

REPUBLIC OF KENYA



Enhancing Accountability

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REPORT

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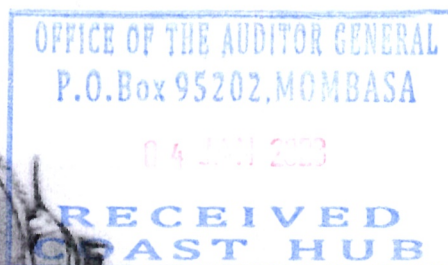
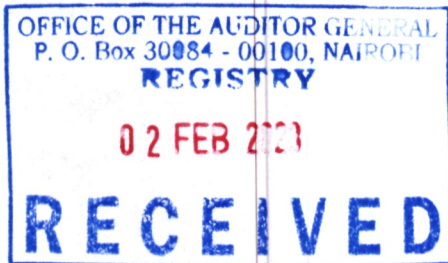
OF

THE AUDITOR-GENERAL

ON

MUNICIPALITY OF KILIFI

**FOR THE YEAR ENDED
30 JUNE, 2022**



MUNICIPALITY OF KILIFI

COUNTY GOVERNMENT OF KILIFI

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30TH JUNE 2022

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

County Government of Kilifi

Municipality of Kilifi

Annual Report and Financial Statements for the year ended June 30, 2022

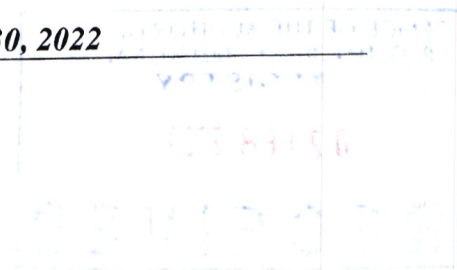


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1. Key Entity Information and Management

a) Background information

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

and promote environmental sustainability.

The Board's principal activity is Service delivery

b) Principal Activities

The **Vision** of the Municipality

"Safe, inclusive and sustainable development"

Mission

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

Core Objectives

To enhance provision of quality Urban services

To promote environmental sustainability

Mandate of the Municipality

Governance and management of Urban Areas through service delivery provision

c) Municipality Board

Ref	Name	Position
1	Charles M. Ngala	Chairperson
2	Ms Munira Jadeed	Vice Chairperson
3	Hon. Maureen Mwangovya	Executive Committee Member-Urban Development-Member
4	Moses Gunda Munga	Chief Officer-Urban Development-Member
5	Duncan Nyale	Member
6	Zainab Salim	Member
7	Dr. Silas Mzungu Chitibwi	Member
8	Getrudah Sidi Kirenge	Member
9	Patricia Luvuno Chonga	Member
10	Elius K. Chipa	Municipal Manager and Secretary of the Board

d) Key Management

Ref	Name	Position
1	Elius K. Chipa	Municipal Manager
2	Jacinta Ismail	Principal Accountant
3	Franklin Amani Munga	Accountant
4	Margaret M. Chivila	Principal Administrative Officer
5.	Caroline Mtana	Chief Human Resource Officer
6	Janet Tsuma	Snr. Community Development Officer
7	Carolyn Kamino	Environment Officer

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e) Fiduciary Oversight Arrangements

i. Audit and Risk Management Committee

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

f) Registered Offices

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

g) Contacts

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

h) Bankers

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

i. Independent Auditor

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

Nairobi, Kenya
GPO 00100
Nairobi, Kenya

j. Principal Legal Adviser

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

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2. Municipality Board

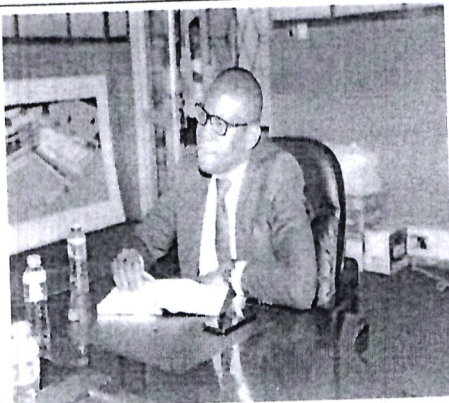
Name	Passport Size Photo	Details of qualifications and experience
1.Charles M. Ngala		a. Date of birth:12th Nov 1958 b. Academic Qualification: 1.He holds a Bachelor of Arts Major in Economics from the University of Nairobi. 2.Has a Qualifying Diploma in Shipping (UK) c. Experience: 1. He has over 32 years work experience in the roads, rail, shipping and transport sectors in Kenya and Europe. 2. Charles brings into the Kilifi Municipality Board a wealth of experience in management, transport and Logistics. He is the Chairperson of the Board
2.Ms. Munira Jadeed		a. Date of birth:30th June 1984 b. Academic Qualification: 1.Master Degree in Project Planning and Management 2.Bachelor's Degree in Urban and Regional Planning c. Experience: 1. She is an Urban and Regional Planner in the Private Sector 2. 10 years' experience in the

			field of Urban and Regional Planning Management. 3.Member of the Habitat Committee She is the Vice Chairperson of the Board
3. Hon.MaureenMnyazi Mwangovya			a. Date of Birth:10th Oct 1964 b. Academic Qualification: 1.M.A in Project Planning and Management 2. B.A in Economics Government at University of Nairobi c. Experience: 1. She is a development programmes specialist with more than fifteen years' experience in strategic planning, policy advocacy, monitoring and evaluation, gender mainstreaming and managing partnerships with international donor for sustainable development. 2.She served as the Chief Executive Officer of Solidarity with Women in Distress (Kenya) 3.She worked as a consultant, researcher and part-time lecturer at Technical University of Mombasa (TUM) She is the Executive Committee Member and a Member of the Board

