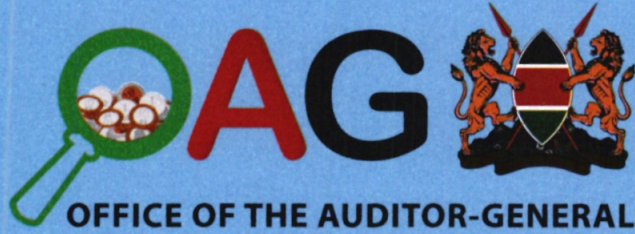


REPUBLIC OF KENYA



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

PAPERS LAID	
DATE	20/3/2024
TABLED BY	Senr. Kingus
COMMITTEE	—
CLERK AT THE TABLE	PolyCaro



KISII MUNICIPALITY

County Government of Kisii

**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)**

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1. ACRONYMS & GLOSSARY OF TERMS

PSASB	Public Sector Accounting Standards Board
FY	Financial Year
OSHA	Occupational Safety & Health Act
Fiduciary Management	Key management personnel who have financial responsibility in the entity.
CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank
PPE	Property, Plant and Equipment
UDG	Urban Development Grant
UIG	Urban Institutional Grant
NBV	Net Book Value
Comparative FY	Financial year proceeding the current financial year.
Financial performance	Statement of revenues and expenses
Surplus	A situation in which revenues are more than expenses
Deficit	A situation in which expenses are more than revenues
Financial position	Statement of assets and liabilities as at a particular time
Asset	A resource with economic value and future benefits to an entity
Liability	An obligation that an entity owes to others, such as debt or taxes
Statement of Cash flow	The movement of cash into and out of an entity over a period of time.
Net assets	Residual interest in the assets of an entity after deducting liabilities

2. KEY MUNICIPALITY INFORMATION AND MANAGEMENT

a) Background information

Kisii Municipality is established by and derives its authority and accountability from Urban Areas and Cities Act No. 13 of 2011 (amended 2019) and Cities and Municipal Charter on 4th September, 2018. The Municipality is under the County Government of Kisii and is domiciled in Kenya.

b) Principal Activities

The principal activity/mission/ mandate of the Municipality is to provide for efficient and accountable management of the affairs of the municipality, provide for governance mechanism that will enable the inhabitants of the municipality to participate in determining the social services and regulatory framework which will satisfy their needs and expectations, provide for services, laws and other matters for municipality's benefit, provide high standard of social services in a cost effective manner to inhabitants of the municipality and fostering the economic, social and environmental wellbeing of its community.

c) Key Management

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

- County department of in charge of Municipalities
- Board of Management
- Accounting Officer/ Municipality Manager
- Management

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:

Ref	Position	Name
1	CECM Lands and physical planning and urban planning	Grace K Nyarango
2	C.O Lands and physical planning and urban planning	Cleopas Okioi
3	Municipality Manager	Nahshon Ongeru
4	Municipal Engineer	Haron Oyaro

e) Fiduciary Oversight Arrangements

i) Audit and Risk Management Committee

The functions and responsibilities of the audit committee were as follows:

- To obtain assurance from management that all financial and non-financial internal control and risk management functions are operating effectively and reliably.
- To provide an independent review of the County Executive's reporting functions to ensure the integrity of financial reports.
- To monitor the effectiveness of the County Executive's performance management and performance information.
- To provide strong and effective oversight of County Executive's internal audit function.
- To provide effective liaison and facilitate communication between management and external audit.
- To provide oversight of the implementation of accepted audit recommendations.
- To ensure that the County Executive effectively monitors compliance with legislative and regulatory requirements and promotes a culture committed to lawful and ethical behaviour.

ii) County Assembly committees

. County Assembly of Kisii County

The responsibilities of the County Assembly of Kisii were as follows:

- To vet and approve nominees for appointment to county public offices as may be provided for in the relevant laws;
- To perform the roles set out under Article 185 of the Constitution;
- To approve the budget and expenditure of the county government in accordance with Article 207 of the Constitution, and the legislation contemplated in Article 220(2) of the Constitution, guided by Articles 201 and 203 of the Constitution;
- To approve the borrowing by the county government in accordance with Article 212 of the Constitution;
- To approve county development planning; and
- To perform any other role as may be set out under the Constitution or legislation

iii) Committees of the Senate

Public Accounts and Investment Committee of the Senate

The main function of the Senate Public Accounts and Investment Committee is to invite the Governor to appear before it to adduce evidence on the reports of the Auditor-General

f) Registered Offices

P.O. Box 4550-40200
Fire station Building
Next to Storm Hotel
KISII, KENYA

g) Contacts

Kisii Municipality
Telephone: (254) 582030005
E-mail: info@kisii.go.ke
Website: www.kisii.go.ke

