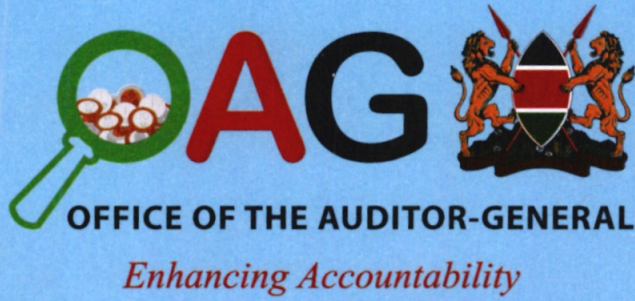
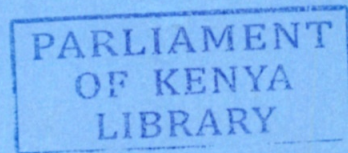


REPUBLIC OF KENYA



REPORT



OF

THE AUDITOR-GENERAL

PAPERS LAID	
DATE	20/3/2024
TABLED BY	Sen. J. Kimani
COMMITTEE	_____
CLERK AT THE TABLE	Polycarp

ON

MUNICIPALITY OF KATHWANA

**FOR THE YEAR ENDED
30 JUNE, 2023**

COUNTY GOVERNMENT OF THARAKA NITHI



MUNICIPALITY OF KATHWANA
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2023

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

COUNTY GOVERNMENT OF THARAKA NITHI
COUNTY TREASURY



Telephone: 0800720370

Email: treasury@tharakanithi.go.ke

REF: TNCG/ACC/VOL.I/20



P. O. BOX 10-60406

KATHWANA

Date: 10th July, 2023

The Auditor General
Office of the Auditor General
Embu Hub
P.O Box 113- 60100
EMBU

**RE: MUNICIPALITY OF KATHWANA ANNUAL REPORT AND
FINANCIAL STATEMENTS FY 2022/23**

In accordance to Public Financial Management Act 2012, Section 180, we hereby submit Municipality of Kathwana Annual Report and Financial Statements for the year ended 30 June, 2023.

Please find enclosed report for your necessary action.

Thank you

Lawrence K. Ireri Rweria

CECM- Finance and Economic Planning

cc

- The Director General, Accounting Services and Quality Assurance
- The Commission on Revenue Allocation
- Office of the Controller of Budget
- Office of the Auditor General

Municipality of Kathwana
Annual Reports and Financial Statements
For the Year Ended June 30, 2023

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1. Acronyms and Glossary of Terms

a) Acronyms

BOM	Board of Management
CECM	County Executive Committee Member
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
KENHA	Kenya National Highways Authority
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
Ksh.	Kenya Shillings

b) Glossary of Terms

Fiduciary Management	The key management personnel who had financial responsibility
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2. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

Municipality of Kathwana is established by and derives its authority and accountability from Urban Areas and Cities Act, 2011. The Municipality is wholly owned by the County Government of Tharaka Nithi and operates as per the said Urban Areas and Cities Act, 2011 as well as the Urban Areas and Cities (Amendment) Act, 2019.

(b) Principal Activities

The Municipality's principal activities are;

- i. Urban planning, promotion of sustainable land use and regulation and control of physical development
- ii. Management and promotion of a safe and healthy environment
- iii. Promotion of the participation of residents in the governance of the municipality
- iv. Provision of municipal services e.g. solid waste management

(c) Kathwana Municipality Board Members

No	Name	Designation
1	Ignatius Mugambi Kigwari	Board Chairman
2.	Eva Nkatha John	Member
3	Rael Fatuma Murungi	Member
4	Fred Kibaara Nabea	Member
5	Esther Makena Kanyaru	Member
6	Jasper Ndeke Shadrack	Member
7	Mercy Muthoni Mbuba	Member
8	Eng. Julius Kijiru Giti	CECM – Lands and Urban Development
9	Faith Kalunda	Chief Officer – Lands and Urban Development
10	Emily Kanana Murungi	Municipal Manager

(d) Key Management

No	Name	Designation
1.	Mrs. Emily Kanana Murungi	Municipal Manager
2	Miss. Faith Kalunda	Chief officer – Roads and Urban Development
3	CPA, CS Nduati E.K.	Director Accounting Services
4	Stephen Kimathi	Procurement Officer

(e) Fiduciary Oversight Arrangement

No	Name	Designation
1.	Amos Sikweya	Clerk – County Assembly of Tharaka Nithi
2.	Susan Agevi	Head of Interna Audit


**Municipality of Kathwana
Annual Reports and Financial Statements
For the Year Ended June 30, 2023**

- (f) **Registered Offices**
County Headquarters Building
Kathwana Town
P. O. Box 10-60406
KATHWANA
- (g) **Municipality Contacts**
Telephone: 0726-636973
E-mail: municipality@tharakanithi.go.ke
Website: www.tharakanithicounty.go.ke
- (h) **Municipality Bankers**
1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya
 2. Family Bank
Chuka Branch
P. O. Box 60000 - 00400
CHUKA
- (i) **Independent Auditors**
Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084 – 00100 GPO
NAIROBI
- (j) **Principal Legal Adviser**
The Attorney General
State Law Office and Department of Justice
Harambee Avenue
P.O. Box 40112
City Square 00200
NAIROBI, KENYA
- (k) **County Attorney**
The County Attorney
County Government of Tharaka Nithi
P.O. Box 10 - 60406
KATHWANA

3. KATHWANA MUNICIPLITY BOARD MEMBERS

Name	Details of qualifications and experience
<p>1. Ignatius Mugambi Kigwari</p> <p>(Chairman Municipal Board)</p>	<p>Qualifications:</p> <ul style="list-style-type: none"> - MBA (Strategic Management), Meru University of Science and Technology - B/ED (Arts) <p>Experience</p> <ul style="list-style-type: none"> - Branch Manager-Family Bank, Chuka and Meru Branch - Credit Manager Equity Bank Limited, Maua and Chuka - Credit administrator, Equity Bank Ltd Maua - Teacher Service Commission - Curriculum Co-ordinator, HOD Languages-Chiakariga Girls School.
<p>2. Mercy Muthoni Mbuba</p>	<p>Qualifications:</p> <p>Certified Public Accountant (CPA) I</p> <p>Experience</p> <p>Business lady in Nairobi and Tharaka Nithi counties</p>
<p>3. Eva Nkatha John</p>	<p>Qualifications:</p> <p>Polytechnic Education - Mitunguu Polytechnic</p> <p>Experience</p> <ul style="list-style-type: none"> - Agriculture and Business - Nominated MCA, Tharaka Nithi County Assembly 2013-2017
<p>4. Rael Fatuma Murungi</p>	<p>Qualification:</p> <p>Higher Diploma in theology by extension</p> <p>Experience</p> <ul style="list-style-type: none"> - Chairlady Chuka Township Primary School - Sits at Court User Committee, Chuka - Served as Chairperson District Business Solution Centre - Vice Chairperson Chamber of Commerce and Industry, Meru South
<p>5. Fred Kibaara Nabea</p>	<p>Qualifications:</p> <ul style="list-style-type: none"> - Doctorate in peace and conflicts studies - Fellow - Master of Arts (Conflict Resolution and Peace Building) - Postgraduate Certificate in Environmental Impact Assessment and Environmental Audit - Certificate in Monitoring and Evaluation