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Annual Report and Financial Statements for the year ended June 30, 2022

4. Mr. Moses Gunda Munga



- a. **Date of Birth:** 24th June 1982
- b. **Academic Qualification:**
Bachelors of Architecture
- c. **Experience:**
 - 1. He is an architect with 12 years' experience in handling various Development Projects in the County
 - 2. Registered Member of the Board of Registration of Architects and Quantity Surveyors of Kenya (BORAQS)

He is the Chief Officer Urban Development and a member of the Board

5. Zainab Salim



- a. **Date of Birth:** 20th April 1958
- b. **Academic Qualification:**
Certificate in Child Counselling, Kenya Association of Professional Counsellors
- c. **Experience:**
 - 1. Served as a Board Member of KIMAWASCO
 - 2. National Delegate Representing Kilifi County Maendeleo ya Wanawake
 - 3. Head of State Commendation (HSC-Civilian Division)

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

6. Dr. Silas Mzungu Chitibwi		a. Date of Birth: 21st Oct 1952 b. Academic Qualification: Bachelor of Veterinary Medicine c. Experience: Veterinary surgeon by profession and a Community Worker by choice and practise He is an alumnus of Lenana Schools (Duke of York) and The University of Nairobi Veterinary School. He is the Chairperson of the Finance and Administration committee
7. Getrudah Sidi Kirenge		a. Date of Birth: 27th Aug 1988 b. Academic Qualification: 1. Masters of Arts 2. Bachelor of Law. c. Experience: Kanchory and Company Advocates Associate Advocate She is the Chairperson of the Audit, Monitoring and Evaluation Committee
8. Patricia Luvuno Chonga		a. Date of Birth : 29th June 1986 b. Academic Qualification: Bachelor's Degree of Business Administration (BBA) c. Experience: CEO –Kenya National Chamber of Commerce and Industry Kilifi chapter. Appointed to the Kilifi Budget and Economic Forum She is the Chairperson of the Physical planning , Urban Development and Environment Committee

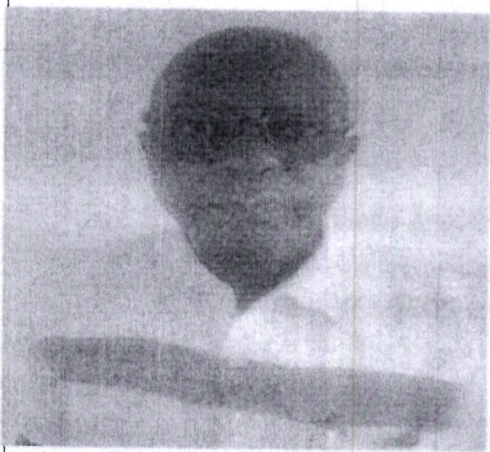
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Annual Report and Financial Statements for the year ended June 30, 2022

9.Dancan Kubahatisha Nyale		a. Date of Birth :15th April 1981 b. Academic Qualification: 1. Master degree in Information System 2. Bachelor's degree in Information Technology c. Experience: 13 years in ICT Administration and Management covering areas including Computer Programming Management Information Systems. He is the Chairperson of Transport and Infrastructure Committee
10. Mr. Elius Chipa		a. Date of Birth:30th Jan 1972 b. Academic Qualification: -Master's Degree in Urban Management (MUM) -Bachelor of Arts c. . Experience: Over 15 years' experience in Administration and Management He is the Municipal Manager of Kilifi Municipality

3. Management Team

Name	Passport Size Photo	Details of qualifications and experience
1. Elius K. Chipa		d. Date of Birth: 30th Jan 1972 e. Academic Qualification: -Master's Degree in Urban Management (MUM) -Bachelor of Arts f. Experience: Over 15 years' experience in Administration and Management He is the Municipal Manager of Municipality of Kilifi
2. Jacinta Ismail		a. Date of Birth: 28th April 1962 b. Academic Qualification: - Master of Business Administration (finance) Bachelor of Commerce in Financial Management CPA 3. Experience: Over 20 years' experience in Financial Management. She is the Principal Accountant for the Municipality of Kilifi

