

REPUBLIC OF KENYA

SCANNED



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

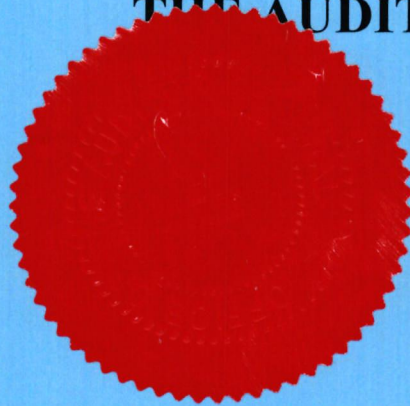
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REPORT

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OF COMMITTEE	_____
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THE AUDITOR-GENERAL



ON

MUNICIPALITY OF KILIFI

FOR THE YEAR ENDED

30 JUNE, 2021



Revised Template 30th June 2021



COUNTY GOVERNMENT OF KILIFI

MUNICIPALITY OF KILIFI

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30TH 2021**

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

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

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

The Municipality is wholly owned by the County Government of Kilifi and is domiciled in Kenya.

The Municipal Board's objective is to enhance provision of quality urban services and promote environmental sustainability.

The Board's principal activity is Service delivery

b) Principal Activities

The **Vision** of the Municipality

“Safe, inclusive and sustainable development”

Mission

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

Core Objectives

To enhance provision of quality Urban services

To promote environmental sustainability

Mandate of the Municipality

Governance and management of Urban Areas through service delivery

c) Board of The Municipality of Kilifi

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

d) Key Management

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

e) Fiduciary Oversight Arrangements

Ref	Position	Name
1	Chief Internal Auditor	Philister Kahindi

f) Registered Offices

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

g) Fund Contacts

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

h) Fund Bankers

1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

2. NCBA
Kilifi Branch
P.O. Box 44599-00100
Nairobi

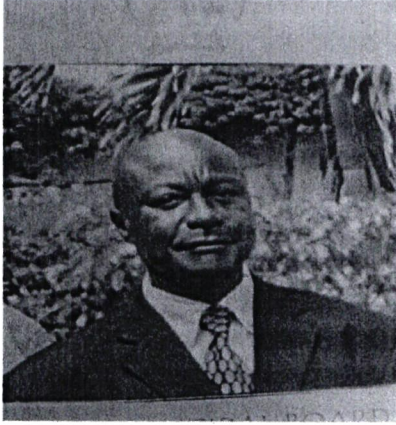

i) Independent Auditors



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




j) Principal Legal Adviser

The County Attorney
County Government of Kilifi
P.O. Box 519-80108
Kilifi.



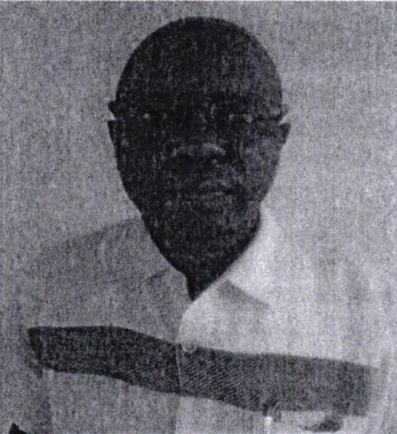
2. THE BOARD OF TRUSTEES

Name	Passport Size Photo	Details of qualifications and experience
1.Charles M. Ngala		<p>a. Date of birth:12th Nov 1958</p> <p>b. Academic Qualification:</p> <ol style="list-style-type: none"> 1.He holds a Bachelor of Arts Major in Economics from the University of Nairobi. 2.Has a Qualifying Diploma in Shipping (UK) <p>c. Experience:</p> <ol style="list-style-type: none"> 1. He has over 32 years work experience in the roads, rail And shipping and transport sectors in Kenya and Europe. 2. Charles brings into the Kilifi Municipality Board a wealth of experience in management, transport and Logistics. <p>He is the Chairperson of the Board</p>
2.Ms Munira Jadeed		<p>a. Date of birth:30th June 1984</p> <p>b. Academic Qualification:</p> <ol style="list-style-type: none"> 1.Master Degree in Project Planning and Management 2.Bachelor's Degree in Urban and Regional Planning <p>c. Experience:</p> <ol style="list-style-type: none"> 1. She is an Urban and Regional Planner in the Private Sector 2. 10 years' experience in the field of Urban and Regional Planning Management. 3.Member of the Habitat Committee <p>She is the Vice Chairperson of the Board</p>