**Municipality of Kathwana
Annual Reports and Financial Statements
For the Year Ended June 30, 2023**

Name	Details of qualifications and experience
	<ul style="list-style-type: none"> - Postgraduate Diploma in Mass Communication - Master of Arts (M.A) in Police Studies - Bachelor of Arts (Hons), UoN <p>Experience</p> <ul style="list-style-type: none"> - Member, Performance Contracting Task Force - Border Security Expert - City and Guild International - International External Security Verifier
6. Esther Makena Kanyaru	<p>Qualifications:</p> <ul style="list-style-type: none"> - MBA (Strategic Management) Catholic University of East Africa - BSc. Computer Information Systems, Kenya Methodist University - Diploma in Computer Information Systems, Kenya Methodist University <p>Experience</p> <ul style="list-style-type: none"> - NCPWD Disability Service Officer (DSO) Registration
7. Jasper Ndeke Shadrack	<p>Qualifications:</p> <ul style="list-style-type: none"> - MBA in Environmental Planning and Management, UoN - BA Planning, UoN - EIA and Environmental Audit Certificate, African Nazarene University <p>Experience</p> <ul style="list-style-type: none"> - Nairobi City Council - Urban Planning - Senior Development Control Officer - Assistant Director Urban Design and Development section
 <p>8. Eng. Julius Kijiru Giti CECM-Land, Physical Planning Housing, Roads, Infrastructure, Public Works and Urban Development</p>	<p>Qualifications:</p> <p>Eng. Giti holds Masters of Construction Engineering and Management from JKUT and Bachelor Degree in Science and Civil Engineering from University of Nairobi</p> <p>Work Experience</p> <p>Eng. Giti previously worked with Min. of Works as District Works Officer from 2004 and later latter KENHA from 2014 before joining the County in the position of CECM He has over 20 years in public Service</p> <p>Date of Birth 1978</p>

**Municipality of Kathwana
Annual Reports and Financial Statements
For the Year Ended June 30, 2023**

Name	Details of qualifications and experience
 <p>9. Faith Kalunda Chief Officer Roads, Public Works, Infrastructure and Urban Development</p>	<p>Qualifications: Ms. Kyunga holds a Masters’ degree in Entrepreneurship & Innovations Management from University of Nairobi and Bachelors degree in Urban and Regional Planning</p> <p>Work Experience: She has worked as County Chief Officer for the last 6 years and previously worked in various organization in senior management positions.</p> <p>Date of Birth 1988</p>
 <p>10. Emily Kanana Murungi (Board Secretary and Ex-officio member)</p>	<p>Qualifications: Mrs. Murungi holds Masters’ degree in Project Planning and Management from University of Nairobi. Bachelors Degree in Sociology and Public Administration and currently pursuing Doctorate degree in Development Studies at JKUAT</p> <p>Experience: Worked with Child Fund Kenya, as Child Protection Manager since 2011 having previously worked as Lecture with Tharaka University and Mt. Kenya University</p> <p>Date of Birth 1985</p>

**Municipality of Kathwana
Annual Reports and Financial Statements
For the Year Ended June 30, 2023**

4. MANAGEMENT TEAM

The following officers served in Management of the Municipality for the year ended 30th June 2023

Name	Qualification
 <p>Faith Kalunda Kyunga Chief Officer Roads, Public Works, Infrastructure and Urban Development</p>	<p>Qualifications: Ms. Kyunga holds a Masters' degree in Entrepreneurship & Innovations Management from University of Nairobi and Bachelors degree in Urban and Regional Planning</p> <p>Work Experience: She has worked as County Chief Officer for the last 6 years and previously worked in various organization in senior management positions.</p> <p>Date of Birth 1988</p>
 <p>Emily Kanana Murungi Municipal Manager</p>	<p>Qualifications: Mrs. Murungi holds Masters' degree in Project Planning and Management from University of Nairobi. Bachelor Degree in Sociology and Public Administration and currently pursuing Doctorate degree in Development Studies at JKUAT</p> <p>Experience: Worked with Child Fund Kenya, as Child Protection Manager since 2011 having previously worked as Lecture with Tharaka University and Mt. Kenya University</p> <p>Date of Birth 1985</p>
 <p>CPA, CS Nduati E.K. Director Accounting Services</p>	<p>CPA, CS Nduati is the County Director - Accounting Services and also the Municipality Head of Accounts</p> <p>He is professional Accountant and member of ICPAK (No. 6720) and Certified Secretary ICPSK (No. 2253)</p> <p>He holds Master's Degree in Finance (UoN) and B.A. Economics (UoN) and PhD Candidate JKUAT</p> <p>He has over 10 years' experience working with Public Sector in Finance Management</p> <p>Date of Birth 1980</p>

5. KATHWANA MUNICIPALITY CHAIRMAN'S REPORT

On behalf of the Kathwana Municipality Board, it is with great honour that I present to you the annual report and financial statements of the Municipality of Kathwana for the financial year ended 30th June, 2023.

First, I would like to acknowledge the Support of the County Government of Tharaka Nithi headed by H.E. Hon. Onesmus Muthomi Njuki for the support, solid commitment and political goodwill which created an enabling environment to the Municipality in its endeavour to deliver on its mandate

The Municipality of Kathwana formed in accordance to Urban Areas and Cities Act, 2011 as qualifying condition for access of World Bank funded Kenya Urban Support Programme. The World Bank entered to memorandum of Understanding with National Government for support of counties on service delivery in urban areas.

During the financial year under review, the Municipality of Kathwana was involved in implementation of ongoing modern market at Kathwana town. The project is currently at about 90% level of completion. The project has been co-funded by the Kenya Urban Support programme and County Government of Tharaka Nithi. The estimated completion date of September 2023

Thank you and God bless Tharaka Nithi County



I.M. Kigwari
Chairman
Kathwana Municipal Board

Date 10th July 2023

Municipality of Kathwana
Annual Reports and Financial Statements
For the Year Ended June 30, 2023

6. REPORT OF THE MUNICIPAL MANAGER

During the year under review, the Municipality continued with construction of Kathwana market.

Tabulated below are the Municipality summary of income and expenditure during the financial year ended 30th June 2023

a. Income

Description	Budget Ksh	Actual Ksh.	Performance Level %
Development Grant Transfers	20,000,000	9,373,540	47%
Current Grants Transfer	-	5,569,653	100%
Unspent Balance B/Forward – UIG	18,582	18,582	100%
Unspent Balance B/Forward – UDG	2,739,435	2,739,435	100%
Total Income	22,758,017	17,701,210	78%

b. Expenditure

Particulars	Estimates Ksh.	Actual Ksh.	Performance Level %
Personnel Expenditure	-	5,569,653	100%
Use of Goods and Services	2,758,017	11,304	0%
Depreciation and Amortization	-	7,457,131	100%
Property, Plant and Equipment	20,000,000	9,372,426	47%
Total Expenditure	22,758,017	22,410,514	98%

I take this opportunity to appreciate H.E. The Governor and Members of County Assembly for their immense support accorded to the municipality.