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3 . Franklin Amani Munga		a. Date of Birth:22ndMAY 1983 b. Academic Qualification: Bachelor of Commerce – Finance Option CPA Part II Diploma in Business Management c. Experience. Has over 10years Experience in Finance and Accounting d. He is theAccountant in chargeof the Municipality of Kilifi
4.Margaret MapenziChivila		e. Date of Birth:07th Aug 1983 f. Academic Qualification: Bachelor’s Degree in Mass Communication g. Experience. Has over 5 years working in communication and public relations She is a Principal Administrative officer for the Municipality of Kilifi
5.Caroline MwakaMutana		a. Date of Birth: 25th. Jan 1981 b. Academic Qualification: Bachelor of Business Administration (HR)option MSC (HRM) c. Experience: Has Over five years’ experience in human resources management She is the Chief Human Resource officer for the Municipality of Kilifi

6. Carolyn Rose Kamino		a. Date of Birth: 1st July 1989 b. Academic Qualification: Degree of Environmental Science. c. Experience: She Has over 5 years in Environmental issues and EIA She is an Environmental Officer for the Municipality of Kilifi
7. Janet Tsuma		a. Date of Birth: 09th Oct 1975 b. Academic Qualification: BDS, MBA (Strategic Management) c. Experience: Over 7 years in community development activities and Social safeguards issues She is a Senior Community Development Officer at the Municipality of Kilifi

4. Municipality Board Chairperson's Report

It is my pleasure to present on behalf of the Board of the Municipality of Kilifi the Financial Statements for the year ended 30th June 2022

- **Successes Made**

The Municipality through funding from Kenya Urban Support Program was able to complete the refurbishment of the Oloitiptip Market and upgrading service road. In addition, the Municipality was able to start the construction of Fire station and Upgrading of sea horse Road. These two projects are ongoing. The Municipality managed to Capacity build the board members on Corporate Governance knowledge and skills.

- **Review of the Board Performance**

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

- **Challenges Faced during the year**

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

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

The County Executive Committee Member, Hon Charles Karisa Dadu a Member of the Board as per the amended Urban Areas and Cities Act was transferred to another County Department in June 2020 and was replaced by Hon Maureen Mwangovya.

- **Future Outlook**

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

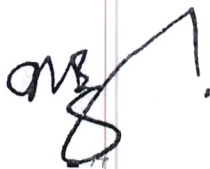
The board is also following up on the recruitment of Key staff to enable the Municipality perform its roles and mandate effectively.

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

- **Appreciation**

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

Signature



Charles M. Ngala
Board Chairperson

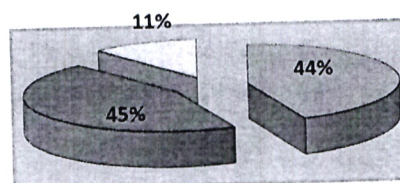
5. Report of the Municipality Manager

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

The Kilifi Municipality Board was sworn in on 21st August 2019.

1. The Refurbishment of Oloitiptip Market and service road a project the Municipality had been undertaking since FY 2018/2019 was completed and traders were allowed to start using the market.
2. The Construction of a Fire station and emergency Centre a project funded by KUSP which started in the last financial year 2020-2021 with an allocation of 126,750,100, continued throughout the year and much progress was made. The Ksh29,000,000 expected from the county government was received giving a major boost to the projects funding. By the close of the year a total of Kshs. 62,528,799.00 had been paid in favor of the project being 49% of the budget.
3. The Municipality had a total budget of Kshs. 225, 404, 625 out of which 167,906, 585 was utilised making it a 74% utilization rate.

BUDGET UTILIZATION



☐ UDG
☐ USE OFB GOODS
☐ UNUTILIZED

Signed

Elius K. Chipa
Municipal Manager

6. Statement of Performance Against Predetermined Objectives for the FY 2021/2022

Introduction

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

The key development objectives, of the Board of Municipality of Kilifi 2021/2022 plans were to:

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

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
The Refurbishment of Oloiptip Market and Service roads	To develop a market design that promotes growth, flexibility, greater integration and collaboration/harmonization of the functions of the market users. To provide a refurbished market that complies with national environmental and civil engineering standards, and meet building regulation in force.etc	Increase of traders as a result of the expansion. General improvement of the Urban Economy Reduction of environmental risks as a result of replacing the asbestos etc.	Increased trading activities Improvement of the drainage system Increase in the amount of revenue collection.	The project is 100% complete.
Construction of Fire Station	To construct a modern fire station that will ensure protection of life and businesses	Safe environment for the residents and businesses	Efficiency and effectiveness in fire rescue and disaster management	This project is about 55% complete

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

Objectives yet to be met

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

Challenges

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

Opportunities

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

7. Corporate Governance Statement

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

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

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

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

- c. Induction and training, City/Municipality Board members and member's performance, During the year the board was trained on corporate governance to enable them discharge their mandate effectively

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

The Board during the 2021/2022 held four (4) meetings in line with the Municipal Charter. These meetings were attended by all board members.

