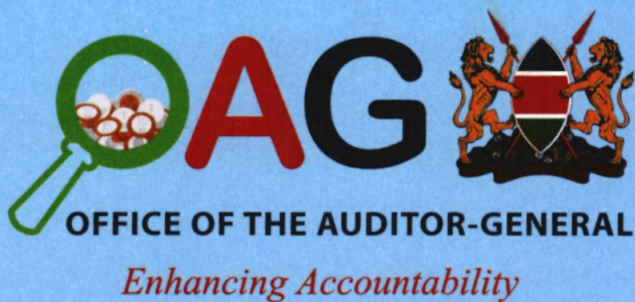


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

MUNICIPALITY OF KILIFI

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

PAPERS LAID	
DATE	27/6/24
TABLED BY	M.C
COMMITTEE	C/P/C
CLERK AT THE TABLE	Angela.



MUNICIPALITY OF KILIFI

COUNTY GOVERNMENT OF KILIFI

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30TH JUNE 2023

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

*County Government of Kilifi
Municipality of Kilifi
Annual Report and Financial Statements for the year ended June 30, 2023*

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1. Acronyms & Glossary of Terms

PSASB	Public Sector Accounting Standards Board
FY	Financial Year
Fiduciary Management	Key management personnel who have financial responsibility in the entity.
CO	Chief Officer
KCB	Kenya Commercial Bank
GPO	General Post Office
PAYE	Pay as you Earn
NSSF	National Social Security Fund
NHIF	National Hospital Insurance Fund

2. Key Entity Information and Management

a) Background information

The Municipality of Kilifi is established through Urban Areas and Cities Act No. 13 of 2011 and Municipal Charter. The Municipal Board's objective is to enhance provision of quality urban services and promote environmental sustainability.

b) Principal Activities

The **Vision** of the Municipality is "Safe, inclusive and sustainable development"

Mission

"To facilitate realization of a progressive Municipality through provision of quality Urban Services which promote, environmental sustainability"

Core Objectives are:-

- To enhance provision of quality Urban services
- To promote environmental sustainability

Mandate of the Municipality

Governance and management of Urban Areas through service delivery provision

c) Key Management

The *Municipality's* management is under the following key organs:

- County department of Housing and Urban Development
- The Municipal Board
- The Municipality Manager

d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were:

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Annual Report and Financial Statements for the year ended June 30, 2023

Ref	Name	Position
1	Elius K. Chipa	Municipal Manager
2	Sifa Karabu	Senior Accountant
3	Vivienne Nzai	Principal Administrative Officer
4	Caroline Mtana	Chief Human Resource Officer
5	Janet Tsuma	Snr. Community Development Officer
6	Carolyn Kamino	Environment Officer

e) Fiduciary Oversight Arrangements

i. Audit and Risk Management Committee

Ref	Position	Name
1	Chairperson	Getrudah Sidi Kirenge
2	Member	Zainab Salim
3	Member	Duncan Nyale
4	Member	Munira Ally Jadeed
5	Member	Moses GundaMunga
6	Chief Internal Auditor	PhilisterKahindi

f) Registered Offices

P.O. Box 519-80108
Alliance Towers Building
Second Floor
Kilifi

g) Contacts

E-mail: kilifimunicipality@kilifi.go.ke
Website: www.kilifi.go.ke/kilifimunicipality

h) Bankers

1. NCBA
Kilifi Branch
P.O. Box 44599-00100
Nairobi
2. Kenya Commercial Bank
Kilifi Branch
P.O. Box 528 – 80108
Kilifi
3. National Bank
Kilifi Branch
P.O. Box 1392 – 80108 Kilifi

i. Independent Auditor

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

j. Principal Legal Adviser

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

3. Municipality Board

Charles M. Ngala

Date of birth:12th Nov 1958

Academic Qualification:

- He holds a Bachelor of Arts
- Major in Economics from the University of Nairobi.
- Has a Qualifying Diploma in Shipping (UK)



Experience:

- He has over 32 years work experience in the roads, rail, shipping and transport sectors in Kenya and Europe.
- Charles brings into the Kilifi Municipality Board a wealth of experience in management, transport and Logistics.

He is the Chairperson of the Board

Ms. Munira Jadeed

Date of birth:30th June 1984

Academic Qualification:

Master Degree in Project Planning and Management
Bachelor's Degree in Urban and Regional Planning

Experience:

- She is an Urban and Regional Planner in the Private Sector
- 10 years' experience in the field of Urban and Regional Planning Management.
- Member of the Habitat Committee



She is the Vice Chairperson of the Board

Honourable Jane Kamto

Academic Qualification:

Bachelors of Education in English Literature

Experience:

27 years of Experience in education administration

CECM Lands, Energy, Physical Planning, Housing and Urban Development



Mr. Ali Abubakar

Date of Birth:1988

Academic Qualification

Masters in Business Administration

a. **Experience:**

Over 8 years experience in Finance and Accounting

He is the Chief Officer for Housing and Urban Planning



Zainab Salim

Date of Birth:20th April 1958

Academic Qualification:

- Certificate in Child Counselling, Kenya Association of Professional Counsellors

Experience:

- Served as a Board Member of KIMAWASCO
- National Delegate Representing-Kilifi County Maendeleo ya Wanawake
- Head of State Commendation (HSC-Civilian Division)

She is the Chairperson of the Social Services and Economic Development Committee



Dr.Silas Mzungu Chitibwi

Date of Birth:21st Oct 1952

Academic Qualification:

Bachelor of Veterinary Medicine

Experience:

- Veterinary surgeon by profession and a Community Worker by choice and practise
- He is an alumnus of Lenana Schools (Duke of York) and The
- University of Nairobi Veterinary School.

He is the Chairperson of the Finance and Administration committee



Getrudah Sidi Kirenge

Date of Birth:27th Aug 1988

Academic Qualification:

- Masters of Arts
- Bachelor of Law.