Emily K. Murungi
Municipal Manager
KATHWANA MUNICIPALITY

Date 10th July 2023

Municipality of Kathwana
Annual Reports and Financial Statements
For the Year Ended June 30, 2023

**7. STATEMENT OF PERFORMANCE AGAINST THE MUNICIPALITY OF KATHWANA
PREDETERMINED OBJECTIVES FY 2022/2023**

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer for a County Government entity to prepare financial statements in respect of the entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the county government entity's performance against predetermined objectives.

Municipality of Kathwana 2020-2024 Strategic Plan has identified eight (8) key strategic objectives. Broadly, these objectives have been identified through a participatory process that reviewed the development priorities of the Governor's Manifesto, the National Government's "Big Four", SDGs and the MTP III.

The strategic objectives are a synthesised product of the afore-mentioned planning frameworks that amalgamate the thematic focus and development aspirations in these policy frameworks.

The key strategic objectives of the Municipality of Kathwana as outlined on "2020-2024 Strategic Plan" as follows;

1. Urban Governance and administration
2. Improve level of governance and accountability
3. Municipal Service delivery
4. Strengthen waste collection and disposal
5. Strengthen urban planning functions
6. Improve infrastructure
7. Promote trade and investments
8. Improve the corporate visibility of the Municipality

Progress on attainment of Strategic objectives (Adopted from Chapter 3 Kathwana Municipality Strategic plan 2020-2024),

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement. The Table below provide the progress attained on the above stated objectives:

Municipality of Kathwana
Annual Reports and Financial Statements
For the Year Ended June 30, 2023

Thematic Area	Strategic Objective	Indicator	Performance
Urban Governance and administration	Developing Kathwana Municipality Service Charter Service Charter	Documented	100%
	Improve the level of governance and accountability	Documented Board Charter	100%
Municipal Service delivery	Speed up service delivery and foster innovation	Provision of e-services	Ongoing
		Develop a Municipality integrated information system	Pending
		ICT connectivity within the Municipality	Pending
		Design and ICT incubation centre within the Municipality	Pending
		Implementation of a Quality Management System based on ISO standards	Pending
	Waste Collection and Disposal	Develop a recycling for waste within the municipality	Pending
	Traffic and Parking Management	Develop an infrastructure development Plan	Ongoing
	Strengthen od sports, arts and culture	Build and equip a social hall	Ongoing
Improvement of Urban Planning an Infrastructure	Strengthen Urban Planning Function	Build and equip GIS lab	Complete
Promotion of Trade and Investments	Industrialization	Establish a industrial area zone near the source of raw materials	Pending
	Improve the corporate visibility of the Municipality	Rebranding	Done

8. CORPORATE GOVERNANCE STATEMENT

The management of a Municipality is vested in the county government and administered on its behalf by:

- (a) a board, constituted in accordance with section 13 or 14 of this Act;
- (b) a manager appointed pursuant to section 28; and
- (c) such other staff or officers as the county public service may determine

Principles of Governance

The Governance and Management of urban areas and cities shall be based on the following principles as provided in Urban Areas and Cities Act, 2011 Section 11;

- (a) recognition and respect for the constitutional status of county governments;
- (b) recognition of the principal and agency relationship between the boards of urban areas and cities and their respective county governments including;
 - i. the carrying out by a board of such functions as may be delegated by the county government;
 - ii. financial accountability to the county government; and
 - iii. the governance by each board for and on behalf of the county government
- (c) promotion of accountability to the county government and residents of the urban area or city;
- (d) institutionalised active participation by its residents in the management of the urban area and city affairs;
- (e) efficient and effective service delivery; and
- (f) clear assignment of functions.

Appointment of Municipality Board

The appointment of the members to the Municipal Board was done in accordance to Sections 13 and 14 of Urban Areas and Cities Act, 2011 and Gazetted on 14th September, 2018 vide Gazette Notice No. 9505. Further, the membership of the board is currently aligned with the Urban Areas and Cities (Amendment) Act, 2019 Section 14;

A board of a municipality shall consist of **nine** members appointed by the county governor with the approval of the county assembly. The members of the board appointed shall be constituted as follows:

- (a) the county executive member for the time being responsible for cities and urban areas or his representative;
- (b) three members who shall be appointed by the county governor, with the approval of the county assembly;
- (c) four members who shall be nominated by an association and appointed by the county governor, with the approval of the county assembly;
- (d) the chief officer responsible for urban development; and
- (e) the municipal manager appointed under section 28 who shall be the secretary of the board and an ex officio member of the board.

**Municipality of Kathwana
Annual Reports and Financial Statements
For the Year Ended June 30, 2023**

Term of Office of Municipal Board, Functions and Remunerations

A member of a board shall hold office for a term of five years, on a part-time basis

The functions of the Municipality Board are as stipulated under Urban and Cities Act, 2011 Section 20

The Municipality Board remuneration is in accordance to Salaries and Remuneration Circular ref: SRC/ADM/CIR/1/13 (122) dated 16th April 2014 on Payment of Task Force Allowances and remuneration of Commission of Inquiry, Tribunals, Boards and Committee appointed by the Government for Members appointed from private sector where the chairman draws a sitting allowance of Ksh. 15,000, Vice Chair Ksh. 12,000 and members Ksh. 10,000 per sitting.

Board Meetings;

Municipality of Kathwana is managed by the Municipality Board. During the year under review, the board did not any meeting.

The Kathwana Municipality Board is expected to remain in the office for another period of twelve (12) months.

9. MANAGEMENT DISCUSSION AND ANALYSIS

The Municipality of Kathwana formed in accordance to Urban Areas and Cities Act, 2011 as qualifying condition for access of World Bank funded Kenya Urban Support Programme. The World Bank entered to memorandum of Understanding with National Government for support of counties on service delivery in urban areas. This required creation of Municipalities as entity of funding. The funding is done through two programmes namely Urban Intuitionnal Grant (UIG) intended for Operations and Maintenance costs of the Municipality. The Urban Development Grant (UDG) for development projects.

During the year ended 30th June, 2023, the Municipality received Ksh. 9,373,540 Development Grant from the County Government of Tharaka Nithi towards construction of Kathwana Market and purchase of skips.

The Municipality continued with the construction of proposes Kathwana Market.

