal sector as well as the Gazettement of the Dairy Industry Regulations, 2021 which harmonised levies on the locally produced milk and that imported from the East African Community member countries.

b) Total revenue - The Board exceeded the budgeted collection on total revenue with Kshs. 14.67 million (3.2%) favourable farm gate prices which promoted intakes in the formal sector, levies on imports from EAC member Countries and continued surveillance on the informal milk marketing as well as increase revenue on interest.

c) Surplus for the period - In overall, the Board realised a surplus of Kshs. 16.54 Million as a result of surpassed collection on internally generated revenue and unabsorbed expenditure of Kshs. 1.87 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 2020-2021 Kshs	Actual 2020-2021 Kshs
Surplus as per statement of comparison of Budget and actual amounts	-	16,535,873
Provision for bad and doubtful debts	-	(2,964,026)
Provision for Remission to National Treasury	-	(12,214,662)
Net surplus as per Statement of Financial Performance	-	1,357,185

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

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 of these financial statements.

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 2021

Standard	Impact
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 has reviewed the improvements to IPSAS and established that the same do not have impact on the financial statements for the period ended 30 June 2021.</p>

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021

Standard	Effective date and impact
IPSAS 41: Financial Instruments	<p>(Applicable: 1 January 2023). 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>

KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

Standard	Effective date and impact
IPSAS 41: Financial Instruments	<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 2023): 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>
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1 January 2023:</p> <ul style="list-style-type: none"> (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. (b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. (c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. (d) 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>The Board has reported the Financial Instruments within the scope of IPSAS 29 - Financial Instruments and therefore the standard does not apply.</p>

(iii) Early adoption of Standards

The Board did not early - adopt any new or emended Standards in the year ended 30 June 2021.

4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

The Board recognizes revenues from consumer safety levy, 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;

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

i) Revenue from non-exchange transactions... continued.

Consumer Safety Levy

Dairy business operators are required to remit consumer safety levy on the dairy produce processed or imported at the rate of forty cents per kilogram of milk processed or one per centum of the cost of milk processed or imported, whichever is higher. Consumer Safety Levy is payable to the Board on or before the tenth (10th) day after the month of processing or importation and it is accounted for on accrual basis.

Cess

Prior to introduction of Consumer Safety Levy in May 2021, cess was payable to Kenya Dairy Board by all producers who produces milk for sale or converts milk to any other dairy produce for sale. Cess was collected by all licensed milk traders on behalf of the Board at a rate of twenty cents per litre. The amount collected was payable to the Board on or before the tenth (10th) day after the month of production and it was accounted for on accrual basis.

Processors' levy

Prior to introduction of Consumer Safety Levy in May 2021, Processors' levy was payable to Kenya Dairy Board by all licensed processors at a rate of twenty cents per litre of milk processed. The levy was payable to the Board on or before the tenth (10th) day after the month of processing and it was accounted for on accrual basis.

Import levy

Import levy was 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. However, with the gazettelement of the Dairy Industry Regulations, 2021, the rate was revised to 10%.

Penalties

Penalties are charge to any person who fails to remit the cess levies to the Board. As required by law. Penalty on levies is charged at a rate of 25% for the first of month in which the cess remain 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.

**KENYA DAIRY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

Summary of significant accounting policies (Continued)

b) Budget information

The original budget for FY 2020-2021 was approved by The National Treasury and Planning in June 2020. 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.

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 5 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.

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Summary of significant accounting policies (Continued)

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.

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.

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Summary of significant accounting policies (Continued)

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.

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.

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Summary of significant accounting policies (Continued)

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 2021.

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.

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Summary of significant accounting policies (Continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The 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:

- Ø The condition of the asset based on the assessment of experts employed by the Board.
- Ø The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- Ø The nature of the processes in which the asset is deployed.
- Ø Availability of funding to replace the asset.
- Ø 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 26 and 28.

