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REPUBLIC OF KENYA



Enhancing Accountability



REPORT

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CLERK AT THE TABLE	M. Adjibodeu

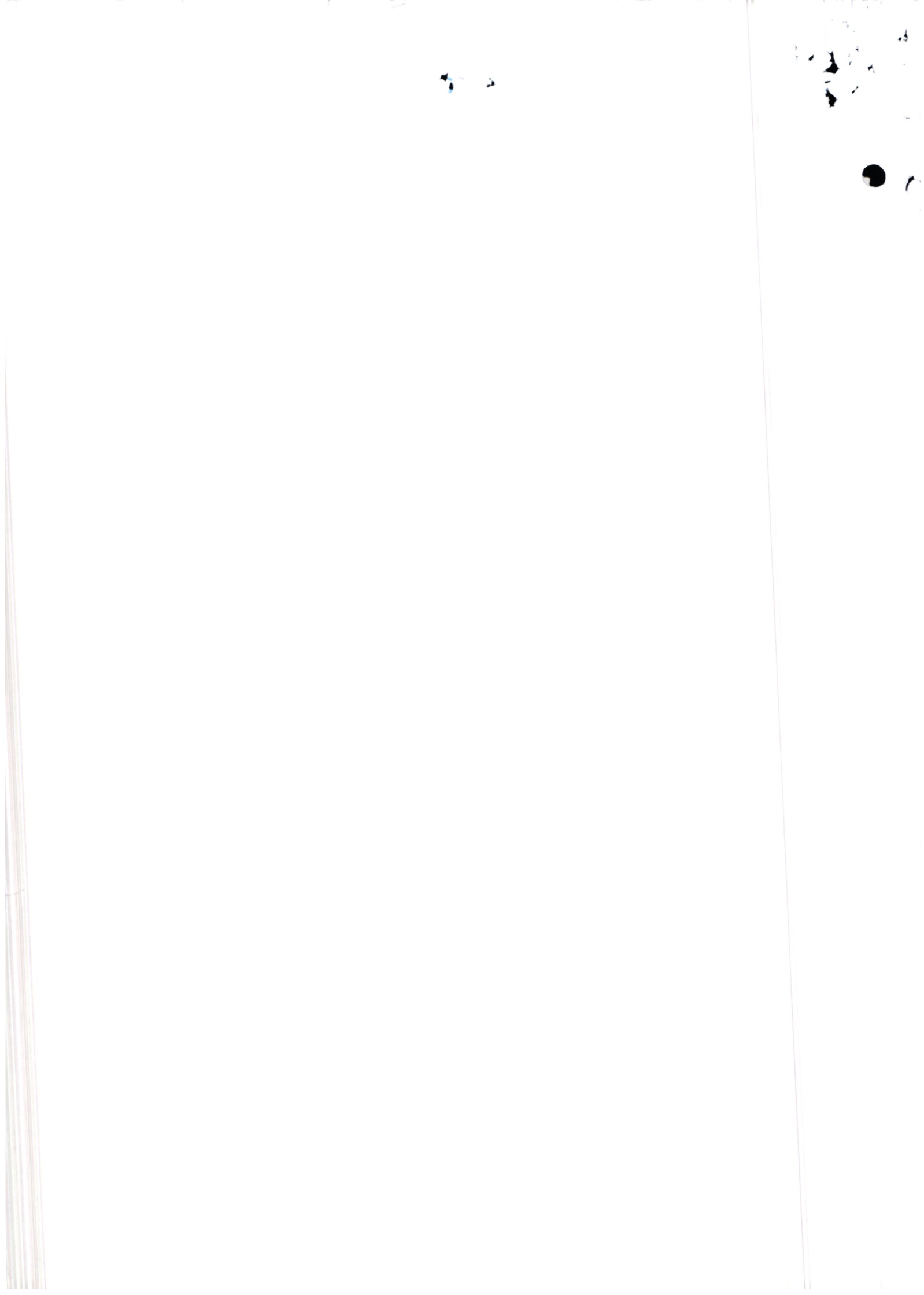
OF

THE AUDITOR-GENERAL

ON

VIHIGA MUNICIPAL BOARD

FOR THE YEAR ENDED 30 JUNE, 2021





COUNTY GOVERNMENT OF VIHIGA
VIHIGA MUNICIPAL BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021

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

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

Vihiga Municipal Board Fund is established by and derives its authority and accountability from Section 14 of the Urban Areas and Cities Act, 2016, Act. The Fund is wholly owned by the County Government of VIHIGA COUNTY GOVERNMENT and is domiciled in Kenya.

The fund's objective of the Urban Support Program Project is to establish and strengthen urban institutions to deliver improved infrastructure and services in participating counties in Kenya. Economic growth has been accompanied by rapid urbanization. Nonetheless Kenya remains under-urbanized. This means Kenya can still leverage the benefits of urbanization for improving economic opportunities and living conditions. The Government of Kenya has recognized the need to manage urbanization as part of its overall development strategy. Kenya Vision 2030 Highlights Rapid Urbanization As One Of Four Key Challenges Facing The Country. Within The Over-arching framework of vision 2030, the urbanization component of the Second Medium Term Plan (MTP2) 2013-17

b) Principal Activities

The Fund's principal activity aims to facilitate a sustainable urbanization process through an integrated urban and regional planning management framework of Kenyan urban centres and towns. Aligned to that goal, the MTP identifies a series of investment programs to enhance infrastructure, connectivity and accessibility, safety and security. Developing the basic institutions required for effective urban management is critical to deliver these investments and for urbanization to contribute to sustainable growth in Kenya

c) Board Members

Ref	Name	Position
1	Eng. Josephat Amadi	Chair – Person
2	Mrs. Dorcas Wodera	Vice Chair Person
3	Hon. Paul Mbuni -	CECM, Physical Planning, Land & Housing/Member
4	Mrs. Lucy Ijai	Member-Chief Officer-PPH&L
5	Prof – David Kikaya	Board member & Chair-Finance Committee
6	Mr. Seth Ambale	Board member & Chair-Audit Committee
7	Mrs. Carolyne Andahi	Board member Chair Social Services
8	Mr. Isaac Nyamweno	Board member & Chair-technical Committee
9	Mr. Nicholas Simani	Board Member & Chair-procurement Committee