h) Bankers

Equity Bank-Kisii Branch

SBM-Kisii Branch







i) Independent Auditor


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

j) Principal Legal Adviser





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

3. KISII MUNICIPALITY BOARD

Serial No.	Name	Details of qualifications and experience
1	Jamal Shamji- Chairman 	He holds B.A in Marketing. Hold a certificate for sustainable Urban development. He is the Chairman of Kisii Municipal board, Director (non -executive) of Diamond trust bank ltd, Director Sansora bakers and confectioners ltd. He was a director of Kisii teaching and referral hospital from October 2014 – Feb 2022. He is the owner of A.Jiwa Shamnji Ltd.
2	Linet Moruri-Vice Chair 	She holds MBA in Strategic management and BA in mass communication. She is the vice chair of Kisii Municipality board. She is an independent board member.
3	Nahshon Ongeri-Secretary 	He holds an MBA in Finance and Bachelor of Commerce –Accounting. He is the Secretary to the board.
4	Judson Nyambane- Member	
5	Albert Omari- Member 	He holds MBA in marketing and a B.E.D Arts degree. He is the chair of the finance and planning committee of Kisii Municipality board. He is an independent board member
6	Alfred Onuonga- Member 	He holds MBA in Urban and regional planning and BA in economics and Geography He is the chair of Municipal planning committee in Kisii Municipality. He is a lecturer at Kisii university. He is an independent board member.
7	Philip Motonu- Member 	He holds a bachelor's degree in Business administration. He is a former member of Kisii County assembly. He is an independent board member.

8	Elizabeth Orengo- Member 	She holds a master's degree in Education (curriculum studies). She is a retired senior principal graduate. She is an independent board member.
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4. KEY MANAGEMENT TEAM

Ref	Position	Details of qualifications and experience
1	 Grace K. Nyarango. CECM Lands and physical planning and urban planning.	MBA in Business Administration
2	 Cleopas Okioi- C.O Lands and physical planning and urban planning.	Bachelor of commerce in IT
3	Nahshon Ongeri Municipality Manager 	Bcom –Accounting MBA-Finance
4	 Haron Oyaro Municipal Engineer	BSC Civil Engineering

5. MUNICIPALITY BOARD CHAIRPERSON'S REPORT

Section 81 (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 National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objectives are to:

- a) Support for the establishment, operationalization and strengthening of the institutional framework for urban management.
- b) Strengthening coordination of urban finances.
- c) Provision of support for planning, urban infrastructure, and service delivery.
- d)

Anticipated Objectives To Be Attained

- a) Provide for efficient and accountable management of the affairs of the Municipality
- b) Provide a higher standard of social services in a cost effective manner to the inhabitants of the Municipality
- c) To provide for services, laws and other matters for the Municipality.
- d) Promote regulate the provision of refuse collection and solid waste management services.

Challenges

- a) Budgetary constraints.
- b) Lack of proper planning and development control.
- c) Human resource challenges.
- d) Lack of political goodwill.

Opportunities

- a) Extension of connectivity on the neighbouring and connecting roads.
- b) Opening up the area for support with other donor programmes on the Nyanchwa green belt under UKAid-sustainable urban Economic Development (SUED)
- c) Effective monitoring and protection of the riparian from encroachment and pollution.
- d) Potential for upgrading and improvement of the Nubia slum due to proximity to town areas.

Progress on attainment of strategic development objectives

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: Below we provide the progress on attaining the stated objectives:

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

Program	Objective	Outcome	Indicator	Performance
Construction of RangiMbili-ElimuUmoja road and augmentation of Huduma centre-kisii hotel drain and associated works.	-To mitigate and manage storm water -To provide accessibility to backstreet	-Minimal accidents -Reduced waterborne diseases -Lower road maintenance costs effectively doing new roads	-Travel time -Number of passengers diverted to the road.	-Minimized misuse of road facility Controlled storm water management
Upgrading of Jogoo –KARI-KIHBIT Road to Bitumen Standards	-To open link to the New banana and Avocado factory (Cottage industry) -To open access of farmers to the Agricultural facility. -To provide connectivity to Jogoo residents	-Easy access to the cottage industry and Agricultural facility. -Enhanced connectivity with Jogoo residents	Increased number of people accessing the Agricultural facility -Increased Number of passengers using the road	-Increased productivity in the cottage industry.



.....
Name: Jamal udin Shamji
Chairperson of the Board

6. REPORT OF THE MUNICIPALITY MANAGER

In the Current year, the Kisii Municipality had an approved budget of Kshs 164,053,800 donor funding. However Kshs. 2,339,915 was disbursed by the County Treasury.