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	2020-2021	2019-2020
	Kshs	Kshs
Consumer Safety Levy	65,174,390	-
Cess receipts	127,086,585	154,950,589
Processors levy	135,174,045	156,916,214
Import levy	63,845,941	54,337,356
Penalties	5,605,314	4,531,391
	<u>396,886,275</u>	<u>370,735,550</u>
7. Licenses and permits	2020-2021	2019-2020
	Kshs	Kshs
Licenses and permits application fees	5,197,800	6,328,800
Movement permits	6,362,000	8,264,000
Premise licenses	11,881,400	7,373,300
	<u>23,441,200</u>	<u>21,966,100</u>
8. Transfers from the Government and other recurrent grants	2020-2021	2019-2020
	Kshs	Kshs
(a) Unconditional grants		
Operational grants from Government of Kenya	16,650,000	33,300,000
Other Organisational grants	844,353	-
	<u>17,494,353</u>	<u>33,300,000</u>
Conditional grants		
Capital expenditure grants from Government of Kenya	32,500,000	80,000,000
	<u>32,500,000</u>	<u>80,000,000</u>
Total transfers from the Government and others	<u>49,994,353</u>	<u>113,300,000</u>

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(b) Amount recognised to statement of financial performance

	2020-2021	2019-2020
	Kshs	Kshs
Recurrent transfers from State Department for Livestock	16,650,000	33,300,000
Other organisational grants	844,353	-
Amount transferred from deferred income	-	1,788,270
	<u>17,494,353</u>	<u>35,088,270</u>

(c) Transfers from Ministries, Departments and Agencies

Name of the Entity sending the Grants	Amount recognised to statement of Financial Performance Kshs	Amount deferred under Deferred Income Kshs	Amount recognised in the Capital Fund Kshs	Total Transfers 2020/21 Kshs	Prior year 2019-2020 Kshs
State Department for Livestock	8,325,000	-	-	8,325,000	8,325,000
State Department for Livestock	8,325,000	-	-	8,325,000	8,325,000
State Department for Livestock	-	32,500,000	-	32,500,000	40,000,000
State Department for Livestock	-	-	-	-	40,000,000
State Department for Livestock	-	-	-	-	8,325,000
State Department for Livestock	-	-	-	-	8,325,000
Total	16,650,000	32,500,000	-	49,150,000	113,300,000

(d) Other organisational grants

Name of the Entity sending the Grants	Amount recognised to statement of Financial Performance Kshs	Amount deferred under Deferred Income Kshs	Amount recognised in the Capital Fund Kshs	Total Transfers 2020/21 Kshs	Prior year 2019-2020 Kshs
Micro Enterprises Support Programme Trust	844,353	-	-	844,353	-
Smallholder Dairy Commercialization Programme	-	-	-	-	1,788,270
Total	844,353	-	-	844,353	1,788,270

9. Interest income

	2020-2021	2019-2020
	Kshs	Kshs
Interest on bank deposits	17,761,336	18,499,310
	<u>17,761,336</u>	<u>18,499,310</u>

10. Other income

	2020-2021	2019-2020
	Kshs	Kshs
Tender sales	-	2,000
Sale of publications	800	2,100
Miscellaneous income	10,909,761	158,685
Royalties	159,291	-
	<u>11,069,852</u>	<u>162,785</u>

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11. Use of Goods and Services

	2020-2021	Restated 2019-2020
	Kshs	Kshs
Printing and stationery expenses	5,819,655	3,179,457
Electricity and water expenses	1,706,261	607,423
Postage and courier expenses	1,060,835	1,010,069
Bank service charges	584,828	462,125
Professional and legal fees	290,967	3,284,532
Audit fees	754,000	754,000
Telephone and internet services	5,451,339	4,772,954
Uniform and clothing expenses	460,615	260,850
Contracted security and cleaning services	3,062,897	774,691
	<u>19,191,397</u>	<u>15,106,101</u>

Restatement of comparative figures under Use of Goods and services

In the financial statements for the year ended 30 June 2020, an expenditure of Kshs. 774,691 relating to amounts paid by the Board for contracted security services was disclosed under Maintenance of Offices, as disclosed in the Report of the Auditor - General. Subsequently, the Board has amended the comparative figures under Repairs and maintenance expenses from Kshs. 6,851,752 to Kshs. 6,077,061 under Note 15 to the financial statements. The same has been transferred to Contracted security and cleaning services expenditure in Note 11 and increased the total expenditure under Use of goods and services from Kshs. 14,331,410 to Kshs. 15,106,101. Similarly, both the Statement of Financial performance as well as Statement of Cash flows for the year ended 30 June 2020 have been restated to reflect the changes.