- e. Succession plan,

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

- f. Existence of a service charter,

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

- h. Conflict of interest,

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

- i. Board remuneration,

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

County Government of Kilifi
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Annual Report and Financial Statements for the year ended June 30, 2022

The meeting held by the various committees are tabulated below

S/No.	BOARD COMMITTEE NAME	DATE	ATTENDANCE
1.		21.09.2021	All members
2.		10.12.2021	All members
3.		29.03.2022	All members
4.		30.06.2022	All members
	Finance & Administration	09.09.2021	All members
5.		06.12.2021	All members
6.		27.01.2022	All members
7.		23.06.2022	All members
8.		29.06.2022	All members
9.	Audit, Monitoring & Evaluation	09.12.2021	All members
10.		18.03.2022	All members
11.		28.06.2022	All members
12.	Physical Planning, Urban Development & Environment	14.09.2021	All members
13.		08.12.2021	All members
14.		17.03.2022	All members
15.		21.06.2022	All members
16.	Social Services & Economic Development	14.09.2021	All members
17.		07.12.2021	All members
18.		17.03.2022	All members
19.		22.06.2022	All members
20.	Transport & Infrastructure	17.09.2021	All members
		08.12.2021	All members

j. Internal Control and Risk Management

We are responsible for ensuring proper processes in Financial Management in Board Affairs and Public Participation.

The Municipality liaise with the County Director of Internal Audit to ensure accountability of the Grant and the County Funds

8. Management Discussion and Analysis

a. Financial Performance

There was a balance brought forward of KShs.113,495,878.57 under Urban Development Grant and Kshs. 25,828,272 received during the period making a total of Kshs. 139,324,151 out this Kshs. 74,518,800 was used to pay for refurbishment of Oloitiptip market and service road and Construction of the fire station project.

The County Government of Kilifi allocated Kshs. 126,512,648 to the Municipality during the financial year 2021/2022 out of this Kshs. 29,000,000 was meant to be the executive's contribution to the construction of fire station project. The expenditure incurred and duly processed was Kshs. 93,387,785 at a utilization rate of 74%. The Kshs 29,000,000 for the fire station was unutilized by the end of the year.

b. Projects

Through funding from World Bank, the Municipality is implementing two Projects- Construction of Fire Station and upgrading of Sea horse road. These projects are on going.

c. Compliance with Statutory requirement

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

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

d. Major risks facing the Municipality

1. Inadequate budgetary allocation

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

2. Delayed transfer of delegated functions

The delegated functions and other resources are yet to be transferred to the Municipality from other departments. This has denied the resources (financial, human, tools and equipment's) to the municipality to discharge its full mandate as per Urban Areas and Cities Act 2011 and the Municipal Charter

9. Environmental and Sustainability Reporting

1. Community Engagements

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

2.Environmental Performance

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

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

3.Employee welfare

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

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

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

10. Report of the Municipality Board Members

The Board submitted their report for the period ended June 30th, 2022 which show the state of the board affairs.

Principal activities

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

Results

The results of the Board performance for the year ended June 30th, 2022 are set out on page xiii.

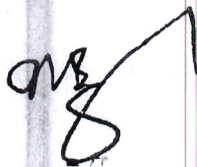
Trustees

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

Auditors

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

By Order of the Board



Member of the Board

Date: 4/1/2023

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 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, 2022. 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 City/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 City/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 City/Municipality's transactions during the financial year ended June 30, 2022, and the financial position as at that date.

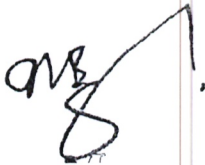
The City/Municipality Manager further confirms the completeness of the accounting records which have been relied upon in the preparation of financial statements as well as the adequacy of the systems of internal financial control. In preparing the financial statements, the City/Municipality Manager has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

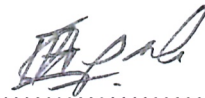
Nothing has come to the attention of the Municipality Manager to indicate that the Municipality will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Municipal's financial statements were approved by the Board on 27th Sept, 2022 and signed on its behalf by:



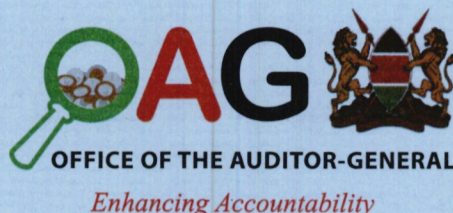
.....
Name: Charles M. Ngala
Chairperson of the Board



.....
Name: Elius K. Chipa
Municipality Manager

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON MUNICIPALITY OF KILIFI FOR THE YEAR ENDED 30 JUNE, 2022

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 intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Municipality of Kilifi set out on pages 1 to 30, which comprise the statement of financial position as at 30 June, 2022,

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 the Municipality of Kilifi as at 30 June, 2022 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012, Urban Areas and Cities Act, 2011 and Kilifi County Subsidiary Legislation, 2019.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June, 2022 submitted for audit contained the following presentation anomalies and inaccuracies:

1.1 In Accurate Statement of Financial Position

The statement of financial position reflects total net assets of Kshs.243,230,894 while the re-casted total is Kshs.236,561,035, resulting in unexplained variance of Kshs.6,669,859.

1.2 In Accurate Statement of Changes in Net Assets

The statement of changes in net assets reflects capital/development grants/fund balance of Kshs.50,092,670 as at 01 July, 2021 and Kshs.129,691,396 as at 30 June, 2022 instead of Kshs.97,690,050 and Kshs.164,130,392 respectively, resulting to unexplained variances of Kshs.47,597,380 and Kshs.34,438,996 respectively.