The Municipality key development objectives are to:

- e) Support for the establishment, operationalization and strengthening of the institutional framework for urban management.
- f) Strengthening coordination of urban finances.
- g) Provision of support for planning, urban infrastructure, and service delivery.

Anticipated Objectives To Be Attained

- a) Provide for efficient and accountable management of the affairs of the Municipality
- b) Provide a higher standard of social services in a cost effective manner to the inhabitants of the Municipality
- c) To provide for services, laws and other matters for the Municipality.
- d) Promote regulate the provision of refuse collection and solid waste management services.

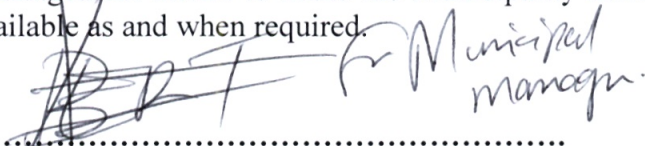
Challenges

- a) Budgetary constraints.
- b) Lack of proper planning and development control.
- c) Human resource challenges.
- d) Lack of political goodwill.

Opportunities

- a) Extension of connectivity on the neighbouring and connecting roads.
- b) Opening up the area for support with other donor programmes on the Nyanchwa green belt under UKAid-sustainable urban Economic Development (SUED)
- c) Effective monitoring and protection of the riparian from encroachment and pollution.
- d) Potential for upgrading and improvement of the Nubia slum due to proximity to town areas.

The management intend to make the Municipality more active in the so that enough resources are available as and when required.



.....

Name: Nahshon Onger

Municipality Manager

7. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR THE 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 shall prepare financial statements in respect of the entity in formats to be prescribed by the Accounting Standards Board including a statement of the county government entity’s performance against predetermined objectives.

The key development objectives of the Kisii Municipality plan are to:

- a) Provide quality physical infrastructure.
- b) Urban planning.
- c) Urban governance and administration

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
Construction of Rangimbili- ElimuUmoja road and augementation of Huduma centre-kisii hotel drain and associated works.	-To mitigate and manage storm water -To provide accessibility to backstreet	-Minimal accidents -Reduced waterborne diseases -Lower road maintenance costs effectively doing new roads	-Travel time -Number of passengers diverted to the road.	-Minimized misuse of road facility Controlled storm water management
Upgrading of Jogoo – KARI- KIHBIT Road to Bitumen Standards	-To open link to the New banana and Avocado factory (Cottage industry) -To open access of farmers to the Agricultural facility. -To provide connectivity to Jogoo residents	-Easy access to the cottage industry and Agricultural facility. -Enhanced connectivity with Jogoo residents	Easy access to the cottage industry and Agricultural facility. -Enhanced connectivity with Jogoo residents	-Increased productivity in the cottage industry.

8. CORPORATE GOVERNANCE STATEMENT

- a. Process of appointment and removal of Board members.
 - A member of the Board shall cease to hold office if the member
 - is unable to perform the function of the office by reason of mental or physical infirmity
 - is declared or becomes bankrupt or insolvent
 - is convicted of a criminal offense and is sentenced to a term of imprisonment of 6 months or more
 - resigns in writing to the county governor
 - Without reasonable cause the member is absent from 3 consecutive meetings of the board or committee of the board of the municipality within one FY.
 - Is found guilty of professional misconduct by the relevant professional body
 - Dies
 - Is disqualified from holding public office under the constitution.
 - Fails to declare interest in any matter being considered or to be considered by the board or board committees.
 - Engages in any gross misconduct
- b. Roles and functions of the Municipality Board members
 - Oversee the affairs of the municipality
 - Formulate and implement an integrated development plan
 - Develop or adopt policies, plans, strategies, and programs and set targets for service delivery
 - Administering and regulating its internal affairs
 - Implementing applicable national and county legislation
 - Monitoring the impact and effectiveness of any services, policies, programs or plans
 - Preparing and submitting its annual budget estimates to the relevant county treasury for consideration and submission to the county assembly for approval as part of the annual county appropriation bill.
- c. Number of Municipality Board meetings held and the attendance to those meetings by members,
The board holds its sittings once every three months to transact its business.
- d. Existence of a service charter
Kisii Municipality is established by and derives its authority and accountability from Urban Areas and Cities Act No. 13 of 2011(amended 2019) and Cities and Municipal Charter on 4th September, 2018 .The Municipality is under the County Government of Kisii and is domiciled in Kenya.
- e. Board remuneration
The board are not entitled to a salary but they are paid allowances as the county executive committee with the approval of the county assembly and the advice of the SRC determine.