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c) Fiduciary entity arrangement

Registered Offices

Vihiga Municipal Board,
P.O. Box 344-50300,
MARAGOLI.
Dawn Towers Mbale
Kisumu- kakamega Highway
Nairobi, KENYA

Principal Legal Adviser

The County Attorney,
P.O. Box 344-50300
MARAGOLI
Dawn Towers Mbale
Kisumu- kakamega Highway
Nairobi, KENYA

Municipal Contacts

Telephone: (254) 722952380
Website: www.vihigacountygo.ke


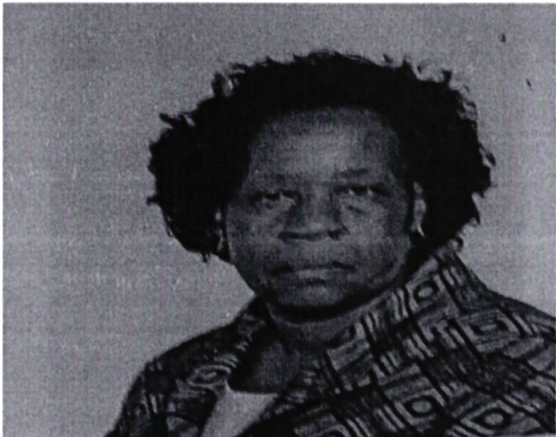

Municipal Bankers

1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya
2. Equity Bank of Kenya
Mbale branch
P.O. Box 60
Maragoli 50300




Independent Auditors

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




2. THE BOARD OF TRUSTEES

Name	Details of qualifications and experience
<p>1. Eng. Josephat Amadi</p> 	<p>The Chair –Person</p> <p>Eng. Josephat Amadi is a reputable and industrious engineer who has worked with KENHA and KURRA in different capacities, he holds a Degree and masters in the same field. His zealous and superb performance made him rise in ranks at both KENHA and KURRA.</p> <p>At the said institutions he managed projects worth more than 500 Million and they were delivered successfully in different areas across the Country.</p> <p>He brings vast experience to Vihiga Municipal Board as the Chairperson, in both project management and fund utilization.</p>
<p>2. Mrs. Dorcas Wodera</p> 	<p>Mrs Wodera Dorcas is a seasoned Human Resource and Public Administration practitioner; she has a master’s degree in the same field, she served in various capacities in the national government, previously she was the Vihiga County Transition Coordinator.</p> <p>She brings immense experience to Vihiga Municipal Board in areas of Human Resource management and Public administration. Currently she is the Vice chair to Vihiga Municipal Board and Chairperson of the Human Resource Committee.</p>
<p>3. Prof Kikaya David.</p> 	<p>Prof Amb. David Kikaya is a seasoned Diplomat who has served the Republic of Kenya in various capacities under the ministry of Foreign Affairs as an Ambassador. He lectures at the University of USIU. Currently he serves on various boards across the Country. He brings on board a vast experience in public Sector</p> <p>He is a Board Member & also the Finance Committee Chairperson.</p>




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<p>4. Mr. Seth Ambale</p> 	<p>Principal Seth Ambale Ambani is a highly experienced High School Administrator and Manager. He holds a B. ED degree (Science) from Manitoba University in Canada in addition to Diploma in Education from Kenyatta University. He has undergone training in administration and management at Kenya Education Staff Institute (1990) and Kenya School of Government (2019). He brings a wealth of experience in administration and management to Vihiga Municipal Board where he is the Chairman of the Audit Committee and a member of Human Resource Committee</p>
<p>5. Mrs. Carolyne Andahi</p> 	<p>Mrs. Carolyne Andahi is a career business woman with knowledge in business management. Currently CEO Precious Events. Director KNCCI-Vihiga. Holds a diploma in business management from University of Connecticut and certificate in Entrepreneurship from USIU. She is Vice Chair to the Board's Finance committee and a member of the Human Resource committee. She brings on board vast experience from the private sector.</p>
<p>6. Planner Isaac Mamboh Nyamweno</p> 	<p>Planner Isaac Mamboh Nyamweno, is a seasoned registered planner with Master's Degree in Urban and Regional Planning from University of Nairobi. He is currently pursuing his Phd in Planning at Jaramogi Oginga Odinga University where he works as faculty member. He is also a lead expert in Environmental Impact assessment/Audit. He brings a wealth of experience in spatial planning and Project management to the Board. He is the Chairman of technical committee & a member of both Procurement and Research Committees.</p>
<p>7. Mr. Nicholas Magotswe Simani</p>	<p>Nicholas Magotswe Simani is a trained Development Economist and a Holder of a Master's Degree in Development Economics. In addition, Mr. Simani has pursued additional graduate courses in Agricultural Economic and Business Administration. He is a Lead Expert in Environmental Impact Assessment and Audits</p>