<p>3. Hon.Maureen Mnyazi Mwangovya</p>		<p>a. Date of Birth:10th Oct 1964</p> <p>b. Academic Qualification:</p> <ol style="list-style-type: none"> 1.M.A in Project Planning and Management 2. B.A in Economics Government at University of Nairobi <p>c. Experience:</p> <ol style="list-style-type: none"> 1. She is a development programmes specialist with more than fifteen years' experience in strategic planning, policy advocacy, monitoring and evaluation, gender mainstreaming and managing partnerships with international donor for sustainable development. 2.She served as the Chief Executive Officer of Solidarity with Women in Distress (Kenya) 3.She worked as a consultant, researcher and part-time lecturer at Technical University of Mombasa (TUM) <p>She is the Executive Committee Member and a Member of the Board</p>
<p>4.Mr.Moses Gunda Munga</p>		<p>a. Date of Birth:24th June 1982</p> <p>b. Academic Qualification: Bachelors of Architecture</p> <p>c. Experience:</p> <ol style="list-style-type: none"> 1. He is an architect with 12 years' experience in handling various Development Projects in the County 2. Registered Member of the Board of Registration of Architects and Quantity Surveyors of Kenya (BORAQS) <p>He is a the Chief Officer Urban Development and a member of the Board</p>

<p>5.Zainab Salim</p>		<p>a. Date of Birth:20th April 1958</p> <p>b. Academic Qualification: Certificate in Child Counselling, Kenya Association of Professional Counsellors</p> <p>c. Experience:</p> <ol style="list-style-type: none"> 1.Served as a Board Member of KIMAWASCO 2.National Delegate Representing Kilifi County Maendeleo ya Wanawake 3.Head of State Commendation (HSC- Civilian Division) <p>She is the Chairperson of the Social Services and Economic Development Committee</p>
<p>6.Dr.Silas Mzungu Chitibwi</p>		<p>a. Date of Birth:21st Oct 1952</p> <p>b. Academic Qualification: Bachelor of veterinary Medicine</p> <p>c. Experience: Veterinary surgeon by profession and a Community Worker by choice and practise</p> <p>He is an alumnus of Lenana Schools (Duke of York) and The University of Nairobi Veterinary School.</p> <p>He is the Chairperson of the Finance and Administration committee</p>
<p>7.Getrudah Sidi Kirenge</p>		<p>a. Date of Birth:27th Aug 1988</p> <p>b. Academic Qualification:</p> <ol style="list-style-type: none"> 1. Masters of Arts 2. Bachelor of Law. <p>c. Experience: Kanchory and Company Advocates Associate Advocate</p> <p>She is the Chairperson of the Audit, Monitoring and Evaluation Committee</p>

Municipality of Kilifi
Reports and Financial Statements
For the year ended June 30th, 2021

<p>8. Patricia Luvuno Chonga</p>		<p>a. Date of Birth :29th June 1986</p> <p>b. Academic Qualification: Bachelor's Degree of Business Administration (BBA)</p> <p>c. Experience: CEO –Kenya National Chamber of Commerce and Industry Kilifi chapter. Appointed to the Kilifi Budget and Economic Forum She is the Chairperson of the Physical planning , Urban Development and Environment Committee</p>
<p>9. Dancan Kubahatisha Nyale</p>		<p>a. Date of Birth :15th April 1981</p> <p>b. Academic Qualification:</p> <ol style="list-style-type: none"> 1. Master degree in Information System 2. Bachelor's degree in Information Technology <p>c. Experience: 13 years in ICT Administration and Management covering areas including Computer Programming Management Information Systems.</p> <p>He is the Chairperson of Transport and Infrastructure Committee</p>
<p>10. Mr. Elius Chipa</p>		<p>a. Date of Birth:30th Jan 1972</p> <p>b. Academic Qualification: -Master's Degree in Urban Management (MUM) -Bachelor of Arts</p> <p>c. Experience: Over 15 years' experience in Administration and Management He is the Municipal Manager of Kilifi Municipality</p>

**3. STATEMENT OF PERFORMANCE AGAINST COUNTY ENTITY'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 in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the County Government entity's performance against predetermined objectives.

The key development objectives, of the Board of Municipality of Kilifi 2020/2021 plans were to:

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

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
The Refurbishment of Oloitiptip Market and Service roads	To develop a market design that promotes growth, flexibility, greater integration and collaboration/harmonization of the functions of the market users. To provide a refurbished market that complies with national environmental and civil engineering standards, and meet building regulation in force.etc	Increase of traders as a result of the expansion. General improvement of the Urban Economy Reduction of environmental risks as a result of replacing the asbestos etc.	Increased trading activities Improvement of the drainage system Increase in the amount of revenue collection.	The project is 100% complete.
Construction of Fire Station	To construct a modern fire station that will ensure protection of life and businesses	Safe environment for the residents and businesses	Efficiency and effectiveness in fire rescue and disaster management	This project is about 25% complete