9. MANAGEMENT DISCUSSION AND ANALYSIS

In the Current year, the Kisii Municipality had an approved budget of Kshs 164,053,800 donor funding. However Kshs. 2,339,915 was disbursed by the County Treasury.

The key development objectives are to:

- h) Support for the establishment, operationalization and strengthening of the institutional framework for urban management.
- i) Strengthening coordination of urban finances.
- j) Provision of support for planning, urban infrastructure, and service delivery.

Anticipated Objectives To Be Attained

- a) Reduced number of accidents attributed vehicular and non-vehicular conflict.
- b) Reduced travel time enhancing productivity and convenience.
- c) Emerging new development on the road corridor.
- d) Transformation of estate to a mixed use area from purely residential estate hence creating new Frontiers on otherwise unutilized areas.
- e) Enhanced services delivery i.e. shorter route for utilities, efficient garbage collection.

Challenges

- e) Explosion in the utilization of the facility rendering the previous routes unusable.
- f) Potential accidents being a residential estate with institutions surrounding.
- g) Main truck sewer crossing with perpetual overflow and spillage.
- h) Axle load control of heavy traffic.

Opportunities

- e) Extension of connectivity on the neighbouring and connecting roads.
- f) Opening up the area for support with other donor programmes on the Nyanchwa green belt under UKAid-sustainable urban Economic Development (SUED)
- g) Effective monitoring and protection of the riparian from encroachment and pollution.
- h) Potential for upgrading and improvement of the Nubia slum due to proximity to town areas.

The Municipality had major changes in the key management team following the change of regime in the Gubernatorial and executive members. The management did not find time to review the municipality's performance due to the substantial time taken to settle. Additionally the new management took substantive time to verify the existing pending bills to ascertain legible and ineligible bills.

The Kisii Municipality prepares and submits its financial statements yearly to the statutory bodies on time. The reports are audited by the office of the Auditor- General.

The management intend to make the Municipality more active in the so that enough resources are available as and when required.

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

1. Sustainability strategy and profile

The Municipality has also engaged in capacity building of its human resource to ensure that they remain competitive and relevant in a competitive market. Socially the Municipality has built town access roads to ensure that the people enjoy improved and quality life by making ease access to the town.

2. Environmental performance

Kisii Municipality through the county government passed legislation in the County Assembly for the cutting of eucalyptus trees which have adversely affected the water table. The county has also encouraged the replacement of eucalyptus trees which have no effect to water table.

Through the ministry of environment water and natural resources, the county has initiated spring protection works and rehabilitation of water schemes.

It has also embarked on recovery of riparian land by partnering with other government agencies such as NEMA

3. Employee welfare

Kisii municipality through the County Government of Kisii provides equal employment opportunities to the citizen through advertisement of vacancies on its website and local media for easy access of the applicants. It also strives to attain the gender balance in the recruitment process.

The County Government of Kisii has consistently increased capacity building of its employees in equipping them on their career development. This involves necessary skills to enable them discharge their duties and responsibilities in an ever changing working environment.

It also takes care of employee's welfare through provision of comprehensive medical insurance scheme.

4. Market place practices

The county has installed high mast solar streetlights in all major markets to enable a 24 hour economy. In empowering its citizens, the County through the department of trade, tourism and industrialization has constructed market stalls and shades to make business possible.

The Kisii Municipality has also constructed an access road to banana and avocado processing plant to enable the locals' access easy market of their locally grown produce

5. Community Engagements

The county has engaged in the construction of peoples' recreational park whose objective is to offers an opportunity for social groups as well as individuals of all ages to meet and interact.

The park also offers an opportunity for reduction of crime and juvenile delinquency. It has also provided an opportunity for people to experience nature and engage in physical activities and relax.

11. REPORT OF KISII 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 to provide for efficient and accountable management of the affairs of the municipality, provide for governance mechanism that will enable the inhabitants of the municipality to participate in determining the social services and regulatory framework which will satisfy their needs and expectations, provide for services, laws and other matters for municipality's benefit, provide high standard of social services in a cost effective manner to inhabitants of the municipality and fostering the economic, social and environmental wellbeing of its community.

Performance

The performance of the Municipality for the year ended June 30, 2023 are set out on page 1

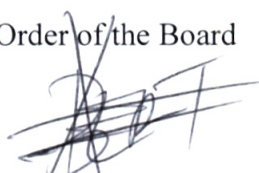
Board Members

The members of the Board who served during the year are shown on page v and vi.

Auditors

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

By Order of the Board



*Municipal
Manager*

.....
Name: Nahshon Onger
Secretary of the Board

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 Directors have assessed the Fund's ability to continue as a going concern.