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	<p>having been licensed in 2005. He brings a wealth of expertise and experience in Environmental Impact Assessments and Audits, Rural Development Economics, Business Administration and Agricultural Finance Planning to the Board, acquired during his 20 years at the Agricultural Finance Corporation. Mr. Simani is chairman of the Supply Chain Committee, a member of the Finance Committee and Technical Committee of the Board.</p>
<p>8. Hon Paul Mbuni</p> 	<p>CECM-Physical Planning Land & Housing/Board Member Hon Paul Mbuni is as a seasoned career civil servant who has vast experience in public sector and has worked well with different organizations leading to delivery of key milestone projects. Has a degree and masters in Agricultural Economics. He therefore brings on board this unparalleled combination of being a great administrator of public funds and also as a trained economist.</p>
<p>9. Mrs Lucy IjaiSimiyu</p> 	<p>Chief Officer- Physical Planning Land & Housing/Board Member A career civil servant who has vast experience in public sector where she has successfully handled key national projects Has a degree in Land Economics and post graduate in Urban and Regional planning. She therefore brings on board the unique combination of both a Valuer and Physical Planner in the profession.</p>

3. MANAGEMENT TEAM

Name	Details of qualifications and experience
<p>1. Hon Paul Mbuni</p> 	<p>CECM-Physical Planning Land & Housing/Board Member</p> <p>Hon Paul Mbuni is as a seasoned career civil servant who has vast experience in public sector and has worked well with different organizations leading to delivery of key milestones projects. Has a degree and masters in Agricultural Economics. He therefore brings on board this un parallel combination of being a great administrator of public funds and also as a trained economist.</p>
<p>2. Mrs Lucy IjaiSimiyu</p> 	<p>Chief Officer- Physical Planning Land & Housing/Board Member</p> <p>A career civil servant who has vast experience in public sector where she has successfully handled key national projects</p> <p>Has a degree in Land Economics and post graduate in Urban and Regional planning. She therefore brings on board the unique combination of both a Valuer and Physical Planner in the profession.</p>
<p>3. Mr Andrew AhugaMwenesi</p> 	<p>Municipal Manager/Secretary to the Board.</p> <p>Graduated with a degree in Economics, Mr Andrew has served as Leader of Majority at the inaugural County Assembly of Vihiga. During his tenure he tabled important bills which helped lay a foundation for the County of Vihiga. He brings immense source of experience both in administration and management of Public Funds having pioneered various successful institutions such as schools and financial institutions / companies.</p>

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4 C.P.A. Livingstone Imbayi



**Chief Officer-Finance & Economic Planning,
holds masters in finance and CPA K**

A career civil servant who has worked in the public sector for quite a long time, previously he worked with the office of Controller of Budget before being appointed as the Chief Officer-Finance. He brings on board a vast experience in the Public Sector to the treasury of Vihiga County..

4. BOARDCHAIRPERSON'S REPORT



The Vihiga Municipal Board comprises of resourceful individuals e.g., engineers, HR specialist, International Relations professor, planners, environmentalist, education principal and business person and economist.

The Vihiga Municipal Board has envisaged targets set out in Corporate Governance, The Vihiga County Strategic Plan, Urban Integrated Development Plan, Donor funded Annual Municipal Investment Plan and Budget, delegated functions from the Executive and opportunities with the County OSR.

The Municipality Charter defines roles, responsibilities and functions which are far reaching with respect to devolution. I trust that the records will demonstrate a scorecard in enforcing the charter to deliver improved service and livelihoods to residents of the urban area of

Vihiga.

The FY 2020/2021 carried a lot of enthusiasm in laying strong foundations via planning budgeting & capacity building in readiness for partnerships, investments, development under the principal/ agency relationship with the Vihiga County Government.

The municipal board undertook the following projects; the upgrade of Mbale-Tsimbalo-Munoywa road to bituminous standards and construction of accesses roads, footpaths and side drains at Mbale urban centre. Supply, installation testing & commissioning of 30m monopole high mast lighting.

A handwritten signature in black ink, appearing to read 'J. Amadi'.

ENG. JOSPHAT AMADI
CHAIRMAN
VIHIGA MUNICIPAL BOARD

5. REPORT OF THE MUNICIPAL MANAGER

The Boundaries of the Urban Area overseen by the Vihiga Municipal Board includes the towns of mbale (County HQs), Majengo, Chavakali and Mudete amongst many smaller markets and business centers.

The Vihiga Municipal Board secured a budget vote within the budget ceiling of the Department of physical Planning, Lands and Housing in the County budget of 2020/21 during the 1st supplementary budget. (The budget was administered by the accounting officer for the department).

The Municipality vote was appropriated Ksh. 18 million in addition to the KUSP UDG grant of Ksh. 250 million.

The Vihiga Municipal Board has:

- (a) Prepared a KUSP Annual Investment Plan and budget 2020/21 which has been approved by the Vihiga County Assembly.
- (b) Participated in the County Budget cycle for 2021/22 FY.
- (c) Prepared and worked towards implementing an annual Work-plan which included:
 - (i) Transfer of functions.
 - (ii) Spatial Planning
 - (iii) Budgetary and administrative independence
 - (iv) Staff recruitment. During the year the Municipality benefited from posting of an intern architect, quantity surveyor, environmentalist and Urban Planner, all posted under the National Hygiene Program and supported by the KUSP.
 - (v) Setting up efficient and accountable management structures.



HON. ANDREW AHUGA
MUNICIPAL MANAGER

6. CORPORATE GOVERNANCE STATEMENT

Development and upgrading of urban areas are on the upscale Course. Vihiga Municipality is making strides in ensuring it positions itself on a better competitive advantage over other municipalities

We advise Vihiga Municipal Board and other stakeholders to leverage on professional support available across industries and sectors, to collaborate and create solutions to urban challenges. The stakeholders need to consider the Vihiga municipal as a whole in making investment and renewal decisions in order to maximize cross-sector synergies and avoid negative unintended consequences amongst them.