12. Employees costs

	2020-2021	2019-2020
	Kshs	Kshs
Personnel basic salaries	101,139,566	92,084,066
Gratuity and pension contribution	20,683,008	19,056,972
House allowances	34,580,100	30,978,100
Transport and commuter allowance	16,428,000	15,320,508
Acting allowance and responsibility allowances	1,373,490	1,361,060
Entertainment allowance	8,658,000	7,456,000
Extraneous allowance	9,928,000	7,787,000
Relocation and leave allowance	10,650,486	7,395,144
Performance incentives and bonuses	-	7,215,308
	<u>203,440,650</u>	<u>188,654,158</u>

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

Gratuity and Employer contribution to staff pension

	2020-2021	2019-2020
	Kshs	Kshs
NSSF Employer contributions	376,400	346,200
Employer pension contributions	17,656,170	15,872,486
Gratuity provision for contracted staff	2,650,438	2,838,286
	<u>20,683,008</u>	<u>19,056,972</u>

13. Remuneration of Directors

	2020-2021	2019-2020
	Kshs	Kshs
Mileage allowances	1,177,738	1,520,032
Travel and accommodation allowances	6,459,860	4,395,660
Sitting allowances	7,660,000	4,500,000
Chairperson's monthly allowance	1,044,000	1,044,000
Directors' Medical insurance	668,481	577,614
Performance incentives	-	1,580,000
	<u>17,010,079</u>	<u>13,617,306</u>

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14. Depreciation and amortisation expenses	2020-2021	2019-2020
	Kshs	Kshs
Depreciation of plant, property and equipment	23,826,861	14,339,781
Amortisation of intangible assets	2,278,680	2,759,050
Amortisation of operating leases	2,171,717	2,171,717
	28,277,258	19,270,548

15. Repairs and maintenance	2020-2021	Restated 2019-2020
	Kshs	Kshs
Maintenance of plant and equipment	614,198	588,131
Maintenance of Offices	3,695,506	1,477,788
Information technology services	1,555,316	4,011,142
	5,865,020	6,077,061

Restatement of comparative figures under Repairs and maintenance

In the financial statements for the year ended 30 June 2020, an expenditure of Kshs. 774,691 relating to amounts paid by the Board for contracted security services was disclosed under Maintenance of Offices, as disclosed in the Report of the Auditor - General. Subsequently, the Board has amended the comparative figures under Repairs and maintenance expenses from Kshs. 6,851,752 to Kshs. 6,077,061. The same has been transferred to Contracted security and cleaning services expenditure under Note 11 to the financial statements. Similarly, both the Statement of Financial performance as well as Statement of Cash flows for the year ended 30 June 2020 have been restated to reflect the changes.

16. General and Operating expenses	2020-2021	2019-2020
	Kshs	Kshs
Training expenses	9,203,498	6,180,823
Staff medical and benevolent insurance expenses	17,353,116	14,057,433
Motor vehicle and general insurance	2,577,141	2,980,311
Staff welfare	8,859,876	6,682,955
Advertising and publicity	3,621,751	3,987,103
Rent and rates	20,912,854	20,022,600
Donations and environmental conservation	2,068,040	1,232,750
Motor vehicle running expenses	12,114,770	11,097,069
Show expenses	-	1,450,870
Travel and accommodation expenses	35,221,498	27,073,848
Laboratory expenses	5,287,152	1,532,000
Control of informal milk marketing and consumer education	25,947,927	21,234,729
Conference, exhibitions and training of stakeholders	3,661,156	3,281,326
Marketing and Benchmarking	1,733,275	3,192,216
Promotion of milk consumption	1,472,838	362,000
Product value addition	730,550	2,083,921
Organisation of stakeholders	710,000	1,257,772
Research and Dairy development	8,810,950	24,392,110
Policy and strengthening of regulatory framework	16,837,146	22,450,822
	177,123,538	174,552,658

17. Gain on sale of Assets	2020-2021	2019-2020
	Kshs	Kshs
Gain on disposal of property, plant and equipment	790,799	9,163

18. Provision for bad and doubtful debts	2020-2021	2019-2020
	Kshs	Kshs
Provision for bad and doubtful debts	2,964,026	24,157,794

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19. Cash and cash equivalents	2020-2021	2019-2020
	Kshs	Kshs
Current accounts	15,475,360	22,159,718
On-call deposits	281,805,398	342,875,716
Staff Housing Mortgage account	8,066,366	5,726,896
Other balances	29,354	326,975
	305,376,478	371,089,305