IMAGES OF ONGOING CONSTRUCTION OF KATHWANA MARKET



Project Sign Post at Kathwana Town



Partitioning



External Works



Internal Works

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The Municipality of Kathwana exists to transform lives. This is our purpose; the driving force behind everything we do. It is what guides us to deliver our strategy, which is founded on our pillars: putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar

i. Sustainability strategy and profile

Municipality of Kathwana derives its existence from the Urban Arrears and Cities Act, 2011 and subsequent Urban Arrears and Cities (Amendment) Act, 2019. The Municipality ensures compliance with all necessary legislations and ensures the service delivery to the people of Kathwana.

ii. Environmental Performance

Municipality of Kathwana has put measures and policies that ensure conservation of the environment and protection of the ecosystem. This is done through garbage waste management and planting of trees on public land and greening of public parks.

iii. Employee Welfare

The Municipality has put in place policies that ensure the employee welfare are well guarded and all staff are given fair and just treatment. All staff matters are considered through select committee that evaluates the staff matter and advise according for necessary action such promotion, deployment, reprimanding and or dismissal.

Municipality of Kathwana is equal opportunity employer with consideration for merit as prerequisite for hiring. The County ensures applicants are not discriminated by gender, religious background, ethnicity or any other form of personality.

The Municipality conducts annual staff appraisal that help to identify training needs and ways of improving staff productivity. The annual targets are negotiated and agreed between the officer and the supervisor at the beginning of the year. The Municipality has clear career progression structure and staff are awarded promotion timely basis.

iv. Market place practices-

The Municipality of Kathwana is tasked with mandates as outlined on Urban Arrears and Cities Act, 2011.

In delivering its mandates the Municipality ensure maximum benefit to the citizenly and that public funds are utilized in the most efficient and effective manner.

v. Community Engagements-

The Municipality of Kathwana undertakes public participation in order to identify the community priority and obtain views of the stakeholders.

11. REPORT OF THE BOARD OF KATHWANA MUNICIPALITY

The Board hereby submit financial statements for the financial year ended **30th June, 2023** which show the state of the Municipality of Kathwana affairs.

1.1 Principal activities

The Municipality's principal activities are;

- (a) Urban planning, promotion of sustainable land use and regulation and control of physical development
- (b) Management and promotion of a safe and healthy environment
- (c) Promotion of the participation of residents in the governance of the municipality
- (d) Provision of municipal services e.g. solid waste management

1.2 Performance

The results of the Municipality for the financial year ended **30th June, 2023** are set out on page 1-5

1.3 Board of Trustee

The Members of the Board of Kathwana Municipality who served during the financial year are shown on page iv - vi.

1.4 Auditors

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

By Order of the Board



I.M. Kigwari
Board Chairman Municipality of Kathwana

Date: 10th July 2023

12. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Section 180 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer of the City/Municipality established by Urban Areas and Cities Act No. 13 of 2011 shall prepare financial statements in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Municipal Manager is responsible for the preparation and presentation of the Municipality's financial statements, which give a true and fair view of the state of affairs of the Municipality for and as at the quarter ended on **30th June, 2023**. 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 Municipality ; (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 Municipality; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Municipal Manager accept responsibility for the Municipality of Kathwana financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Urban and Cities Act, 2011. The Municipal Manager is of the opinion that the Kathwana Municipality financial statements give a true and fair view of the state of Municipality transactions during the year ended **30th June, 2023**, and of the Municipality financial position as at that date.

The Municipal Manager further confirms the completeness of the accounting records maintained for the Kathwana Municipality, which have been relied upon in the preparation of the Municipality financial statements as well as the adequacy of the systems of internal financial control.

In preparation of the financial statement, the Municipal Manager has assessed the Municipality ability to continue as going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statement. Nothing has come to the attention of the Municipal Manager to indicate that the Municipality will not remain a going concern for the next twelve months from the date of this statement.

Approval of the financial statements

The Municipality of Kathwana financial statements were approved by the Management Committee on **10th July 2023** and signed on its behalf by:



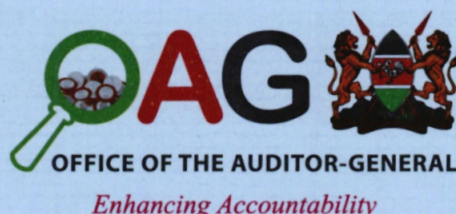
Emily K. Murungi
Municipal Manager

**13. REPORT OF THE AUDITOR GENERAL ON FINANCIAL STATEMENTS OF
KATHWANA MUNICIPALITY**

The Report of the Auditor General will be available upon completion of the Audit exercise of the Financial Statement for the year ended 30 June, 2023

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON MUNICIPALITY OF KATHWANA FOR THE YEAR ENDED 30 JUNE, 2023

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 the 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 Municipality of Kathwana set out on pages 1 to 31, which comprise of the statement of financial position as at

30 June, 2023, 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Municipality of Kathwana as at 30 June, 2023, 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 County Governments Act, 2012, the Public Finance Management Act, 2012 and the Urban Areas and Cities Act, 2011.

Basis for Qualified Opinion

1. Unbudgeted Expenditure on Property, Plant and Equipment

The statement of financial position and as disclosed in Note 10 to the financial statements reflects property, plant and equipment balance of Kshs.117,296,833 which includes additions of Kshs.9,372,426 paid to contractors. However, the expenditure was not supported by a budget. This is contrary to Section 43(3) of the Urban Areas and Cities Act, 2011 which states that no payment shall be made out of the funds of a board or town committee unless it has been provided for in the approved annual or revised or supplementary estimates of expenditure and authorized by the board or town committee.

In the circumstances, the accuracy and completeness of the balance of Kshs.117,296,833 could not be confirmed. Further, Management was in breach of the law.

2. Failure to Maintain Assets Register

As previously reported, the statement of financial position and as disclosed in Note 10 to the financial statements reflects a balance of Kshs.117,296,833 in respect to property, plant and equipment. This represents the net book value of assets owned by the Municipality including buildings, furniture, computer and office equipment. However, the Management did not maintain a register of assets owned by the Municipality. Also, the assets were not coded or tagged for ease of identification and tracking. This is contrary to Regulation 136(1) and (2) of the Public Finance Management (County Governments) Regulations, 2015 which states that Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, the accuracy, completeness and existence of property, plant and equipment of Kshs.117,296,833 as at 30 June, 2023 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Municipality of Kathwana 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.22,758,017 and Kshs.17,701,210 respectively resulting to an underfunding of Kshs.5,056,807 or 22% of the budget. The underfunding affected the planned activities and may have impacted negatively on service delivery to the public.

Further, Management did not provide approval of Municipality's budget estimates by the County Assembly for review.

My opinion is however not modified in respect of the above matter.

Key Audit Matters

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

Other Matter

1. Incomplete Information on Board Members

As previously reported, the Municipality's annual reports and financial statements did not include passport size photos of some of the Board members and their respective responsibilities. This is contrary to the Public Sector Accounting Standards Board (PSASB) prescribed reporting framework which stipulates that the Municipality annual reports and financial statements should include Municipality's Board members' details including passport-size photo, date of birth, experience, whether the Director is independent or Executive Director and the Committee of the Board the Director chairs where applicable.

In the circumstances, adequate disclosure was not provided of the Municipality's Board membership.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and

Governance. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the County Assembly has not deliberated on the same.

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 matter 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

Failure to Present Audit Reports to the Board

The Management of the Municipality did not provide the previous year's audit reports to the Board for consideration. Further, there was no evidence provided to show that the audit reports were made available to any resident of the area within the jurisdiction of the Board. This is contrary to Section 47(1), (2) of the Urban Areas and Cities Act, 2011 which states that as soon as is practicable, and in any event not later than thirty days from the date of receipt of the audit report together with the annual statements and abstracts of accounts, the Manager or Administrator shall lay the documents before the board or town committee for consideration; and make them available to any resident of the area within the jurisdiction of the board, upon application and payment of the prescribed fee. Where the Manager or the Administrator of a board fails to table the report as required under this section, that report shall be laid by any other person authorized by the County Governor.

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, except for the matter 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 overall governance were not effective.

Basis for Conclusion

Failure to Perform Internal Audit of the Municipality of Kathwana

As reported previously, during the year under review, the Municipality incurred a total of Kshs.13,038,088 in respect to recurrent expenditure and Kshs.9,372,426 in respect to capital expenditure both totalling to Kshs.22,410,514 as reflected in the statement of financial performance and Note 10 to the financial statements respectively. However, there was no evidence that the financial operations of the Municipality were subjected to internal audit. This is contrary to Regulation 153(1)(a) of the Public Finance Management (County Governments) Regulations, 2015 which states that internal auditors shall review and evaluate budgetary performances, financial management, transparency, accountability mechanisms and processes in County Government entities.

In the circumstances, the effectiveness of internal control systems could not be confirmed and Management was in breach of the law.

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

Responsibilities of Management and those Charged with Governance

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 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 control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Municipality's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of intention to terminate the Municipality 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.

Those charged with governance are responsible for overseeing the Municipality's financial reporting process, reviewing the effectiveness of how the 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

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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 Municipality'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 Management.
- Conclude on the appropriateness of 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 Municipality'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 Municipality to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Municipality to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

05 January, 2024

12. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Section 180 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer of the City/Municipality established by Urban Areas and Cities Act No. 13 of 2011 shall prepare financial statements in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Municipal Manager is responsible for the preparation and presentation of the Municipality's financial statements, which give a true and fair view of the state of affairs of the Municipality for and as at the quarter ended on **30th June, 2023**. 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 Municipality ; (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 Municipality; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Municipal Manager accept responsibility for the Municipality of Kathwana financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Urban and Cities Act, 2011. The Municipal Manager is of the opinion that the Kathwana Municipality financial statements give a true and fair view of the state of Municipality transactions during the year ended **30th June, 2023**, and of the Municipality financial position as at that date.

The Municipal Manager further confirms the completeness of the accounting records maintained for the Kathwana Municipality, which have been relied upon in the preparation of the Municipality financial statements as well as the adequacy of the systems of internal financial control.

In preparation of the financial statement, the Municipal Manager has assessed the Municipality ability to continue as going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statement. Nothing has come to the attention of the Municipal Manager to indicate that the Municipality will not remain a going concern for the next twelve months from the date of this statement.

Approval of the financial statements

The Municipality of Kathwana financial statements were approved by the Management Committee on **10th July 2023** and signed on its behalf by:



Emily K. Murungi
Municipal Manager

**Municipality of Kathwana
Annual Reports and Financial Statements
For the Year Ended June 30, 2023**

14. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2023

	Notes	2022/2023	2021/2022
		Ksh	Ksh
Income			
Transfers from County Government	1	5,569,653	7,837,185
Other Income	2	-	20,000
Total Income		5,569,653	7,857,185
Expenses			
Employee Costs	4	5,569,653	7,837,185
Use of Goods and Services	5	11,304	1,186,350
Depreciation and Impairment	6	7,457,131	7,597,089
Total Expenses		13,038,088	16,620,624
Surplus/(deficit) for the Year		(7,468,435)	(8,763,439)

The notes set out on pages 13 to 22 form an integral part of these Financial Statements

Municipality of Kathwana Financial Statements were approved on **10th July 2023** and signed by:



Emily K. Murungi
Municipal Manager



CPA Nduati E.K.
Director Accounting Services
ICPAK No. 6720

**Municipality of Kathwana
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15. STATEMENT OF FINANCIAL POSITION AS AT 30th JUNE, 2023

	Notes	2022/2023	2021/2022
		Ksh	Ksh
Assets			
Current Assets			
Cash and Bank Balances	7	5,789,991	2,758,018
Total Cash and Cash Equivalent		5,789,991	2,758,018
Non-current assets			
Property, Plant and Equipment	10	117,296,833	115,381,538
Total Non-Current Assets		117,296,833	115,381,538
Total Assets		123,086,824	118,139,556
Liabilities			
Current liabilities			
Account Payables	8	7,193,589	4,151,426
Total liabilities		7,193,589	4,151,426
Net Assets		115,893,235	113,988,130
Accumulated surplus		1,597,728	9,066,163
Development Fund	9	114,295,507	104,921,967
Total Net Assets and Liabilities		115,893,235	113,988,130

The accounting policies and explanatory notes to these Financial Statements form an integral part of the financial statements.

Municipality of Kathwana Financial Statements were approved on **10th July 2023** and signed by:



Emily K. Murungi
Municipal Manager



CPA Nduati E.K.
Director Accounting Services
ICPAK No. 6720

16. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30th JUNE, 2023

	Accumulated Surplus Ksh	Development Grant Ksh.	Total Ksh.
At 01 st July, 2021	17,829,602	68,049,846	85,879,448
Total Comprehensive Income During the Year	(8,763,439)	-	(8,763,439)
Development Grants Received During the Year	-	36,872,121	36,872,121
As at 30 th June, 2022	9,066,163	104,921,967	113,988,130
At 01 st July, 2022	9,066,163	104,921,967	113,988,130
Total Comprehensive Income During the Year	(7,468,435)	-	(7,468,435)
Development Grants Received During the Year	-	9,373,540	9,373,540
As at 30 th June 2023	1,597,728	114,295,507	115,893,235

Municipality of Kathwana Financial Statements were approved on 10th July 2023 and signed by:



Emily K. Murungi
Municipal Manager



CPA Nduati E.K.
Director Accounting Services
ICPAK No. 6720

**Municipality of Kathwana
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17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30th JUNE, 2023

		2022/2023	2021/2022
	Note	Ksh.	Ksh.
Cash flows from Operating Activities			
Receipts			
Transfer from County Government	1	-	-
Other Income	2	-	20,000
Total Receipts		-	20,000
Payments			
Employees Costs	4	-	-
Use of Goods and Services	5	11,304	1,186,350
Total Payments		11,304	1,186,350
Net Cash flows from Operating Activities		(11,304)	(1,166,350)
Changes in Working Capital			
Increase / (Decrease) Account Payables	8A	3,042,163	3,575,649
Total Changes in Working Capital		3,042,163	3,575,649
Cash flows from Investing Activities			
Purchase of Property, Plant and Equipment	10	(9,372,426)	(39,235,823)
Net cash flows used in investing activities		(9,372,426)	(39,235,823)
Cash flows from financing activities			
Development Grant	3	9,373,540	36,872,121
Net cash flows used in financing activities		9,373,540	36,872,121
Net increase/(decrease) in Cash and Cash Equivalents		3,031,973	45,597
Cash and Cash Equivalents at the Beginning of the Year	7	2,758,018	2,712,421
Cash and cash Equivalents at End of the Year		5,789,991	2,758,018