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 financial statements were approved by the Board on 12/01 2024 and signed on its behalf by:

.....
Name: Jamal udin Shamji
Chairperson of the Board

.....
Name: Nahshon Ongeri
Accounting officer of the Board

REPUBLIC OF KENYA

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



Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON KISII MUNICIPALITY 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 Kisii Municipality set out on pages 1 to 23, 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 Kisii Municipality for the year ended 30 June, 2023

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 the Kisii Municipality 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 and the Urban and Cities Act, 2012.

Basis for Qualified Opinion

1.0 Unsupported Training Expenses

The statement of financial performance reflects use of goods and services amount of Kshs.1,854,359 which, as disclosed in Note 7 to the financial statements, includes training expenses amount of Kshs.1,292,550 out of which, Kshs.1,280,300 represent Board training fees and allowances. However, requisitions, signed training need assessment report, nominees list, and travel receipts in support of the later amount were not provided for audit.

In the circumstances, the accuracy, completeness and propriety of the training expenses amount of Kshs.1,280,300 could not be confirmed.

2.0 Failure to Depreciate Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.363,519,830 as disclosed in Note 9 to the financial statements. The balance represents historical cost of buildings, other machinery and equipment, furniture and fittings, computers, infrastructural assets and capital work in progress. However, Management did not provide for depreciation on these non-current assets as required by International Public Sector Accounting Standards (IPSAS) 17 on property, plant and equipment. This was also contrary to paragraph (c) of the significant accounting policies, which states that all property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

In the circumstances, the accuracy of the property, plant and equipment balance of Kshs.363,519,830 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 Kisii Municipality 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

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects expenditure budget and actual on comparable basis amounts of Kshs.2,339,915 and Kshs.1,854,359 respectively, resulting in an under-expenditure of Kshs.485,556 or 21% of the budget. Further, the Municipality spent Kshs.57,075,876 on development expenditure against an approved budget of Kshs.161,713,885, resulting in an under-expenditure of Kshs.104,638,009 or 65% of the budget.

The under-expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Kisii Municipality.

2.0 Failure to Maintain Retention Account

The statement of financial position reflects trade and other payables-deposits retention balance of Kshs.7,227,808 as disclosed under note 10. However, Management did not maintain a separate retentions account for such monies to cover any defect in construction contracts.

In the circumstances, contractors' retention monies may be used for other purposes, which may lead to the Municipality being sued by the contractors.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution and based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Delayed Upgrading of Jogoo-KARI-KIHBIT Road to Bitumen Standards

The statement of financial position reflects property, plant and equipment of Kshs.363,519,830 which, as disclosed in Note 9 to the financial statements, includes addition for the year under review of Kshs.57,075,876. Includes in the latter amount is

Kshs.17,683,136 spent in respect of a contract for the upgrading of Jogoo-KARI-KIHBIT Road to bitumen standards at a contract sum of Kshs.49,459,667. The contract agreement was signed on 21 June, 2022, while the site handing over was done on 24 June, 2022. However, the notice to commence work indicated the commencement date as 12 August, 2022, taking into account the uncertainty associated with the general election that was to be held on 9 August, 2022. The contract was expected to end on 12 August, 2023.

The contractor requested for extension of completion date on 8 August, 2023, which was approved on 11 August, 2023 with the revised completion date being 31 October, 2023. The Kshs.17,683,136 comprises Kshs.6,320,205 paid vide first certificate and Kshs.11,362,931 paid vide second certificate.

However, the bill of quantities was not provided for audit and physical verification on 23 November, 2023 revealed that the project was incomplete and the contractor was not on site. Further, Management did not provide for audit a revised work plan as there was no proof of another contract extension and completion date as the previous contract had lapsed. This was contrary to Regulation 137(a) of the Public Procurement and Asset Disposal Regulations, 2020, which requires the Accounting Officer to have in place a contract implementation team in order to ensure that the right quality and quantity of goods, works and services are procured.

In circumstances, Management was in a breach of the law, and value for money of the expenditure of Kshs.17,683,136 could not be confirmed.

2.0 Own Generated Revenue Not Accounted For

The statement of financial performance, and as disclosed in Note 6 to the financial statements, reflects total revenue of Kshs.2,339,915, being urban institutional grant under the Kenya Urban Support Program. Therefore, the statement does not include any revenue collected by the Receiver of Revenue of the County Government of Kisii on behalf of the Kisii Municipality. This is contrary to Section 171(1) of the Public Finance Management Act, 2012, which stipulates that an accounting officer of an urban area or city is responsible for the management of the revenue received by that urban area or city, and Section 9(3) of the Urban Areas and Cities Act, 2011, which states that a town is eligible for the conferment of Municipal Status under the Act if the town has demonstrated revenue collection or revenue collection potential” among other criteria set therein.