The board has a municipal charter and it is mainly funded by the world bank and county government. The board had four full board meeting.

Pursuit to the Provision Section 14 of the Urban Areas and Cities Act. 2016, the Vihiga County Executive Committee invites applications from the qualified persons for the positions of four (4) members to the Vihiga Municipal Board. The members of the board shall hold office for a term of five years on part time basis. Review of the Fund's performance

Governance and management of towns Urban Areas and Cities (Amendment) 31. (1) The management of a town shall be vested in a town committee comprised of five members which shall be constituted as follows

- (a) The county executive committee member responsible for urban areas and cities or his representative;
 - (b) Two members appointed competitively by the County Governor;
 - (c) A cluster representing registered associations of the informal sector; and
 - (d) A cluster representing the business community.
- (2) The members of the town committee specified under subsection
- (1) Shall be appointed by the county governor with the approval of the county assembly.
 - (3) A person shall be qualified for appointment as chairperson, vice-chairperson or member of a town committee Future outlook of the Fund

7. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

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 Government entities 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.

Strategic development objectives of Vihiga County's 2018-2022 CIDP are to

- a. Provide green energy by promotion of interventions including deliberate programmes and projects on;
 1. Waste management and recycling
 2. Renewable energy generated form wind and solar.
- b. Public sector reforms
- c. Human resource development and management.
- d. Health services
- e. Agriculture and food security
- f. Water and sanitation
- g. Trade industry and commerce
- h. Infrastructure and communication
- i. Education
- j. Land environment and natural resources
- k. Security and disaster management
- l. Quality physical infrastructure
- m. The 17 sustainable development goals.

Process on attainment of the strategic development objectives

The Vihiga Municipal Board is yet to have functions transferred from the executive to the Municipality

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The transfer of functions is a major item on the work plan which will in turn enable predetermined objectives. However, the Kenya urban support program provides the urban development grant (UDG) which requires the Board to prepare municipal annual investment plans and Budget.

The board has achieved 98% of reforms as follows under the eligible investments.

8. MANAGEMENT DISCUSSION AND ANALYSIS

The management of affairs of the Vihiga Municipal board discussed challenges during the year under review. They entail workshops to address the organization structure, preparing financial statements, proposing the transfer of functions and technicalities involved.

The board is not charged with the responsibility of handling the projects that are financed by KUSP.

9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

During the financial year under review the Vihiga Municipality undertook:

- a. The contractor of Tsimbalo -Munoywa road supplied material for a toilet block at Tsimbalo Primary.
- b. Beautification of Mbale town to provide non-motorized walkways, pedestrian footpath and to control storm water drainage. The contractor included addressing a disaster flooding around the Vihiga Municipal public toilet.
- c. The board prevailed the contractors to employ locals thus creating job opportunities
- d. Five lorries of sand were delivered by the contractor undertaking beautification of Mbale town to SDA church Mbale.
- e. The board together with H.E the Governor bought writing materials for Tsimbalo-primary school.

10. REPORT OF THE BOARD

The Board submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Fund affairs.

Principal activities

The principal activities of the Fund are lead and transform the Vihiga municipality to a world class urban centre

Results

The results of the Fund for the year ended June 30, 2021 are set out on page 19-24

Board

The members of the Board of Trustees who served during the year are shown on page 5-8

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. Certified Public Accountants were nominated by the Auditor General to carry out the audit of the *Vihiga Municipal Board* for the year/period ended June 30, 2021 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].performance /results are set out on page...19.....

By Order of the Board



Chairperson of the board

Date: 27/12/2021

11. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a County Public Fund established Section 14 of the Urban Areas and Cities Act, 2016, Act shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

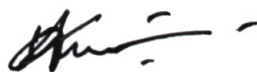
The Administrator of the County Public Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2021. This responsibility includes: (i) 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 Fund; (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 Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Administrator of the County Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and *Section 14 of the Urban Areas and Cities Act, 2011, Act*. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2021, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the County Public Fund has assessed the Fund'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 Administrator to indicate that the Fund 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 Fund's financial statements were approved by the Board on 21st August 2021 and signed on its behalf by:



Vihiga municipal manager

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: 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 VIHIGA MUNICIPAL BOARD FOR THE YEAR ENDED 30 JUNE, 2021

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, gazetted 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 Vihiga Municipal Board set out on pages 19 to 45, which comprise of the statement of financial position as at

30 June, 2021, the statements of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Vihiga Municipal Board as at 30 June, 2021, 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 Public Finance Management Act, 2012 and Urban Areas and Cities Act, 2016.

Basis for Qualified Opinion

1. Anomalies in Presentation of Financial Statements

Review of the annual report and financial statements for the Board revealed the following anomalies: -

- a) Key entity information and management under Municipal Board members includes Hon. Paul Mbuni and Lucy Ijai who are not gazetted members and excludes Mwanaidi M. Abdi and Andrew Ahuga Mwenesi who are gazetted members.
- b) The key management and fiduciary oversight arrangements are not provided.
- c) The independent auditor's information has omitted to state "Auditor-General" before the Office of the Auditor-General.
- d) The Board of Trustees composition does not show each member's date of birth, key academic and professional qualifications, and whether the member is independent or an executive member.
- e) The Management team does not include the Board accountant.
- f) The corporate governance statement does not mention the number of Board meetings held, the attendance to those meetings by members and the Board members remuneration.
- g) The statement of management's responsibilities does not state the name of the Municipal manager.
- h) The summary of significant accounting policies omits the statement of compliance and basis of preparation, and disclosure that the Board did not adopt new and revised standards.
- i) The notes to the financial statements do not show the related party transactions under related party balances.