Experience:

Kanchory and Company Advocates Associate Advocate

She is the Chairperson of the Audit, Monitoring and Evaluation Committee



Patricia Luvuno Chonga

Date of Birth :29th June 1986

Academic Qualification:

Bachelor's Degree of Business Administration (BBA)

Experience:

- CEO –Kenya National Chamber of Commerce and Industry Kilifi chapter.
- Appointed to the Kilifi Budget and Economic Forum

She is the Chairperson of the Physical planning , Urban Development and Environment Committee



Duncan Kubahatisha Nyale

Date of Birth :15th April 1981

Academic Qualification:

Master degree in Information System

Bachelor's degree in Information Technology

Experience: 13 years in ICT Administration and Management covering areas including Computer Programming Management Information Systems.

He is the Chairperson of Transport and Infrastructure Committee
Mr. Elius Chipa



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Date of Birth: 30th Jan 1972

Academic Qualification:

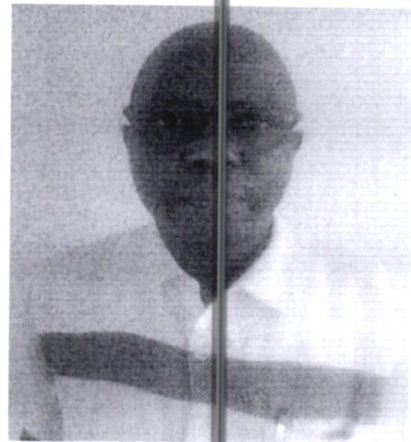
Master's Degree in Urban Management (MUM)

Bachelor of Arts

Experience:

Over 15 years' experience in Administration and
Management

He is the Municipal Manager of Kilifi Municipality



4. Key Management Team

Elius K. Chipa

Date of Birth: 30th Jan 1972

Academic Qualification:

- Master's Degree in Urban Management (MUM)
- Bachelor of Arts

Experience:

- Over 15 years' experience in Administration and Management



He is the Municipal Manager of Municipality of Kilifi

Sifa Karabu

Date of Birth: 6th July 1987

Academic Qualification: Bachelor of Commerce – Accounting Option

CPA Part II

Experience. Has over 6 years' Experience in Finance and Accounting

He is the Accountant in charge of the Municipality of Kilifi



Vivian Nzai

Date of Birth: 19th April, 1976

Academic Qualification: Bachelor of Commerce

Experience.

- Has Over ten years' experience in administration

She is the Administrative officer for the Municipality of Kilifi



5. Caroline Mwaka Mutana



Date of Birth: 25th. Jan 1981

Academic Qualification

- Bachelor of Business Administration (HR) option
- MSC (HRM)

Experience:

- Has Over five years' experience in human resources management

She is the Chief Human Resource officer for the Municipality of Kilifi

Carolyn Rose Kamino

Date of Birth: 1st July 1989

Academic Qualification:

Degree of Environmental Science.

Experience:

She Has over 5 years in Environmental issues and EIA

She is an Environmental Officer for the Municipality of Kilifi



Janet Tsuma

Date of Birth: 09th Oct 1975

Academic Qualification:

BDS, MBA (Strategic Management)

Experience:

Over 7 years in community development activities and Social safeguards issues

She is a Senior Community Development Officer at the Municipality of Kilifi



5. Municipality Board Chairperson's Report

It is my pleasure to present on behalf of the Board of the Municipality of Kilifi the Financial Statements for the year ended 30th June 2023

- **Successes Made**

The projects which had earlier been started in the previous financial years through funding from Kenya Urban Support Program were all completed. These projects included the refurbishment of the Oloiptip Market and upgrading service road, construction of Fire station and Upgrading of sea horse Road.

- **Review of the Board Performance**

The board transacts its business through meetings of its committees and the Full board. During the year the board held four (4) full board meetings in line with the Urban Areas and Cities Act and the Municipal Charter.

- **Challenges Faced during the year**

Reliance on technical support from the county department of public works has been a challenge as most of the time the officers are engaged in other county departmental assignments causing delays on the side of the Municipality. Inadequate funding has been a great challenge as well.

- **Board and Management Changes during the year**

The County Executive Committee Member, Hon Maureen Mwangovya, a Member of the Board as per the amended Urban Areas and Cities Act term came to an end was replaced by Hon Jane Kamto.

Also the Chief Officer in charge of Housing and Urban Development and a member of the Municipal Board was replaced by Abubakar Ali who is the current Chief Officer for that department.

- **Future Outlook**

The Board expects that all the functions delegated to the Municipality including the respective staff and other resources be transferred to enable effective delivery of urban services to the people

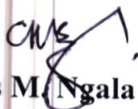
The board is also following up on the recruitment of Key staff to enable the Municipality perform its roles and mandate effectively.

The Board will ensure that the Public is involved in all its undertaking through public participation as provided for in the Constitution, the Urban Areas and Cities Act and the Municipal Charter.

- **Appreciation**

I take this opportunity to express my sincere gratitude to the County Government, our Development Partners, Kilifi County stakeholders, Management team at large and My Fellow Board Members, for their full support as we endeavour to deliver services.

Signature

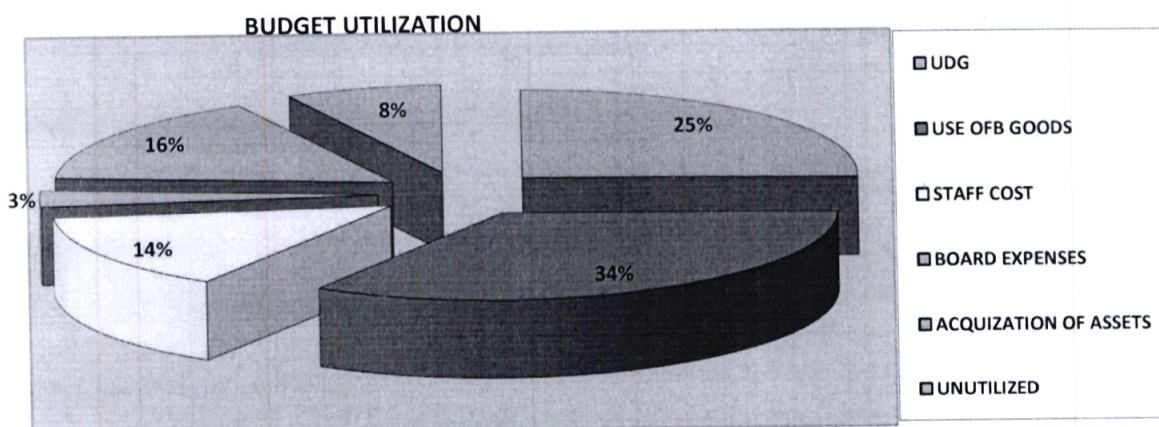


Charles M. Ngala
Chairperson of the Board

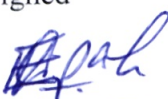
6. Report of the Municipality Manager

The Municipality of Kilifi was established through the Urban Areas and Cities Act of 2011 and as amended in 2019 and the Municipal Charter