Additionally, the statement reflects accumulated surplus of Kshs.106,869,639 as at 30 June, 2022 after netting off a deficit (acquisition of assets) of Kshs.13,158,384 which is not supported or explained.

1.3 Unsupported Adjustment – Use of Goods and Services

The statement of financial performance reflects use of goods and services of Kshs.54,218,745 after revision from the initial amount of Kshs.48,911,376 as reflected in the ledger. However, the adjustment of Kshs.5,307,369 is not supported or explained.

1.4 Unexplained Restatement of Comparative Figures

The comparative figures were restated as indicated below;

Details	Audited Figure as at 30 June, 2021 Kshs.	Comparative Balance as at 30 June, 2022 Kshs.	Difference (Unsupported) Kshs.
Statement of Financial Performance			
Revenue from Non-exchange Transactions			
Urban Development Grant Project	96,750,100	0	96,750,100
Expenses			
UDG Projects	49,152,720	0	49,152,720
UDG Projects Accrued	10,347,084	0	10,347,084
Statement of Financial Position			
Non-current Assets			
Property, Plant & Equipment	0	50,092,670	(50,092,670)
Current Liabilities			
UDG Payables	10,347,084	0	10,347,084

However, no disclosure note has been provided in the financial statements to explain the restatements and in addition the differences are not supported.

1.5 Transfer from the County Government

The statement of financial performance reflects transfer from County Government of Kshs.85,902,578 against the cashbook reflected amount of Kshs.86,390,336 resulting to unexplained and unreconciled variance of Kshs.(487,758).

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2022 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Municipality of Kilifi Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.225,402,625 and Kshs.154,746,201 respectively, resulting in an under-funding of Kshs.70,656,424 (or 31%) of the budget. Similarly, the Fund expended Kshs.167,906,585 against an approved budget of

Kshs.225,402,625, resulting in an under-expenditure of Kshs.57,496,040 (or 26%) of the budget.

The under-funding and related under expenditure may have negatively impacted service delivery to the public.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2022. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not fully disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Unsupported Staff Recruitment

During the year under audit, the Municipality recruited six (6) cleaning supervisors on permanent and pensionable basis. The recruitment was done by the Kilifi County Public Service Board on behalf of the Municipality. However, the advertisement of the positions and interview minutes were not provided for audit review. Further, the human resource records indicated that the Municipality had a total of 169 casuals from the Department of Lands to provide solid waste management services. However, evidence of casual resource planning, needs assessment, applications for the posts or vetting by the human resource unit were not provided for audit review.

In the circumstances, it was not possible to confirm the validity of the existence of the casuals.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Weakness in Governance and Operational Environment

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

Further, transfer of delegated authority had not been effected as at the 30 June, 2022 as the budget and budget implementation functions were still controlled by the parent department. Further, whereas the Municipality had recurrent budgetary allocation of Kshs.126,512,648 for the year 2021/2022 (2020/2021: Kshs.25,000,000), development budgetary allocation of Kshs.96,593,668 in respect of Urban Development Grant was still under the control of the County Chief Officer responsible for the Department of Lands, Energy, Housing, Physical Planning and Urban Development.

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

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

Responsibilities of Management and Municipality Board

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards

(Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, the 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.

The 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 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Municipality's policies and procedures may deteriorate.

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

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

- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

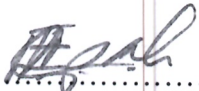
Nairobi

27 February, 2023

13. Statement of Financial Performance for The Year Ended 30 June 2022.

	Note	2021/2022	RESTATED 2020/2021
		KShs	KShs
Revenue from non-exchange transactions			
Transfer from the county government	7	85,902,578	23,076,112
		85,902,578	23,076,112
Revenue from exchange transactions			
Interest income	10	2,405,280	2,817,816
Total revenue		88,307,859	25,893,928
Expenses			
Staff costs	11	18,014,770	7,280,544
Use of Goods and Services	12	54,218,745	16,266,982
Board expenses	13	9,542,200	
Total expenses		81,775,715	23,547,525
Surplus/(deficit) for the period		6,532,144	2,346,403

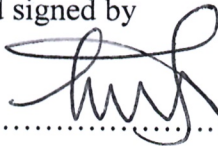
The notes set out on pages 6 to 24 form an integral part of these Financial Statements. The entity financial statements were approved on 4th Jan, 2022 and signed by


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Name: **ELIUS MPA**

Municipality Manager

Date: **04/1/2023**


.....