- j) The Progress on follow up on Auditor recommendations include issues that were not raised in the previous year's audit report.
- k) Appendix 1 on Inter-entity transfers is omitted in the financial statements and therefore, the recurrent and development grants received from the county executive are not disclosed as required.
- l) The statements and reports stated in the financial statements are not placed sequentially as provided in the reporting template.

In the circumstances, the financial statements are not presented in accordance with the template issued by the Public Sector Accounting Standards Board (PSASB).

2. Incorrect Comparative Amounts

Review of the financial statements for the Board revealed that the comparative figures were different from the 2019/2020 audited financial statements and their supporting notes as indicated below;

Item	2020/2021 Financial Statements Balances Kshs)	2019/2020 Audited Financial Statements Balances (Kshs)	Variance (Kshs)
Statement of Financial Position			
Cash and Cash Equivalents	117,157,623	305,458,150	188,300,527
Property, Plant and Equipment	125,424,701	135,424,701	10,000,000
Total Assets	242,582,324	440,882,851	198,300,527
Net Assets	242,582,324	440,882,851	198,300,527
Fund Balance	93,850,192	292,150,719	198,300,527
Total Assets and Liabilities	242,582,324	440,882,851	198,300,527
Statement of Changes in Net Assets			
Total net assets opening balance	242,582,324	625,632,132	383,049,808
Statement of Cash Flows			
Purchase of property, plant equipment & intangible assets	61,884,324	71,884,324	10,000,000
Net increase in cash and cash equivalents	86,847,808	76,847,808	10,000,000
Cash and cash equivalents at the beginning of the year	30,309,815	228,610,324	198,300,509
Cash and cash equivalents at the end of the year	117,157,623	305,458,132	188,300,527
Notes to the financial statements			
Transfers from county government	259,750,700	188,289,676	71,461,024

In the circumstances, the financial statements do not give a fair presentation of the financial performance of the Board for the comparative year.

3. Inconsistencies in the Notes to the Financial Statements

Review of the financial statements revealed the following anomalies: -

- i. The statement of financial performance and as disclosed in Note 1 to the financial statements reflects transfers from county government comparative amount of Kshs.188,289,676 while supporting Note1 reflects a balance of Kshs.259,750,700 resulting to unreconciled variance of Kshs.71,461,024.
- ii. The statement of financial performance and as disclosed in Note 2 to the financial statements reflects general expenses. However, the current year column has omitted the narration for travel cost and consumables while the comparative figures have not been distributed as in the previous year audited financial statements.
- iii. The statement of financial position and as disclosed in Note 4 to the financial statements reflects property, plant and equipment assets balance as at 30 June, 2020 and 1 July, 2020 under infrastructure and civil works of Kshs.105,497,616. However, the audited financial statements reflect a balance of Kshs.115,497,616 resulting to an unreconciled variance of Kshs.10,000,000.

In the circumstances, the financial statements are not fairly stated.

4. Lack of Trial Balance

The trial balance for the Fund as at 30 June, 2021 was not provided for audit in support of the balances in the financial statements. This is contrary to paragraph 27 of the International Public Sector Accounting Standards (IPSAS) 1 which states that financial statements shall present fairly the financial position, financial performance, and cash flows of the Board.

In the circumstances, the basis for the preparation of the financial statement balances could not be confirmed.

5. Erroneous Treatment of Transfers from the County Government

The statement of financial performance and as disclosed in Note 1 to the financial statements reflects transfers from the County Government of Vihiga of Kshs.259,750,000 which was meant for road improvements and purchase of other assets. However, the whole amount was erroneously treated as revenue for operations instead of being treated as Board capital in the statement of changes in net assets. This was contrary to Paragraph 21 of International Public Sector Accounting Standards 17 which states that infrastructure assets meet the definition of property plant and equipment and should be accounted for in accordance with this standard.

In the circumstances, the surplus for the period is overstated and the financial statements are not fairly presented

6. Unsupported Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 3 to the financial statements reflects cash and cash equivalents balance of Kshs.7,702,924 which is held in two (2) bank accounts. However, bank reconciliation statements for the month of June, 2021 for the bank accounts were not provided for audit. Further, the two bank accounts maintained at Equity bank and Vihiga County KUSP UIG account at Central Bank of Kenya reflected balances in the certificate of bank balances instead of the reconciled cash book balances. In addition, Vihiga County KUSP UDG Account at CBK reflected Nil balance in the financial statements while the account had an actual bank balance of Kshs.179,489,676 as at 30 June, 2020.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.7,702,924 could not be confirmed.

7. Irregular Payment of Daily Subsistence Allowances

The statement of financial performance and as disclosed in Note 2 to the financial statements reflects general expenses amount of Kshs.9,977,826 which, includes Kshs.6,096,215 for daily subsistence allowance. This amount further, includes Kshs.395,000 paid as allowances to members of staff who prepared the financial statements of the Board and Kshs.774,225 paid to staff who responded to audit queries raised by the internal and external auditors. However, it was not explained why the officers were paid while performing their normal duties for which they are paid salaries and allowances.

In the circumstances, the regularity of subsistence allowance amounting to Kshs.1,169,225 could not be confirmed.