1. The Refurbishment of Oloitiptip Market and service road a project the Municipality had been undertaking since FY 2018/2019 was completed and traders were allowed to start using the market.
2. The Construction of a Fire station and emergency Centre a project funded by KUSP which started in the last financial year 2020-2021 with an allocation of 126,750,100, continued through out the year and much progress was made. The Ksh 29,000,000 expected from the county government was received during the previous financial year giving a major boost to the projects funding. By the close of the year a total of Kshs. 131,374,719.2 had been paid in favor of the project. Also the Proposed Upgrading of the Sea horse to Bitumen standards project started the previous FY was completed.
3. The Municipality had a total budget of Kshs. 262,739,554 out of which 243,184,612 was utilised leaving a balance of Kshs 19,554,942 which had been requested from the county executive but had not been received by the closure of the financial year.



Signed


Elius K. Chipa
Municipal Manager

7. Statement of Performance Against Predetermined Objectives for the FY 2022/2023

Introduction

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer when preparing Financial Statements of each County Government 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.

The key development objectives, of the Board of Municipality of Kilifi 2022/2023 plans were to:

- a) Provide quality and sustainable physical infrastructure in the Urban Area
- b) Provide sustainable land use planning and management
- c) To enhance quality Urban Services for social development
- d) To promote environmental sustainability

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
The Refurbishment of Oloitipit Market and Service roads	To develop a market design that promotes growth, flexibility, greater integration and collaboration/harmonization of the functions of the market users. To provide a refurbished market that complies with national environmental and civil engineering standards, and meet building regulation in force. Etc	Increase of traders as a result of the expansion. General improvement of the Urban Economy Reduction of environmental risks as a result of replacing the asbestos etc.	Increased trading activities Improvement of the drainage system Increase in the amount of revenue collection.	The project is complete.
Construction of Fire Station	To construct a modern fire station that will ensure protection of life and businesses	Safe environment for the residents and businesses	Efficiency and effectiveness in fire rescue and disaster management	This project complete

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Proposed Upgrading of the Sea horse to Bitumen standards project	To Upgrade Junction A7 KPLC Sea horse to Bitumen standards to ease transport	Quicken transport for goods, services and people	Reduce the time and cost of travel and enhance business	This project is complete
--	--	--	---	--------------------------

The two projects mentioned above have been able to facilitate the achievement of the above-mentioned objectives.

Objectives yet to be met

Objective of Providing sustainable land use planning and management is yet to be achieved as this function is yet to be delegated to the municipality.

Challenges

- Delegated functions are yet to be transferred to the Municipality
- Land use planning and management is yet to be delegated to the municipality.
- Identification of Relocation site to accommodate the traders took some time hence the delayed
- Capacity of the Supervising County Department was wanting hence delayed
- Inadequate Human Resource Capacity
- Inadequate budget allocation

Opportunities

- Goodwill from external donors
- Positive support from the public
- Proximity to the water bodies hence access to the blue economy

8. Corporate Governance Statement

- a. Process of appointment and removal of Board members.

As per the Urban Areas and Cities Act No.13 of 2011, Section 19 specifies the process of appointment of Board members. The removal of Board Members is highlighted in Section 14 of the same act

- b. Roles and functions of the Municipality Board members,

The roles and functions of the Board of the Municipality is as per part IV of the Municipal Charter.

- c. Number of Municipality Board meetings held and the attendance to those meetings by members,

The Board during the 2022/2023 held four (4) meetings in line with the Municipal Charter. These meetings were attended by all board members.

- d. Succession plan,

Boards succession plan, as per Urban Areas and Cities Act No.13 of 2011, Section 19 specifies process of appointment of Board members. The removal Board Members is highlighted in Section 14.

- e. Existence of a service charter,

- f. The Municipality is in the process of developing customer service Charter

- g. Conflict of interest,

Conflict of interest, The Board is aware of Part VII Miscellaneous Provision of the amended Urban Areas and Cities Act – Section 50

- h. Board remuneration,

The remuneration of the board is guided by SRC guidelines. The board members are paid allowances as advised by the SRC

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The meeting held by the various committees are tabulated below

S/no	BOARD COMMITTEE NAME	DATE	ATTENDANCE
1.		21/9/2022	All Members
2.		21/12/2022	All Members
3.		30/3/2023	All Members
4.		23/6/2023	All Members
	Finance & Administration		
5.		15/12/2022	All Members
6.		22/6/2023	All members
	Audit & Risk Management Committee		
7.		22/6/2023	All Members
	Social Services & Economic Development		
8.		21/6/2023	All Members
	Physical Planning, Urban Development & Environment		
9.		22/12/2022	All Members
10.		21/6/2023	All Members
	Transport & Infrastructure		

9. Management Discussion and Analysis

a. Financial Performance

There was a balance brought forward of KShs. 66,655,049 under Urban Development Grant and Kshs. 1,194,559 received during the period making a total of Kshs. 67,849,607 out this Kshs. 66,600,340 was used to pay for Construction of the fire station project and the Proposed Upgrading of the Sea horse to Bitumen standards project

The Municipality had a total budget of Kshs. 262,769,554 out of which 243,184,612 was utilised, a balance of Kshs. 19,554,942 had been requested from the received by the closure of the financial year

b. Projects

Through funding from World Bank, the Municipality is implementing two Projects- Construction of Fire Station and upgrading of Sea horse road. These projects were completed during the FY.

c. Compliance with Statutory requirement

The board held four (4) board meetings during the period as required by the Municipal Charter and the Urban Areas and Cities Act 2011 and as amended in 2019.