Name: **AMAN FRANKLIN**

Head of Finance

Date: **04/1/2023**

14. Statement of Financial Position as at 30 June 2022

	Note	2021/2022	RESTATE 2020/2021
		KShs	KShs
ASSETS			
Current assets			
Cash and cash equivalents	14	106,813,451	113,495,879
Receivables-From County Executive	15	6,633,769	6,633,769
Total Current Assets		113,447,220	120,129,648
Non-current assets		-	
Property, Plant and Machinery	16	129,783,674.00	50,092,670
Total assets		243,230,894	170,222,318
LIABILITIES			
Current liabilities			
UDG Payables	17	226,948	-
Retention Money Payable	17	6,475,956	-
Suppliers of Goods and services Payable		-	5,290,169
Board allowances Payable		-	991,500
Staff Allowances Payable		-	352,100
Total Current Liabilities		6,702,904	6,633,769
Non-current liabilities		-	-
Total liabilities		6,702,904	6,633,769
Net assets		236,527,990	163,588,549
Accumulated surplus		106,869,639	113,495,879
Capital/Development Grants/Fund		129,691,396	56,999,491
Reserves			-
Total net assets and liabilities		243,230,894	170,222,318

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 04th Jan, 2022 and signed

by:

Name: *ELIUS CHIPA*
Municipality Manager

Date: *4/1/2023*

Name: *AMANI FRANKLIN*
Head of Finance

Date: *4/1/2023*

15. Statement of Changes in Net Assets as at 30 June 2022

	NOTES	Capital/Development Grants/Fund	Revaluation Reserve	Accumulated surplus	Total
			KShs	KShs	KShs
Balance as at 01 July 2020 RESTATED			-	63,552,096	63,552,096
Surplus/(deficit) for the period (operation)		-	-	2,346,403	2,346,403
Surplus/(deficit) for the period (Acq. Of Assets)				47,597,380	
Funds received during the year-UDG		96,750,099.50	-		96,750,100
Funds received during the year - Purchase of PPE		939,950	-	-	939,950
Revaluation gain		-	-	-	-
Balance as at 30 June 2021 RESTATED		50,092,670	-	113,495,879	163,588,549
Balance as at 1 July 2021 RESTATED		50,092,670	-	113,495,879	163,588,549
Surplus/(deficit) for the period (Operation)		-	-	6,532,144	6,532,144
Surplus/(deficit) for the period (Acq. Of Assets)			-	(13,158,384)	
Funds received during the year - UDG	6	25,828,272			25,828,272
Funds received during the year - Development	8	29,000,000			29,000,000
Funds received during the year - Purchase of PPE	9	11,612,070			11,612,070
Revaluation gain		-	-	-	-
Balance as at 30th June 2022		129,691,396	-	106,869,639	236,561,035

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Name: **ELMS CHIPA**
Municipality Manager
Date: **4/1/2023**

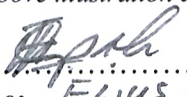
.....
Name: **AMANI FRANKLIN**
Head of Finance
Date: **4/1/2023**

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16. Statement of Cash Flows for The Year Ended 30 June 2022

	Note	2021/2022	RESTATED 2020/2021
		KShs	KShs
Cash flows from operating activities			
Receipts			
Public contributions and donations - UDG	6	25,828,272	96,750,100
Transfers from the County Government-Recurrent	7	85,902,578	16,442,343
Transfers from the County Government-Development	8	29,000,000	
Transfers from the County Government-Purchase of PPE	9	11,612,070	939,950
Interest received	10	2,405,280	2,817,816
Total Receipts		154,748,201	116,950,208
Payments			
Staff Cost	11	18,014,770	7,280,544
Use of goods	12	54,218,745	9,633,213
Board expenses	13	9,542,200	
Total Payments		81,775,715	16,913,756
Changes in working capital			
Increase in Retention Payable		(6,475,956)	-
Net cash flows from operating activities		79,448,443	100,036,452
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	17	(86,130,870)	(50,092,670)
Proceeds from sale of property, plant and equipment		-	-
Proceeds from loan principal repayments		-	-
Loan disbursements paid out		-	-
Net cash flows used in investing activities		(86,130,870)	(50,092,670)
Cash flows from financing activities			
Proceeds from revolving fund receipts		-	-
Additional borrowings		-	-
Repayment of borrowings		-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at 1 JULY	13	113,495,879	63,552,096
Cash and cash equivalents at 30 JUNE	13	106,813,451	113,495,879

The above illustration assumes direct method)

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Name: **ELIAS CHIRA**
Municipality Manager
Date: **4/1/2023**

.....

Name: **AMARI FRANKLIN**
Head of Finance
Date: **4/1/2023**

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17. Statement of Comparison of Budget & Actual Amounts for the Year ended 30 June 2022

	Original budget	Adjustments	Final budget	Actual on comparable basis	difference	utilisation
	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022	2021- 2022
	a	b	c = (a+b)	d	e = (c-d)	f = d/c
Revenue	KShs	KShs	KShs	KShs	KShs	
Urban Development Grant	96,593,668	-	96,593,668	25,828,272	70,765,396	27%
Transfers from the County Government	81,200,000	45,312,648	126,512,648	126,514,648	(2,000)	100%
Interest income	-	2,296,309	2,296,309	2,405,280	(108,971)	105%
Other income	-	-	-	-	-	
Total income	177,793,668	47,608,957	225,402,625	154,748,201	70,654,424	69%
Expenses						
Acquisition of assets - UDG	96,593,668	-	96,593,668	74,518,800	22,074,868	77%
Acquisition of assets - Recurrent	11,612,070	-	11,612,070	11,612,070		
Use of Goods and Services	43,908,730	37,332,960	81,241,690	54,218,745	27,022,945	67%
Board Expenses	9,542,200	-	9,542,200	9,542,200		
Staff costs	16,137,000	7,979,688	24,116,688	18,014,770	6,101,918	75%
Interests	-	2,296,309	2,296,309	-	2,296,309	0%
Total expenditure	177,793,668	47,608,957	225,402,625	167,906,585	57,496,041	74%
Surplus for the period	-	-	-	(13,158,384)	13,158,384	


Name: ELINA O. O. O.

