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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**KISII COUNTY ALCOHOLIC DRINKS  
CONTROL FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2020**





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**KISII COUNTY ALCOHOLIC DRINKS CONTROL FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2020**



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



*Kisii County Alcoholic Drinks Control Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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*Kisii County Alcoholic Drinks Control Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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**2. KEY ENTITY INFORMATION AND MANAGEMENT**

**a) Background information**

The Kisii County Alcoholic Drinks Control Fund is established by and derives its authority and accountability from The Kisii County Alcoholic Drinks Control Act 2015 of 21<sup>st</sup> October 2015. The Fund is wholly owned by the County Government of Kisii and is domiciled in Kenya.

The Fund shall be used for meeting the capital and recurrent expenditure relating to carrying out the functions of the Directorate of Alcoholic Drinks Control (liquor Licensing) Assisting in the operations of the Sub-County Committees.

The Fund's principal activity is to control the production, sale, distribution, promotion and use of alcoholic drinks and the promotion of research, treatment and rehabilitation for persons dependent on alcoholic drinks.

**b) Principal Activities**

The principal activities of this fund are to ensure that the regulations governing alcoholic drinks are compiled to such as advocacy against alcohol abuse among others.

**c) Fund Administration Committee.**

Ref	Name	Position
1	Dr. Skitter W. Ocharo	Chairperson
2	Stephen Kihara	Vice. Chair
3	Pamela Kintu	Secretary
4	Jabel Munene	Member
5	Patrick Achoki	Member
6	Richard Onkware	Member
7.	Kennedy Onsembe	Member
8	Fathernicus Oucho Muma	Member
9	Zipporah Nehemiah	Member
10	Risper Ateka	Member

**d) Key Management**

Ref	Name	Position
1	Dr. Skitter W. Ocharo	Chairperson
2	Biliah Mogaka	Chief Officer Trade Tourism and Industry
3	Pamela Kintu	Director Kisii county Alcoholic Drinks Control
4	Wilfred Ochengo Auma	Chief Officer Finance
5	Lukio Ongeni Obwoye	Director Accounting Services

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**e) Registered Offices**

P.O. Box 4550-40200  
Kisii County Treasury Compound  
Block B Room 7  
Kisii, KENYA

**f) Fund Contacts**

Telephone: (+254)713369801 (+254)730184155  
E-mail: [liquor@kisii.go.ke](mailto:liquor@kisii.go.ke)  
Website: [www.kisii.go.ke/trade](http://www.kisii.go.ke/trade)

**g) Fund Bankers**

National Bank of Kenya

Kisii Branch  
Tel:020-2828000  
Fax: 020-311444/222304  
E-Mail: [corporateaffairs@nationalbank.co.ke](mailto:corporateaffairs@nationalbank.co.ke)

**h) Independent Auditors**

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

**i) Principal Legal Adviser**

Kisii County Attorney  
P.O. Box 4550  
40200  
Kisii, Kenya

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**3. FUND ADMINISTRATION COMMITTEE**

<b>Name</b>	<b>Details of qualifications and experience</b>
1. Dr. Skitter W. Ocharo	County Executive Member for Trade Tourism and Industry
2. Pamela Kintu	County Director Alcoholic Drinks Control
3. Stephen Kihara	Kisii County Commissioner
4. Jabel Munene	County Police Commander
5. Patrick Achoki	County Director Physical Planning
6. Richard Onkware	County Director of Public Health
7. Kennedy Onsembe	County Attorney
8. Fathernicus Oucho Muma	Member
9. Zipporah Nehemiah	Member
10. Risper Ateka	Member

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**4. MANAGEMENT TEAM**

Name	Details of qualifications and experience
1. Skitter W. Ocharo	PhD Physics Msc Physics Bsc Education Science. Current CECM Trade Tourism and Industry. Previously served as CEC in Education, Labour and Manpower Development; Energy, Water, Environment and Natural Resources; and Roads departments within Kisii County. Prior to that, she worked as lecturer, Masinde Muliro University of Science and Technology (MMUST).
2. Bilia Mogaka	MBA in Strategic Management (Kenyatta University) BA (Kenyatta University) Current Chief Officer Trade Tourism and Industry. Previously served as the Chief Officer and Chief of Staff for the office of the Governor and the Chief Officer for Energy, Environment and Natural Resources. Former Deputy Regional Coordinator (TARDA). Former Administration Manager at TARDA.
3. Pamela Kintu.	MSc Political Studies, History and archaeology Bsc. Education (B.Ed.) Current Director Alcoholic Drinks Control Previously served as AG. Chief Officer, department of Administration, Director Administration Department of Water, Director Finance Kisii Municipality, School Principal Kericho Highlands School.
4. Wilfred Ochengo Auma	Higher National Diploma in Financial Analysis. Bachelors of Commerce Degree (Finance & Accounting) Diploma in Management Skills (KIM). Currently Chief Officer Finance and Accounting Services. Previously served as Chief Officer, Economic Planning and Finance and Economic Planning, former Manager Wakenya Pamoja Sacco.
5. Lukio Obwoye	MSc Finance CPA(K), ACCA. Current Director Accounting services Kisii County Treasury.

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## 5. BOARD/FUND CHAIRPERSON'S REPORT

We ushered in 2019/2020 financial year with the fund's Act and regulations in place and thus realized we needed to actualize it as per the Act, regulations and as per the Public finance management Act. There was need to devolve the functions down to the grassroots hence implementation up to the sub county level. There was also need to enforce and ensure compliance as there was a pandemic during this period and the directorate was key in controlling the spread.

### Formation of the county Alcoholic Drinks Control board

This board is formed in accordance to the Alcoholic drinks control act 2015 and comprises of the following members;

1. The CECM Trade, Tourism and Industry (chair)
2. The county commissioner (v. chair)
3. The county police commander
4. The county Director of Physical Planning
5. The county public health officer
6. The county Director Alcoholic Drinks Control (Secretary)
7. Member of the public (male)
8. Member of the public (female)

### Sub county liquor committees

The sub county liquor committees were founded as per the Alcoholic Drinks Control Act 2015, they had the component of:

1. Sub County Administrator (Chairperson)
2. Youth
3. Persons living with disability
4. Public works officer
5. Public health
6. Women representative
7. The secretary (liquor officer representing the director liquor)
8. Administration from the national Government (DCC)

All the above members had to hail from the sub county. The members were selected by virtue of the office that they hold. The nominees upon appointment were inducted on their roles as stipulated in the Act at Le premier hotel Kisii.

NACADA team joined the training session and sensitized teams on Advocacy against the abuse of alcohol and drugs. The training attracted training on integrity and leadership matters as spelt out in the constitution.

There exists a functioning Directorate of liquor whose officers form the secretariat and field officers respectively. The director is the official Alcoholic Drinks Control fund administrator.

### Board meetings

We have held four board meetings whereby various issues were discussed as per the invitation letters.

### Training and capacity building sessions

Throughout the financial year the directorate carried out various training sessions both to the board, sub county committees, Liquor officers and the relevant stakeholders:

### Enforcement and Compliance

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Throughout the third and fourth quarter the directorate in conjunction with the National Police Service Conducted enforcement and swoops to ensure compliance to the National guidelines on controlling the COVID-19 pandemic.

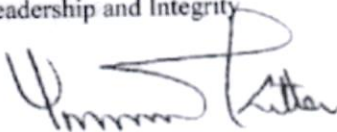
**Project Management.**

In the Financial Year 2019/2020, the directorate oversaw the launch of the foundation stone at Kiamwasi Rehabilitation centre by the NACADA CEO. The Project is set for completion in the FY 2020/2021 and further allocation will be provided in the 2021/2022 FY for Operationalization of the Rehabilitation Centre.

**Strategic Planning.**

In the year under review the Directorate developed a strategic Plan 2019-2022. This Plan puts into consideration indicative targets to help the directorate achieve an alcohol abuse free county. The Strategic Plan Identified six strategic focus areas namely:

- Public Education and Advocacy
- Counselling, Rehabilitation & Reintegration
- Compliance, Quality Control and Standards
- Research, Policy and Planning
- Institutional Strengthening
- Leadership and Integrity



Signed.....

Skitter W. Mbugua, CECM Trade Tourism and Industry.

**6. REPORT OF THE FUND ADMINISTRATOR**

The Kisii County Alcoholic Drinks Control Directorate was created from the Kisii County Alcoholic Drinks Control Act of 2015. Being an Act of the County Assembly of Kisii. The purpose of this directorate is to provide for the licensing, regulation of the production, sale, distribution, consumption and outdoor advertising of alcoholic drinks.

This directorate has a:

- i) County Alcoholic drinks Control Board
- ii) Sub-County alcoholic drinks regulation committees.

The two bodies above are charged with the management of alcoholic drinks in the county.

**1. County Alcoholic drinks Control Board**

This consists of as per part II-4(2a)

- a) County Executive Members in Charge of Trade Tourism and Industry who is the chairperson
- b) The County public Health Officer
- c) The county Police Commander
- d) The County director Alcoholic Drinks Control (Liquor)- secretary
- e) The County Commissioner
- f) County Director Physical Planning
- g) County Attorney
- h) Two Nominees (A youth and the other to be of opposite gender)

**2. Subcounty Alcoholic Drinks Control Committees**

Each Sub County Alcoholic Drinks Control Committee as per part III 9 (4) a-h consists of;

- a. Subcounty administrator (Chairperson)
- b. Sub county public health officer
- c. Sub County Police commander
- d. One representative of the County Director of Alcoholic Drinks Control
- e. Deputy County Commissioner
- f. Subcounty Physical Planning / Works Officer
- g. Three nominees appointed by County Executive Member Trade Tourism and Industry, one of whom is a youth.

The two Alcoholic drinks control boards together with the secretariat in liquor directorate constitutes the directorate of liquor. The Chairperson of the county Alcoholic drinks control is the CEC-Trade Tourism and Industry Mrs. Edinah Nyaboke Kangwana.

The nine-sub county alcoholic drinks committees are;

1. Nyaribari Chache
2. Bonchari
3. Bomachoge Chache
4. Bomachoge Borabu
5. Nyaribari Masaba
6. South Mogirango
7. Bobasi
8. Kitutu Chache North
9. Kitutu Chache South.

The chairmen of these committees are the Sub County Administrators

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**Summary of revenue performance in the FY 2019/2020**

Period	Revenue
1st Half	7,157,500
2nd Half	5,316,000
<b>Total</b>	<b>12,473,500</b>

**Summary of expenditure in the FY 2019/2020**

Period	Expenditure
1st Half	9,209,350
2nd Half	5,998,700
<b>Total</b>	<b>15,208,050</b>

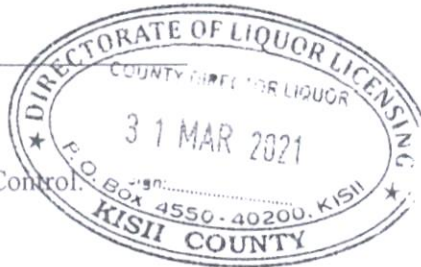
Licensing fees in Quarter 1 and 2 were relatively stable and in line with targets, however there was significant reduction in revenues in Q3 and Q4. This was attributed to the COVID-19 Pandemic causing closure of most Alcoholic Drinks premises, hence lower demand for licenses. There were also less activities that could be executed in the second half of the FY hence lower expenditure was witnessed in the half.

Signed: \_\_\_\_\_



Pamela Kintu

Director, Alcoholic Drinks Control.



## 7. CORPORATE GOVERNANCE STATEMENT

Alcoholic Drinks Control Directorate has a board in place comprising of 10 (Ten) members. So far, the board has held four board meetings. Members from the department of Administration are invited when necessary because the sub county Administrators report directly to the County Department of Administration and are also the Sub-County alcoholic drinks Control Committee Chairpersons.

The attendance by board members has been good. The Board does not yet have a board charter but plans are underway to do prepare one. Appointment to the board is done by the County Executive Committee Member (CECM) Trade Tourism and Industry. The Kisii County Alcoholic Drinks Control Act 2015 is however silent on the removal of Board members.

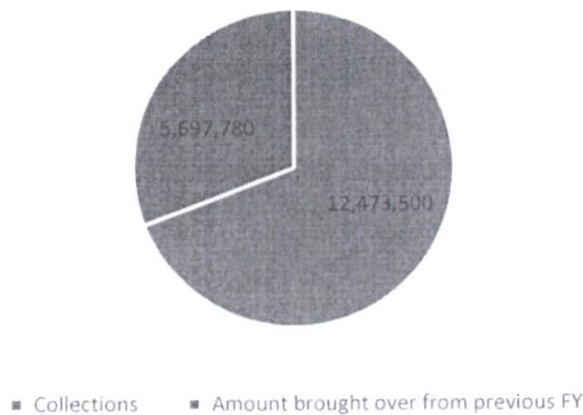
The County and Sub-County committee members have been taken through induction and training. The role of the board is to support and facilitate sub county committees in carrying out their functions, review decisions made by Sub-County committees among others. The County Board members are remunerated based on the recommended Salaries and Remuneration Commission Rates.

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**8. MANAGEMENT DISCUSSION AND ANALYSIS**

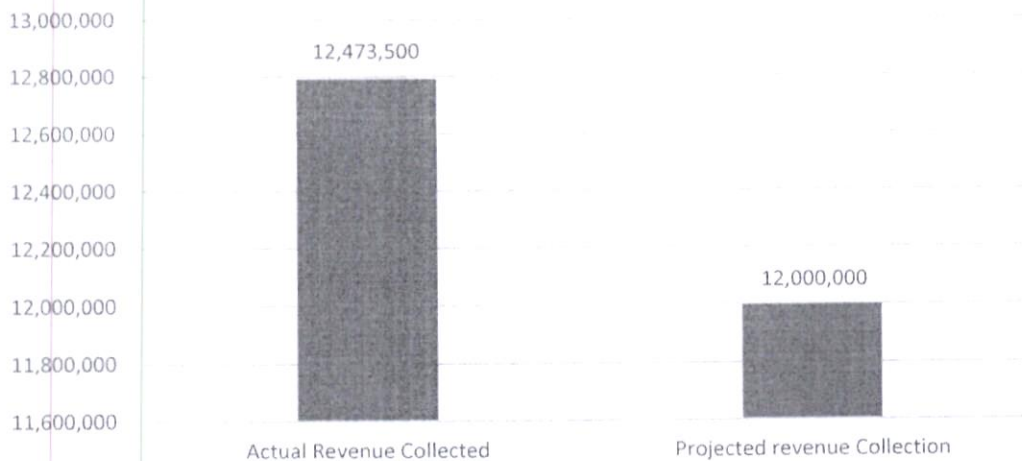
In the period under review the directorate of Alcoholic Drinks Control successfully started running activities as stipulated in the Act. KSh 5,697,780 was brought forward from the 2018/2019 financial year and KSh 12,473,500 collected in the FY 2019/2020. Similarly, in the period under review, KSh 15,208,050 was spent in running the activities of the fund as spelt out in the Act. There was increased need to conduct more awareness campaigns and strategic planning in the midst of the Covid- 19 pandemic.

Analysis of Revenue by source



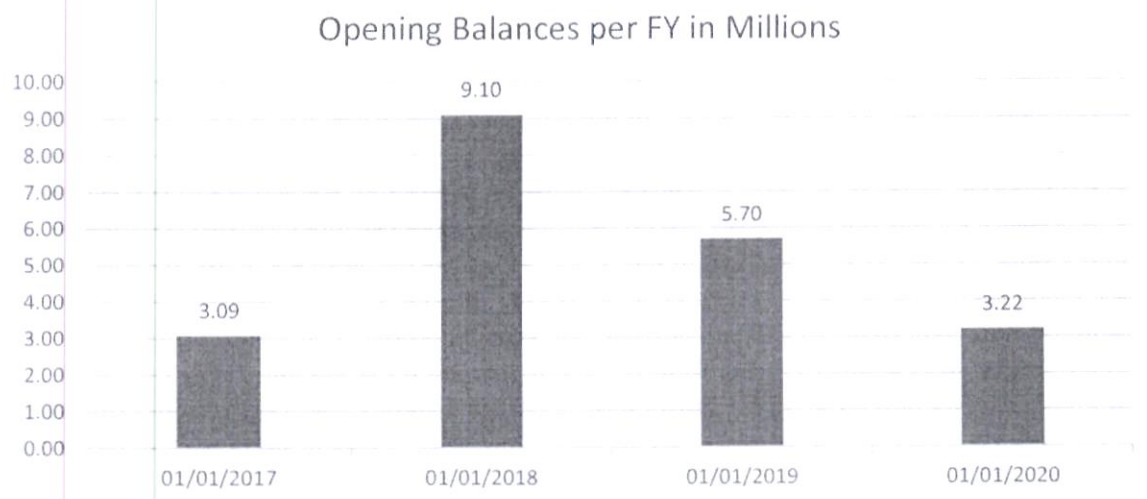
In the FY 2018/2019, the Directorate of Alcoholic Drinks Control had a revenue target of KSh 12,000,000 but overshot of the target and managed to collect KSh 12,473,500

Revenue Collected vs Projected collections



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In the FY 2017/2018, the department had beginning balance of KSh 3,092,000. This was attributed to lower collections in the FY. In the year ending 30 June 2018, the closing balance was KSh 9,101,680. This was attributed to increased collections in the FY 2018/2019. KSh 5,697,780 was the closing balance. This was attributed to higher collections in the FY 2018/2019 and more activities by the directorate. However in the FY ending June 2020, KSh 3,235,660, there were increased demands on the Alcoholic Drinks Control including enforcement and publicity awareness, hence the lower closing balances.



**KIAMWASI REHABILITATION CENTRE**

Apart from the various engagements with the liquor officials, relevant stakeholders on how to ensure compliance in licensing and control of liquor issues. We have a mandate on advocacy on matters of drug and alcohol abuse. We have partnered with NACADA in the contraction on Kiamwasi rehabilitation center. Once complete it will be a centre for training and rehabilitation programs. The centre is 80% complete and has been provided for funding by the directorate’s parent department of trade for its completion. As we close the financial year as a department, we celebrate the milestone, we have achieved. Important to note is the fact that now our licensing process has been fully devolved. Our stakeholders can now access the services from their respective sub counties.

We have fully embraced e-licensing to curb on any aspect of revenue leakage and to ensure faster and convenient liquor licensing services.

With the trainings, our staffs in liquor and relevant stakeholders have gained a lot of knowledge.

We have put modalities in place in terms of a clear activity plan and budget estimates to ensure we cover any areas that were not fully covered.

Our main focus will be in advocacy against drug and alcohol abuse in a bid to address the recent report released by NACADA on where Kisii lies. The school going children will be our focus.

We will work further to support the infrastructure we have put in place especially embracing the sub county committees.

*Kisii County Alcoholic Drinks Control Fund*  
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**10. TRUSTEES REPORT**

**10.1 Introduction**

In the Financial Year 2019/2020, the fund's Act and regulations were already in place and therefore actualized the Fund As per the Act. Also, the County Liquor Board was actively in place, this Board consisted of the CECM Trade, The County Commissioner, The County Police Commander, County Attorney, County Public Health Officer and Two members of the public.

The County Board and the Sub-County Committees were trained and held regular meetings. It was during this financial year that the Country Experienced the outbreak of the Corona Virus Disease (COVID-19). The County Directorate of Alcoholic Drinks Control was key in enforcing some of the containment measures alongside members of the National Police Service.

**10.2 Changes in trustees/signatories**

The fund has four signatories namely; The County Chief Officer responsible for Trade, Tourism and Industry, The Alcoholic Drinks Control Directorate director (Fund Manager), The Chief officer for Finance & the County Head of accounting services. In the period under review, there were changes in the office of the Director Alcoholic Drinks Control(Fund manager) . Specimen signatures were updated at the Bank to facilitate the smooth operation of the fund.

Signed: \_\_\_\_\_



Naum Bilih Nyabwari Mogaka  
Chief Officer Trade, Tourism and Industry.

*Kisii County Alcoholic Drinks Control Fund*  
**Reports and Financial Statements**  
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**10. 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 by the Kisii County Alcoholic Drinks Act 2015 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, 2019. 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. 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, 2018, 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 29 | 03 | 2020 and signed on its behalf by:

  
\_\_\_\_\_  
Administrator of the County Public Fund

# REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke  
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HEADQUARTERS  
Anniversary Towers  
Monrovia Street  
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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON KISII COUNTY ALCOHOLIC DRINKS CONTROL FUND FOR THE YEAR ENDED 30 JUNE, 2020**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Adverse Opinion**

I have audited the accompanying financial statements of Kisii County Alcoholic Drinks Control Fund set out on pages 19 to 43, which comprise the statement of financial position as at 30 June, 2020, and the statement 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly the financial position of the Kisii County Alcoholic Drinks Control Fund as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with Public Finance Management Act, 2012 and Kisii County Alcoholic Drinks Control Fund Act, 2015.

#### **Basis for Adverse Opinion**

##### **Opening Balances and Comparatives Figures**

The Fund Management did not submit financial statements for the 2018/2019 financial year to the Auditor-General for audit contrary to the requirements under Section 47 of the Public Audit Act, 2015.

Consequently, the validity, completeness and accuracy of all the opening balances reflected in the financial statements for the year ended 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kisii County Alcoholic Drinks Control Fund 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 Adverse opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, 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 for the year under review reflects total budgeted receipts of Kshs.15,000,000 and actual receipts of Kshs.12,473,500 resulting to under realization of Kshs.2,526,500 or 17%. Overall, the Fund failed to actualize its budget by Kshs.2,526,500 or 17% an indication that some programs and activities that had been planned were not implemented.

Further, the statement of comparison of budget and actuals for the year under review reflects total expenditure budget of Kshs.15,000,000 against total actual expenditure of Kshs.15,254,620 resulting to an overall over expenditure of Kshs.254,620. There was no evidence provided for audit review to confirm that the over expenditure of Kshs.254,620 was approved as provided for in Section 43 (2) of Public Finance Management (County Governments) Regulations, 2015.

In the circumstances, the under realization of budget revenue and the over expenditure on the budget may be an indicator of poor budgetary controls and poor budget making process.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significant of the matters discussed in the Basis for Conclusion on Adverse Opinion sections of my report. I confirm that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

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, because of the significance of the matters discussed in the Basis for Conclusion on Adverse Opinion sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

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

### **Responsibilities of Management and those Charged with Governance**

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

In preparing the financial statements, the Management are responsible for assessing the ability of the Fund to continue to sustain its services, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless Management is ware of the intention to terminate the Fund or to cease operations.

The Management are 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, the Management are also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective

processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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

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

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund'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 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 ability of the Fund 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 Fund to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
 CPA Nancy Gathungu, CBS  
**AUDITOR-GENERAL**

**Nairobi**

**09 February, 2022**

**Kisii County Alcoholic Drinks Control Fund  
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12. FINANCIAL STATEMENTS

12.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2020

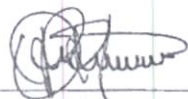
	2019/2020	2018/2019
	KShs	KShs
<b>Revenue from non-exchange transactions</b>		
Public contributions and donations		
Transfers from the County Government		
Licensing Fees	12,473,500	10,589,200
<b>Revenue from exchange transactions</b>		
Interest income		
Other income		
<b>Total revenue</b>		
<b>Expenses</b>		
Fund administration expenses	15,208,050	13,943,930
General expenses		
Finance costs	46,570	49,170
<b>Total expenses</b>	15,254,620	13,993,100
<b>Other gains/losses</b>		
Gain/loss on disposal of assets		
<b>Surplus/(deficit) for the period</b>	<b>(2,781,120)</b>	<b>(3,403,900)</b>

Kisii County Alcoholic Drinks Control Fund  
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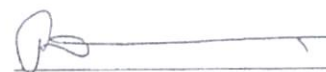
12.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	2019/2020	2018/2019
		KShs	KShs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	2,916,660	5,697,780
Current portion of long-term receivables from exchange transactions			
Prepayments			
Inventories			
<b>Non-current assets</b>			
Property, plant and equipment			
Intangible assets			
Long term receivables from exchange transactions			
<b>Total assets</b>		<b>2,916,660</b>	<b>5,697,780</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions			
Provisions			
Current portion of borrowings			
Employee benefit obligations			
<b>Non-current liabilities</b>			
Non-current employee benefit obligation			
Long term portion of borrowings			
<b>Total liabilities</b>			
<b>Net assets</b>			
Revolving Fund		9,101,680	9,101,680
Reserves			
Accumulated deficit		(6,185,020)	(3,403,900)
<b>Total net assets and liabilities</b>		<b>2,916,660</b>	<b>5,697,780</b>

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 \_\_\_\_\_ 2020 and signed by:



Administrator of the Fund  
**PAMELA KINTU**



John Nyandanyi (CPA NO. 13733)

**Kisii County Alcoholic Drinks Control Fund**  
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12.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2020

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
<b>Balance as at 1 July 2018</b>			-	-
Deficit for the period 30 <sup>th</sup> June, 2019			(3,403,900)	(3,403,900)
Funds received during the year	9,101,680			9,101,680
Revaluation gain				
<b>Balance as at 1 July 2019</b>	9,101,680		(3,403,900)	5,697,780
<b>Balance as at 1 July 2020</b>	9,101,680		(3,403,900)	5,697,780
Deficit for the period 30 <sup>th</sup> June 2020			(2,781,120)	
Funds received during the year				
Revaluation gain				
<b>Balance as at 30 June 2020</b>	<b>9,101,680</b>		<b>6,185,020</b>	<b>2,916,660</b>

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12.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019/2020	2018/2019
		KShs	KShs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Public contributions and donations			
Transfers from the County Government			
Balance Carried Forward		-	-
Interest received			
Licensing fees		12,473,500	10,589,200
Receipts from other operating activities			
<b>Total Receipts</b>		<b>12,473,500</b>	<b>10,589,200</b>
<b>Payments</b>			
Fund administration expenses		15,208,050	13,943,930
General expenses			
Finance cost (bank charges)		46,570	49,170
<b>Total Payments</b>		<b>15,254,620</b>	<b>13,993,100</b>
<b>Net cash flows from operating activities</b>		<b>(2,781,120)</b>	<b>(3,403,900)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets			
Proceeds from sale of property, plant and equipment			
Proceeds from loan principal repayments			
Loan disbursements paid out			
<b>Net cash flows used in investing activities</b>		<b>-</b>	
<b>Cash flows from financing activities</b>			
Proceeds from revolving fund receipts			9,101,680
Additional borrowings			
Repayment of borrowings			
<b>Net cash flows used in financing activities</b>		<b>-</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,781,120)</b>	<b>(3,403,900)</b>
Cash and cash equivalents at 1 JULY		5,697,780	
<b>Cash and cash equivalents at 30 JUNE</b>		<b>2,916,660</b>	<b>5,697,780</b>

(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)

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**12.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2020	2020	2020	2020	2020	2020
	KShs	KShs	KShs	KShs	KShs	
<b>Revenue</b>						
Public contributions and donations						
Transfers from County Govt.						
Licensing Fees			15,000,000	12,473,500	2,526,500	83.16%
Interest income						
Other income (Opening Balance)						
<b>Total income</b>			<b>15,000,000</b>	<b>12,473,500</b>	<b>2,526,500</b>	<b>83.16%</b>
<b>Expenses</b>						
Fund administration expenses			15,000,000	15,208,050	(208,050)	101.4%
General expenses		-				
Finance cost (bank charges)				46,570	(46,570)	>100%
<b>Total expenditure</b>		-	<b>15,000,000</b>	<b>15,254,620</b>	<b>(254,620)</b>	<b>101.7%</b>
<b>Surplus for the period</b>		-	<b>0</b>	<b>(2,781,120)</b>	<b>(2,781,120)</b>	<b>-</b>

*Kisii County Alcoholic Drinks Control Fund*  
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12.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**1. Statement of compliance and basis of preparation**

The Fund's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

**2. Adoption of new and revised standards**

**a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

Standard	Impact
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

**b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

Standard	Effective date and impact:
<b>IPSAS 41:</b> Financial Instruments	<b>Applicable: 1<sup>st</sup> January 2022:</b> The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: <ul style="list-style-type: none"> <li>• 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;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> </ul>

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Standard	Effective date and impact:
	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>IPSAS 42: Social Benefits</b>	<b>Applicable: 1<sup>st</sup> January 2022</b> 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: <ul style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</li> </ul>

**c) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2019.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3. 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.

**4. Budget information**

The original budget for FY 2019/2020 was approved by the County Assembly in June, 2019. 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.

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.

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 actuals as per the statement of financial performance has been presented under note 13.5 of these financial statements.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5. 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.

**6. 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.

**7. 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*

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 (CONTINUED)**

***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.

***Impairment of financial assets***

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a 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 cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a 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.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**8. Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

**9. 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.

**10. 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.

**11. 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.

**12. 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)**

**13. 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.

**14. Related parties**

The Entity 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 Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

**15. 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.

**16. Comparative figures**

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

**17. Events after the reporting period**

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

**18. Ultimate and Holding Entity**

The entity is a County Public Fund established by The Kisii County Alcoholic Drinks Act under the County Department of Trade Tourism and Industry. Its ultimate parent is the County Government of Kisii.

**19. Currency**

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**20. 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.

**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:

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

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

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.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**21. 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:

	Total amount KShs	Fully performing KShs	Past due KShs	Impaired KShs
<b>At 30 June 2019</b>				
Receivables from exchange transactions	-	-	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
<b>Total</b>	-	-	-	-
<b>At 30 June 2018</b>				
Receivables from exchange transactions	-	-	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
<b>Total</b>	-	-	-	-

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**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 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.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	KShs	KShs	KShs	KShs
<b>At 30 June 2019</b>				
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Employee benefit obligation	-	-	-	-
<b>Total</b>	-	-	-	-
<b>At 30 June 2018</b>				
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Employee benefit obligation	-	-	-	-
<b>Total</b>	-	-	-	-

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**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.

**i. Foreign currency risk**

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

		Other currencies	Total
	KShs	KShs	KShs
<b>At 30 June 2019</b>			
Financial assets	-	-	-
Investments	-	-	-
Cash	-	-	-
Debtors/ receivables			
<b>Liabilities</b>			
Trade and other payables	-	-	-
Borrowings	-	-	-
Net foreign currency asset/(liability)	-	-	-

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Foreign currency sensitivity analysis**

The following table demonstrates the effect on the Fund's statement of financial performance on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on surplus/ deficit	Effect on equity
	KShs	KShs	KShs
<b>2019</b>			
Euro	-	-	-
USD	-	-	-
<b>2018</b>			
Euro	-	-	-
USD	-	-	-

**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 Fund to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Fund's deposits.

*Management of interest rate risk*

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

*Sensitivity analysis*

The Fund analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d) Capital risk management**

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

	2019	2018
	KShs	KShs
Revaluation reserve	-	-
Revolving fund	-	-
Accumulated surplus	-	-
<b>Total funds</b>	-	-
Total borrowings	-	-
Less: cash and bank balances	-	-
Net debt/(excess cash and cash equivalents)	-	-
<b>Gearing</b>	-	-

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2.7. NOTES TO THE FINANCIAL STATEMENTS

1. Licensing Fees

Description	2019/2020 KShs	2018/2019 KShs
wholesalers	1,200,000	1,014,000
Club	1,091,000	481,000
Bar & Restaurant	3,140,000	2,352,500
Wines & Spirit	2,795,000	1,647,000
Small Bar	2,651,500	2,728,600
Application Fees	396,000	66,000
Distributors	1,200,000	1,773,100
Bambua	0	527,000
<b>Total Licensing Fees</b>	<b>12,473,500</b>	<b>10,589,200</b>

2. Fund administration expenses

Description	2019/2020 KShs	2018/2019 KShs
DSA	3,447,200	4,244,500
Field operations	7,386,700	4,283,500
Office Supplies	148,600	178,200
Training/ Capacity building	2,962,000	2,245,750
Hospitality/ board Allowances	1,263,550	2,849,300
Publishing and Printing	0	142,680
<b>Total</b>	<b>15,208,050</b>	<b>13,993,100</b>

3. Finance Costs

Description	2019/2020 Kshs	2018/2019 Kshs
Bank Charges	46,570	49,170
<b>Total</b>	<b>46,570</b>	<b>49,170</b>

4. Cash and cash equivalents

Description	2019/2020 KShs	2018/2019 KShs
Current account	2,916,660	5,698,780
<b>Total cash and cash equivalents</b>	<b>2,916,660</b>	<b>5,698,780</b>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

Financial institution	Account number	2019/2020 KShs	2018/2019 KShs
a) Fixed deposits account			
other		-	-
<b>Sub- total</b>		-	-
b) On - call deposits			
other		-	-
<b>Sub- total</b>		-	-
c) Current account			
National Bank of Kenya Kisii Branch	1001090952900	2,916,660	5,697,780
Other			-
<b>Sub- total</b>		2,916,660	5,697,780
d) Others(specify)			
Cash in hand			-
M-Pesa			-
<b>Sub- total</b>			-
<b>Grand total</b>		2,916,660	5,697,780

**1. Provisions**

Description	Leave provision KShs	Bonus provision KShs	Other provision KShs	Total KShs
Balance at the beginning of the year (1.07.2018)				
Additional Provisions				
Provision utilised				
Change due to discount and time value for money				
Transfers from non -current provisions				
<b>Balance at the end of the year (30.06.2019)</b>				

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2. Borrowings**

Description	2019/2020	2018/2019
	KShs	KShs
<b>Balance at beginning of the period</b>	-	-
External borrowings during the year	-	-
Domestic borrowings during the year	-	-
Repayments of external borrowings during the period	-	-
Repayments of domestics borrowings during the period	-	-
<b>Balance at end of the period</b>	-	-

The table below shows the classification of borrowings into external and domestic borrowings:

	2019/2020	2018/2019
	KShs	KShs
<b>External Borrowings</b>		
Dollar denominated loan from 'xxx organization'	-	-
Sterling Pound denominated loan from 'yyy organization'	-	-
Euro denominated loan from zzz organization'	-	-
<b>Domestic Borrowings</b>	-	-
Kenya Shilling loan from KCB	-	-
Kenya Shilling loan from Barclays Bank	-	-
Kenya Shilling loan from Consolidated Bank	-	-
Borrowings from other government institutions	-	-
<b>Total balance at end of the year</b>	-	-

The table below shows the classification of borrowings long-term and current borrowings:

Description	2019/2020	2018/2019
	KShs	KShs
Short term borrowings (current portion)	-	-
Long term borrowings	-	-
<b>Total</b>	-	-

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**3. Employee benefit obligations**

Description	Defined benefit plan	Post-employment medical benefits	Other Provisions	Total
	KShs	KShs	KShs	KShs
Current benefit obligation	-	-	-	-
Non-current benefit obligation	-	-	-	-
<b>Total employee benefits obligation</b>	-	-	-	-

**4. Cash generated from operations**

	2019/2020	2018/2019
	KShs	KShs
<b>Surplus/ (deficit) for the year before tax</b>	-	-
<b>Adjusted for:</b>	-	-
Depreciation	-	-
Amortisation	-	-
Gains/ losses on disposal of assets	-	-
Interest income	-	-
Finance cost	-	-
<b>Working Capital adjustments</b>	-	-
Increase in inventory	-	-
Increase in receivables	-	-
Increase in payables	-	-
<b>Net cash flow from operating activities</b>	-	-

**5. Related party balances**

**a) Nature of related party relationships**

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

- a) The County Government;
- b) The Parent County Government Ministry;
- c) Key management;
- d) Board of Trustees



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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**b) Related party transactions**

	2019/2020	2018/2019
	KShs	KShs
Transfers from related parties <sup>7</sup>	-	-
Transfers to related parties	-	-

**c) Key management remuneration**

	2019/2020	2018/2019
	KShs	KShs
Board of Trustees	-	-
Key Management Compensation	-	-
<b>Total</b>	-	-

**d) Due from related parties**

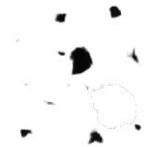
	2019/2020	2018/2019
	KShs	KShs
Due from parent Ministry	-	-
Due from County Government	-	-
<b>Total</b>	-	-

**e) Due to related parties**

	2019/2020	2018/2019
	KShs	KShs
Due to parent Ministry	-	-
Due to County Government	-	-
Due to Key management personnel	-	-
<b>Total</b>	-	-

**6. Contingent assets and contingent liabilities**

<b>Contingent liabilities</b>	2019/2020	2018/2019
	KShs	KShs
Court case xxx against the Fund	-	-
Bank guarantees	-	-
<b>Total</b>	-	-



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**13. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)

The fund has prepared the fund accounts for the second time since inception