The Municipality has been complying with statutory requirement by remitting all statutory deductions to the respective entities.

d. Major risks facing the Municipality

1. Inadequate budgetary allocation

The Municipality is still facing inadequate budgetary allocation hence it's not able to discharge its full mandate.

2. Delayed transfer of delegated functions

The delegated functions and other resources are yet to be transferred to the Municipality from other departments. This has denied the resources (financial, human, tools and equipment's) to the municipality to discharge its full mandate as per Urban Areas and

10. Environmental and Sustainability Reporting

1. Community Engagements

The Municipality of Kilifi has had an engagement with the stakeholders and the Local leaders through public participation forums as well as creating a culture of involving the public in matters of governance and in project planning and implementation

2.Environmental Performance

The Municipality developed a Solid waste management policy that guides the day-to-day efforts to manage waste.

The Municipality procured garbage collection containers to improve on garbage collection.

3.Employee welfare

Through the County Public Service Board, the Human Resource Policies and Procedures Manual for the Public Service May, 2016 guides on recruitment based on fair competition and merit; representation of diverse communities, adequate and equal opportunities to all gender, youth, members of all ethnic groups, persons with disabilities and minorities. Recruitment and Selection Policy and Gender Mainstreaming Policy also guides on the hiring process.

Training and development programs conducted allows employees to acquire new skills hence improve employee performance and boost productivity. The Municipality of Kilifi has put into consideration that staff at least attend one crucial training each financial year. Furthermore, Performance Contracting is cascaded by linking performance contracts to the staff performance appraisal system (SPAS).

The Occupational Health and Safety Policy provides for the Health, Safety and welfare of persons employed and all persons lawfully present at workplaces and related matters. Measures like installation of fire extinguishers and emergency exits in buildings are in place.

11. Report of the Municipality Board Members

The Board Members submit their report together with the audited financial statements for the year ended June 30, 2023 which show the state of the Municipality affairs.

Principal activities

The principal activities of the Municipality are

- Provide for efficient Urban services to the people
- Provide for governance mechanism to enable the public to participate in public service delivery
- Pursue development opportunities
- Provide high standard social services involving public and stakeholders through public participation
- Develop and enforce Municipal by-laws
- Foster the economic, social and environmental wellbeing of the inhabitants

Performance

The performance of the Municipality for the year ended June 30, 2023 are set out on page xiii

Board Members

The members of the Board who served during the year are shown from page vii to x

The changes in the Board during the financial year are as shown below:

Auditors

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

By Order of the Board



Secretary of the Board

Date: 5/1/2024

12. Statement of Management's Responsibilities

Section 180 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer of the 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 Municipality 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 end of the financial year ended on June 30, 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 Municipality Manager accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and *Urban Areas and Cities Act No. 13 of 2011*. The Municipality Manager is of the opinion that the financial statements give a true and fair view of the state of Municipality's transactions during the financial year ended June 30, 2023, and the financial position as at that date.

The Municipality Manager further confirms the completeness of the accounting records which have been relied upon in the preparation of financial statements as well as the adequacy of the systems of internal financial control. In preparing the financial statements, the Municipality Manager has

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assessed the Municipality's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements.


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

Approval of the financial statements

The Municipal's financial statements were approved by the Board on 13th September, 2023 and signed on its behalf by:


.....

Name: Charles M. Ngala
Chairperson of the Board


.....

Name: Elius K. Chipa
Municipality Manager

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 KILIFI 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 that the 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 Kilifi set out on pages 1 to 26, 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,

Report of the Auditor-General on Municipality of Kilifi for the year ended 30 June, 2023

statement of cash flows and the 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 the Municipality of Kilifi 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 Public Finance Management Act, 2012, Urban Areas and Cities Act, 2011 and Kilifi County Subsidiary Legislation, 2019.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

Review of the annual report and financial statements of the Municipality revealed the following anomalies:

- (i). The statement of financial performance reflects public donations and contributions - UDG comparative total of Kshs.25,828,272 and transfer - purchase of PPE amount of Kshs.11,612,070. However, the previous year's financial statements reflect corresponding amounts of Kshs.Nil thus resulting in unexplained variances of Kshs.25,828,272 and Kshs.11,612,070 respectively.

Further, the statement reflects a surplus amount for the comparative year of Kshs.6,532,144 while the recalculated amount is Kshs.43,972,485 resulting in unexplained variance of Kshs.37,440,341.

In addition, Note 11 to the financial statements reflects expenditure on use of goods and services for the comparative period totalling Kshs.54,218,745 while the recalculated amount is Kshs.46,355,584 resulting to unexplained variance of Kshs.7,863,161.

- (ii). The statement of financial position reflects accumulated surplus of Kshs.90,410,317 while the corresponding surplus in the statement of changes in net assets is indicated as Kshs.105,131,886 resulting to unexplained variance of Kshs.14,721,569.

Further, Note 17 to the financial statements reflects assets' costs and depreciation for only one financial year (2022/2023) instead of two (2) comparative years as prescribed in the recommended reporting template.

- (iii). The statement of changes in net assets reflects capital/development grants/Fund amount of Kshs.129,691,396 as at 30 June, 2022 while the recomputed balance is Kshs.116,533,012 resulting to an unexplained variance of Kshs.13,158,384.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

2. Overstatement of Expenditure on Use of Goods and Services

The statement of financial performance reflects expenditure on use of goods and services totalling Kshs.53,906,525 as disclosed in Note 11 to the financial statements. The amount includes domestic travel and subsistence expenditure of Kshs.13,854,970 out of which Kshs.402,700 related to the previous year. Management did not explain why the overstatement in the current year's expenditure was not corrected.

In the circumstances, the accuracy and completeness of expenditure on use of goods and services could not be confirmed.

3. Doubtful Recoverability of Receivables

The statement of financial position and Note 16 to the financial statements reflect a balance of Kshs.6,633,769 in respect of receivables from the County Executive which has been carried forward since the financial year 2020/2021. Review of records and information provided for audit revealed that this was a balance that was receivable from the County Executive to be paid to third parties. In addition, review of the County Executive's pending bills records revealed that this balance had not been included.