Detailed analysis of the cash and cash equivalents

Financial Institution	Account Number	2020-2021	2019-2020
		Kshs	Kshs
(a) Current accounts			
Co-operative Bank of Kenya Limited	01136010006600	8,532,776	2,282,313
KCB Bank Kenya Limited	1103250906	6,744,391	19,678,012
National Bank of Kenya Limited	01003002830700	198,193	199,393
Sub-total		15,475,360	22,159,718
(b) On - call deposits			
KCB Bank Kenya Limited	1102653993	281,805,398	342,875,716
(c) Staff Housing Mortgage Scheme			
KCB Bank Kenya Limited	1233692348	8,066,366	5,726,896
(d) Other balances			
Undeposited cash		2,503	60,727
Mpesa Pay Bill No. 799 524		26,851	266,248
		29,354	326,975
Total cash and cash equivalents		305,376,478	371,089,305

20. Receivables from non-exchange transactions	2020-2021	2019-2020
	Kshs	Kshs
Receivables from non-exchange transactions comprises of the following:-		
Levies, fines and penalties receivable	53,961,965	54,017,718
Provision for bad and doubtful debts	(44,466,653)	(41,502,628)
	9,495,312	12,515,090

21. Other receivables and prepayments	2020-2021	2019-2020
	Kshs	Kshs
Staff Car Loan Scheme - Current portion	6,804,528	7,764,380
Staff Housing Mortgage Scheme - Current portion	2,232,899	2,271,805
Deposits	4,611,141	3,737,988
Staff salary advances	2,476,468	3,123,758
Ex- Staff receivables	400,782	400,782
Provision for bad and doubtful debts	(400,782)	(400,782)
Prepayments	16,525,636	15,235,581
	32,650,672	32,133,512

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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22. Property, plant and equipment

<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
Cost	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 during the year	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

<u>Year ended 30 June 2021</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 2020	146,784,645	98,673,144	20,373,462	44,690,208	86,860,686	397,382,145
Additions during the year	19,662,254	16,884,951	1,012,386	10,895,958	14,454,197	62,909,746
Disposals during the year	-	(1,900,480)	-	(1,239,975)	(48,000)	(3,188,455)
As at 30 June 2021	166,446,899	113,657,615	21,385,848	54,346,191	101,266,883	457,103,436
Depreciation and impairment						
As at 1 July 2020	-	90,409,846	13,104,137	41,174,987	7,045,391	151,734,361
Charge for the year	-	5,236,899	1,809,663	4,963,005	11,817,294	23,826,861
Disposals during the year	-	(1,900,480)	-	(1,239,975)	(48,000)	(3,188,455)
As at 30 June 2021	-	93,746,265	14,913,800	44,898,017	18,814,685	172,372,767
Net Book Value						
As at 30 June 2021	166,446,899	19,911,350	6,472,048	9,448,174	82,452,198	284,730,669

23. Intangible assets

	2020-2021	2019-2020
Cost	Kshs	Kshs
At 1 July	23,347,114	23,347,114
Additions during the year	4,102,980	-
At 30 June	27,450,094	23,347,114
Amortisation		
At 1 July	20,318,433	17,559,383
Charge for the year	2,278,680	2,759,050
At 30 June	22,597,113	20,318,433
Net book value		
At 30 June	4,852,981	3,028,681

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.

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24. Finance Leases	2020-2021	2019-2020
	Kshs	Kshs
Balance brought forward	216,500,000	216,500,000
Revaluation during the year	-	-
At 30 June	<u>216,500,000</u>	<u>216,500,000</u>
Amortisation		
At 1 July	52,664,141	50,492,424
Charge for the year	2,171,717	2,171,717
At 30 June	<u>54,835,858</u>	<u>52,664,141</u>
Net book value		
At 30 June	<u>161,664,142</u>	<u>163,835,859</u>
<p>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.</p>		
25. Long term receivables from non-exchange transactions	2020-2021	2019-2020
	Kshs	Kshs
Staff Car Loan Scheme - Non current portion	11,123,319	12,168,509
Staff Housing Mortgage Scheme - Non current portion	26,146,892	28,250,154
	<u>37,270,211</u>	<u>40,418,663</u>
26. Gratuity provision	2020-2021	2019-2020
	Kshs	Kshs
Balance at 1 July	3,023,666	185,380
Provision for the year	2,650,438	2,838,286
Payment during the year	(2,066,324)	-
Balance at 30 June	<u>3,607,780</u>	<u>3,023,666</u>
Gratuity provision are payable as follows:		
Within one year	3,607,780	1,127,086
Payable after one year	-	1,896,580
	<u>3,607,780</u>	<u>3,023,666</u>
27. Trade and other payables from non-exchange transactions	2020-2021	2019-2020
	Kshs	Kshs
Payables from non exchange transactions	46,108,611	132,894,768
Payroll liabilities	10,451,281	2,425,597
KMR Staff Pension	109,299	109,299
KNAC Staff Pension	341,051	341,051
Alico Insurance claims	35,082	35,082
Withheld Taxes	1,358,599	573,022
Remission to National Treasury	16,737,659	4,522,997
Board members expenses	-	264,988.00
	<u>75,141,582</u>	<u>141,166,804</u>
28. Current provisions	2020-2021	2019-2020
	Kshs	Kshs
Leave provision	-	-
Audit fees	2,262,000	1,508,000
Performance incentives	-	8,795,308
	<u>2,262,000</u>	<u>10,303,308</u>