Municipality of Kathwana Financial Statements were approved on **10th July 2023** and signed by:



Emily K. Murungi
Municipal Manager



CPA Nduati E.K.
Director Accounting Services
ICPAK No. 6720

18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30th JUNE 2023

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	% Utilisation
Revenue	Ksh	Ksh	Ksh	Ksh	Ksh	
Development Grant Transfers	20,000,000		20,000,000	9,373,540	(10,626,460)	47%
Current Grant Transfers	-	-	-	5,569,653	5,569,653	100%
Unspent Balance B/Forward – UIG	18,582		18,582	18,582	-	100%
Unspent Balance B/Forward – UDG	2,739,435		2,739,435	2,739,435	-	100%
Total Income	22,758,017	0	22,758,017	17,701,210	(5,056,807)	78%
Expenditure						
Personnel Expenditure	-	-	-	5,569,653	5,569,653	100%
Use of Goods and Services	2,758,017		2,758,017	11,304	(2,746,713)	0%
Depreciation and Amortization	-		-	7,457,131	7,457,131	100%
Property, Plant and Equipment	20,000,000		20,000,000	9,372,426	(10,627,574)	47%
Total Expenditure	22,758,017	0	22,758,017	22,410,514	(347,503)	98%

19. SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

The Fund's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government 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 entity and can be measured reliably.

ii) Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. 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.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Budget information

The original budget for FY 2022/2023 was approved by the County Assembly on 15th June 2022. No Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The Municipality of Kathwana 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 under section 4.5 of these financial statements.

4. Property, Plant and Equipment

All 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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. 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 either finite or indefinite.

6. Financial Instruments

Financial assets

a) 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 Entity determines the classification of its financial assets at initial recognition.

b) 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.

c) Held-to-Maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are 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. The losses arising from impairment are recognized in surplus or deficit.

d) Impairment of Financial Assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an 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:

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 Entity determines the classification of its financial liabilities at initial recognition.

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

Loans and Borrowing

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

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.

e. Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- i) Raw materials: purchase cost using the weighted average cost method
- ii) Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Municipality.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Provisions

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

Contingent assets

The Entity 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 Entity 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.

g. Changes in accounting policies and estimates

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

h. Employee benefits – Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. 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.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Foreign Currency Transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

j. Borrowing Costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

k. Related Parties

The Entity 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 Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors/ Trustee, the Fund Managers and Fund Accountant.

l. 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 commercial bank at the end of the period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the period.

m. Comparative Figures

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

n. Events After the Reporting Period

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

o. Ultimate and Holding Entity

The Municipality of Kathwana is established in accordance to Urban areas and Cities Act, 2011 under the Department of Lands and Urban Development. Its ultimate parent is the County Government of Tharaka Nithi.

p. Currency

The financial statements are presented in Kenya Shilling (Ksh).

SIGNIFICANT ACCOUNTING POLICIES (Continued)

q. Significant judgments and sources of estimation uncertainty

The preparation of the Municipality' financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

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

- i) The condition of the asset based on the assessment of experts employed by the Entity
- ii) The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- iii) The nature of the processes in which the asset is deployed
- iv) Availability of funding to replace the asset
- v) Changes in the market in relation to the asset

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20. NOTES TO THE FINANCIAL STATEMENTS

1. TRASFER FROM COUNTY GOVERNMENT – CURRENT GRANT

Description	2022/2023	2021/2022
	Ksh	Ksh
Operational Current Grant	-	-
Transfers in Kind - Staff Cost paid County Govt	5,569,653	7,837,185
Total	5,569,653	7,837,185

2. OTHER INCOME

Description	2022/2023	2021/2022
	Ksh	Ksh
Refund from Client	-	20,000
Total	-	20,000

3. TRANSFERS FROM COUNTY GOVERNMENT - DEVELOPMENT GRANTS

Description	2022/2023	2021/2022
	Ksh	Ksh
Kenya Urban Development Grant	9,373,540	36,872,121
Total	9,373,540	36,872,121

4. EMPLOYEE COST

	2022/2023	2021/2022
	Ksh.	Ksh.
Basic Salaries	4,034,213	5,494,120
Other Allowances Paid as part of Salaries	1,535,440	2,343,065
Employee Costs	5,569,653	7,837,185

5. USE OF GOODS AND SERVICES

Description	2022/2023	2021/2022
	Ksh	Ksh
Travel and Subsistence Allowances	-	886,400
Advertisement, Publicity and Awareness	-	250,000
Hospitality and Catering	-	30,000
Bank Charges	11,304	19,950
Total	11,304	1,186,350

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. DEPRECIATION AND IMPAIRMENT

Description	2022/2023	2021/2022
	Ksh	Ksh
Property, Plant and Equipment	7,457,131	7,597,089
Total	7,457,131	7,597,089

7. CASH AND BANK BALANCES

Description	2022/2023	2021/2022
	Ksh	Ksh.
Kathwana Institutional Grant a/c 054000007021	15,942	18,582
Kathwana Development Grant a/c 054000007020	5,774,049	2,739,436
Total Cash and Cash Equivalent	5,789,991	2,758,018

8. ACCOUNT PAYABLE

Description	Balance as at 01 st July 2022	Additions During the Year	Payments During the Year	Bal. As At 30 th June 2023
	Ksh	Ksh	Ksh	Ksh
Powerbase Interactive Holding Ltd	227,708	-	-	227,708
Retention Kenric Investment Limited	3,923,718	703,363	-	4,627,081
Fifi Solutions Limited	-	2,338,800	-	2,338,800
Total	4,151,426	3,042,163	-	7,193,589

8A. CHANGES IN ACCOUNT PAYABLE

Description	2022/2023	2021/2022
	Ksh	Ksh
Balance Account Payable at the Beginning Year (A)	4,151,426	575,777
Balance Account Payable at the End of Year (B)	7,193,589	4,151,426
Net Changes in Account Payables (C = B - A)	3,042,163	3,575,649

9. DEVELOPMENT GRANT

Description	2022/2023	2021/2022
	Ksh	Ksh
Balance Brought Forward	104,921,967	68,049,846
Transfers KUSP Grant During the Year	9,373,540	36,872,121
Balance as at End of the Year	114,295,507	104,921,967