In the circumstances, the accuracy, validity and recoverability of the receivables from the County Executive balance of Kshs.6,633,769 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 Kilifi 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 receipts budget and actual on comparable basis of Kshs.262,739,554 and Kshs.145,245,062 respectively, resulting in an under-funding of Kshs.117,494,492 or 45% of the budget. Similarly, the Municipality expended Kshs.243,184,612 against an approved budget of Kshs.262,739,554, resulting in an under-expenditure of Kshs.19,554,942 or 7% of the budget. The under-funding and related under expenditure affected the planned activities of the Municipality and may have negatively impacted service delivery to the public.

My opinion is not modified in respect of this 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

Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2023. Management has indicated that the issues were discussed at the County Assembly but the report has not yet been published.

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 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

Irregular Procurement of Printing, Advertising, Supplies and Services

The statement of financial performance and Note 11 to the financial statements reflect expenditure totalling Kshs.53,906,525 in respect of use of goods and services. Included in the expenditure is an amount of Kshs.1,312,054 in relation to printing, advertising, supplies and services. Review of the supporting payment vouchers revealed an amount of Kshs.1,034,580 worth of services was procured using cash which was beyond the allowed amount of Kshs.50,000 per item per year. This is contrary to Section 107 (b) of the Public Procurement and Asset Disposal Act, 2015 which states that the estimated value of the goods, works or non-consultancy services being procured are less than or equal to the maximum value per financial year for that low-value procurement procedure as may be prescribed.

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

Weakness in Governance and Operational Environment

Review of the governance and operational environment of the Municipality for the year under review revealed that there was failure to delegate functions and to transfer delegated authority by the County Government. Although the Urban Areas and Cities Act, 2011 as amended in 2019 recognized the functions of a Municipality Board to include control of land use, land sub-division, land development and zoning by public and private sectors, the same was not included in the list of delegated functions specified in the Gazette Notice No.790 of 22 November, 2019.

In the circumstances, the effectiveness of the governance and operational environment of the Municipality could not be confirmed.

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

Responsibilities of Management and 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Municipality's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the 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 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal 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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 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 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 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 control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and 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

11 March, 2024

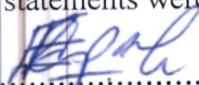
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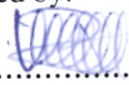
14. Statement of Financial Performance for The Year Ended 30 June 2023.

	Note	2022/2023	2021
		KShs	
Revenue from non-exchange transactions			
Public donations and contributions-UDG	6	1,194,559	25,828,272
Transfer - Recurrent	7	129,582,817	85,902,578
Transfer - Purchase of PPE	7	13,527,009	11,612,070
		144,304,405	123,342,920
Revenue from exchange transactions			
Interest income	9	940,656.20	2,405,280
Total revenue		145,245,062	125,748,200
Expenses			
Staff costs	10	37,523,874	18,014,770
Use of Goods and Services	11	53,906,525	46,355,584
Board expenses	12	7,727,819	9,542,200
Depreciation	13	12,763,311	
Repairs and Maintenance	14	35,061,286	7,863,161
Total expenses		146,982,815	81,775,715
Surplus/(deficit) for the period		(1,737,753)	6,532,144

The notes set out on pages 6 to 25 form an integral part of these Financial Statements. The entity financial statements were approved on 5th January 2024 and signed by:



Name: ELIUS CHIPA
Municipality Manager



Name: SIFA KARABU
Head of Finance

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15. Statement of Financial Position As At 30 June 2023

	Note	2022/2023	2021/2022
		KShs	KShs
ASSETS			
Current assets			
Cash and cash equivalents	15	16,274,866	106,811,451
Receivables-From County Executive	16	6,633,769	6,633,769
Total Current Assets		22,908,635	113,445,220
Non-current assets			
Property, Plant and Machinery	17	231,564,379	129,783,674.00
Intangible Assets	18	360,667	
Total Non Current Assets		231,925,045	
Total assets		254,833,680	243,230,894
LIABILITIES			
Current liabilities			
UDG Payables	19		226,948
Refundable Deposits	19	7,413,788	6,475,906
Total Current Liabilities		7,413,788	6,702,904
Non-current liabilities			
Deferred Income	20	1,194,559	
Total liabilities		8,608,348	6,702,904
Net assets		246,225,333	236,527,990
Accumulated surplus		90,410,317	106,869,639
Capital/Development Grants/Fund		144,412,965	129,691,396
Reserves			
Total net assets and liabilities		254,833,680	243,230,894

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 5th January 2024 and signed by:

Name: ELIUS CHIPA

Municipality Manager

Date:

Name: SIFA KARABU

Head of Finance

Date:

5/Jan/2024

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16. Statement of Changes in Net Assets For the Year Ended 30 June 2023

	Capital/Development Grants/Fund	Revaluation Reserve KShs	Accumulated surplus KShs	Total KShs
Balance as at 1 July 2021 RESTATED	50,092,670	-	113,495,879	163,588,549
Surplus/(deficit) for the period (Operation)	-	-	6,532,144	6,532,144
Surplus/(deficit) for the period (Acq. Of Assets)		-	(13,158,384)	
Funds received during the year - UDG	25,828,272			25,828,272
Funds received during the year - Development	29,000,000			29,000,000
Funds received during the year - Purchase of PPE	11,612,070			11,612,070
Revaluation gain	-	-	-	-
Balance as at 30th June 2022	129,691,396	-	106,869,639	236,561,035
Balance as at 1 July 2022	129,691,396	-	106,869,639	236,561,035
Surplus/(deficit) for the period (Operation)	-	-	(1,737,753)	(1,737,753)
Funds received during the year - UDG	1,194,559			1,194,559
Funds received during the year - Purchase of PPE	13,527,009			13,527,009
Revaluation gain	-	-	-	-
Balance as at 30th June 2022	144,412,965	-	105,131,886	249,544,850