Municipality Manager

Date: 4/1/2023


Name: AMAN FRANKLIN

Head of Finance

Date: 4/1/2023

18. Notes to the Financial Statements

1. General Information

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

The Board's principal activity is Service delivery.

2. Statement of Compliance and Basis of Preparation

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

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

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

(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 2022

IPSASB deferred the application date of standards from 1st January 2022 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.

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ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.

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: • 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

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	(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: 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. 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.
Other improvements to IPSAS	Applicable 1st January 2023 • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> Amendments to refer to the latest System of National Accounts (SNA 2008). • <i>IPSAS 39: Employee Benefits</i> Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • IPSAS 29: Financial instruments: Recognition and Measurement Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.
IPSAS 43	Applicable 1st January 2025 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

County Government of Kilifi

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Annual Report and Financial Statements for the year ended June 30, 2022

	financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<i>Applicable 1st January 2025</i> The Standard requires, 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.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2021-2022

(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 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 2021/22 was approved by the County Assembly on 24th June 2021. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Municipality upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Municipality recorded additional appropriations of **47,608,957** following the governing body's approval.

The Municipality's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis 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 13 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

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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

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(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

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.

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

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(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. 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.

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(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.

6. Public contributions and donations

Description	2021/2022	RESTATED 2020/2021
	KShs	KShs
Donation from development partners-UDG	25,828,272	96,750,100
Total	25,828,272	96,750,100

7. Transfers from County Government- Recurrent

Description	2021/2022	2020/2021
	KShs	KShs
Transfer - Recurrent	85,902,578	23,076,112
Total	85,902,578	23,076,112

8. Transfers from County Government-Development

Description	2021/2022	2020/2021
	KShs	KShs
Transfer - Development	29,000,000	
Total	29,000,000	

9. Transfers from County Government- Purchase of PPE

Description	2021/2022	RESTATED 2020/2021
	KShs	KShs
Transfer - Purchase of PPE	11,612,070	939,950
Total	11,612,070	939,950

10. Interest income

Description	2021/2022	2020/2021
	KShs	KShs
Interest income on bank deposits	2,405,280	2,817,816
Total interest income	2,405,280	2,817,816

11. Staff costs

Description	2021/2022 Kshs	2020/2021 Kshs
Salaries and wages for casual and contractual staff	18,014,770	7,280,544
Total	18,014,770	7,280,544

12. Use of Goods and services

Description	2021/22 Kshs	2020/21 Kshs
Utilities, supplies and services	88,058	18,000
Communication, supplies and services	491,800	198,000
Domestic travel and subsistence	7,211,510	2,513,000
Printing, advertising, supplies & services	2,343,434	195,100
Rental of Produced Assets	12,178,078	674,163
Training expenses	3,935,640	-
Hospitality supplies and services	5,592,150	2,075,600
Specialized materials and services	6,889,535	-
Office and general supplies and services	2,523,198	1,895,946
Fuel, oil and lubricants	1,283,999	-
Other operating expenses (<i>Specify</i>)	953,600	280,240
Routine maintenance – vehicles and other equipment	2,580,911	
Routine maintenance – other assets	3,687,090	371,800
Refurbishment of non-residential Buildings	1,595,160	-
Assorted environmental inputs	643,150	
Purchase of office furniture and General equipment		939,950
Contracted Professional Services	1,595,603	-
Bank Charges	625,829	471,414
Total	54,218,744.90	9,633,212.57

13. Board Exepenses

Description	2021/22 Kshs	2020/21 Kshs
Sitting allowances	2,672,000	
Temporary Committee allowance	2,062,000	
Induction and Training	989,000	
Travel and accommodation	3,819,200	
Total	9,542,200	

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14. Cash and cash equivalents			RESTATED
Description	Institution	2021/2022 KShs	2020/2021 KShs
Current accounts		106,813,451	113,495,879
Total cash and cash equivalents		106,813,451	113,495,879
Detailed analysis of the cash and cash equivalents are as follows:			
Financial Institution	Institution	Account number	KShs
a) Current account			
KCG - KILIFI MUNICIPALITY UDG ACCOUNT	NCBA-4084390062	66,655,049	113,495,879
CGK MUNICIPALITY OF KILIFI OPERATIONS & MAINTENANCE ACCOUNT	NBK-1071239083900	3,966,603	-
CGK MUNICIPALITY OF KILIFI SALARY ACCOUNT	KCB-1288712774	635,440	-
CGK - MUNICIPALITY OF KILIFI MAIN ACCOUNT	KCB-1288705964	40,100.00	-
CGK - MUNICIPALITY OF KILIFI DEVELOPMENT ACCOUNT	NCBA-4084390028	29,040,302	-
CGK - MUNICIPALITY OF KILIFI RETENTION ACCOUNT	NCBA-4084390015	6,475,956	-
TOTAL		106,813,451	113,495,879

15. Receivables -From the County Executive			
Description		2021/2022 KShs	2020/2021 KShs
Receivables-From County Executive		6,633,769	6,633,769.00

16. Property, Plant and Machinery

Description	2021/2022 KShs	RESTATED 2020/2021 KShs
Property, Plant and Machinery	129,783,674	50,092,670.00
See PPE schedule in the payment schedules	129,783,674.00	50,092,670.00

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	Motor vehicles	Furniture and fittings	Intangible Assets	Computers	Buildings	Other Assets	Capital	Total
							Work in progress	
Description	Shs	Shs		Shs	Shs	Shs	Shs	Shs
As at 30 th June 2021	-	-		939,950.00	49,152,720.00	-	-	50,092,670.00
Additions	3,630,000.00	1,659,670.00	541,000.00	1,887,900.00	14,622,761.00	3,893,500.00	59,395,747.00	79,691,004.00
Disposals	-	-	-	-		-	-	-
Transfer/adjustments	-	-	-	-		-	-	-
As at 30 th June 2022	3,630,000.00	1,659,670.00	541,000.00	2,827,850.00	63,775,481.00	3,893,500.00	59,395,747.00	129,783,674.00
Depreciation and impairment								
As at 30 June 2021	-	-	-	-		-	-	
Depreciation	-	-	-	-		-	-	
Disposals	-	-	-	-		-	-	
Impairment	-	-	-	-		-	-	
Transfer/adjustment	-	-	-	-		-	-	
As at 30 th June 2022	-	-	-	-		-	-	-
NBV as at 30 th June 2022	3,630,000.00	1,659,670.00	541,000.00	2,827,850.00	63,775,481.00	3,893,500.00	59,395,747.00	129,783,674.00

See PPE schedule in the payment schedules

17. Payables

Description	2021/2022	RESTATED 2020/2021
	KShs	KShs
UDG Payables	226,948	-
Retention Money Payable	6,475,956	-
Suppliers of Goods and services	-	5,290,169
Board allowances payable	-	991,500
Staff Allowances payable	-	352,100
Total accounts payable	6,702,904	6,633,769

Other Disclosures

6. Related party balances

a) Nature of related party relationships

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

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

b) Related party transactions

Transfers from County Government

Description	2021/2022	2020/2021
	KShs	KShs
Transfer - Executive contribution to UDG projects	29,000,000	-
Transfer - Recurrent	97,514,648	23,076,112
Total	126,514,648	23,076,112

7. Financial risk management

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

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

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(Other Disclosures Continued)

I. Credit risk

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

II. 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 Board to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Municipality'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.

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19. Annexes

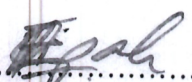
Annex 1. Progress on Follow up of Auditors Recommendations.

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
MSA/KLF/MUN/2020/2021/(5)	Inaccuracy in Surplus for the Year	The financial statements were amended and the surplus restated	Waiting at the county assembly	Waiting at the county assembly
	Budgetary Controls and Performance	The Municipality of Kilifi (MOK) budget was uploaded as part of the County executive budget. This meant that the Municipality depended on the executive goodwill to make payments on its behalf. This resulted to some processed vouchers not being paid by the close of the financial year 2020-2021. Hence the MOK wasn't able to fully utilize the budget.	Waiting at the county assembly	Waiting at the county assembly

Guidance Notes:

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



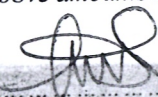
To be Signed by the Accounting officer of the Entity

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Annex 2: Inter Entity Transfers

CITY/MUNICIPALITY NAME:			
Breakdown of Transfers from the County Executive of xxx County			
FY 2021-2022			
a.	Recurrent Grants	Bank Statement Date	Amount (Kshs.)
	Transfer - Recurrent	various	85,902,578
	Transfer -Purchase of PPE		11,612,070
		Total	97,514,648
b.	Development Grants	Bank Statement Date	Amount (Kshs.)
	Transfer - Executive contribution to development	various	29,000,000
	Urban Development Grant	16/03/2022	25,828,272
		Total	54,828,272
c.	Direct Payments	Bank Statement Date	Amount (Kshs.)
		Total	152,342,920

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


AMURI FRANKLIN

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


BONAVENTURE F. M.
MWAKIO

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Annex 3: Reporting of Climate Relevant Expenditures

MUNICIPALITY OF KILIFI

Telephone Number

Email : kilifimunicipality@kilifi.go.ke

Name of CEO : Elius K. Chipa

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

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

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Annex 4: Disaster Expenditure Reporting Template

Date: 30th June 2022

Entity: Municipality of Kilifi

Period to which this report refers (FY)	Year 2021-2022			Quarter : various		
Name of Reporting Officer	Franklin Amani					
Contact details of the reporting officer:	Email: fmunga@kilifi.go.ke			Telephone: 0729 611322		
Column I	Column II	Column III	Column IV	Column V	Column VI	Column VII
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments
Urban development	Disaster management	Fire	Response, recovery, Mitigation and preparedness	2640599	74,518,800.00	