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and Fittings	Computers and Office Equipments	Civil Works and Infrastructure	Total
Cost	Ksh.	Ksh.	Ksh.	Ksh.	Ksh.
At 1 st July 2022	94,605,671	4,683,890	17,264,872	17,915,784	134,470,217
Additions	7,033,626	-	-	2,338,800	9,372,426
Disposals	-	-	-	-	-
At 30 th June 2023	101,639,297	4,683,890	17,264,872	20,254,584	143,842,643
Depreciation and Impairment					
At 1 st July 2022	2,926,990	1,388,629	13,440,574	1,332,486	19,088,679
Depreciation	2,540,982	585,486	3,824,298	506,365	7,457,131
Disposals	-	-	-	-	-
At 30 th June 2023	5,467,973	1,974,116	17,264,872	1,838,850	26,545,810
Net Book Values					
At 30 th June 2023	96,171,324	2,709,775	-	18,415,734	117,296,833

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Schedule of Rate of Depreciation of Property, Plant and Equipment

Property	Depreciation Rate p/a
Buildings	2.5%
Civil Works and Infrastructure	2.5%
Motor Vehicle	10.0%
Furniture and Fittings	12.5%
Computers and Computer Accessories	30.0%

The Assets are depreciated fully during the year of acquisition using straight line method except for Work in Progress

11. CASH GENERATED FROM OPERATIONS

	2022/2023	2021/2022
	Ksh	Ksh.
Surplus / (Deficit) for the Year	(7,468,435)	(8,763,439)
Adjusted for:		
Depreciation	7,457,131	7,597,089
Working Capital adjustments		
Non-cash Grants Received	5,569,653	7,837,185
Employee Cost Paid by County Govt	(5,569,653)	(7,837,185)
Increase / Decrease in payables	3,042,163	3,575,649
Net cash flow from Operating Activities	3,030,859	2,409,299

12. OTHER IMPORTANT DISCLOSURES

1. RELATED PARTY BALANCES

a) Nature of related party relationships

Entities and other parties related to the Municipality of Kathwana include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members. The Municipality is related to the following entities;

- i. The County Government;
- ii. The Parent County Government Ministry;
- iii. County Assembly;
- iv. Key management;
- v. Municipal Board

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Related Party Transactions

	2022/2023	2021/2022
	Ksh	Ksh
Transfers from related parties'	9,373,540	36,872,121
Transfers to related parties	-	-

c) Key Management Remuneration

	2022/2023	2021/2022
	Ksh	Ksh
Municipality Board	-	-
Key Management Compensation	382,826	2,951,680
Total	382,826	2,951,680

2. Financial risk management

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

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

a) Credit risk

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Total amount Ksh	Fully performing Ksh	Past due Ksh	Impaired Ksh
At 30th June 2022				
Receivables from exchange transactions				
Receivables from non-exchange transactions				
Bank balances	2,758,018	2,758,018		
Total	2,758,018	2,758,018		
At 30th June 2023				
Receivables from exchange transactions				
Receivables from non-exchange transactions				
Bank balances	5,789,991	5,789,991		
Total	5,789,991	5,789,991		

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 entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The entity has no significant credit risk

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

b) Liquidity risk management

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

The table below represents cash flows payable by the Fund under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

	Less than 1 month	Between 1- 3 months	Over 5 months	Total
	Ksh	Ksh	Ksh	Ksh
At 30th June 2022				
Trade payables				
Current portion of borrowings				
Provisions				
Employee benefit obligation				
Total				
At 30th June 2023				
Trade payables				
Current portion of borrowings				
Provisions				
Employee benefit obligation				
Total				

c) Market risk

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

d) Foreign currency risk

The Municipality has no transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

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

		Other currencies	Total
	Ksh	Ksh	Ksh
At 30 June 2023			
Financial assets			
Investments			
Cash			
Debtors/ receivables			
Liabilities			
Trade and other payables			
Borrowings			
Net foreign currency asset/(liability)			

Foreign currency sensitivity analysis

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Change in currency rate	Effect on surplus/ deficit	Effect on equity
	Ksh	Ksh	Ksh
2021			
Euro	10%		
USD	10%		
2022			
Euro	10%		
USD	10%		

e) 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 entity's interest rate risk arises from bank deposits. This exposes the Fund to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Fund'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 Fund analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss 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.

f) Capital risk management

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2022/2023	2021/2022
	Ksh	Ksh
Revaluation reserve	-	
Accumulated surplus	1,597,728	9,066,163
Development Grant	114,295,507	104,921,967
Total Funds	115,893,235	113,988,130
Total borrowings	7,193,589	4,151,426
Less: Cash and Bank Balances	5,789,991	2,758,018
Net debt (excess cash and cash equivalents)	(1,403,598)	(1,393,408)
Gearing	1.2%	1.2%

21. APPENDICES

I. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved. Based on Audit Report FY 2021/2022

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1. Unsupported Use of Goods and Services	The statement of financial performance and as disclosed in Note 5 to the financial statements reflects Ksh. 1,186,350 in respect to use of goods and service which includes Kshs.250,000 incurred towards advertisement and publicity. However, the payment was not supported by requisitions, invoices, payment vouchers, and evidence of advertisements. This is contrary to Section 104(1) of the Public Finance Management (County Government) Regulations, 2015 which states that all receipts and payment vouchers of public money shall be properly supported by the appropriate authority and documentation.	The Management confirms procuring advertisement and publicity amounting to Ksh. 250,000 The necessary support documents to be availed for audit review	Not Resolved	30 th September 2023

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	In the circumstances, the accuracy and completeness of the expenditure amount of Ksh.250,000 could not be confirmed.			
2. Unsupported Construction of Modern Market	The statement of financial position and as disclosed in Note 10 to the financial statements reflects Kshs.115,381,538 in respect to property, plant and equipment which includes Kshs.39,235,823 paid to contractor for construction of a modern market at Kathwana. The firm had won the tender and signed a contract agreement for construction of a modern market at Kathwana. The firm won the tender and signed a contract agreement for construction of a modern market in June, 2020 at a contract sum of Kshs.127,430,740. Cumulatively, the Municipality has paid the firm a total of Kshs.120,497,683 which includes Kshs.39,235,823 paid during the year. However, the management did not provide valuation of works done and engineer's certificate supporting the payment.	The property, plant and equipment payment vouchers, Bills of Quantities, measurement for works done and engineers' certificates relating to construction of Kathwana Market to be availed for audit review	Not Resolved	30 th September 2023

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	In the circumstances, the accuracy and completeness of the expenditure on the construction of the market could not be confirmed.			
3. Failure to Maintain Asset Register	<p>The statement of financial position and as disclosed in Note 10 to the financial statements reflects an amount of Ksh.115,381,538 in respect to property, plant and equipment. However, the Management did not maintain a register of asset owned by Municipality. This is contrary to Regulation 136 (1) and (2) of the Public Finance Management (County Government) Regulations, 2015 which states that Accounting Officer shall be responsible for maintaining a register of assets under his or her control.</p> <p>In the circumstance, the accuracy and completeness of the Property, Plant and Equipment balance of Ksh. 115,381,538 could not be confirm.</p>	The Management takes note of the Audit finding and has initiated the necessary measures to ensure the Asset Register is properly maintained	Not Resolved	30 th September 2023
Other Matter				