17. Statement Of Cash Flows for The Year Ended 30 June 2023

	Note	2022/2023	2021/2022
		KShs	KShs
Cash flows from operating activities			
Receipts			
Public contributions and donations - UDG	6	1,194,559	25,828,272
Transfers from the County Government-Recurrent	7	129,582,837	85,902,578
Transfers from the County Government-Purchase of PPE	7	13,527,009	11,612,070
Transfers from the County Government-Development	8		29,000,000
Interest received	9	940,656	2,405,280
Total Receipts		145,245,062	154,748,201
Payments			
Staff Cost	10	37,523,874	18,014,770
Use of goods	11	53,906,525	54,218,745
Board expenses	12	7,727,819	9,542,200
Repairs and maintenance	14	35,061,286	7,863,161
Total Payments		134,219,504	81,775,715
Net cash flows from operating activities		11,025,558	72,972,486
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(101,564,143)	(86,130,870)
Proceeds from sale of property, plant and equipment			-
Proceeds from loan principal repayments			-
Loan disbursements paid out			-
Net cash flows used in investing activities		(101,564,143)	(86,130,870)
Cash flows from financing activities			
Receipts from Capital grants			-
Additional borrowings			-
Repayment of borrowings			-
Net cash flows used in financing activities			-
Net increase/(decrease) in cash and cash equivalents		(90,538,585)	-
Cash and cash equivalents at 1 JULY 2022	15	106,813,451	113,495,879
Cash and cash equivalents at 30 JUNE 2023	15	16,274,866	106,813,451

(PSASB has now prescribed the direct method of cashflow presentation for all entities under the IPSAS Accrual basis of accounting).

18. Statement of Comparison of Budget & Actual Amounts for the Year ended 30 June 2023

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023
	a	b	c=(a+b)	d	e=(c-d)	f=d/c
	KShs	KShs	KShs	KShs	KShs	
Revenue						
Urban Development Grant	71,413,722		71,413,722	1,194,559	70,219,163	2%
Transfers from the County Government	184,554,144	5,831,032	190,385,176	143,109,846	47,275,330	75%
Interest income		940,656	940,656	940,656	-	100%
Other income			-		-	
Total income	255,967,866	6,771,688	262,739,554	145,245,062	117,494,492	55%
Expenses						
Acquisition of assets - UDG	71,413,722		71,413,722	66,600,340	4,813,383	93%
Acquisition of assets - Recurrent	18,434,640		18,434,640	13,527,009	4,907,631	73%
Acquisition of assets - Dev	31,900,000		31,900,000	28,837,759	3,062,241	90%
Use of Goods and Services	88,967,811	6,771,688	95,739,499	88,967,811	6,771,688	93%
Board Expenses	7,727,819		7,727,819	7,727,819	-	100%
Staff costs	37,523,874		37,523,874	37,523,874	-	100%
Interests			-		-	
Total expenditure	255,967,866	6,771,688	262,739,554	243,184,612	19,554,942	93%
Surplus for the period	-	-	-	(97,939,550)	97,939,550	

By the close of the FY the Kilifi county executive had not yet transferred the budgeted amounts to the municipality in full also there was an amount of Ksh 5,831,032 that was added to the Municipalities budget during the supplementary budget. Also the Municipality received an interest amounting to Kshs. 940,656 from bank deposits during the year.

19. Notes to the Financial Statements

1. General Information

The Municipality of Kilifi is established through the Urban Areas and Cities Act of 2011 and as amended in 2019 and the Municipal Charter. The Municipality is wholly owned by the County Government of Kilifi and is domiciled in Kenya. The Municipal Board's objective is to enhance provision of quality urban services and promote environmental sustainability.

The Board's principal activity is Service delivery.

2. Statement of Compliance and Basis of Preparation

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

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

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

3. Application of New and revised standards (IPSAS)

- i. New and amended standards and interpretations in issue effective in the year ended 30 June 2023.

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p><i>(State the impact of the standard to the Entity if relevant)</i></p>
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the Entity.</p>

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Standard	Effective date and impact:
	<p>(b) The key features of the operation of those social benefits schemes; and</p> <p>(c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.</p> <p><i>(State the impact of the standard to the Entity if relevant)</i></p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p><i>(State the impact of the standard to the Entity if relevant)</i></p>
<p>Other improvements to IPSAS</p>	<p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> Amendments to refer to the latest System of National Accounts (SNA 2008). • <i>IPSAS 39: Employee Benefits</i> Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • <i>IPSAS 29: Financial instruments: Recognition and Measurement</i> Standard no longer included in the 2023 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023. <p><i>State the impact of the standard to the Entity if relevant</i></p>

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ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.*

Standard	Effective date and impact:
IPSAS 43	<p><i>Applicable 1st January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p><i>State the expected impact of the standard to the Entity if relevant</i></p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p><i>State the expected impact of the standard to the Entity if relevant</i></p>

iii. *Early adoption of standards*

The Entity did not early – adopt any new or amended standards in the financial year 2022-2023

(Notes to financial statements continued)

4. Significant Accounting Policies

a) 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. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realised in the statement of financial performance over the useful life of the assets that has been acquired using such funds.

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 for each period.

b) Budget information

The original budget for FY 2022/2023 was approved by the County Assembly on 24th June 2023. 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 Municipality upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Municipality recorded additional appropriations of 6,771,688 following the governing body's approval.

The Municipality's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis

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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. 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 xxx of these financial statements.

c) 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 Municipality 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.

d) 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.

(Significant accounting policies continued)

e) Financial instruments

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. *The entity does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements. (amend as appropriate).*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets

Classification of financial assets

The entity classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity or fair value through surplus and deficit on the basis of both the entity's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless an entity has made irrevocable election at initial recognition for particular investments in equity instruments.

(Significant accounting policies continued)

Subsequent measurement

Based on the business model and the cash flow characteristics, the entity classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through net assets/ equity

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through surplus or deficit

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end.

(Significant accounting policies continued)

Impairment

The entity assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The entity recognizes a loss allowance for such losses at each reporting date. Critical estimates and significant judgments made by management in determining the expected credit loss (ECL) are set out in *Note xx*.