8. Inconsistencies in the Financial Statements

Review of the financial statements revealed the following anomalies:

- i. The statement of financial performance reflects total expenses of Kshs.9,977,826 while the statement of comparison of budget and actual amounts reflects an amount of Kshs.369,205,398 under actual on comparable basis column and thus, resulting to an unexplained and unreconciled variance of Kshs.359,227,572.
- ii. The statement of financial performance reflects transfers from county government of Kshs.259,750,700 while the statement of comparison of budget and actual amounts reflects an amount of Kshs.369,205,398 resulting to a variance of Kshs.109,454,698.
- iii. The statement of financial performance reflects surplus for the year of Kshs.249,772,874 while the statement of changes in net assets reflects a surplus Kshs.249,814,844 resulting to an unreconciled variance of Kshs.41,970.

- iv. During the year under review, the County Executive budgeted for the Municipal Board an amount of Kshs.19,054,651 for recurrent expenditure under the department of physical planning, lands, and housing. However, this information was not captured in the statement of comparison of budget and actual amounts of the Board as separate statements for recurrent and development were not prepared.
- v. The statement of comparison of budget and actual amounts reflects an original budget amount of Kshs.259,750,700 contrary to budget information in summary of significant accounting policies number 15.6 (2) which indicates that the Board had an original budget of Kshs.295,458,460 resulting to an unreconciled variance of Kshs.35,707,760.

In the circumstances, the accuracy, completeness and authenticity of the information in the statement of financial performance and comparison of budget and actual amounts could not be confirmed.

9. Failure to Maintain Fixed Asset Register and Lack of Assets Ownership Documents

The statement of financial position and as disclosed in Note 4 to the financial statements reflects balance of Kshs.32,843,085. However, the assets were not recorded in a fixed asset register of the Board. In addition, review of the logbooks for Isuzu skipper loader Reg.no.38CG203A, exhauster Reg.no.38CG204A, and Skip loader Reg.no.38CG206A revealed that the machines were registered under County Government of Vihiga and not the Municipal Board. This is contrary to Section 12(2)(b) of Urban Areas and Cities Act, 2011 which states that the Board of an area granted the status of a city or municipality under this Act shall be a body corporate with perpetual succession and a common seal and shall, in its corporate name be capable of taking, purchasing or otherwise, acquiring, holding, charging, or disposing of movable and immovable property.

In the circumstances, the ownership of the Board's assets worth Kshs.32,843,085 could not be confirmed.

10. Non-Operational High Mast Lights

The Board awarded a contract to a contractor for proposed access roads, footpaths and side drains at Mbale Urban Centre and proposed supply, installation, testing and commissioning of five (5) 30m high mast lighting vide tender No. VCG/KUSP/PPL&H/180/2019-2020 for Kshs.211,115,858. The contract was to take eighteen (18) weeks starting from 2 June, 2020 to 1 December, 2021. Review of records revealed that the contractor was paid Kshs.20,037,750 vide Interim Payment Certificate No. 4 and payment voucher No. 17 for the supply, installation, testing and commissioning of five (5) 30m high mast lighting. However, during physical inspection in November, 2021, the masts had not been labelled and were not in working condition and as such they did not serve the intended purpose of providing street lighting.

In the circumstances, the propriety of the expenditure and value for money in respect of Kshs.20,037,750 paid towards the installation of flood lights could not be confirmed.

11. Failure to Account for Retention Monies

The statement of financial position and as disclosed in Note 4 to the financial statements reflects assets addition of Kshs.359,227,572 which includes infrastructure and works amount of Kshs.346,311,572. However, although the payment vouchers reflected recovery of 10% retention, Management has not disclosed the same in the financial statements.

In the circumstances, the accuracy of retention balance of Kshs.34,631,157 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Vihiga Municipal Board 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 reflects final receipts budget and actual on a comparable basis of Kshs.376,908,323 and Kshs.369,205,398 respectively, resulting to underfunding of Kshs.7,702,925 or 2% of the budget. In addition the statement of financial performance reflects actual receipts of Kshs.259,750,700 resulting to a variance of Kshs.109,454,698 which has not been explained or reconciled. Similarly, the statement of financial performance reflects an actual expenditure of Kshs.9,977,828. In addition, the Management did not provide the approved budget for audit review contrary to Regulation 42(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which states that an Accounting Officer shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the County Assembly.

The underfunding and underperformance 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

During the year under review, Management submitted the financial statements to the Auditor-General on 1 November, 2021, one (1) month after the statutory deadline of 30 September, 2021 contrary to Section 47(1) of the Public Audit Act, 2015 which requires that financial statements should be submitted to the Auditor-General within three (3) months after the end of the fiscal year to which the accounts relate.

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

2. Incomplete Disclosure for Property, Plant and Equipment

The significant accounting policies on property, plant and equipment as disclosed in Note 1 reflects that the Board's assets are stated at cost less accumulated depreciation and impairment losses. However, the note does not provide the depreciation rates for the various categories of assets and the depreciation method adopted.

In the circumstances, property plant and equipment has not been disclosed in accordance to the template issued by the Public Sector Accounting Standards Board (IPSASB).

3. Lack of Designated Accounting Officer

The Municipal Manager was appointed on 4 May, 2020 for a contract period of three (3) years. However, at the time of audit in November, 2021, the CECM Finance was yet to appoint the Municipal Manager as the Accounting Officer of the Board. This is contrary to Section 29 of Vihiga Municipality Charter which states that the Municipal Manager shall be appointed as the accounting officer of the Board.

