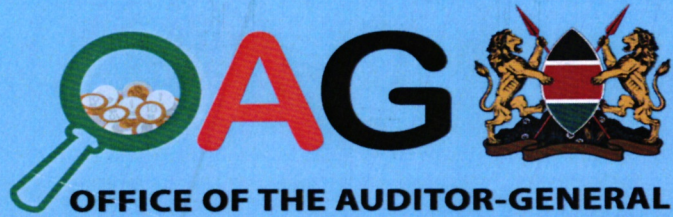


REPUBLIC OF KENYA



Enhancing Accountability

REPORT

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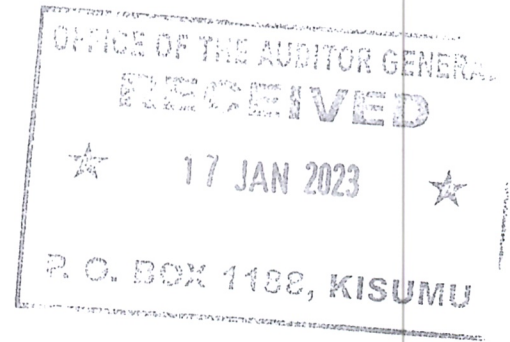
THE AUDITOR-GENERAL

ON

KERICHO MUNICIPAL

**FOR THE YEAR
30 JUNE**





KERICHO MUNICIPALITY

County Government of Kericho

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2020

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

County Government of Kericho
Kericho Municipality
Annual Report and Financial Statements for the year ended June 30, 2020

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1. Key Entity Information and Management

a) Background information

Kericho Municipality is established by and derives its authority and accountability from Urban Areas and Cities Act No. 13 of 2011 and Cities and Municipal Charter on *(Insert date)* The City/ Municipality is under the County Government of - and is domiciled in Kenya.

Functions of the Municipality Board

- (a) Promotion, regulation and provision of refuse collection and solid waste management services;
 - (b) Promotion and provision of water and sanitation services and infrastructure (in areas within the Municipality not served by the Water and Sanitation Provider);
 - (c) Construction and maintenance of urban roads and associated infrastructure;
 - (d) Construction and maintenance of storm drainage and flood controls;
 - (e) Construction and maintenance of walkways and other non-motorized transport infrastructure;
 - (f) Construction and maintenance of recreational parks and green spaces;
 - (g) Construction and maintenance of street lighting;
 - (h) Construction, maintenance and regulation of traffic controls and parking facilities;
 - (i) Construction and maintenance of municipal roads, bus stands and taxi stands;
 - (j) Regulation of outdoor advertising;
 - (k) Construction, maintenance and regulation of municipal infrastructure, markets and abattoirs;
 - (l) Construction and maintenance of fire stations; provision of fire-fighting services, emergency preparedness and disaster management;
 - (m) Promotion, regulation and provision of municipal sports and cultural activities;
 - (n) Promotion, regulation and provision of animal control and welfare;
 - (o) Development and enforcement of municipal plans and development controls;
 - (p) Municipal administration services (including construction and maintenance of administrative offices);
- Promoting and undertaking infrastructural development and services within municipality;
- Any other functions as may be delegated by the County Executive Committee.

Principal Activities

Principal activity/mission/ mandate of the City/ Municipality is to ...

provide for efficient and accountable management of the affairs of the Municipality.

for a governance mechanism that will enable the inhabitants of

Municipality to:

determining the social services and regulatory framework

- which will best satisfy their needs and expectations.
- b. Verify whether public resources and authority are utilized or exercised, as the case may be, to their satisfaction.
- c. Enjoy efficiency in service delivery.
- (iii) Vigorously pursue the developmental opportunities which are available in the Municipality and to institute such measures as are necessary for achieving public order and the provisions of civic amenities, so as to enhance the quality of life of the inhabitants of the Municipality.
- (iv) Provide a high standard of social services in a cost effective manner to the inhabitants of the Municipality.

c) City/Municipality Board

Ref	Position	Name
1.	Chairman of the Board	Harry Langat
2.	County Executive Committee Member responsible for Cities and Urban areas.	Hon Barnabas K Ngeno
3.	Board Member 1	Richard Mutai
4.	Board Member 2	Philip Kiprono
5.	Board Member 3	Stanley Mutai
6.	Board Member.....	Beatrice Kemei
7.	Municipality Manager	Joseph Rotich

(Input names of all the members who held office during the period)

d) Key Management

Ref	Position	Name
1	City/Municipality Manager	Joseph Rottich
2	Directors/Head of departments	

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(Include all positions regarded as top management for the City/Municipality).

