REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA DAIRY BOARD

FOR THE YEAR ENDED 30 JUNE, 2025

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REPORT OF THE AUDITOR-GENERAL ON KENYA DAIRY BOARD FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

A. Report on 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 the 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,

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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion is issued when the Auditor-General concludes that the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management, and Governance.

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities 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

Opinion

I have audited the accompanying financial statements of Kenya Dairy Board set out on pages 1 to 29 which comprise of the statement of financial position as at 30 June, 2025 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, the financial statements present fairly, in all material respects, the financial position of Kenya Dairy Board as at 30 June, 2025 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 Dairy Industry Act, Cap 336 of the laws of Kenya and the Public Finance Management Act, 2012.

Basis for Opinion

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 the 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 opinion.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual amounts on comparable basis of Kshs.636,494,350 and Kshs.704,279,381 respectively, resulting to over - funding of Kshs.67,785,031, or 11% of the budget. Similarly, the Board spent Kshs.655,292,186 against the actual receipts of Kshs.704,279,381, resulting to under - utilization of Kshs.48,987,195 or 7% of the actual receipts.

The under – utilization affected the implementation of planned activities and may have impacted negatively on service delivery to the public.

2. Long Outstanding Legal Cases

The Statement of Financial Performance and Note 11 to the financial statements reflects Use of goods and services amount of Kshs.31,691,110. Included in this amount is Professional and legal costs of Kshs.3,663,732. Verification of legal documents revealed the Board had two (2) ongoing court cases dating back between eleven (11) and twenty-two (22) years respectively with no judgement issued.

In the circumstances, the Board will continue to be vulnerable to risks relating to the cases.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Audit Matters

Review of the progress on follow up on prior year auditor's recommendations reveal that three (3) issues were raised under Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during the audit of the Board as at 30 June, 2025 revealed that, review of Board's Performance Against Predetermined Objectives remained unresolved.

Other Information

The Directors are responsible for the Other Information set out on page iii to xxxviii which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Managing Director, Statement of Performance against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Board's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Failure to Present Financial Statement of Staff Car Loan Scheme

The statement of financial position and Note 21 to the financial statement reflect Other Receivables and Prepayment balance of Kshs.19,007,713. Included in this amount is current receivables of Staff Car Loan Scheme amount of Kshs.8,427,872. However, Management did not present the financial statement of the Staff Car Loan Scheme. This was contrary to the Salaries and Remuneration Commission circular No. SRC/Adm/Cir/1/13 Vol III (128) which requires entities to manage the scheme internally and have the same subjected to annual audit.

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

2. Non-Compliance with Fiscal Responsibility Principle on Development Expenditure

The statement of Comparison of Budget and Actual Amounts reflects total capital budget of Kshs.9,000,000 out of a total revenue of Kshs.636,494,350 translating into Development budget of 1.4% of the total revenue which is materially below the statutory minimum of 30% as required by Section 51(2) of Public Finance Management Act,2012.

In the circumstances, Management was in breach of the law

3. Long Outstanding Unclaimed Deposits

The statement of financial position and Note 21 to the financial statement reflects Other Receivables and Prepayments balance of Kshs.19,007,713. included in this amount is Deposits of Kshs.4,829,541 which include unclaimed deposit of Kshs.2,211,808 in respect to rented office spaces at Social Security House. The Kenya Dairy Board relocated to the National Dairy Laboratory Complex in New Loresho Estate, off Waiyaki Way, Upper Kabete, three years ago, yet the deposit remains unrecovered.

In the circumstances, recoverability of the rent deposit could not be confirmed

4. Long Outstanding Receivable from Non-Exchange Transaction

The statement of Financial Position and Note 20(a) to the financial statement reflects receivables from non-Exchange transaction balance of KShs.106,380,489. included in this amount is provision for bad and doubtful debts and Levies, Fines and Penalties of Kshs.(53,992,719) and Kshs.160,373,208 respectively. Review of supporting documents revealed that Kshs.139,208,522 was due from New Kenya Co-operative Creameries (NKCC) out of which Kshs.46,416,787 has been provided for as bad and doubtful debts leaving a net principal outstanding amount of Kshs.92,791,735.