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

4. Un-transferred Functions of the Municipal Board

The statement of Board's performance against predetermined objectives for the year under review reports that the County Executive has not transferred the functions of the Board. Further, Management discussion and analysis report states that the Board has not

been charged with the responsibility of handling the projects that are financed by the Kenya Urban Support Programme (KUSP). This is contrary to Section 8(1) of the Vihiga Municipality Municipal Charter which states that the Board shall have all the powers and perform all functions vested in the Boards of municipalities under the Urban Areas and Cities Act, County Government Act, and the Municipality by-laws.

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

5. Inconsistencies in the Statement of Cash Flows

The statement of cash flows reveals two (2) sets of cash flows from operating activities at the beginning of the statement and another one after cash flows from investing activities contrary to the Public Sector Accounting Standards Board (PSASB) reporting format.

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 matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has else come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Un-signed Minutes of the Board

Review of the Board meeting minutes revealed that the minutes for the year under review were not signed by the chairman, but only by the secretary to the Board contrary to Section 21(5) of the Municipal Charter which states that the adoption of a by-law, the chairperson of the Board must endorse it with the date of adoption and his title.

In the circumstances, the legality of the reports and the deliberations of the Board operations could not be confirmed.

2. Lack of Annual Procurement Plan

The approved annual procurement plan for the Municipal Board was not provided for audit contrary to Section 114(2) of the Public Finance Management (County Governments)

Regulations, 2015 which states that every year a procurement plan shall be prepared by Accounting Officers to form the basis for procurement activities undertaken by Government entities in the fiscal year. The procurements during the year may not have been informed by an approved procurement plan.

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

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

Responsibilities of Management and Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Board'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 Board 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 money is applied in an effective manner.

Management is responsible for overseeing the Board's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Board'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 the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board'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 Board 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 Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

19 September, 2022

15. FINANCIAL STATEMENTS

**15.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED
30th JUNE 2021**

	Note	2020/2021	2019/2020
		KShs	KShs
Transfers from the County Government	1	259,750,700.00	188,289,676
Total revenue		259,750,700.00	188,289,676
Expenses			
General expenses	2	(9,977,826.00)	(39,557,544)
Total expenses		(9,977,826.00)	(39,557,544)
Surplus/(deficit) for the period		249,772,874	148,732,132

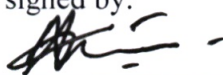
The notes set out on pages to 39-41 form an integral part of these Financial Statements


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15.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	2020/2021 Kshs	2019/2020 KShs
Assets			
Current assets			
Cash and cash equivalents	3	7,702,924.00	117,157,623.00
Total		7,702,924.00	117,157,623.00
Non-current assets			
Property, plant and equipment	4	484,652,273.00	125,424,701.00
Total assets		492,355,197.00	242,582,324.00
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	5		
Non-current liabilities			
Non-current employee benefit obligation	6		
Total liabilities			
Net assets		492,355,197.00	242,582,324.00
Financed By			
Fund Balance B/F		93,850,192.00	93,850,192.00
Accumulated Surplus		398,546,976.00	148,732,132.00
Total Assets and liabilities		492,355,197.00	242,582,324.00

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 21st August, 2021 and signed by:


 Administrator of the Fund
 Name: Andrew Ahuge


 Fund Accountant
 Name: Benson T. K. O. M. H. R.
 ICPAK Member Number:
 12735

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15.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2021

	Board Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2019	93,850,192.00	-	-	93,850,192.00
Surplus/(deficit) for the period		-	148,732,132.00	148,732,132.00
Funds received during the year		-		-
Balance as at 30 June 2020	93,850,192.00	-	148,732,132.00	242,582,324.00
Balance as at 1 July 2020	93,850,192.00	-	148,732,132.00	242,582,324.00
Surplus/(deficit) for the period		-	249,814,844.00	249,814,844.00
Funds received during the year/Paid		-		-
Balance as at 30 June 2021	93,850,192.00	-	398,546,976.00	492,397,168.00

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15.4. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020/2021	2019/2020
		Kshs	KShs
Cash flows from operating activities			
Receipts			
Public contributions and donations		0	0
Transfers from the County Government		259,750,700.00	188,289,676
Interest received		0	0
Receipts from other operating activities		0	0
Total Receipts		259,750,700.00	188,289,676
Payments			
Fund administration expenses		0	0
General expenses		(9,935,856)	(39,525,708.00)
Finance cost		0	
Total Payments		(9,935,856)	(39,525,708)
Net cash flows from operating activities		249,814,843	148,763,968
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(359,227,572.00)	(61,884,324)
Proceeds from sale of property, plant and equipment		0	0
Proceeds from loan principal repayments		0	0
Loan disbursements paid out		0	0
Net cash-flows used in investing activities		(359,227,572.00)	(61,884,324)
Cash-flows from operating activities			
Bank - Charges		(41,970)	(31,836)
Additional borrowings		0	0
Repayment of borrowings		0	0
Net cash flows used in financing activities		(41,970)	(31,836)
Net increase/(decrease)in cash and cash equivalents		(359,245,163)	86,847,808
Cash and cash equivalents at the Beginning of the year		117,157,623	30,309,815
Cash and cash equivalents at the end of the Year		7,702,924.00	117,157,623

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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)

15.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2021

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2021	2021	2021	2021	2021	2021
Revenue	KShs	KShs	KShs	KShs	KShs	
Transfers from County Govt.	259,750,700	117,157,623	376,908,323.00	369,205,398	7,702,924.00	98%
Total income	259,750,700	117,157,623	376,908,323.00	369,205,398	7,702,924.00	98%
Expenses	KShs	KShs	KShs	KShs	KShs	
Property plant and equipment	250,950,700	115,978,084	366,939,173	359,262,392	7,676,780.00	98%
General expenses	8,800,000	1,190,390	9,916,862.00	9,943,006.00	26,144	99%
Total expenditure	259,750,700	117,168,474	376,856,035.00	369,205,398.00	7,702,924.00	98%

Budget notes

The Municipal Board Expended the approved budget with an absorption of 98%

15.6.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

ii) Revenue from exchange transactions

Interest income

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

2. Budget information

The original budget of 295,458,460.00 for FY 2020/2021 was approved by the County Assembly on 5th September, 2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded additional appropriations of on the FY 2020/2021 budget following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actual as per the statement of financial performance has been presented under section 12.5 of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

2 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.