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1. Budgetary Control and Performance	<p>The statement of comparison of budget and actual amounts reflected final income budget and actual on comparable basis of Ksh. 56,430,038 and Ksh. 39,604,542 resulting to an under-funding of Ksh. 16,825,496 or 30% of the budget. Similarly, the Municipality expended Ksh. 48,019,262 against an approved budget of Kshs.56,430,038 resulting to an under-expenditure of Ksh. 8,410,776 of 15% of the budget. Further, the Management did not provide the Municipality's approved budget estimates for the year ended 30 June, 2022 for audit review.</p> <p>In the circumstances, the underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public. In addition, the Municipality was in breach of the law.</p>	<p>The Municipality takes note on the audit findings with regard to budget performance. The reported deficit on revenue receipt.</p> <p>The Management requisitions funds for development expenditure under construction of Kathwana Modern market based on valuation for work done. As at 30 June 2022, the project was still on going, hence only amount required to pay interim certificates was requisitioned from County executive, therefore under performance on revenue and under absorption of the budget.</p>	Not Resolved	30 th September 2023

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2. Inadequate Current Ration	<p>The statement of Financial Position reflects a balance of Ksh. 4,151,426 in respect to total current liabilities against total current assets balance of Ksh. 2,758,018, an indication that the Municipality was not in position to meet its current debts obligation. This is contrary to Section 174 (d) and (e) of the Public Finance Management Act, 2012 which states the accounting officer of an urban area or city shall ensure that an urban areas or city's debts are maintained at sustainable level and that over the medium term, the proceeds of borrowing by the urban area or city are used only for purpose of financing development expenditure and not recurrent expenditure.</p> <p>In the circumstances, the Municipality may not be able to sustain its services in the long run.</p>	<p>The Management admits having a negative net asset balance as at 30 June, 2022. The Municipality has sought for transfer of funds from the County Executive to provide sufficient funds to honour account payable that may become due after expiry of retention period.</p>	Not Resolved	30 th September 2023
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES				

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1. Lack of Municipality Plans	<p>The Management of the Municipality of Kathwana did not provide for audit review Municipal land use plans, building and zoning plans or plans for location of recreational areas and public facilities that are required to serve as the instruments for development facilitation and development control within the Municipality. This is contrary to Section 111 of the County Government Act, 2012 which requires each city and municipality to develop the plans.</p> <p>In absence of relevant plans, efficiency and effectiveness of land use within the Municipality cannot be achieved.</p>	<p>The Management confirms that, the Municipality has entered into engaged University of Nairobi in the process of preparing Kathwana Municipality development plans is at advanced stage with draft report ready for review by County Executive Committee.</p>	Not Resolved	30 th September 2023
2. Failure to Convene Board Meetings	<p>The Board of Management of Kathwana Municipality did not convene any meeting during the year under review. This is contrary to Section 23(1) of the Urban Areas and Cities Act, 2011 which provides for a meeting once every three months. Further, appointment letters of Board members were not</p>	<p>The Management takes note of the audit finding with regard to failure to convene board meeting during the year under review.</p> <p>This was occasioned after most of the members of board resigned early the year to pursue elective position during the August 2022 elections</p>	Not Resolved	30 th September 2023

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>provided for audit review and in absence of this, it was not possible to ascertain the validity of Board appointment.</p> <p>In the circumstance, the Municipality was in breach of the law.</p>	<p>leading to quorum hitches and hence the board could not hold any meeting legally.</p>		
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE				
<p>1. Failure to Perform Internal Audit of the Municipality of Kathwana</p>	<p>During the year, the Municipality incurred a total of Kshs.16,620,624 in respect to recurrent expenses and Kshs.39,235,823 in respect to capital expenditure both totalling to Kshs.55,856,447 as reflected in the statement of financial performance and Note 10 to the financial statements respectively. However, there was no evidence that the financial operations of the Municipality were subjected to internal audit. This is contrary to Section 153(1)(a) of the Public Finance Management (County Government) Regulations, 2015 which states that internal auditors shall review and evaluate budgetary</p>	<p>The Management takes note of the Audit finding and will ensure the internal audits are carried out regularly.</p>	<p>Not Resolved</p>	<p>30th September 2023</p>

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>performances, financial management, transparency, accountability mechanisms and processes in the County Government entities.</p> <p>In the circumstances, the Municipality was in breach of the law.</p>			

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Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your Municipality responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.



Emily Kanana Muriungi
Kathwana Municipal Manager

Date: 10th July 2023

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II. INTER-ENTITY TRANSFERS

	ENTITY NAME:	COUNTY GOVERNMENT OF THARAKA NITHI		
	Break down of Transfers			
	FY 2022/2023			
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (Ksh.)</u>	<u>Indicate the FY to which the amounts relate</u>
		Total		
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (Ksh.)</u>	<u>Indicate the FY to which the amounts relate</u>
		04 th July 2022	3,853,249	FY 2021/22
		04 th July 2022	3,180,377	FY 2021/22
		26 th June 2023	2,339,914	FY 2022/23
		Total	9,373,540	
c.	Direct Payment			
		<u>Bank Statement Date</u>	<u>Amount (Ksh.)</u>	
	Staff salaries	Various	5,569,653	Staff Salary Paid by County executive FY 2022/2023

The above amounts have been communicated to and reconciled with the County Government of Tharaka Nithi

Sign: 
 Emily Kanana Muriungi
 Municipal Manager
 Kathwana Municipality

Date: 10th July 2023

Sign: 
 Humprey Gitonga Kinyua
 Director Finance
 County Government of Tharaka Nithi

Date: 10th July 2023

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III. PROJECTS IMPLEMENTED BY MUNICIPALITY OF KATHWANA

Projects

Projects implemented by Kathwana Municipality Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
Construction of Municipality of Kathwana offices	KM01	World Bank (Kenya Urban Support Programme)	6 Months	6.5 million	No	Yes
Tarmacking of Kathwana town road	KM02		9 Months	17.9 million	No	Yes
Construction of Kathwana Open Air Market	KM03		18 Months	127 million	No	Yes

Status of Projects completion

	Project	Total project Cost	Total Expended to date	Completion % to date	Budget FY 2022/23	Actual FY 2022/23	Sources of funds
1	Upgrading of Kathwana Town roads to Bitumen Standards	49,865,938	49,865,938	100%	-	-	World Bank Kenya Urban Support Programme
2	Construction of Kathwana Open Air Market	127,430,740	101,639,297	90%	20,000,000	7,033,626	KUSP and Tharaka Nithi Government
	Total	177,296,678	151,505,235		20,000,000	7,033,626	

IV. RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received	Nature: Recurrent/ Development/ Others	Total Amount – KES	Where Recorded/recognized					Total Transfers during the Year
	as per bank statement			Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
County Government of Tharaka Nithi	04 th July 2022	Development	3,853,249		3,853,249				3,853,249
	04 th July 2022	Development	3,180,377		3,180,377				3,180,377
	26 th June 2023	Development	2,339,914		2,339,914				2,339,914
Total			9,373,540		9,373,540				9,373,540