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28. Current provisions... Continued

The movement of provision during the year was as follows;	Leave Provision Kshs	Audit fees Kshs	Total Kshs
Balance at the beginning of the year	8,795,308	1,508,000	10,303,308
Provision utilised during the year	(8,795,308)	-	-8,795,308
Additional provision	-	754,000	754,000
Balance at the end of the year	-	2,262,000	2,262,000

29. Deferred Income

	2020-2021 Kshs	2019-2020 Kshs
National Government	420,258,170	387,758,170
International Funders	-	-
	420,258,170	387,758,170

The deferred income movement during the year was as follows;	National Government Kshs	International Funders Kshs	Total Kshs
Balance brought forward	387,758,170	-	387,758,170
Received during the year	49,150,000	-	49,150,000
Recognised in the statement of financial performance	(16,650,000)	-	(16,650,000)
Transferred to Capital Funds - Staff Housing Mortgage Scheme	-	-	-
Balance carried forward	420,258,170	-	420,258,170

30. Refundable deposits

	2020-2021 Kshs	2019-2020 Kshs
Client deposits	12,449,715	6,255,663
	12,449,715	6,255,663

31. Revaluation reserves

	2020-2021 Kshs	2019-2020 Kshs
At start of year	163,835,859	166,007,576
Transfer of excess depreciation on revaluation	(2,171,717)	(2,171,717)
	161,664,142	163,835,859

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.

32. Accumulated surplus

	2020-2021 Kshs	2019-2020 Kshs
This comprises of accumulated surplus over the years.		
At start of the year	96,716,471	72,978,380
Surplus for the year	1,357,185	502,555
Transfer of amortisation from revaluation reserves to accumulated surplus	2,171,717	2,171,717
Prior year adjustment	-	21,063,819
	100,245,373	96,716,471

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.

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33. Capital Funds

	2020-2021	2019-2020
	Kshs	Kshs
Staff Car Loan Scheme	23,964,481	23,359,033
Staff Housing Mortgage Scheme	36,447,222	36,249,920
	60,411,703	59,608,953

The Capital Funds movement during the year was as follows;	Staff Car Loan Scheme Kshs	Staff Housing Mortgage Kshs	Total Kshs
Balance brought forward	23,359,033	36,249,920	59,608,953
Interest earned during the year	605,448	197,302	802,750
Balance carried forward	23,964,481	36,447,222	60,411,703

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 2021				
Receivables from non-exchange transactions	53,961,965	9,495,312	44,466,653	44,466,653
Other receivables and prepayments	33,051,454	32,650,672	400,782	400,782
Cash and cash equivalents	305,376,478	305,376,478	-	-
	392,389,897	347,522,462	44,867,435	44,867,435
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

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.

KENYA DAIRY BOARD
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(i) Credit risk... continued.

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 2021				
Gratuity provision	-	-	3,607,780	3,607,780
Trade and other payables	75,141,582	-	-	75,141,582
Current provisions	2,262,000	-	-	2,262,000
Deferred Income	-	-	420,258,170	420,258,170
Refundable deposits	12,449,715	-	-	12,449,715
	89,853,297	-	423,865,950	513,719,247

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
Refundable deposits	6,255,663	-	-	6,255,663
	157,725,775	-	390,781,836	548,507,611

(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 2021.

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(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.

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. 13,571,847 to Kshs. 11,034,513. A rate decrease to 5% would result in a decrease in surplus from Kshs. 13,571,847 to of Kshs. 885,178.