Financial liabilities

Classification

The entity classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

f) 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:

Raw materials: purchase cost using the weighted average cost method

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)

g) Provisions

Provisions are recognized when the Municipality 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 Municipality 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.

h) Social Benefits

Social benefits are cash transfers provided to i) specific individuals and / or households that meet the eligibility criteria, ii) mitigate the effects of social risks and iii) Address the need of society as a whole. The entity recognises a social benefit as an expense for the social benefit scheme at the same time that it recognises a liability. The liability for the social benefit scheme is measured at the best estimate of the cost (the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.

i) Contingent liabilities

The Municipality 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.

(Significant accounting policies continued)

j) Contingent assets

The Municipality 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 Municipality in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs

k) Nature and purpose of reserves

The Municipality creates and maintains reserves in terms of specific requirements.
Municipality to state the reserves maintained and appropriate policies adopted

l) Changes in accounting policies and estimates

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

m) Employee benefits – Retirement benefit plans

The Municipality provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions if the Municipality does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to scheme 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 benefits 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)

n) 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 in 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.

o) 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.

p) Related parties

The Municipality 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 Municipality, or vice versa. Members of key management are regarded as related parties and comprise the Board members, the Municipality Managers and Municipality Accountant.

q) Cash and cash equivalents

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

(Significant accounting policies continued)

r) Comparative figures

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

s) Events after the reporting period

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue.

Two types of events can be identified:

(a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

(b) Those that are indicative of conditions that arose after the reporting date (*non adjusting events after the reporting date*).

The Municipality should indicate whether there are material adjusting and non-adjusting events after the reporting period.

t) Currency

The financial statements are presented in Kenya Shillings (Kshs.) and the values rounded off to the nearest shilling.

5. Significant judgments and sources of estimation uncertainty

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

State all judgements, estimates and assumptions made.

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 Municipality 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 Municipality. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

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

- i) The condition of the asset based on the assessment of experts employed by the Municipality.
- 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 funds to replace the asset.
- v) Changes in the market in relation to the asset.

Notes to the Financial Statements

6. Public contributions and donations

Description	2022/2023		2021/2022
	KShs		KShs
Donation from development partners-UDG	1,194,559	25,828	272
Total	1,194,559	25,828	272

7. Transfers from County Government- Recurrent

Description	2022/2023		2021/2022
	KShs		KShs
Transfer - Recurrent	129,582,837.00	85,902	578
Transfer - Purchase of PPE	13,527,009.00	11,612	070
Total	143,109,846.00	97,514	648

8. Transfers from County Government-Development

Description	2022/2023		2021/2022
	KShs		KShs
Transfer - Development		29,000	000
Total	-	29,000	000

9. Interest income

Description	2022/2023		2021/2022
	KShs		KShs
Interest income on bank deposits	940,656.20	2,405	280
Total interest income	940,656.20	2,405	280

10. Staff costs

Description	2022/2023		2021/2022
	KShs		KShs
Salaries and wages for casual and contractual staff	37,523,873.82	18,014	770
Total	37,523,873.82	18,014	770

11. Use of Goods and services

Description	2022/2023	2021/22
	KShs	Kshs.
Utilities, supplies and services	300,701.00	88,058
Communication, supplies and services	633,940.00	491,800
Domestic travel and subsistence	13,854,970.00	7,211,510
Printing, advertising, supplies & services	1,312,054.00	2,343,434
Rental of Produced Assets	2,696,652.00	12,178,078
Hire of Transport and equipments	13,684,848.00	
Training expenses	2,086,483.00	3,935,640
Hospitality supplies and services	6,242,009.00	5,592,150
Specialized materials and services	3,834,482.00	6,889,535
Office and general supplies and services	3,035,014.00	2,523,198
Fuel, oil and lubricants	4,796,756.00	1,283,999
Other operating expenses (<i>Specify</i>)	238,870.00	953,600
Assorted enviromental inputs	648,590.00	643,150
Contracted Professional Services		1,595,603
Membership of Proffessional Bodie	14,900.00	
Bank Charges	526,255.90	625,829
Total	53,906,524.90	54,218,744.90

12. Board Expenses

Description	2022/2023	2021/22
	KShs	Kshs.
Sitting allowances	1,682,350.00	2,672,000
Temporary Committee allowance	2,470,469.00	2,062,000
Induction and Training		989,000
Travel and accommodation	3,575,000.00	3,819,200
Total	7,727,819.00	9,542,200

13. Depreciation and amortization

Description	2022/2023	2021/2022
	KShs	KShs
Property, plant and equipment	12,582,977.30	-
Intangible assets	180,333.33	-
Total depreciation and amortization	12,763,311	-

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14. Repairs and Maintenance

Description	2022/2023	2021/2022
	KShs	KShs
Property- Buildings	2,058,418.00	1,595,160
Motor vehicle expenses	4,316,034.00	2,580,911
Maintenance of civil works	28,686,834.00	3,687,090
Total repairs and maintenance	35,061,286.00	7,863,161.00

15. Cash and cash equivalents

Description	Account No	2022/2023	2021/2022
		KShs	KShs
Current accounts			
Total cash and cash equivalents		16,274,866	106,813,451
Detailed analysis of the cash and cash equivalents are as follows:			
Financial institution	Account No	Amount	
a) Current account			
KCG - KILIFI MUNICIPALITY UDG ACCOUNT	NCBA-4084390062	1,627,919.97	66,655,049
CGK MUNICIPALITY OF KILIFI OPERATIONS & MAINTENANCE ACCOUNT	NBK-1071239083900	971,107.40	3,966,603
CGK MUNICIPALITY OF KILIFI SALARY ACCOUNT	KCB-1288712774	303,999.08	635,440
CGK - MUNICIPALITY OF KILIFI MAIN ACCOUNT	KCB-1288705964	3,008.00	40,100.00
CGK - MUNICIPALITY OF KILIFI DEVELOPMENT ACCOUNT	NCBA-4084390028	5,955,043.25	29,040,302
CGK - MUNICIPALITY OF KILIFI RETENTION ACCOUNT	NCBA-4084390015	7,413,788.25	6,475,956.30
TOTAL		16,274,865.95	106,813,451