In the circumstances, the eligibility for conferment of Municipal Status of the Municipality is doubtful and its operations are in breach of the law.

3.0 Late Submission of Financial Statements

The financial statements of the Kisii Municipality for the year ended 30 June, 2023 were submitted for audit on 19 October, 2023, contrary to Section 47(1) of the Public Audit Act, 2015, which requires financial statements for the financial year ended 30 June, 2023 to be submitted to the Auditor-General by 30 September, 2023. Management did not provide an explanation for the late submission.

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

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

Basis for Conclusion

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

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Municipality's ability 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.

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

Because of its inherent limitations, internal 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 policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital'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 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 the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

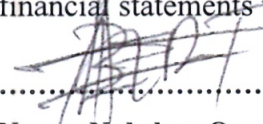
13 February, 2024

Kisii Municipality
County Government of Kisii
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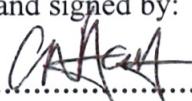
14. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023

Description	Note	2022-2023	2021-2022
		Kshs.	Kshs.
Revenue from non-exchange transactions			
Urban institutional grant	6	2,339,915	-
Total revenue		2,339,915	-
Expenses			
Use of goods and services	7	1,854,359	739,406
Total expenses		1,854,359	739,406
Other gains/losses			
Surplus/(deficit) for the year		485,556	(739,406)

The notes set out on pages 1 to 22 form an integral part of these Financial Statements. The entity financial statements were approved on 12/01 2024 and signed by:

 for Municipality Manager

Name: Nahshon Ongeri
Municipality Manager



Name: George Ogware
Municipality Accountant
ICPAK M/No. 8093

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15. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

Description	Note	2022-2023	2021-2022
		Kshs.	Kshs.
Assets			
Current assets			
Cash and cash equivalents	8	21,711,500	78,391,938
Total current assets		21,711,500	78,391,938
Non-current assets			
Property, plant, and equipment	9	363,519,830	306,443,955
Total non-current Assets		363,519,830	306,443,955
Total assets		385,231,330	384,835,893
Liabilities			
Current liabilities			
Trade and other payables	10	7,227,808	7,317,927
Total current liabilities		7,227,808	7,317,927
Net assets			
Urban development grant		371,370,958	371,370,958
Accumulated surplus		6,632,564	6,147,008
Total net assets		378,003,522	377,517,966
Total net assets and liabilities		385,231,330	384,835,893

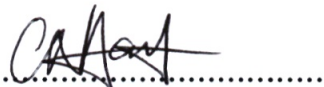
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 12/01/2024 and signed by:



Name: Nahshon Ongeri

Municipality Manager

Date:



Name: George Ogware

Municipality Accountant

ICPAK M/No. 8093

Date:

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

Description	Urban Development Grant	Accumulated Surplus	Total
		Kshs.	Kshs.
Bal as at 1 July 2021	281,391,442	6,886,414	288,277,856
Surplus/(deficit) for the year		(739,406)	(739,406)
Funds received during the year	89,979,516		89,979,516
Balance as at 30 June 2022	371,370,958	6,147,008	377,517,966
Bal as at 1 July 2022	371,370,958	6,147,008	377,517,966
Surplus/(deficit) for the year	-	485,556	485,556
Funds received during the year	-	-	-
Bal as at 30 Jun 2023	371,370,958	6,632,564	378,003,522

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17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

Description	Note	2022-2023	2021-2022
		Kshs.	Kshs.
Cash flows from operating activities			
Receipts			
Transfers from the County Government		2,339,915	-
Total Receipts		2,339,915	-
Payments			
Use of goods and services		1,854,359	739,406
Total Payments		1,854,359	739,406
Net cash flows from operating activities	11	485,556	(739,406)
Cash flows from investing activities			
Property, plant & Equipment		(57,075,876)	(81,604,658)
Retention money		5,707,588	7,664,316
Refund of retention money		(5,797,707)	(6,399,614)
Net cash flows used in investing activities		(57,165,994)	80,339,956
Cash flows from financing activities			
Receipts from Urban development grant		-	89,979,516
Net cash flows used in financing activities		-	89,979,516
Net increase/(decrease) in cash & cash equivalents		(56,680,438)	8,900,154
Cash and cash equivalents at 1 July 2022	8	78,391,938	69,491,784
Cash and cash equivalents at 30 June 2023	8	21,711,500	78,391,938

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

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of Utilisation
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
	a	b	c=(a+b)	d	e=(c-d)	f=d/c
Revenue						
Urban institutional grant	2,339,915	-	2,339,915	2,339,915	-	100%
Total Revenue	2,339,915	-	2,339,915	2,339,915	-	100%
Expenses						
Use of goods and services	2,339,915	-	2,339,915	1,854,359	485,556	79%
Total Expenditure	2,339,915	-	2,339,915	1,854,359	485,556	79%
Surplus for the year	-	-	-	485,556	(485,556)	
Capital Expenditure	161,713,885	-	161,713,885	57,075,876	104,638,009	35%

Budget notes

- a) Purchase of goods and services was underutilized due to late disbursement of exchequer from National Treasury.
- b) Capital expenditure was underutilized due to late disbursement of exchequer from National Treasury.

19. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Kisii Municipality is established by and derives its authority and accountability from Urban Areas and Cities Act No. 13 of 2011(amended 2019) and Cities and Municipal Charter on 4th September, 2018 .The Municipality is under the County Government of Kisii and is domiciled in Kenya.

The principal activity/mission/ mandate of the Municipality is to provide for efficient and accountable management of the affairs of the municipality, provide for governance mechanism that will enable the inhabitants of the municipality to participate in determining the social services and regulatory framework which will satisfy their needs and expectations, provide for services, laws and other matters for municipality's benefit, provide high standard of social services in a cost effective manner to inhabitants of the municipality and fostering the economic, social and environmental well being of its community.

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, the State Corporations Act (include any other applicable legislation), and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

County Government of Kisii

Kisii Municipality

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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:
IPSAS 41: Financial Instruments	Applicable: 1st January 2023: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: <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.
IPSAS 42: Social Benefits	Applicable: 1st January 2023 The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess: (a) The nature of such social benefits provided by the Entity. (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	Applicable: 1st January 2023: <ul style="list-style-type: none">a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual

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

Standard	Effective date and impact:
	basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other improvements to IPSAS	<p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • IPSAS 22 Disclosure of Financial Information about the General Government Sector. Amendments to refer to the latest System of National Accounts (SNA2008). • IPSAS 39: Employee Benefits Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • IPSAS 29: Financial instruments: Recognition and Measurement Standard no longer included in the 2023 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.

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>Applicable 1st January 2025</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 cash flows 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>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p>Applicable 1st January 2025</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>

iii. Early adoption of standards

The Entity did not early – adopt any new or amended standards in the financial year or the entity adopted the following standards early

(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 30th June, 2022. 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.

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 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 112 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

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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.

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

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 cash flows 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

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assets/ equity unless an entity has made irrevocable election at initial recognition for particular investments in equity instruments.

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.

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.

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.

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.

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(Significant accounting policies continued)

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.

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.

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

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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.

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.

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Notes to the Financial Statements

6. Transfers from the County Government

Description	2022-2023	2021-2022
	Kshs.	Kshs.
Transfers from County Govt. – UIG	2,339,915	-
Urban Institutional Grant		
Total	2,339,915	-

7. Use of Goods and Services

Description	2022-2023	2021-2022
	Kshs.	Kshs.
Communication, supplies and services	554,600	
Domestic travel and subsistence		590,000
Training expenses	1,292,550	
Hospitality supplies and services		111,000
Bank Charges	7,209	38,406
Total	1,854,359	739,406

8. Cash and cash equivalents

Description	2022-2023	2021-2022
	Kshs.	Kshs.
Current account	21,711,500	78,391,938
Total cash and cash equivalents	21,711,500	78,391,938

Detailed analysis of the cash and cash equivalents are as follows:

Financial institution	Account number	2022-2023	2021-2022
		Kshs.	Kshs.
a) Current account			
SBM bank	0252375439001	508,986	16,581
Equity Bank -	0510280766471	21,202,514	78,375,357
Sub- total		21,711,500	78,391,938
Grand total		21,711,500	78,391,938

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(Notes to the Financial Statements Continued)

9. Property, Plant and Equipment

Description	Land	Building	Other Machinery & Equipment	Furniture and fittings	Computers	Infrastructural Assets	Capital Work in Progress	Total
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
As at 1 July 2021	-	53,919,752	1,400,000	3,806,643	2,498,262	158,459,076	4,755,564	224,839,297
Additions	-	-	-	-	-	81,604,658	-	81,604,658
Disposals	-	-	-	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-	-	-	-
As at 30th June 2022	-	53,919,752	1,400,000	3,806,643	2,498,262	240,063,734	4,755,564	306,443,955
Additions for the year	-	-	-	-	-	57,075,876	-	57,075,876
Disposals for the year	-	-	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-	-	-
As at 30th June 2023	-	53,919,752	1,400,000	3,806,643	2,498,262	297,139,609	4,755,564	363,519,830
Depreciation and impairment								
At 1 July 2021		-	-	-	-	-	-	-
Depreciation		-	-	-	-	-	-	-
Impairment		-	-	-	-	-	-	-
Transfers/ Adjustments		-	-	-	-	-	-	-
As at 30 June 2022		-	-	-	-	-	-	-
Depreciation		-	-	-	-	-	-	-
Impairment		-	-	-	-	-	-	-
Transfer/adjustment		-	-	-	-	-	-	-
As at 30th June 2022		-	-	-	-	-	-	-
NBV as at 30th Jun 2022	-	53,919,752	1,400,000	3,806,643	2,498,262	240,063,734	4,755,564	306,443,955
NBV as at 30th Jun 2023	-	53,919,752	1,400,000	3,806,643	2,498,262	297,139,609	4,755,564	363,519,830

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(Notes to The Financial Statements Continued)

10. Trade and other payables from exchange transactions

Description	2022-2023		2021-2022	
	Kshs.		Kshs.	
Trade payables	-		-	
Retentions	7,227,808		7,317,927	
Accrued expenses	-		-	
Other payables (<i>Specify</i>)	-		-	
Total trade and other payables	7,227,808		7,317,927	
Ageing analysis:	2022-2023	% of the Total	2021-2022	% of the Total
Under one year	5,707,587	79	2,964,773	41
1-2 years	1,520,221	21	4,353,154	59
2-3 years	-	0	-	0
Over 3 years	-	0	-	0
Total	7,227,808	100	7,317,927	100

11. Cash generated from operations

Description	2022-2023		2021-2022	
	Kshs.		Kshs.	
Surplus/ (deficit) for the year before tax	485,556		-739,406	
Net cash flow from operating activities	485,556		-739,406	

12. 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 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.

13. Financial risk management

The Municipality's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Municipality'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 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 Municipality's financial risk management objectives and policies are detailed below:

I. Credit risk

The Municipality 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 Municipality's management based on prior experience and their assessment of the current economic environment. The carrying amount of financial assets recorded in the financial statements representing the Municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

Description	Total amount Kshs.	Fully performing Kshs.	Past due Kshs.	Impaired Kshs.
At 30 June 2023 (current year)				
Receivables from exchange transactions				
Receivables from non-exchange transactions				
Bank balances				
Total				

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At 30 June 2022 (previous year)				
Receivables from exchange transactions				
Receivables from non-exchange transactions				
Bank balances				
Total				

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 Municipality has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

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

II. Liquidity risk management

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

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

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs.	Kshs.	Kshs.	Kshs.
At 30 Jun 2023 (current year)				
Trade payables				
Current portion of borrowings				
Provisions				
Employee benefit obligation				
Total				
At 30 Jun 2022 (previous year)				
Trade payables				
Current portion of borrowings				
Provisions				
Employee benefit obligation				
Total				

III. Market risk

Notes to the Financial Statements

The Board has put in place an internal audit function to assist it in assessing the risk faced by the Municipality 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 Municipality'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. There has been no change to the Municipality's exposure to market risks or the manner in which it manages and measures the risk.

IV. Foreign currency risk

The Municipality has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The carrying amount of the Municipality's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Description		Other currencies	Total
	Kshs.	Kshs.	Kshs.
At 30 June 2023 (current year)			
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 Fund'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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Description	Change in currency rate	Effect on surplus/ deficit	Effect on equity
	Kshs.	Kshs.	Kshs.
2023 (current year)			
Euro	10%		
USD	10%		
2023 (previous year)			
Euro	10%		
USD	10%		

V. 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.

VI. Capital risk management.

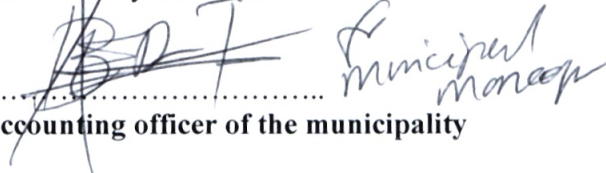
The objective of the Municipality's capital risk management is to safeguard the Municipality's ability to continue as a going concern. The Municipality capital structure comprises of the following Municipality's:

Description	2022-2023	2021-2022
	Kshs.	Kshs.
Revaluation reserve		
Capital/Development Grants/Municipality		
Accumulated surplus		
Total Funds		
Total borrowings		
Less: cash and bank balances		
Net debt/(excess cash and cash equivalents)		
Gearing		

20. APPENDICES

Appendix 1. Progress on Follow up of Auditors Recommendations.

In the financial year 2021-2022 an external audit was conducted by the office of Auditor general. We are yet to receive the certificate.


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Accounting officer of the municipality