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:

	2020-2021	2019-2020
	Kshs	Kshs
Revaluation reserves	161,664,142	163,835,859
Accumulated surplus	100,245,373	96,716,471
Capital funds	60,411,703	59,608,953
Total funds	322,321,218	320,161,283
Less: Cash and bank balances	(305,376,478)	(371,089,305)
Net debt / (excess cash and cash equivalents)	16,944,740	(50,928,022)
Gearing	5.3%	-15.9%

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

(a) Related party transactions

	2020-2021	2019-2020
	Kshs	Kshs
Revenue received from New Kenya Co-operative Creameries Limited	27,869,799	52,384,626
Car loans and advances granted to Key management	2,462,090	3,907,114
Staff Housing Mortgage Loans advanced Key management	-	6,500,000

(b) Grants from Government

Grants received from Government of Kenya	49,150,000	113,300,000
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(c) Key management compensation	2020-2021	2019-2020
	Kshs	Kshs
Allowances paid to Board Members	17,010,079	13,617,306
Compensation to Managing Director	7,827,273	7,785,455
Compensation to key management	<u>24,420,444</u>	<u>24,540,730</u>

(d) Due from related parties	2020-2021	2019-2020
	Kshs	Kshs
Due from New Kenya Co-operative Creameries Limited	37,147,782	38,609,552
Car loans and advances due from Key management	3,206,419	6,996,914
Staff Housing Mortgage Loans due from Key management	<u>23,612,432</u>	<u>25,521,959</u>

36. Contingent liabilities	2020-2021	2019-2020
	Kshs	Kshs
Court case No. HCCC No. 763 of 2003 - Dairycom (K) Limited	2,640,000	2,640,000
Meru ELRC. No. 5 Eunice Nyaga Vs Kenya Dairy Board	785,153	-
CMCC No. 992 of 2014 Thika: Esther Mumbi Kamunu Vs Aganyo Evans and 2 others	-	-
	<u>3,425,153</u>	<u>2,640,000</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.

Meru ELRC. No. 5 Eunice Nyaga Vs Kenya Dairy Board: Eunice Nyaga, an employee of Kenya Dairy Board (KDB) filed a suit against the Board claiming that she was illegally and unfairly interdicted and later demoted from the position of Branch Manager in the course of her employment. The case was referred to the Office of the Attorney General. However, there was no appearance on behalf of KDB and an ex parte judgement was endorsed. The Court found that Eunice had proved her case on a balance of probability and entered judgement in her favour as prayed as well as Kshs. 500,000 as general damages. The Board was not served with the judgement and in January 2021, the Board received a warrant to attach the Board's assets in Meru Branch or otherwise pay a decretal amount totalling Kshs. 785,153.

The Board sought an injunction for the attachment of the assets and the Judge sitting at Milimani Labour Court agreed to issue an injunction on condition that the decretal amount of Kshs. 785,153 is deposited in the Court's Account. The Board was also required to pay Auctioneer's fee of Ksh. 166,999. The Board has since appealed the trial court decision.

CMCC No. 992 of 2014 Thika: Esther Mumbi Kamunu Vs Aganyo Evans and 2 others (Kenya Dairy Board); Esther Mumbi Kamunu is claiming compensation for injuries sustained in a road accident which involved a vehicle which was previously owned by a Kenya Dairy Board staff. The Board was enjoined in the case since it had procured the fleet insurance cover under which the car was insured prior to the disposal and the new owner may not have obtained a new insurance policy for the vehicle.

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 2021. 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	2020-2021	2019-2020
	Kshs	Kshs
a) Authorised and contracted for: Proposed erection and completion of National Dairy Laboratory at Upper Kabete, Nairobi.	15,169,916	29,699,318
b) Authorised and contracted for: Proposed erection and completion of National Dairy Laboratory at Upper Kabete Nairobi - Civil Works	-	2,022,046
c) Authorised and contracted for: Proposed erection and completion of Transformer House at Upper Kabete Nairobi - Civil Works	38,474	769,475