In the circumstances, recoverability of long outstanding receivables could not be confirmed.

5. Non-Compliance with the Public Procurement Capacity Building Levy Order

Management did not provide evidence to confirm that the Board complied with paragraph 3(1) of the Public Procurement Capacity Building Levy, Order 2023 which provides that there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes. This is in addition to adherence to the Public Procurement Regulatory Authority (PPRA) circular No. 01/2024 dated 30 August, 2024 which requires procurement entities to remit the levy to the Authority through the e-Citizen payment platform by the 20th day of the subsequent month and also file monthly returns.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Failure to Integrate Laboratory Operations into Organization's ERP System

Physical observation of the laboratory procedures and processes of Kenya Dairy Board revealed that Kenya Dairy Board has not integrated its laboratory operations into its existing Enterprise Resource Planning (ERP) System as its operations are manual right from the reception of samples for analysis, processing of samples and relaying of the results, thereby compromising the audit trail of laboratory outputs as way of control measure.

In the circumstances, the laboratory lacks the automation, traceability, and real-time data integrity that an ERP would provide.

2. Employees Being Paid Less Than One Third of the Basic Salary

Statement of financial performance and Note 12 to the financial statement reflect employee cost amounting to Kshs.244,365,073. Audit of the entity's payroll for the year under review revealed that Fifty-Eight (58) staff members were being paid a net salary of less than a 1/3 of their basic pay.

In the circumstances, effectiveness of internal controls on payroll processing could not be confirmed

3. Failure to Submit the boards workplan (ALMANAC) for approval by the State Corporation Advisory Committee (SCAC)

The statement of financial performance and Note 13 to the financial statement reflects Board expenses of Kshs.24,911,998. Review of documents related to board operations revealed that the board work plan (Almanac) for the year was not submitted to the State Corporations Advisory Committee (SCAC) for approval.

In the circumstances, Management was in breach of the law

4. Failure to Rotate Board Committee Sub Members Twelve Months Service

The statement of financial performance and Note 13 to the financial statement reflects Board expenses amount of Kshs.24,911,998. Review of documents including the annual reports, board minutes and prior year financial information revealed that the Board had established four sub committees; Finance and planning committee, Human Resources and Administration Committee, Technical Licensing and Marketing Committee and Audit Committee with distinct committee members. However, the board committee members were not rotated during the year under audit as required by National Treasury Circular No.OP/CAB.9/1A of 11 March ,2020.

In the circumstances, Management was in breach of National Treasury Circular.

5. Under Staffing of the Entity

The statement of financial performance and Note 12 to the financial statements reflect employee costs amount of Kshs.244,365,073. Review of the human resource records revealed that the Board had a staff establishment of two hundred and fifty-three (253) staff against one hundred and fifty- five (155) staff members in post thus resulting in an overall under establishment of ninety-eight (98) personnel. In addition, there were no substantive staff in the critical positions of Director-Standards and Enterprise Development, Principal Officer -Standards and Enterprise Development Officer, Director Internal Audit, Manager Corporation Secretary and Senior Security Officer and as such the entity lacks on critical leadership to help deliver on its mandate.

In the circumstances, the Board's Institutional capacity to deliver on its mandate is impaired.

6. Lack of a Corporation Secretary for Kenya Dairy Board

The statement of financial performance and Note 13 to the financial statements reflect Board members expenses amount of Kshs.24,911,998. Review of board meeting minutes for the year under review revealed that the board did not have a secretary as Corporation Secretary, who should have been secretary to the board, has not been appointed and the role remains vacant.

The lack of a corporation secretary undermines the duties and responsibilities in guiding the Board as well as handling institutional and legal matters exposing the Institution to litigations.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, 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 the Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention 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 comply 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 Management 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

17 December, 2025