16. Receivables -From the County Executive

Description	2022/2023	2021/2022
	KShs	KShs
Receivables-From County Executive	6,633,769	6,633,769

RECEIVABLES AGEING ANALYSIS

	2022/2023	2022/2023	2021/2022	
	KShs	KShs	Kshs	
	Current FY	% of the total	Comparative FY	% of the total
Less than 1 year			6,633,769.00	100%
Between 1- 2 years	6,633,769.00	100%		
Total	6,633,769.00	100%	6,633,769.00	100%

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17. Property, Plant and Machinery

Description	2022/2023	2021/2022
	KShs	KShs
Property, Plant and Machinery	231,564,379	129,783,674
	231,564,378.60	129,783,674.00

See PPE schedule in the payment schedules BELOW

Description	Motor vehicles	Furniture and fittings	Computers	Buildings	Other Assets	Capital	Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs
As at 30 th June 2022	3,630,000.00	1,659,670.00	2,827,850.00	63,775,481.00	3,893,500.00	59,395,747.00	129,783,674.00
Additions		5,379,189.00	2,498,900.00	1,821,533.00	5,648,920.00	93,616,565.90	108,965,107.90
Disposals							
Transfer/adjustments							
As at 30 th June 2023	3,630,000.00	7,038,859.00	5,326,750.00	65,597,014.00	9,542,420.00	153,012,312.90	244,147,355.90
Depreciation and impairment							
As at 30 June 2022							
Depreciation	363,000.00	703,885.90	1,775,583.33	6,559,701.40	3,180,806.67		12,582,977.30
Disposals							
Impairment							
Transfer/adjustment							
As at 30 th June 2023	363,000.00	703,885.90	1,775,583.33	6,559,701.40	3,180,806.67	-	12,582,977.30
NBV as at 30 th June 2023	3,267,000.00	6,334,973.10	3,551,166.67	59,037,312.60	6,361,613.33	153,012,312.90	231,564,378.60

18. Intangible Assets

Description	2022/2023	2021/2022
	KShs	KShs
Cost		
At beginning of the year	541,000	
Additions		541,000
At end of the year	541,000	541,000
Amortization and impairment		
At beginning of the year		
Amortization	180,333	
At end of the year	180,333	
Impairment loss		
At end of the year	180,333	541,000
NBV	360,667	541,000

**19. Trade and other payables
from exchange transactions**

Description	2022/2023	2021/2022
	KShs	KShs
UDG Payables		226,948
Rentention Money Payable	7,413,788	6,475,956
Total accounts payable	7,413,788	6,702,904

Payables aging analysis	2022/2023		2021/2022	
	Current FY	% of the total	Comparative FY	% of the total
Under one year			226,948	100%
Under one year			6,475,956	100%
1-2 years	7,413,788	100%		
2-3 years				
Over 3 years				
Total	7,413,788		6,702,904	

20. Defered Income

Description	2022/2023	2021/2022
	KShs	KShs
Donation from development partners-UDG	1,194,559	
Total	1,194,559	

Notes to the Financial Statements

7. Related party balances

a) Nature of related party relationships

Entities and other parties related to the Municipality 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/scheme is related to the following entities:

- a) The County Government.
- b) The Parent County Government Ministry.
- c) County Assembly.
- d) Key management.
- e) Municipality Board; etc.

b) Related party transactions

Description	2022/2023	2021/2022
	KShs	KShs
Transfer - Executive contribution to UDG projects		29,000,000
Transfer from the county government- Recurrent	143,109,846	97,514,648
Total	143,109,846	126,514,648

Notes to the Financial Statements

8. Financial risk management

The Municipality activities do not expose it to many financial risks including credit and liquidity risks and effects of changes in foreign currency. The Board's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The Municipality financial risk management objectives and policies are detailed below:

I. Credit risk

The Municipality has no exposure to credit risk, since it is not in the business of lending out money like the case of funds

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20. Appendices

Appendix 1. Progress on Follow up of Auditors Recommendations.

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

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)
MSA/KLF/MUN/2020/2021/(5)	Inaccuracy in Surplus for the Year	The financial statements were amended and the surplus restated	Was discussed at the county assembly	Report yet to be published
	Budgetary Controls and Performance	The Municipality of Kilifi (MOK) budget was uploaded as part of the County executive budget. This meant that the Municipality depended on the executive goodwill to make payments on its behalf. This resulted to some processed vouchers not being paid by the close of the financial year 2020-2021. Hence the MOK wasn't able to fully utilize the budget.	Was discussed at the county assembly	Report yet to be published

Guidance Notes:

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



To be Signed by the Accounting officer of the Entity

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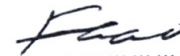
Appendix 2: Inter Entity Transfers

MUNICIPALITY NAME:				
Breakdown of Transfers from the County Executive of xxx County				
	FY 20xx/20xx			
a.	Recurrent Grants	Bank Statement Date	Amount (Kshs.)	Indicate the FY to which the amounts relate
	Transfer - Recurrent		129,582,837	FY 2022-2023
	Transfer –Purchase of PPE		13,527,009	FY 2022-2023
		Total	143,109,946	
b.	Development Grants	Bank Statement Date	Amount (Kshs.)	Indicate the FY to which the amounts relate
	Urban Development Grant	29-05-2023	1,194,559	FY 2022-2023
		Total	1,194,559	
c.	Direct Payments	Bank Statement Date	Amount (Kshs.)	Indicate the FY to which the amounts relate
		Total		

(The above amounts have been communicated to and reconciled with the parent Department in the County.)



Signed by the Head of Accounts of the Entity and the transferring Entities



BONAVENTURE FIM
MUKAKIO

*County Government of Kilifi
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Appendix 3: Reporting of Climate Relevant Expenditures

Name of the Organization
Telephone Number
Email Address
Name of CEO/MD/Head

Name and contact details of contact person (in case of any clarifications)

Project Name	Project Description	Project Objectives	Project Activities					Source Of Funds	Implementing Partners
				Q1	Q2	Q3	Q4		

Appendix 4: Disaster Expenditure Reporting Template

Date:

Entity

Column I	Column II	Column III	Column IV	Column V	Column VI	Column VII
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments