

REPUBLIC OF KENYA



*Enhancing Accountability*

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DATE	27/04/2023
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CLERK AT THE TABLE	A. Mocharia

**REPORT**

PARLIAMENT  
OF KENYA  
LIBRARY

**OF**

**THE AUDITOR-GENERAL**

**ON**

**MERU COUNTY ALCOHOLIC  
DRINKS CONTROL BOARD**

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

Revised 30th June 2022



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**MERU COUNTY ALCOHOLIC DRINKS CONTROL BOARD**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2022**

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

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***Meru County Alcoholic Drinks Control Board***  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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**Meru County Alcoholic Drinks Control Board**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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**1. Key Entity Information and Management**

**a) Background information**

The Meru County Alcoholic Drinks Control Board was established by and derives its authority and accountability from Meru County Alcoholic Drinks Control Act of 2016 of the Meru County Assembly which was repealed and re-enact by Meru County Alcoholic Drinks Control Act of 2016.

Its establishment is provided for under section 116 of the public finance management act 2012 which states that a County Executive Committee member for finance may establish other public funds with the approval of the County Executive Committee and the county assembly.

The fund's objective 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.

The Fund is wholly owned by the County Government of Meru and is domiciled in Kenya. The Fund's principal activity is to advise the County on all matters relating to licensing and control of alcoholic drinks within the County.

**b) Principal Activities**

The principal activity of the Meru County Alcoholics Drinks Control Board is to guide the Governor and other Heads of the County regarding licensing of all alcohol outlets in Meru County and control of alcoholic drinks within the County.

**c) Board of Trustees/Fund Administration Committee**

Ref	Name	Position
1	Chairman of the Board	CYPRIAN KALAINÉ
2	Chief Officer finance	CPA JOSEPH CHABARI
3	Board Member	DANIEL KINOTI
4	Board Member	AGNES MAKENA
5	Board Member	JOHN INANGA
6	Fund Manager/ Administrator	MWAKI ARIMI

**d) Key Management**

Ref	Name	Position
1	Fund Manager/ Administrator	MWAKI ARIMI
2	Fund Accountant	JOSEPH CHABARI

**e) Registered Offices**

P.O. Box 120- 60200  
Near YWCA  
Mwendantu Road  
MERU, KENYA

**f) Fund Contacts**

Telephone: (254) 202381720  
E-mail: [alcoholboard@gmail.com](mailto:alcoholboard@gmail.com)  
<https://meru.go.ke/>

**g) Fund Bankers**

1. Cooperative Bank of Kenya  
Meru, Branch  
P.O. Box 1328 - 60200  
Meru, Kenya
2. Family Bank of Kenya  
Meru, Branch  
P.O. Box  
Meru, Kenya






**h) Independent Auditors**

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



**i) Principal Legal Adviser**

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

**2. The Board of Trustees (or any other governing body for the Fund)**

NAME	DETAILS OF QUALIFICATIONS AND EXPERIENCE
 <b>Cyprian Kalaine</b>	<b>Position: Board Member/chief officer culture</b> <b>DOB:1962</b> <b>Qualifications: Bachelors of arts</b> <b>Experience: Over 20years in Parastatal Managerial position</b>
 <b>Mr Paul Mwaki</b>	<b>Position: Chief Executive Officer</b> <b>DOB: 1970</b> <b>Qualifications: BED Arts</b> <b>MA linguistics</b> <b>Experience: Over 20years as High School teacher and a University Lecturer.</b>
 <b>DANIEL KINOTI</b>	<b>Position: Board Member</b> <b>DOB: 1973</b> <b>Qualifications: Diploma in Hotel Management</b> <b>Experience: Over 20years experience as Manager in Hotel Industry</b>
 <b>AGNES MAKENA</b>	<b>Position: Board Member</b> <b>DOB: 1966</b> <b>Qualifications: Bachelor of Project Planning</b> <b>Experience: Over 30 years' experience in various positions</b>
 <b>JOHN INANGA</b>	<b>Position: Board Member</b> <b>DOB: 1967</b> <b>Qualifications: Bachelor of Public Health</b> <b>Experience: Over 20years as a senior Public Health officer</b>

**3. Management Team**

Name	Details of qualifications and experience
 <p><b>Mr. Paul Mwaki</b></p>	<p><b>Position: Chief Executive Officer</b>  <b>DOB: 1970</b>  <b>Qualifications: BED Arts</b>  <b>MA linguistics</b>  <b>Experience: Over 20years as High School teacher and a University Lecturer.</b></p>
 <p><b>Mr. Gitonga Akubu</b></p>	<p><b>Position: Head of Enforcement &amp; Compliance</b>  <b>DOB:1980</b>  <b>Qualifications: Bachelors of Business Administration</b>  <b>Experience: Over 5years as an Administrator in County Government of Meru</b></p>

**4. Board/Fund Chairperson's Report**

I take this opportunity to present annual report and financial statements for the year ended June 30, 2022 in pursuant of section 10 of the Meru County Alcoholic Drinks Control Board on behalf of the Board of Directors.

During the F/Y 2021-2022, the board had no changes in the board administration. However, one of the key management team by the name Leah Kinya was transferred back to the executive.

During the financial year under review the board undertook both inspection and enforcement of alcohol outlets in Meru County to ensure the mandate of the board is met.

However, regardless of the operations the Board experienced lagging in revenue remitting despite enforcement being carried out. Therefore, the Board was not able to reach its revenue targets. This led to unpaid expenses which will be carried forward to the new financial year of 2022-2023.

One of the major notable things noted during board operations is that business enterprises are experiencing challenges leading to some closing down and therefore, it's important if other ministries and levels of governments look into boosting the business enterprises in Meru and across the country at large.

As the Acting Chairman of the Board, we resolved to put more stringent measures and probably more friendly strategies to enable the fund increase its funds in the F/Y 2022-2023.

In the future the Board is requesting support of funds from the County Executive through funding since the revenue collected is not certain, therefore, resulting to deficits which lead to payables.



.....  
**Name: Cyprian Kalaine**

**Chairperson**

## **5. Report of The Fund Administrator**

The chief executive officer has day to day management responsibility of running of the board and the implementation of its strategy and policies as agreed by the board of directors.

In exercising his responsibilities, the chief executive officer is supported by the staff in ensuring that timely and accurate information is provided to the board on financial and strategic performance.


The board strives to create good corporate governance in all its endeavours, to achieve these the board has continued to build its internal structures and controls to ensure that it incorporates the best practices in its day to day operations and administration.

In the F/Y 2021-2022, the board was not able to achieve its revenue estimation due to closure of many alcohol outlets across the county. According to the research done during board field operations, many bars have closed down due to the economic distress the country is facing.

Due to the closure of many alcohol outlets the board is planning with the support of the County executive and assembly to come up with better strategies to encourage business people and uplift their business in the upcoming year. This new strategies must be friendly to the business in order or ensure reduced closure of business and non-compliance.

Regardless of the challenges faced during F/Y 2021-2022 the board was able to collect Ksh **32,159,000** as revenue which however was decline from the prior year. To support the operations of the office and its various activities to control licensing and enforcement operations, the board spent **Ksh 39,140,257**.

The cash deficit of **Ksh 6,981,256** between collection and expenditure was catered for by cash balance brought forward from previous year's operation.

  
Name: **Mwari Gini**  
Administrator of the Fund

..... EXECUTIVE OFFICER  
MERU COUNTY ALCOHOLIC  
DRINKS CONTROL BOARD  
SIGNATURE

**6. Statement of Performance Against the County Fund’s 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.

The key development objectives of the Fund as per the strategic plan for (Indicate period of the strategic plan) are to:

- a) Provide sensitization to the public on alcohol abuse.
- b) Provide inspection and enforcement of alcohol outlets.
- c) Help in support of Rehabilitation of people in drug abuse and follow up.

**Progress on attainment of Strategic development objectives**

<b>Program</b>	<b>Objective</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance</b>
Provide sensitization to the public on alcohol abuse.	To ensure public awareness to people on drug and drug abuse especially in regard to alcohol.	To reduce alcohol abuse by people in Meru.  To minimise the number of deaths due to alcohol intake.	Number of Addicts in rehab	In FY 21/22 we reduced the number of addicts in Meru. The board followed up and sensitized more to youths.
Provide inspection and enforcement of alcohol outlets.	Inspect and enforce non licensed bars  To enforce compliance with time and alcohol sold.	To wipe out non-compliant outlets.  To control alcohol intake in Meru.  To do away with traditional brews.	Number of Licensed outlets  Number of illicit brews	The board reduced selling of illicit brews and non-compliance of bar owners
Help in support of Rehabilitation of people in drug abuse and follow up.	Reduce number of addicts and help in their productivity	Reduce people in rehabs Stable families Productive individuals	Number of addicts.  Complains	The board supported more rehabs and helped improve and rehab addicts

## **7. Corporate Governance Statement**

The practise of good corporate governance ensures the delivery of sustainable value for the board as well as meeting the needs of our stakeholders. Good corporate practice involves the adoption of ethically driven policies, procedures and processes. The board is committed to ensuring the needs of our stakeholders are met while safeguarding the boards' assets. We believe that our operations should be carried out in a fair, transparent and accountable manner. It is our integral responsibility to disclose timely and accurate information as well as provide leadership and effective governance for the board.

The board of directors is at the core of the board's governance practices for protection of long-term interests of all stakeholders. Guided by the principle of good governance, the board performs its duties in the interest of the Meru county alcoholic control board. During the year the board held meetings to deliberate on various issues affecting the boards' performance and to provide strategic leadership.

The Alcoholic Drinks Control Board is headed by the chairman and is composed of five other members, one member a woman, one member a person drawn from the County's hospitality industry, one member a youth, one member from the Clergy, and one member from persons with disability, the board has a chief executive officer. The principal role of the chairman is to provide leadership to the board and ensure that the board is provided timely and adequate information to enable it to discharge its duties. The chief executive officer on the other hand is responsible for the day to day management of the board.

The board charter defines the roles, responsibilities, scope and functions of the board of directors in governance of the board and provides for free exercise of independent judgment. The board provides oversight to the management and ensures the staffs operate within the code of conduct.

The primary responsibility of the board of directors is to provide leadership and strategic direction to the board. The board members are expected to exercise the highest degree of care, skill and diligence in discharging their duties. The principal responsibilities of the board shall include (i) establishing short and long term goals of the board, develop strategies to achieve these goals and monitor the boards performance against the set goals; (ii) spearheading preparation of financial statements and reports; (iii) approving and reviewing budgets; (iv) overseeing affairs of the board in light of emerging risks and opportunities and ;(v) ensuring that the board has adequate systems and internal controls together with appropriate monitoring of compliance activities

Regular training and development programme are developed to equip the board with necessary skills for the effective discharge of their mandate. Each year the board prepares a training calendar where specific training needs are identified and scheduled. During the year, the board members attended various capacity building programmes focusing on leadership, governance, finance and other relevant areas deemed necessary.

In the financial year 2021-2022, the Board Members held 24 meetings. During every board meeting, board members in attendance are entitled to a sitting allowance, lunch allowance,

***Meru County Alcoholic Drinks Control Board***  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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accommodation allowance and millage reimbursement where applicable within the set government limit.

## **8. Management Discussion and Analysis**

During the year, the board collected Kshs **32,159,000** from liquor licencing activities within the county against an expenditure of **Ksh 39,140,257** resulting to a deficit of Kshs **(6,981,256)**.

Since the boards' core mandate is advice the County on all matters relating to licensing and control of alcoholic drinks within the County all the expenditures were recurrent in nature and were geared towards supporting the board to discharge its core mandate and hence there were no projects budgeted / implemented during the period under review.

During the period under review the board faced major challenge where by many alcohol outlets have closed down due to economic crisis, political wave, not having requisite technology/ know how to distinguish between genuine and contraband alcoholic drinks and relied on the expertise from the Kenya Bureau of standards. Hence there always existed a risk of existence of illicit drinks within the market which could pose an hazardous risk if consumed by the residents.

### **KEY PROJECTS OF THE BOARD**

<b>S/NO</b>	<b>PROJECT</b>	<b>OBJECTIVE</b>
1	Inspection of Liquor Outlets in Meru	To ensure they have complied with the stipulated requirements before they are licensed.
2	Enforcement	To ensure compliance with the Meru County Alcoholic Drinks Control Act 2016
3	Awareness and Sensitization	To create awareness and help control alcohol consumption among people in Meru County
4	Corporate Social Responsibility – donations	To create awareness and help control alcohol consumption among youths in Meru County

## **9. Environmental and Sustainability Reporting**

The Board engaged in three major Corporate Social Responsibility activities to enhance awareness of alcohol abuse amongst the youth and public at large.

The board in conjunction with other Semi-autonomous institutions and the County Executive facilitated the International Street Children Day which is held once every year.

Since 2012, International Day for Street Children has been celebrated globally on April 12 to acknowledge the strength and resiliency of street children around the world.

Worldwide, millions of children rely on the streets to survive including Meru County. The activity created awareness to the Public about the Street Children in Meru County which would help in uplifting their livelihoods.

In conjunction with the Methodist Church the Board was able to provide grant funding to help in rehabilitating drug addicts in Meru. This is because Meru Alcoholic Drinks Control Board cannot construct its own rehabilitation centre; however, one of its core businesses is to take up rehabilitation of drug addicts.

Additionally, the board engaged Non-Governmental Organization; Mfariji Community Based Organization that takes care of Street Children in creating awareness and funding for rehabilitation.

**10. Report of The Trustees**

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2022 which show the state of the Fund affairs.

**Principal activities**

The principal activities of the Fund are to advise the County on all matters relating to licensing and control of alcoholic drinks within the County.

**Results**

The results of the Fund for the year ended June 30, 2022 are set out on page 1 to 24

**Trustees**

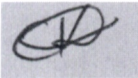
The members of the Board of Trustees who served during the year are shown on page v.

**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.

By Order of the Board

Cyprian Kalaine



.....  
**Chair of the Board/Fund Administration Committee**

**Date:**

## **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 by Meru County Alcoholic Drinks Control Act of 2014 of the Meru County Assembly which was repealed and re-enact by Meru County Alcoholic Drinks Control Act of 2016 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, 2022. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 Meru County Alcoholic Drinks Control Act of 2014 of the Meru County Assembly which was repealed and re-enact by Meru County Alcoholic Drinks Control Act of 2016. 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, 2022, 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

**Meru County Alcoholic Drinks Control Board**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

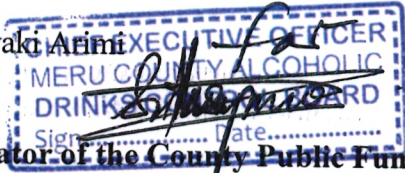
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the use of going concern basis of preparation of the financial statements. There is nothing that has come to the attention of the Administrator to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The Fund's financial statements were approved by the Board on 30.11. 2022 and signed on its behalf by:

Name: Mwalu Arimi



**Administrator of the County Public Fund**

# REPUBLIC OF KENYA



*Enhancing Accountability*

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

## REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY ALCOHOLIC DRINKS CONTROL BOARD FOR THE YEAR ENDED 30 JUNE, 2022

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### PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

### REPORT ON THE FINANCIAL STATEMENTS

#### Adverse Opinion

I have audited the accompanying financial statements of Meru County Alcoholic Drinks Control Board set out on pages 1 to 24, which comprise the statement of financial position as at 30 June, 2022, and the statement of financial performance, statement of changes in net assets, statement of cash flows and 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

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*Report of the Auditor General on Meru County Alcoholic Drinks Control Board for the year ended 30 June, 2022*

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 described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of Meru County Alcoholic Drinks Control Board as at 30 June, 2022 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Meru County Alcoholic Drinks Control Act, 2016 and the Public Finance Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1. Inaccurate Comparative Figures**

The statement of financial performance for the year ended 30 June, 2022 reflects comparative use of goods and services balance of Kshs.24,085,089 while Note 3 to the financial statements as referenced reflects an amount of Kshs.25,129,459. However, the previous year audited financial statement reflects an amount of Kshs.25,129,459 resulting to unexplained variance of Kshs.1,044,270.

In the circumstances, the accuracy of the comparative use of goods and services amount of Kshs.24,085,089 could not be confirmed.

#### **2. Use of Goods and Services**

The statement of financial performance and as disclosed in Note 3 to the financial statements reflects an amount of Kshs.22,658,747 in respect to use of goods and services. The following anomalies were noted;

##### **2.1 Unsupported Domestic Travel**

The balance includes an amount of Kshs.1,418,440 in respect of accommodation-domestic travel which includes Kshs.219,100 paid as imprest for facilitation of official activities in Nairobi and Embu. However, imprest warrants, the invitation letters, the attendance register, the work tickets or bus tickets, programs for the conference and back to office report were not provided for audit review.

Further, the Kshs.1,418,440 includes Kshs.267,500 paid to four (4) officers as facilitation fees to travel to Mombasa for five (5) days for benchmarking on the rehabilitation centers. Two (2) of the officers were from NACADA and no explanation was given on why they were not facilitated by NACADA. However, review of the payment voucher revealed the expenditure was not supported with relevant documents including list of all institutions they benchmarked, program of activities for the five (5) days, back to office report and work ticket as prove of travel or how the said centers were identified.

##### **2.2 Unsupported Board, Committee and Conferences Costs**

The balance includes an amount of Kshs.537,000 in respect of Board, Committee and conferences. The amount was paid as allowances to the Board Members. However, the appointment letters and gazette notice of these members to the Board were not provided for audit review.

### **2.3 Unsupported Travel Costs**

The balance includes an amount of Kshs.1,965,770 in respect of travel costs. The amount includes an expenditure of Kshs.86,769 paid as bus fare to various staff. However, the bus tickets and how the rates were arrived at to support the expenditure were not provided for audit review.

### **2.4 Direct Procurement of Conference Facility**

The balance also includes an amount of Kshs.1,965,770 in respect of travel costs. The amount includes Kshs.120,000 paid to a hotel. However, review of the payment voucher revealed that the procurement documents including quotations, opening and evaluation minutes, professional opinion, regret letter, letter of award, local service order and signed contract to show how the services were procured were not provided for audit review. This is contrary to Regulation 104(1) of the Public Finance Management (County Governments) Regulations, 2015, which requires that all receipts and payment vouchers of public moneys shall be properly supported by pre-numbered receipts and payment vouchers and shall be supported by appropriate authority and documentation.

### **2.5 Unsupported Advertising, Awareness and Publicity Campaigns Costs**

The use of goods and services amount includes Kshs.3,712,013 for advertising, awareness and publicity campaigns. This amount includes Kshs.2,916,500 incurred during bar owners sensitization.

However, the following documents were not provided for audit review;

- i) The payment voucher with clear narrations of the activities that were undertaken.
- ii) The sensitization roadmap employed by the team carrying out the exercise.
- iii) The members involved in the exercise and how the bars were mobilized and who represented them in the sensitization events.
- iv) The sensitization program with clear details on areas of the sensitization, the venues of the events and the list of all the attendees.
- v) The back to office report detailing how the exercise took place, the challenges experienced and the recommendations arrived at and how they were going to be implemented.

### **2.6 Unsupported Expenditure on Fuel, Oil and Lubricants**

The use of goods and services amount includes Kshs.1,224,437 for fuel, oil and lubricants. The Board contracted two suppliers for the supply of fuel for the two Board vehicles. However, the supplier statements from the two suppliers showing the litres consumed and the vehicles that consumed the fuel were not provided for audit review. Further, the fuel register provided for audit was not updated, instead the Board attached a printed schedule. Also, the detailed order, the invoice and the delivery note were not provided for audit review.

### **2.7 Unsupported Maintenance of Motor Vehicles**

Included in the use of goods and services amount is Kshs.946,620 for maintenance of motor vehicles. However, the payment vouchers, authority of the payments, motor vehicle pre-inspection and post-inspection reports, and the framework contract for

services and repairs of the motor vehicles indicating the terms of engagement were not provided for audit review.

In the circumstances, the accuracy and completeness of the use of goods and services could not be confirmed.

### **3. Trade and Other Payables**

#### **3.1 Variance in Accrued Expenses in Trade and Other Payables**

Note 8 to the financial statements reflects accrued expenses of Kshs.711,336 which includes an amount of Kshs.256,308 relating to unremitted Pay As You Earn (PAYE). However, review of the KRA Itax system revealed that PAYE for the month of April, May and June, 2022 totalling to Kshs.394,756 had not been remitted resulting in unexplained variance of Kshs.138,448. Further, included in trade and other payables is unpaid NSSF for eight (8) months totalling to Kshs.194,400 which had not been remitted as at 30 June, 2022.

In the circumstances, the accuracy and completeness of the accrued expenses could not be confirmed.

#### **3.2 Lack of Trade Payables Ageing Analysis**

The statement of financial position and as disclosed in Note 8 to the financial statements reflects an amount of Kshs.1,844,314 in respect to trade and other payables from exchange transactions which include Kshs.651,360 on trade payables. However, the balance was not supported with ageing analysis.

In the circumstances, the accuracy and completeness of the trade payables could not be confirmed.

### **4. Undervalued Property, Plant and Equipment**

The statement of financial position and as disclosed in Note 7 to the financial statements reflects property, plant and equipment balance of Kshs.916,196 which further reflects Nil balance on motor vehicles as at 30 June, 2022. However, the asset register and physical inspection revealed two (2) motor vehicles in serviceable condition procured in the year 2015 and have been fully depreciated. Management did not explain the reasons for not revaluing the fully depreciated assets.

In the circumstances, the valuation of the property, plant and equipment balance could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Meru County Alcoholic Drinks Control 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 adverse 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 are no key audit matters to report in the year under review.

## **Other Matter**

### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparative basis of Kshs.42,193,221 and Kshs.32,159,000 respectively resulting to under collection of Kshs.10,034,221 or 24% of the budget.

Similarly, the budgeted expenditure was Kshs.42,193,221 and actual expenditure was Kshs.38,983,086 resulting to under absorption of Kshs.3,210,135 or 8% of the budget.

The under collection and under expenditure indicates that some activities and projects in the annual work plan may not have been implemented thus affecting the achievement of the intended objectives and negatively affecting delivery of goods and service to the public.

### **2. Unresolved Prior Year Matters**

The audit report for the year ended 30 June, 2021 highlighted several issues related to the balances reflected in the financial statements presented for audit. However, Management has not indicated how the issues were resolved as the progress on follow up of prior year auditor's recommendations in the financial statements is blank.

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **Non-Remittance of Statutory Deductions**

The statement of financial performance and as disclosed in Note 2 to the financial statement reflects an amount of Kshs.16,324,339 in respect to employee costs. Review of the payroll revealed that NSSF deductions amounting to Kshs.198,720 for the months of November, 2021 to June, 2022 and Kshs.394,756 for PAYE for the months of April, 2022 to June, 2022 had not been remitted. This is contrary to Section 24(1) of the Tax Procedures Act, No.29 of 2015, which provides that a person who is required to submit a tax return under a tax law, shall submit the return in the approved form and in the manner prescribed by the Commissioner and Section 22 of the NSSF Act, 2013, which provides that an employer is entitled to recover from his employee's earnings, the employee's contribution by way of a deduction there from for purposes of paying the employee's contribution, but is not permitted to deduct the employer's contribution from the employee's earnings, but shall instead pay from his own resources, and remit to the employee's account under this Act.

In the circumstances, the 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, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, I confirm that internal controls, risk management and overall governance were not effective.

### **Basis of Conclusion**

#### **1. Lack of Disaster Recovery Plan**

The Board has not assessed the impact of an outage or disruption to the Information Communication Technology (ICT) system and developed business continuity plan or IT disaster recovery plan. In case of a disaster significant delays or disruptions of activities may occur.

In the circumstances, the Board may not recover or restore critical infrastructure services and systems affecting all operations that rely on the ICT.

#### **2. Lack of Approved Staff Establishment**

As reported in the previous year, the Management did provide the Board's approved staff establishment for audit review.

In the circumstances, the suitability and regularity of the staffing levels of the Board could not be confirmed.

#### **3. Poor Financial Performance**

During the year under review, the Board recorded a deficit of Kshs.6,981,256 (2020/2021 deficit: Kshs.6,283,171) which reduced the accumulated surplus from Kshs.15,697,778 as at 1 July, 2020 to Kshs.2,433,352 as at 30 June, 2022. If positive measures are not taken to reverse the trend, the Board may not be able to achieve its mandate in future.

In the circumstances, the Management needs to come up with strategies to reverse the loss-making trend.

#### **4. Un-Serialized Payment Vouchers**

Review of the Board's payment vouchers for the year revealed that payment vouchers were not serialized contrary to Regulation 104(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the internal control on payment vouchers needs a review for improvement.

## **5. Lack of Risk Management Policy and Internal Audit Function**

The Board did not have Internal Audit Section and a Risk Management Policy. Further there was no established Internal Audit Charter as at 30 June, 2022. The internal auditors shall have a duty to give reasonable assurance through the Audit Committee on the state of risk management, control and governance within the organization,

In the circumstances, it was not possible to ascertain how risks were identified, controlled, monitored and mitigated during the year under review.

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 the Board of Trustees**

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 control 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 Board's ability to sustain 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 resources are applied in an effective way.

Those charged with governance are 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with

Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 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**

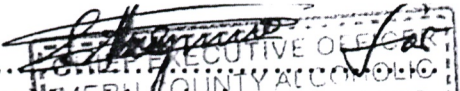
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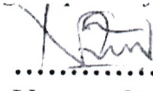
**Meru County Alcoholic Drinks Control Board**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**13. Statement of Financial Performance For The Year Ended 30th June 2022**

	Note	2021-2022	2020-2021
		Kshs	Kshs
<b>Revenue From Exchange Transactions</b>			
Liquor Income	1	32,159,000	36,793,262
<b>Total Revenue</b>		<b>32,159,000</b>	<b>36,793,262</b>
<b>Expenses</b>			
Employee Costs	2	16,324,339	17,946,974
Use of goods and services	3	22,658,747	24,085,189
Add: Depreciation and Amortization	4	157,170	1,044,270
<b>Total Expenses</b>		<b>39,140,257</b>	<b>43,076,433</b>
<b>Other Gains/Losses</b>			
Gain/Loss on Disposal of Assets			
<b>Surplus/(Deficit) For The Period</b>		<b>(6,981,256)</b>	<b>(6,283,171)</b>

*(The notes set out on pages 18 to 24 form an integral part of these Financial Statements)*

  
 EXECUTIVE OFFICER  
 MERU COUNTY ALCOHOLIC  
 DRINKS CONTROL BOARD  
 Name: Mwaki Arimi  
 Administrator of the Fund

  
 Name: Charles Mwenda Kaibiria  
 Fund Accountant  
 ICPAK Member Number: 20911

**Meru County Alcoholic Drinks Control Board**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**14. Statement of Financial Position As At 30 June 2022**

	Note	2021-2022	2020-2021
		Kshs	Kshs
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	5	3,311,470	8,291,242
Current Portion of Long- Term Receivables From Exchange Transactions			
Prepayments	6	50,000	50,000
Inventories			
		<b>3,361,470</b>	<b>8,341,242</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	7	916,196	1,073,366
Intangible Assets			
Long Term Receivables from Exchange Transactions			
		<b>916,196</b>	<b>1,073,366</b>
<b>Total Assets</b>		<b>4,277,666</b>	<b>9,414,608</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other Payables from Exchange Transactions	8	1,844,314	0
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>1,844,314</b>	<b>0</b>
<b>Net Assets</b>		<b>2,433,352</b>	<b>9,414,608</b>
Revolving Fund			
Reserves			
Accumulated Surplus		<b>2,433,352</b>	<b>9,414,608</b>
<b>Total Net Assets and Liabilities</b>		<b>4,277,666</b>	<b>9,414,608</b>

**Meru County Alcoholic Drinks Control Board**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30.11.2022 and signed by:



Name: **CHIEF EXECUTIVE OFFICER**  
**MERU COUNTY ALCOHOLIC**  
Administrator of the Fund **BOARD**  
Sign..... Date.....



Name: **CHARLES NWENDA**  
Fund Accountant  
ICPAK Member Number: **20191**

**Meru County Alcoholic Drinks Control Board**  
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**15. Statement Of Changes in Net Assets for the year ended 30<sup>th</sup> June 2022**

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		Kshs	Kshs	Kshs
<b>Balance As At 1 July 2020</b>	<b>0</b>	<b>0</b>	<b>15,697,778</b>	<b>15,697,778</b>
Surplus/(Deficit) For the Period	0	0	(6,283,170)	(6,283,170)
Funds Received During the Year	0	0	0	0
Transfers	0	0	0	0
Revaluation Gain	0	0	0	0
<b>Balance As At 30 June 2021</b>	<b>0</b>	<b>0</b>	<b>9,414,608</b>	<b>9,414,608</b>
<b>Balance As At 1 July 2021</b>	<b>0</b>	<b>0</b>	<b>9,414,608</b>	<b>9,414,608</b>
Surplus/(Deficit) For the Period	0	0	(6,981,256)	(6,981,256)
Funds Received During the Year	0	0	0	0
Transfers	0	0	0	0
Revaluation Gain	0	0	0	0
<b>Balance As At 30 June 2022</b>	<b>0</b>	<b>0</b>	<b>2,433,352</b>	<b>2,433,352</b>

*[Signature]*  
 Name: *[Signature]*  
 Administrator of the Fund

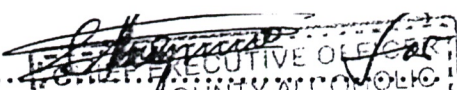
**CHIEF EXECUTIVE OFFICER**  
**MERU COUNTY ALCOHOLIC**  
**DRINKS CONTROL BOARD**

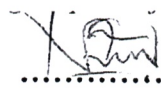
*[Signature]*  
 Name: *Charles Nwenda*  
 Fund Accountant  
 ICPAK Member Number: *20191*

**Meru County Alcoholic Drinks Control Board**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**16. Statement Of Cash Flows For The Year Ended 30 June 2022**

	Note	2021-2022	2020-2021
		Kshs	Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from other operating activities	1	32,159,000	36,793,262
<b>Total receipts</b>		<b>32,159,000</b>	<b>36,793,262</b>
<b>Payments</b>			
Fund administration expenses	2	16,324,339	17,946,974
General expenses	3	22,658,747	25,129,459
Less: Depreciation			1,044,270
Less: Trade Payables	8	(1,844,314)	
<b>Net cash flows from operating activities</b>		<b>(4,979,772)</b>	<b>(5,238,900)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and Intangible assets		0	0
Proceeds from sale of property, plant & equipment		0	0
<b>Net cash flows used in investing activities</b>		<b>0</b>	<b>0</b>
<b>Cash flows from financing activities</b>			
Proceeds from revolving fund receipts		0	0
Additional borrowings		0	0
Repayment of borrowings		0	0
<b>Net cash flows used in financing activities</b>		<b>0</b>	<b>0</b>
<b>Net increase/(decrease) in cash &amp; cash Equivalents</b>		<b>(4,979,772)</b>	<b>(5,238,901)</b>
Cash and cash equivalents at 1 July	5	8,291,242	13,530,143
<b>Cash and cash equivalents at 30 June</b>	<b>5</b>	<b>3,311,470</b>	<b>8,291,242</b>

.....  
  
**Name: Mwari Kimani**  
**Administrator of the Fund**

.....  
  
**Name: Charles Mwenda Kaibiria**  
**Fund Accountant**  
**ICPAK Member Number: 20911**

*Meru County Alcoholic Drinks Control Board*  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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**17. Statement Of Comparison Of Budget And Actual Amounts For The Period**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance Difference	% utilisation
	2022	2022	2022	2022	2022	2022
Revenue	KShs	KShs	KShs	KShs	Kshs	%
Other income	42,193,221	0	42,193,221	32,159,000	10,034,221	77.20%
<b>Total income</b>	<b>42,193,221</b>	<b>0</b>	<b>42,193,221</b>	<b>32,159,000</b>	<b>10,034,221</b>	<b>77.20%</b>
<b>Expenses</b>						
Fund administration expenses	18,163,221	0	18,163,221	16,324,339	1,838,882	89.90%
General expenses	24,030,000	0	24,030,000	22,658,747	1,371,253	94.00%
<b>Total expenditure</b>	<b>42,193,221</b>	<b>0</b>	<b>42,193,221</b>	<b>38,983,086</b>	<b>3,210,135</b>	<b>92.40%</b>
<b>Surplus for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(6,824,087)</b>	<b>(6,824,087)</b>	

**18. Notes to the Financial Statements**

**1. General Information**

Meru County Alcoholic Drinks Control Board is established by and derives its authority and accountability from Meru County Alcoholic Drinks Control Act of 2014 of the Meru County Assembly which was repealed and re-enact by Meru County Alcoholic Drinks Control Act of 2016 Act. The entity is wholly owned by the County Government of Meru and is domiciled in Kenya. The entity’s principal activity is to advise the County on all matters relating to licensing and control of alcoholic drinks within the County.

**2. 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.

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

**(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2022**

IPSASB deferred the application date of standards from 1<sup>st</sup> January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1<sup>st</sup> January 2023.

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

Standard	Effective date and impact:
<p><b>IPSAS 41: Financial Instruments</b></p>	<p><b>Applicable: 1<sup>st</sup> January 2023:</b></p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity’s future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p>

**Meru County Alcoholic Drinks Control Board**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

Standard	Effective date and impact:
	<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>   <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>
<p><b>IPSAS 42: Social Benefits</b></p>	<p><b>Applicable: 1<sup>st</sup> January 2023</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ul style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the Entity;</li> <li>(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>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p><b>Applicable: 1st January 2023:</b></p> <ul style="list-style-type: none"> <li>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</li> <li>b) Amendments to IPSAS 30, regarding illustrative examples on</li> </ul>

*Meru County Alcoholic Drinks Control Board*  
**Annual Report and Financial Statements for the year ended June 30, 2022**

Standard	Effective date and impact:
	<p>hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
<p>Other improvements to IPSAS</p>	<p><b><i>Applicable 1<sup>st</sup> January 2023</i></b></p> <ul style="list-style-type: none"> <li>• <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i></li> </ul> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> <li>• <i>IPSAS 39: Employee Benefits</i></li> </ul> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> <li>• <b>IPSAS 29: Financial instruments: Recognition and Measurement</b></li> </ul> <p>Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1<sup>st</sup> January 2023.</p>
<p>IPSAS 43</p>	<p><b><i>Applicable 1<sup>st</sup> January 2025</i></b></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>

**Meru County Alcoholic Drinks Control Board**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

Standard	Effective date and impact:
IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1<sup>st</sup> January 2025</i></p> <p>The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p>

**(iii) Early adoption of standards**

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

**1. Significant Accounting Policies**

**a) Revenue recognition**

**i. Revenue from non-exchange transactions**

Transfers from other government entities

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

**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.

**b) Budget information**

The original budget for FY 2021-2022 was approved by the County Assembly on 4<sup>th</sup> May 2021. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the 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 section xxx of these financial statements.

***Summary Of Significant Accounting Policies (Continued)***

**c) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the 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.

The property, plant and equipment have been depreciated as per the rates below;

Computers	33.3%
Furniture	8%
Motor vehicles	25%

**d) Intangible Assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

**a) 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)***

**b) 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.

**c) 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.

**d) Nature and purpose of reserves**

The Board creates and maintains reserves in terms of specific requirements.

**e) 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.

**f) 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.

**g) 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)*

**h) 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.

**i) 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.

**j) 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.

**k) Comparative figures**

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

**l) Events after the reporting period**

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

**m) Ultimate and Holding Entity**

The entity is a County Public Fund established by Meru County Alcoholic Drinks Control Board Act of 2016 under the Department of Culture. Its ultimate parent is the County Government of Meru.

**n) Currency**

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

*Summary Of Significant Accounting Policies (Continued)*

**5. 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.

**a) 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.

**b) 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

**c) 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.

*(Include provisions applicable for your organisation e.g provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)*

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**6. Notes To The Financial Statements**

**1. Fines, Penalties and Other Levies**

Description	2021-2022	2020-2021
	Kshs	Kshs
Liquor Licences	32,159,000	36,793,262
<b>Total</b>	<b>32,159,000</b>	<b>36,793,262</b>

**2. Employee Costs**

Description	2021-2022	2020-2021
	Kshs	Kshs
Salaries And Wages	15,131,385	14,583,641
Staff Gratuity	1,192,954	3,283,333
Staff Training Expenses	0	0
Social Security Contribution	0	0
Other Staff Cost		80,000
<b>Total</b>	<b>16,324,339</b>	<b>17,946,974</b>

**3. Use of Goods and Services**

Description	2021/2022	2020/2021
	KShs	KShs
Telephone, Telex, Facsimile and mobile phone services	611,000	694,500
Travel Costs	1,965,770	-
Accommodation-Domestic travel	1,418,440	-
Daily Subsistence Allowance	2,250,900	-
Publishing and printing services	589,655	589,655
Advertising, awareness and publicity campaigns	3,712,013	-
Office rent	600,000	600,000
Training expenses-Other	622,456	-
Catering services, Accommodation, Gifts, Food & Drinks	1,135,037	-
Board, Committee & Conferences	537,000	-

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		-
General office supplies	884,483	-
Fuel, oil and lubricants	1,224,437	1,050,043
Enforcement cost	1,260,000	-
Inspection cost	3,584,000	-
Maintenance of Motor Vehicles	946,620	-
Corporate Social Responsibility	1,254,000	-
Bank charges	36,913	43,511
Utility	26,023	95,798
Depreciation and amortization costs		1,044,270
Other Expenses		21,011,682
<b>Total</b>	<b>22,658,747</b>	<b>25,129,459</b>

**4. Depreciation and Amortization Expense**

Description	2021/22	2020/21
	Kshs.	Kshs.
Property Plant and Equipment	157,170	1,044,270
Intangible Assets	-	-
<b>Total</b>	<b>157,170</b>	<b>1,044,270</b>

**Notes to the Financial Statements Continued**

**5. Cash and cash equivalents**

Description	2021/2022	2020/2021
	KShs	KShs
Current account	3,311,470	8,291,242
<b>Total cash and cash equivalents</b>	<b>3,311,470</b>	<b>8,291,242</b>

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

Financial institution	Account number	2021/2022	2020/2021
		KShs	KShs
<b>a) Current account</b>			
Cooperative Bank	<b>01141418844301</b>	2,337,518	7,088,118
Family Bank	<b>063000039570</b>	973,952	1,203,124
<b>Sub- total</b>		<b>3,311,470</b>	<b>8,291,242</b>
<b>Grand total</b>		<b>3,311,470</b>	<b>8,291,242</b>

**6. Prepayments**

Description	2021-2022	2020-2021
	Kshs	Kshs
Prepaid Rent	50,000	50,000
<b>Total</b>	<b>50,000</b>	<b>50,000</b>

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**Notes To The Financial Statements (Continued)**

**7. Property, plant and equipment**

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
Cost	KShs	KShs	KShs	KShs	KShs
<b>At 1<sup>st</sup> July 2020</b>	0	3,150,000	1,960,884	300,000	5,410,884
Additions	0	-	-	-	-
Disposals	0	-	-	-	-
Transfer/adjustments	0	-	-	-	-
<b>At 30<sup>th</sup> June 2021</b>	0	3,150,000	1,960,884	300,000	5,410,884
<b>At 1<sup>st</sup> July 2021</b>	0	-	1,960,884	300,000	2,260,884
Additions	0	-	-	-	-
Disposals	0	-	-	-	-
Transfer/adjustments	0	-	-	-	-
<b>At 30<sup>th</sup> June 2022</b>	0	-	1,960,884	300,000	2,260,884
<b>Depreciation and impairment</b>					
<b>At 1<sup>st</sup> July 2020</b>	0	2,362,500	730,948	199,800	3,293,248
Depreciation	0	787,500	156,870	99,900	1,044,270
Disposals	0	-	-	-	-
Impairment	0	-	-	-	-
Transfer/adjustment	0	-	-	-	-
<b>At 30<sup>th</sup> June 2021</b>	0	3,150,000	887,818	299,700	4,337,518

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<b>At 1<sup>st</sup> July 2021</b>	<b>0</b>	<b>-</b>	<b>887,818</b>	<b>299,700</b>	<b>1,187,518</b>
Depreciation	0	-	156,870	300	157,170
Disposals	0	-	-	-	-
Impairment	0	-	-	-	-
Transfer/adjustment	0	-	-	-	-
<b>At 30<sup>th</sup> June 2022</b>	<b>0</b>	<b>-</b>	<b>1,044,688</b>	<b>300,000</b>	<b>1,344,688</b>
<b>Net book values</b>					
<b>At 30<sup>th</sup> June 2021</b>	<b>0</b>	<b>-</b>	<b>1,073,066</b>	<b>300</b>	<b>1,073,366</b>
<b>At 30<sup>th</sup> June 2022</b>	<b>0</b>	<b>-</b>	<b>916,196</b>	<b>-</b>	<b>916,196</b>

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**Notes To The Financial Statements (Continued)**

**8. Trade and other payables from exchange transactions**

Description	2021-2022	2020-2021
	Kshs	Kshs
Trade Payables	651,360	0
Refundable Deposits	-	0
Accrued Expenses	711,336	0
Other Payables	481,618	0
<b>Total Trade And Other Payables</b>	<b>1,844,314</b>	<b>0</b>

**9. Cash generated from operations**

	2021-2022	2020-2021
	Kshs	Kshs
<b>Surplus/ (Deficit) For the Year Before Tax</b>	<b>(6,981,256)</b>	<b>(6,283,170)</b>
<b>Adjusted For:</b>		
Depreciation	157,170	1,044,270
<b>Working Capital Adjustments</b>		
Increase In Payables	1,844,314	0
<b>Net Cash Flow From Operating Activities</b>	<b>(4,979,772)</b>	<b>(5,238,900)</b>

*Meru County Alcoholic Drinks Control Board*  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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**19. Progress on Follow up of Prior Year Auditor's Recommendations**

The board has not yet received audited certificate for the F/Y 2019- 2020 and F/Y 2020-2021, hence, the board is not in a position to update the table for the progress report.