e) Fiduciary Oversight Arrangements

[Provide a high-level description of the key fiduciary oversight arrangements covering (say)]:

- i) Audit and Risk Management Committee
- ii) County Assembly committees
- iii) Committees of the Senate

f) Registered Offices

P.O. Box 112
Revenue Building/House/Plaza
Avenue/Road/Highway
Kericho, KENYA

g) Contacts

Telephone: (+254)723680356
E-mail: -.com
Website: -.go.ke

h) Bankers

Commercial Banks
Sidian Bank
Kericho Branch

(List the bank details where the City/Municipality has accounts)

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

2. Kericho Municipality Board

Name	Details of qualifications and experience
1. Harry Langat	<i>Chairman</i>
2Hon Barnabas Ngeno	<i>CECM-Urban Planning</i>
3. Beatrice Kemei	Member
4. Richard Mutai	Member
5. Philip Chirchir	Member and Co-Urban Planning
6. Stanley Mutai	Member
7. Joseph Rotich	Secretary and Municipal Manager

8. Management Team

Name	Details of qualifications and experience
<p>1. Joseph Rotich</p> 	<p>Municipal Manager</p> <ul style="list-style-type: none">• B.A (Economics and Mathematics)• Higher National Diploma in HRM• Member of IHRM• 18 Years Experience

9. Kericho Municipality Board Chairperson's Report

Kericho Municipality Board has so far achieved its mandate. First it has overseen the implementation of KUSP World Bank Projects that are ongoing and also implemented its own projects through grants from the County Government. Also it has done training and Induction for Board Members and staff. We are on the process of negotiating for more resources to the municipality so that we can employ more staff and work effectively in discharging our mandate.

[Handwritten signature]

.....

P.P Name: *HARRY LANGAT*
Chairperson of the Board

10. Report Of the City/Municipality Manager

(Under this section, the City/Municipality Manager will give his report, which highlights the same issues as the Chairperson in a more detailed format, usually 2 to 3 pages. The City/Municipality Manager may also mention at a high level the financial performance of the City/Municipality).

You may include the following among other relevant matters:

- Mention the budget performance against actual amounts for current year and for cumulative to-date based on programmes, (make use of pictures, tables pie charts and graphs)*
- Physical progress based on outputs, outcomes, and impacts since the establishment of City/Municipality, (encouraged to use actual figures and percentages)*
- Comment on each of the programs implemented by the City/Municipality and how they have been achieved.*
- Comment on value-for-money achievements,*
- List the implementation challenges of strategic objectives for the City/Municipality and the entity's future outlook (here you could mention the budget allocation for the coming year and the programs that the entity wishes to undertake in line with the City/Municipality's strategic plan).*
- Highlight key risk management strategies*

(The City/Municipality Manager should sign the report).

.....
Name: *JOSEPH ROYICHI*
City/Municipality Manager

11. Statement of Performance Against Predetermined Objectives for the FY 2019/2020

Guidance

[Refer to the City/Municipality's annual budget and program plan report on the extent of the City/Municipality's progress in attaining the plan. Report on the metrics met, objectives yet to be met, challenges and opportunities of the City/Municipality in implementation of its program plan. Refer to the strategic plan if the entity has one.]

Introduction

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 Kericho Municipality (state the period of the strategic document/plan) plan are to:

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

(Progress on attainment of Strategic development objectives (Adopted from City/Municipality- Customize as per specific City/Municipality),

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
Urban planning	To control urban development	To create orderly development in urban areas	Number of developments conforming with rules and regulations governing urban development	In FY under review we increased Housing unit by -%.
Program 2	-	-	-	-

Amend the table above accordingly.

7 .Corporate Governance Statement

Process of appointment and removal of Board members

Each member of the Board of the Municipality shall have the following qualifications:

- (a) be a Kenyan citizen;
- (b) be ordinarily resident or have a permanent dwelling in the Municipality;
- (c) carry on business in the municipality; or
- (d) have lived in the municipality for at least five years.
- (e) have a minimum of a post- secondary school education, from a recognized institution..

a. Roles and functions of the City/Municipality Board members,

The Board of the Municipality shall perform the following functions:

- (a) oversee the affairs of the Municipality;
- (b) develop or adopt policies, plans, strategies and programs and set targets for service delivery;
- (c) formulate and implement an integrated development plan;
- (d) control land, land sub-division, land development and zoning by public and private sector and for any purpose, including industry, commerce, markets, shopping and other employment centers, residential areas, recreational areas, parks, entertainment, passenger transport, agriculture, and freight and transit stations within the framework of the spatial and master plans for the Municipality as delegated by the County Government of Kericho;
- (e) promoting and undertaking infrastructural development and services within Municipality as delegated by the County Government of Kericho;
- (f) developing and managing schemes, including site development in collaboration with the relevant national and county agencies;
- (g) maintaining a comprehensive database and information system of the administration;
- (h) administering and regulating its internal affairs;
- (i) implementing applicable national and county legislation;
- (j) entering into contracts, partnerships or joint ventures as it may consider

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- necessary for the discharge of its functions;
- (k) monitoring and, where appropriate, regulating municipal services where those services are provided by service providers other than the Board of the Municipality;
- (l) preparing and submitting its annual budget estimates to the relevant County Treasury, by the relevant County Government Department for consideration and submission to the County Assembly for approval as part of the annual County Appropriation Bill;
- (m) collecting taxes, levies, duties, fees and surcharges on fees as delegated by the County Government of Kericho;
- (n) settling and implementing tariff, rates and tax and debt collection policies as delegated by the County Government of Kericho;
- (o) monitoring the impact and effectiveness of any services, policies, programs or plans;
- (p) establishing, implementing and monitoring performance management systems;
- (q) promoting a safe and healthy environment;
- (r) facilitating and regulating public transport
- (s) performing such other functions as delegated by the County Government of Kericho

- b. Induction and training, City/Municipality Board members and member's performance,*
- c. Number of City/Municipality Board meetings held and the attendance to those meetings by members,*

Section 18 of the UACA

20 While the UACA provides persons who may remove a member of the Board of a Municipality, the procedure for removal or petitioning for removal is not provided. The Charter proposes that the same be provided in the regulations.

21 Section 19 of the UACA

3.13.1. The Board of the Municipality shall hold its sittings to transact the business of the Board once every three months.²²

3.13.2. Notwithstanding Article 3.12.1, the Chairperson of the Board of the Municipality may, and upon request in writing by at least one-third of the members of the Board of the Municipality shall, convene a special meeting to transact any urgent business of the

Board of the Municipality.

3.13.3. All regular meetings of the Board of the Municipality called for the purpose of transacting public business, where a majority of the members elected are present, shall be open to the public. 23

3.13.4. The Board shall have the privilege of holding executive sessions from which the public is excluded, however, no by-laws, resolution, rule or regulation shall be finally adopted at such an executive session

QUORUM

3.14.1. A majority of the members of the Board of the Municipality is a quorum to conduct business, but a smaller number may meet and compel attendance of absent members as prescribed by Board of the Municipality Rules.25

3.14.2. A Board meeting, formally convened through a fourteen days' notice to all board members in writing, shall have member (s) absent with apology to be considered as having participated in the decision making and as such to have constituted a quorum.

3.14.3. A member of the Board of the Municipality who is interested in any discussions or decision-making regarding any subject or transaction under consideration by the Board of the Municipality, shall not to be counted as participating in the discussions or decision-making, and is not entitled to vote on or agree to the subject or transaction relating to it

d. Board remuneration,

3.11.1. The Board of the Municipality shall not be entitled to a salary.

3.11.2. However, members of the Board of the Municipality shall be paid such allowances as the County Executive Committee shall, with the approval of the County Assembly, and on the advice of the Salaries and Remuneration Commission, determine.

e. Ethics and conduct as well as governance audit undertaken if any

3.15. RULES OF THE BOARD

22Section 23 of the UACA

23This is not provided for under the Act. However, in line with the principle of transparency, the same has been included.

24This provision will allow the Board of the Municipality exclude members of the public where necessary. It may also be appropriate where sensitive matters are being discussed.

25This is not provided in the Act. However, a majority of the members of the Board of the Municipality insufficient to constitute quorum.

3.15.1. The Board of the Municipality shall by resolution adopt rules to govern their code of conduct and its meetings.

8 .Management Discussion and Analysis

(2- 3 pages)

Under this section, the management shall give a report:

- a. On the operational and financial performance of the City/Municipality during the period,*
- b. Entity's key projects or investments decision implemented or ongoing,*
- c. City/Municipality's compliance with statutory requirements,*
- d. Major risks facing the City/Municipality, material arrears in statutory and other financial obligations, and*
- e. Any other information considered relevant to the users of the financial statements.)*

(The management should make use of tables, graphs, pie charts and other descriptive tools to make the information as understandable as possible.)

9 Environmental And Sustainability Reporting

(Two-to-three pages)

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

1. Sustainability strategy and profile

The top management especially the Accounting Officer should make reference to sustainable efforts, broad trends in political and macroeconomic factors affecting sustainability priorities, reference to international best practices and key achievements and failure.

2. Environmental performance

Outline clearly, environmental policy guiding the organisation, provide evidence of the policy. Outline successes, shortcomings, efforts to manage biodiversity, waste management policy and efforts to reduce environmental impact of the organisation's products.

3. Employee welfare

Give account of the policies guiding the hiring process and whether they take into account the gender ratio, whether they take in stakeholder engagements and how often they are improved. Explain efforts made in improving skills and managing careers, appraisal and reward systems. The City/Municipality should also disclose their policy on safety and compliance with Occupational Safety and Health Act of 2007, (OSHA).

4. Market place practices

The organisation should outline its efforts to:

a) Responsible competition practice.

Explain how the organisation ensures responsible competition practices with issues like anti-corruption, responsible political involvement, fair competition and respect for competitors.

b) Responsible Supply chain and supplier relations

Explain how the organisation maintains good business practices, treats its own suppliers responsibly by honouring contracts and respecting payment practices.

c) Responsible marketing and advertisement

Outline efforts to maintain ethical marketing practices

d) Product stewardship

Outline efforts to safeguard consumer rights and interests

5. Community Engagements

Give evidence of community engagement including charitable giving (cash & material), Community Social Investment and any other forms of community (The City/Municipality gives details of CSR activities carried out in the year and the impact to the society. The statement may also include how the City/Municipality promotes education, sports, healthcare, labour relations, staff training and development, and water and sanitation initiatives) Where no CSR activities are undertaken during the year, there is no need to include the statement).

10 Report of the City/Municipality Board Members

The Board Members submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the City/Municipality affairs.

Principal activities

The principal activities of the City/Municipality are *(continue to be)*

Performance

The performance of the City/Municipality for the year ended June 30, 2020 are set out on page

-

Board Members

The members of the Board who served during the year are shown on page - *(refer to the key entity information and management page)*. 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 City/Municipality in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

OR

[XYZ Certified Public Accountants were nominated by the Auditor General to carry out the audit of the entity for the year/period ended June 30, 20-, in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf].

By Order of the Board


.....

Name: JOSEPH RELECHI
Secretary of the Board

11 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 City/Municipality established by Urban Areas and Cities Act No. 13 of 2011 shall prepare financial statements in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The 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, 2020. 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 City/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, 2020, 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 City/Municipality Manager has

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assessed the City/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 City/Municipality Manager to indicate that the City/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 July 2020 and signed on its behalf by:

Harold
.....

Joseph
.....

P.P

Name: HAROLD LANGATI
Chairperson of the Board

Name: JOSEPH ROTICH
Accounting officer of the Board

REPUBLIC OF KENYA



Enhancing Accountability

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 KERICHO MUNICIPALITY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kericho Municipality set out on pages 1 to 37, which comprise of the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kericho Municipality as at 30 June, 2020 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 Urban Areas and Cities Act, 2011.

Basis for Qualified Opinion

1. Inaccuracies of the Financial Statements

The following inaccuracies were observed in the financial statements presented for audit:

- i. The statement of changes in net assets reflects a balance of Kshs.Nil for accumulated surplus, while the statement of financial performance and the statement of financial position reflects an accumulated surplus amount of Kshs.10,501,417. The variance was not explained or reconciled.
- ii. The statement of changes in net assets reflects a balance of Kshs.3,909,248 as capital grants as at 30 June, 2020, while the statement of financial position reflects a balance of Kshs.Nil. The variance was not explained or reconciled.
- iii. The statement of changes in net assets further reflects an amount of Kshs.10,501,418 for capital/development grants/fund. However, there are no details of capital grants reported in these financial statements.

- iv. The statement of cashflows reflects an amount of Kshs.15,000,000 as transfers from the County Government while the statement of financial performance reflects the same as Kshs.15,500,000. The resultant variance of Kshs.500,000 has been treated as a receivable even though the County Executive financial statements reflected transfers of Kshs.15,500,000. The treatment of fully transferred amounts as receivables was not explained.

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

2. Cash and Cash Equivalents

The statement of financial position as at 30 June, 2020 reflects Kshs.3,909,247 in respect to cash and cash equivalents which include development account balance of Kshs.3,907,830 as disclosed in Note 13 to the financial statements. However, the development bank reconciliation statement for the month of June, 2020 reflected payments in cash book not in bank statement (unpresented cheques) amounting to Kshs.2,058,892 whose clearance status was not provided for audit review.

In the circumstances, the accuracy and validity of cash and cash equivalents balance of Kshs.3,907,830 could not be confirmed.

3. Unsupported Board Expenses

The statement of financial performance and Note 9 to the financial statements reflects Board expenses amounting to Kshs.3,912,481. However, the detailed analysis of the expenditure showed that an amount of Kshs.3,090,841 had no approved budget and supporting documentation to show that they related to Board activities. Further, the Board expenses wrongly included car repair expenditure of Kshs.323,900 while the Municipality has no vehicle.

In the circumstances, the accuracy, completeness and validity of Board expenses of Kshs.3,912,481 could not be confirmed.

4. Undisclosed Property, Plant and Equipment

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment amounting to Kshs.6,092,169 as disclosed in Note 10 to the financial statements. This was in respect to renovation works undertaken on unidentified buildings whose cost has not been included in the financial statements and no ownership documents were provided for audit review. Further, property, plant and equipment treatment has not been accounted for in line with IPSAS 16 which requires the asset to be depreciated over their estimated useful life.

In the circumstances, the accuracy and completeness of property, plant and equipment amounting to Kshs.6,092,169 could not be confirmed.

5. Unsupported Fuel, Oil and Lubricants

The statement of financial performance and Note 7 to the financial statements reflect use of goods and services balance of Kshs.518,227 which include fuel, oil and lubricants expenditure of Kshs.204,950. However, the Municipality does not own any motor vehicles.

In the circumstances, the accuracy, completeness and validity of fuel, oil and lubricants expenditure of Kshs.204,950 could not be confirmed.

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

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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflect both the final receipts budget and actual amounts on comparable basis of Kshs.15,500,000, representing a 100% budget performance. Further, the Municipality expended Kshs.8,873,113 for both recurrent and development expenditure against an approved budget of Kshs.15,500,000 resulting to an under-expenditure of Kshs.6,626,887 (or 43%) of the budget.

The under expenditure of the approved budget affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Late Submission of Financial Statements

The financial statements of the Municipality for the year ended 30 June, 2020 were submitted for audit on 06 December, 2022 contrary to the provisions of the Public Audit Act, 2015, Section 47(1) that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

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

2. Unauthorized and Irregular Board Expenses

The statement of comparison of budget and actual amounts reflects final budget for Board expenses of Kshs.4,000,000 against an actual amount on comparable basis of Kshs.3,912,481. However, the approved budget provided by Management showed an allocation of Kshs.1,500,000 resulting to an over allocation of Kshs.2,500,000 which has not been explained and the Board expenditures amounting to Kshs.2,412,481 was therefore unauthorized and irregular. This is contrary to Regulation 47(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that for purposes of Section 154(3) of the Act, Accounting Officers, may authorize reallocation of funds within programmes or sub-votes provided that allocations earmarked by the County Treasury for a specific purpose may not be used for other purposes, except with Treasury's approval.

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

3. Unpresented Non-Financial Information

Review of the financial report revealed that the Management did not prepare the report of the Municipality manager, statement of performance against predetermined objectives, Corporate Governance Statement, Management discussions and analysis, environmental and sustainability reporting, report of the Municipality Board and statement of Management's responsibilities. This was contrary to the requirements under Section 81(3) of the Public Finance Management Act, 2012 which requires that, the Accounting Officer shall prepare financial statements in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time.

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 governance were not effective.

Basis for Conclusion

Lack of Internal Audit Review

During the year under review, it was noted that there was no internal audit review of the Municipality's activities contrary to Section 153(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Internal Auditor to review the effectiveness of the financial and non-financial performance management systems of the entity.

In the absence of the internal audit unit reviews, the effectiveness of internal controls and risk management 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 effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Municipality Board

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

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

The Municipality Board is 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 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 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 control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of


effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Municipality's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Municipality's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Municipality to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Municipality to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

04 May, 2023

13 Statement of Financial Performance for The Year Ended 30 June 2020

	Notes	2019/20	2018/19
		Kshs.	Kshs.
Revenue from non-exchange transactions			
Transfers from the County Government	6	15,500,000.00	
Public contributions and donations		0.00	
Levies Fines and Penalties		0.00	
Other revenues (<i>Specify</i>)		0.00	
		15,500,000.00	
Revenue from exchange transactions			
Interest income		0.00	
Other Income		0.00	
		0.00	
Total revenue		15,500,000.00	
Expenditure			
Use of goods and services	7	518,227.00	
Staff costs	8	548,940.00	
Board expenses	9	3,912,481.20	
Finance costs	11	18,934.30	
Total expenses		4,998,583.00	
Other gains/losses			
Gain/loss on disposal of assets			
Surplus/(deficit) for the period		10,501,417.00	

The notes set out on pages 32 to 36 form an integral part of these Financial Statements. The entity financial statements were approved on 30th SEPT, 2020 and signed by:

.....


Name: Joseph Rotich
City/Municipality Manager

.....


Name: CPA Wilbert Cheruiyot
Head of Finance

County Government of Kericho
 Kericho Municipality
 Annual Report and Financial Statements for the year ended June 30, 2020

14 Statement of Financial Position As At 30th June 2020

	Note	2019/20	2018/19
		Kshs.	Kshs.
Assets			
Current assets			
Cash and cash equivalents	13	3,909,247.70	
Receivables from exchange transactions		0	
Receivables from Non- exchange transactions	12	500,00.00	
Prepayments		-	
Inventories		-	
		4,409,247.70	
Non-current assets			
Property, plant, and equipment	14	6,092,169.80	
Intangible assets		-	
Total Non-current Assets		-	
Total assets		10,501,417.50	
Liabilities			
Current liabilities			
Trade and other payables		-	
Provisions		-	
Borrowings		-	
Employee benefit obligations		-	
		-	
Non-current liabilities			
Provisions		-	
Borrowings		-	
Non-current employee benefit obligation		-	
Total liabilities		-	
Net assets		0	
Capital/Development Grants/Fund			
Reserves		-	
Accumulated surplus		10,501,417.00	
Total net assets and liabilities		10,501,417.00	

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Kericho Municipality
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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 31st SEPT 2020 and signed by:



.....
Name: Joseph Rotich
Municipality Manager
Date:



.....
Name :CPA Wilbert Cheruiyot
Head of Finance
ICPAK M/No:24068
Date:

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County Government of Kericho
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15 Statement of Changes In Net Assets As At 30th June 2020

	Capital/ Development Grants/Fund	Revaluati on Reserve	Accumulated surplus	Total
		Kshs.	Kshs.	Kshs.
Balance as at 1 July 2018	0	-	-	-
Surplus/(deficit) for the period	0	-		
Funds received during the year	0	-	-	
Revaluation gain		-	-	
Balance as at 30 June 2019	0	-	-	
Balance as at 1 July 2019	0	-	-	0
Surplus/(deficit) for the period	10,501,417.50	-	-	10,501,417.50
Funds received during the year	-	-	-	-
Revaluation gain	-	-	-	-
Balance as at 30 June 2020	3,909,248.00	-		3,909,248.00

(Provide details on the nature and purpose of reserves)



.....
Name: Joseph Rotich
Municipality Manager



.....
Name: CPA Wilbert Cheruiyot
Head of Finance
ICPAK M/No:24068

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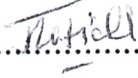
16 Statement Of Cash Flows for The Year Ended 30 June 2020

	Note	2019/20	2018/19
		Kshs.	Kshs.
Cash flows from operating activities			
Receipts			
Transfers from the County Government	6	15,000,000.00	
Public contributions and donations			
Interest received			
<i>Other receipts (Specify)</i>			
Total Receipts		15,000,000.00	
Payments			
Use of goods and services	7	518,227.00	
Staff costs	8	548,940.00	
Board expenses	9	3,912,481.00	
Finance costs	11	18,934.00	
Total Payments		4,998,582.00	
Net cash flows from operating activities		10,001,418.00	
Cash flows from investing activities			
Purchase of PPE & intangible assets	10	6,092,169.80	
Proceeds from sale of PPE			
Net cash flows used in investing activities		(6,092,169.80)	
Cash flows from financing activities			
Receipts from Capital grants			-
Proceeds from borrowings			-
Repayment of borrowings			
Net cash flows used in financing activities			-
Net increase/(decrease) in cash & cash equivalents		3,909,248.00	
Cash And Cash Equivalents At 1 July	13	0.00	
Cash And Cash Equivalents At 30 June	13	3,909,248.00	-

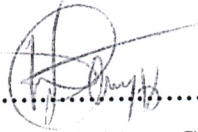
**County Government of Kericho
Kericho Municipality**

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(IPSAS 2 allows an entity to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation. The above illustration assumes direct method)



.....
Name: Joseph Rotich
Municipality Manager



.....
Name: CPA Wilbert Cheruiyot
Head of Finance
ICPAK M/No:24068

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17 Statement of Comparison of Budget & Actual Amounts for the Year ended 30 June 2020

	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		Kshs.	Kshs.	Kshs.	Kshs.	
Transfers from the County Government	15,500,000	(0.00)	15,500,000	15,500,000.00	0.00	100%
Public contributions and donations	0	(-)	-	-	-	%
Interest income	0	0	0	0	0	%
Other income (<i>specify</i>)	-	-	-	-	-	%
Total Revenue	15,500,000.00	0.00	15,500,000	15,500,000.00	0.00	100%
Expenses						
Use of goods and services	600,000.00	-	600,000.00	518,227.00	81,773.00	86 %
Staff Costs	880,000.00	-	880,000.00	548,940.00	331,060.00	62.3%
Board Expenses	4,000,000.00	-	4,000,000.00	3,912,481.20	87,518.80	97.8 %
Finance costs	20,000.00	-	20,000.00	18,934.30	1,065.70	94.6%
Total Expenditure	5,500,000.00	-	5,500,000.00	4,998,583.00		90.8%
Surplus for the period				10,501,417.00		
Capital Expenditure	10,000,000	-	10,000,000.00	3,874,530.90	6,125,469.10	38.74 %


**County Government of Kericho
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Budget notes

*[Provide an explanation of differences between actual and budgeted amounts (10% over/ under)]
(Provide an explanation of changes between original and final budget indicating whether the difference is due to reallocations or other causes.*

Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual) provide a reconciliation.)

.....


Name: Joseph Rotich
Municipality Manager
Date:

.....


Name: CPA Wilbert Cheruiyot
Head of Finance
ICPAK M/No:24068
Date:

18 Notes to the Financial Statements

1. General Information

Kericho Municipality is established by and derives its authority and accountability from Kericho County Assembly Act. The Municipality is under the Kericho County Government and is domiciled in Kenya.

The entity's principal activity is -

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 areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

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

(Notes to financial statements continued)

3. Application of New and revised standards (IPSAS)

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2020

IPSASB deferred the application date of standards from 1st January 2020 owing to covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020.

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> <p>(b) The key features of the operation of those social benefit 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>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>

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Other improvements to IPSAS	<p><i>Applicable 1st January 2023</i></p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> • <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> • IPSAS 29: Financial instruments: Recognition and Measurement <p>Standard no longer included in the 2020 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.</p> <p><i>State the impact of the standard to the Entity if relevant</i></p>
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 impact of the standard to the Entity if relevant</i></p>
IPSAS 44: Non-Current Assets Held for	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p>

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Sale and Discontinued Operations	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: 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. <i>State the impact of the standard to the Entity if relevant</i>
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iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year -/- .

(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 City/Municipality and can be measured reliably.

ii) Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income for each period.

b) Budget information

The original budget for FY 2020/22 was approved by the County Assembly on - (Date). 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

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Kericho Municipality
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the original budget by the City/Municipality upon receiving the respective approvals in order to conclude the final budget. Accordingly, the City/Municipality recorded additional appropriations of -- (Amount) on -x (Date) following the governing body's approval.

The City/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

(Significant accounting policies continued)

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 - 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 City/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

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the City/Municipality has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The City/Municipality assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the City/Municipality of financial assets that can be reliably estimated asset or the entity of financial assets that can be reliably estimated.

(Significant accounting policies continued)

Evidence of impairment may include the following indicators:

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

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

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

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

(Significant accounting policies continued)

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 City/Municipality.

(Significant accounting policies continued)

g) Provisions

Provisions are recognized when the City/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 City/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) Contingent liabilities

The City/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

i) Contingent assets

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The City/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 City/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



(Significant accounting policies continued)

reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

j) Nature and purpose of reserves

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

k) Changes in accounting policies and estimates

The City/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.

l) Employee benefits – Retirement benefit plans

The City/Municipality provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which the City/Municipality pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions if the City/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.

m) 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



(Significant accounting policies continued)

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.

n) 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.

o) Related parties

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

p) 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.

q) Comparative figures

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

(Significant accounting policies continued)
r) 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 City/Municipality should indicate whether there are material adjusting and non- adjusting events after the reporting period.

s) Currency

The financial statements are presented in Kenya Shillings (Kshs.).

5. Significant judgments and sources of estimation uncertainty

The preparation of the City/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 e.g ;

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 City/Municipality based its assumptions and estimates on parameters available when the consolidated financial statements were prepared.

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However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the City/Municipality. Such changes are reflected in the assumptions when they occur.



(Significant accounting policies continued)

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 City/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	2019/20	2018/19
	Kshs.	Kshs.
Transfers from County Govt. – Recurrent	5,500,000	
Transfers from County Govt. – Development	10,000,000	
Payments by County on behalf of the entity	0.00	
Total	15,500,000.00	

(Provide brief explanation for this revenue)

(Notes To the Financial Statements (Continued))

7. Use of Goods and Services

Description	2019/20	2018/19
	Kshs.	Kshs.
Utilities, supplies and services		
Communication, supplies and services	5,000	
Domestic travel and subsistence		
Foreign travel and subsistence	-	
Printing, advertising, supplies & services	-	
Rent and rates	-	
Training expenses	-	
Hospitality supplies and services	308,277	
Insurance costs	-	
Specialized materials and services	-	
Office and general supplies and services		
Fuel, oil and lubricants	204,950	
Other operating expenses (<i>Specify</i>)		
Routine maintenance – vehicles and other equipment		
Routine maintenance – other assets	-	
Contracted Professional Services	-	
Audit fees	-	
Hire of Transport, equipment etc	-	
Bank Charges		

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Description	2019/20	2018/19
	Kshs.	Kshs.
Depreciation and amortisation		-
Total	518,227.00	

8. Staff costs

Description	2019/20	2018/19
	Kshs.	Kshs.
Salaries and wages	548,940.00	
Staff gratuity	0.00	
Social security contribution	0.00	
Other staff costs (<i>Specify</i>)	0.00	
Total	548,940.00	

9. Board expenses

Description	2019/20	2018/19
	Kshs.	Kshs.
Chairman/Members' Honoraria	0	
Sitting allowances	3,912,481.00	
Medical Insurance	0.00	
Induction and Training		-
Travel and accommodation		
Conference Costs		

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Other allowances (<i>Specify</i>)		
Total	3,912,481.00	

10. Acquisition of Assets

Description	2019/20	2018/19
	Kshs.	Kshs.
Construction of Buildings	-	
Refurbishment of Buildings	-	
Construction and civil works	6,092,169,80	
Purchase of office furniture and equipment	0.00	
Total	6,092,169.80	

11.0 Finance Costs

Description	2019/20	2018/19
	Kshs.	Kshs.
Bank Charges	18,934.00	
Total	18,934.00	

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12. 0.Receivables From Non Exchange Transactions

Description	2019/20	2018/19
	Kshs.	Kshs.
Receivables	500,000.00	
Total	500,000.00	

13.0 Cash and cash equivalents

Description	2019/20	2018/19
	Kshs.	Kshs.
Fixed deposits account	0	
On – call deposits	0	
Current account	1,417.50	
Development Account	3,907,830.20	
Others(<i>specify</i>)		
Total cash and cash equivalents	3,909,248.00	0.00

(The amount should agree with the closing and opening balances as included in the statement of cash flows)

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

Financial institution	Account number	2019/20	2018/19
		Kshs.	Kshs.
a) Fixed deposits account			
Sidian Bank		0	
Sub- total		-	
b) On - call deposits			
Kenya Commercial bank		-	

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		2019/20	2018/19
Financial institution	Account number	Kshs.	Kshs.
Equity Bank - etc		-	
Sub- total		-	
c) Current account			
Sidian Bank	01010030000446	1,417.50	
Sidian Bank	01010030000466	3,907,830.20	
Sub- total		3,909,248.00	
d) Others(specify)		0	
Cash in transit		0	
Cash in hand		0	
Mobile Money		0	
Sub- total		0	
Grand total		3,909,248.00	

14.0 Property, Plant and Equipment

	Land	Building	Motor vehicles	Furniture and fittings	Computers	Other Assets (specify)	Capital Work in progress	Total
Description	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
As at 1 July 2019	0	0	0	0	0	0	0	0
Additions	0	0	0	0	0	6,092,169.80	0	6,092,169.80
Disposals	0	0	0	0	0	0	0	0
Transfers/adjustments	0	0	0	0	0	0	0	0

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	Land	Building	Motor vehicles	Furniture and fittings	Computers	Other Assets (specify)	Capital Work in progress	Total
Description	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
As at 30 th June 2020	0	0	0	0	0	6,092,169.80	0	6,092,169.80
Depreciation and impairment	0	0	0	0	0	0	0	0
At 1 July 2019	0	0	0	0	0	0	0	0
Depreciation	0	0	0	0	0	0	0	0
Impairment	0	0	0	0	0	0	0	0
Transfers/ Adjustments	0	0	0	0	0	0	0	0
As at 30 th June 2020	0	0	0	0	0	0	0	0
As at 30 th June 2020	0	0	0	0	0	0	0	0
NBV as at 30 th June 2020	0	0	0	0	0	6,092,169.80	0	6,092,169.80
NBV as at 30 th June 2020	0	0	0	0	0	6,092,169.80	0	6,092,169.80

(Include a brief description of WIP as a footer.)

N/B-No Assets were inherited from County Government. Assets were acquired during the end of the year thus no depreciation. Depreciation charged at the following year.