3. Financial instruments

Financial assets

a) Initial recognition and measurement

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

b) Loans and receivables

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

c)Held-to-maturity

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

d)Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or entity of financial assets is impaired. A financial asset or entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cashflows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

Financial liabilities

a)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.

b)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.

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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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. 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:

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 Entity.

5. Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

6. Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements

Changes in accounting policies and estimates

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

7. Employee benefits– Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

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

8. Foreign currency transactions

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. 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.

10. Related parties

The municipal board is under the vihiga county executive under the department of physical planning land and housing & urban planning. The municipal manager is employed by the county service board on contract and his salary is budgeted under the county executive department of physical planning, land, housing & urban planning.

11. 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 the Central Bank of Kenya and 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.

1. Comparative figures

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

2. Events after the reporting period

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

3. Ultimate and Holding Entity

The entity is a County Public Fund established by urban and cities Act (under the Department of Physical planning lands and housing. Its ultimate parent is the County Government of Vihiga.

12. Ultimate and Holding Entity

13. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Significant judgments and sources of estimation uncertainty

The preparation of the Entity'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 Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140.

Useful lives and residual values

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

- a) The condition of the asset based on the assessment of experts employed by the Entity
- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- c) The nature of the processes in which the asset is deployed
- d) Availability of funding to replace the asset
- e) Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. There were no provisions, since the entity nature of activities does not require the above provisions.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15. Financial risk management

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Fund does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

a) Credit risk

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from

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

b) Liquidity risk management

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Market risk

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

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

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

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

1. NOTES TO THE FINANCIAL STATEMENTS

Transfers from County Government

Description	2020/2021	2019/2020
Transfers from County Govt. – operations	259,750,700.00	259,750,700.00
Total	259,750,700.00	259,750,700.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. General expenses

Description	2020/2021	2019/2020
	KShs	KShs
office operation	510,000.00	7,607,540.00
urban planning activities	1,045,240.00	752,683.00
consultancy	0	25,293,945.00
training costs	1,795,600.00	0
daily subsistence allowances	6,096,215.00	5,020,140.00
partitioning and repairs	488,801.00	361,400.00
	0	190,000.00
	0	300,000.00
Bank Charges	41,970.00	31,836
Total	9,977,826.00	39,557,544

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

Financial institution	Account number	2020/2021	2019/2020
		KShs	
Vihiga County KUSP UDG Account- CBK	1000388037	0	0
Vihiga County KUSP UIG Account- CBK	1000379917	0	0
Vihiga Municipality KUSP-UDG FUND -Equity bank	0960278950347	7,676,780	115,967,233
Vihiga Municipality KUSP-UIG FUND-Equity bank	0960278950377	26,144	1,190,390
Total cash and cash equivalents	Total	7,702,924	117,157,623

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4. Property, plant and equipment					
	Infrastructure and Civil Works	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
Cost	KShs	KShs	KShs	KShs	KShs
At 1st July 2019	63,540,377	0	0	0	63,540,377
Additions	41,957,239	19,475,001	0	452,084	61,884,324
Disposals	0	0	0	0	0
Transfers/adjustments	0	0	0	0	0
At 30th June 2020	105,497,616	19,475,001	0	452,084	125,424,701
At 1st July 2020	105,497,616	19,475,001	0	452,084	125,424,701
Additions	346,311,572.00	12,916,000.00	0	0	359,227,572.00
Disposals	0	0	0	0	0
Transfers/adjustments	0	0	0	0	0
Net book values as at 30th June 2021	451,809,188	32,391,001	0	452,084	484,652,273
Net book values					
At 30th June 2020	105,497,616	19,475,001	0	452,084	125,424,701
At 30th June 2021	451,809,188	32,391,001	0	452,084	484,652,273

5.Related party balances

a) Nature of related party relationships

The Municipal Board is related to the following entities:

- a) The County Government of Vihiga;
- b) The County Assembly of Vihiga;
- c) Department of Physical Planning Lands & Housing County Government of Vihiga
- d) State Ministry of Transport Infrastructure, Housing Urban Development & Public Works

6.PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The observations made during the audit of financial year 2019/2020 have since been addressed as shown below. The financial statements are prepared using the template for reporting financial statements provided by the National treasury as approved by the Accounting standard Board.

Progress on the follow up of Auditor's recommendations 2019/2020

Ref. No of external audit report	Issue/observation from auditor	Management comment	Focal point person to resolve the issue (name & designation)	Status resolved/ not resolved	Time frame: date when issue expected to be resolved
1.1	Misstatement of financial statement	The financial statements have been adjusted to reflect a true and fair position of the municipal board accounts	Municipal manager	resolved	2019/2020
1.2	Failure to implement organizational structure	Organization structure is in place and is being implemented	Municipal manager	resolved	2019/2020
2.1	Procurement of consultancy services	The management have put in	Municipal manager	resolved	2019/2020

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		place control measures			
3.1	Overall budget performance	The management have put in place control measures	Municipal manager	resolved	2019/2020

Guidance Notes:

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