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37. Capital commitments... Continued	2020-2021	2019-2020
	Kshs	Kshs
d) Authorised and contracted for: Supply, Delivery, Installation, Testing and Commissioning of Low Level Water Tank at Upper Kabete, Nairobi	266,278	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	487,884	6,399,060
f) Authorised and contracted for: Supply, Installation, Configuration, Testing and Commissioning of an Enterprise Resource Planning (ERP) Solution	10,897,020	13,676,600
g) Authorised and contracted for: Proposed erection and completion of Kenya Dairy Board Administration Block and Associated Works at Upper Kabete, Nairobi	142,202,072	-
	<u>169,061,644</u>	<u>55,438,795</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	2020-2021	2019-2020
	Kshs	Kshs
Surplus from operating activities	1,357,185	502,555
Add back: Depreciation	23,826,861	14,339,781
Amortisation of intangible assets	2,278,680	2,759,050
Amortisation of finance leases	2,171,717	2,171,717
Contribution to provision	-	2,838,286
Less: Gain on disposal of non current assets	(790,799)	(9,163)
Interest income	(17,761,336)	(18,499,310)
	<u>11,082,308</u>	<u>4,102,916</u>
Adjustment for changes in working capital		
Decrease in receivables from non-exchange transactions	3,019,778	9,334,415
Increase in other receivables and prepayments	(517,160)	(6,451,203)
(Decrease) / decrease in trade and other payables from non-exchange transactions	(66,025,222)	64,590,920
(Decrease) / increase in provisions	(7,457,194)	7,670,965
Decrease in deferred income	-	(1,788,270)
Increase in refundable deposits	6,194,052	6,255,663
Prior year adjustment	-	21,063,819
	<u>(64,785,745)</u>	<u>100,676,309</u>
Net cash flow (used) / generated from operating activities	<u>(53,703,438)</u>	<u>104,779,225</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 Cooperatives. 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	Status	Time Frame
1.0 Property, plant and equipment - Land without Title	As similarly reported in the previous years, the statement of financial position reflects Property, Plant and equipment balance of Kshs. 245,647,784. The balance include an amount Kshs. 1,500,000 being the value of land situated in Narok Town that was allocated to the Board in year 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. 1,500,000 included in the property, plant and equipment balance of Kshs. 245,647,784 as at 30 June 2020 cannot be confirmed.	The National Lands Commission issued a letter of allotment to the Board in October 2016 together with a payment demand for Ksh. 11,395. This payment was promptly effected and the Board has been pursuing the matter. In a letter dated 3 February 2021, the NLC has asked the Managing Director to provide additional documents to facilitate processing of the Lease Title Certificate. 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.	Not resolved	
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 to repairs and maintenance. Analysis of schedules and ledger provided revealed that the balance constitute expenses totalling to Kshs. 774,691 which are not related to repairs and maintenance. Management has not given an explanation for the anomalies. In the circumstances, the accuracy of repairs and maintenance expenditure of Kshs. 774,691 could not be ascertained.	The expenditure of Kshs. 774,691 relates to amount paid by the Board for contracted security services. The classification on the financial statement was based on the Budget classification, where the budget for security services was included under the maintenance of offices budget line. Subsequently, the Board has provided a separate General Ledger account and a separate budget line under Contracted Security and Cleaning services to ensure that the inconsistencies noted do not recur in future.	Resolved	N/A



Margaret Rugut Kibogy
Managing Director

Date: 07/01/2022

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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	259,310,534	30.3%	414,500,000	259,310,534	GoK

The ongoing project had received a total funding of Kshs. 414.5 million as at the 30 June 2021. However the completion rate as at the close of the year was 33.3% with total payments of Kshs. 259.31 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, civil works as well as erection and completion of the Laboratory wing were completed and handed over in the previous year. Similarly, the Board has continued to equip the Laboratories and are fully in use. The contract for the proposed erection and completion of Kenya Dairy Board Administration Block and Associated Works was signed in May 2021 and the project is under implementation and due to be completed within 18 months.

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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	Amount (Kshs)	Financial year to which the amount relate
State Department for Livestock	31-Aug-20	8,325,000	2020/2021
State Department for Livestock	29-Dec-20	8,325,000	2020/2021
Total		16,650,000	

(b) Development Grants	Bank statement	Amount (Kshs)	Financial year to which the amount relate
State Department for Livestock	16-Feb-21	32,500,000	2020/2021
Total		32,500,000	

The above amounts have been communicated to and reconciled with the Ministry of Agriculture, Livestock, Fisheries and Co-operatives (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	31-Aug-20	Recurrent	8,325,000	8,325,000	-	8,325,000
State Department for Livestock	29-Dec-20	Recurrent	8,325,000	8,325,000	-	8,325,000
State Department for Livestock	16-Feb-21	Development	32,500,000	-	32,500,000	32,500,000
			49,150,000	16,650,000	32,500,000	49,150,000

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