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

Objectives yet to be met

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

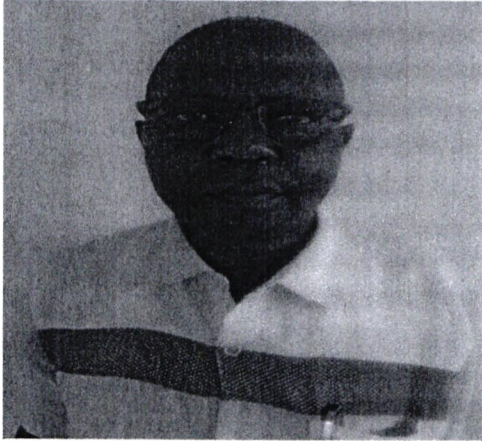


Challenges




- Delegated functions are yet to be transferred to the Municipality
- Land use planning and management is yet to be delegated to the municipality.
- Identification of Relocation site to accommodate the traders took some time hence the delayed
- Capacity of the Supervising County Department was wanting hence delayed
- The Covid 19 pandemic
- Inadequate Human Resource Capacity
- Inadequate budget allocation

Opportunities

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

4. MANAGEMENT TEAM

Name	Passport Size Photo	Details of qualifications and experience
1. Elius K. Chipa		<p>d. Date of Birth:30th Jan 1972</p> <p>e. Academic Qualification: -Master's Degree in Urban Management (MUM) -Bachelor of Arts</p> <p>f. . Experience: Over 15 years' experience in Administration and Management</p> <p>He is the Municipal Manager of Municipality of Kilifi</p>
2. Jacinta Ismail		<p>a. Date of Birth: 28th.April 1962</p> <p>b. Academic Qualification: - Master of Business Administration (finance) Bachelor of Commerce in Financial Management CPA</p> <p>3. Experience: Over 20 years' experience in Financial Management.</p> <p>She is the Principal Accountant for the Municipality of Kilifi</p>
2.Margaret Mapenzi Chivila		<p>a. Date of Birth:07th Aug 1983</p> <p>b. Academic Qualification: Bachelor's Degree in Mass Communication</p> <p>c. Experience. Has over 5 years working in communication and and public relations</p> <p>She is a Principal Administrative officer for the Municipality of Kilifi</p>

<p>4. Caroline Mwaka Mutana</p>		<p>a. Date of Birth: 25th. Jan 1981</p> <p>b. Academic Qualification: Bachelor of Business Administration (HR) option MSC (HRM)</p> <p>c. Experience: Has Over five years' experience in human resources management</p> <p>She is the Chief Human Resource officer for the Municipality of Kilifi</p>
<p>5. Carolyn Rose Kamino</p>		<p>a. Date of Birth: 1st July 1989</p> <p>b. Academic Qualification: Degree of Environmental Science.</p> <p>c. Experience: She Has over 5 years in Environmental issues and EIA</p> <p>She is an Environmental Officer for the Municipality of Kilifi</p>
<p>6. Janet Tsuma</p>		<p>a. Date of Birth: 09th Oct 1975</p> <p>b. Academic Qualification: BDS, MBA (Strategic Management)</p> <p>c. Experience: Over 7 years in community development activities and Social safeguards issues</p> <p>She is a Senior Community Development Officer at the Municipality of Kilifi</p>

5. BOARD CHAIRPERSON'S REPORT

It is my pleasure to present on behalf of the Board of the Municipality of Kilifi the Financial Statements for the year ended 30th June 2021

- **Board and Management Changes**

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

- **Review the Board Performance**

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

- **Future Outlook**

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

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

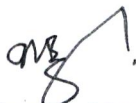
Capacity building to the board on matters Corporate Governance training is also an area that the board has prioritized.

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

- **Appreciation**

I take this opportunity by expressing my sincere gratitude to the County Government, our Development Partners, Kilifi County stakeholders, Management team at large and My Fellow Board Members, for their full support of the existence of Kilifi Municipality.

Signature



Charles M. Ngala
Board Chairperson

6. REPORT OF THE MUNICIPAL MANAGER

The Municipality of Kilifi was established by and derives its authority and accountability from the Urban Areas and Cities Act of 2011 and as amended in 2019 and the Municipal Charter

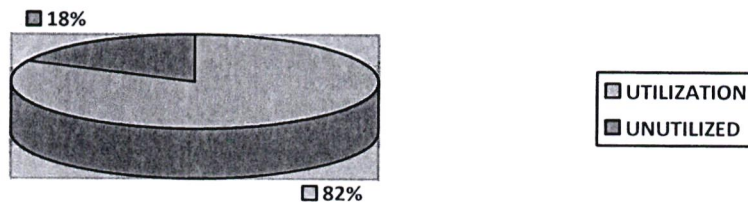
The Kilifi Municipality Board was sworn in on 21st August 2019.

Financial Performance

1. Kilifi Municipality was allocated a Grant (Kenya Urban Support Program) of **Kshs.96, 750, 100** for Refurbishment of Oloitiptip Market, by the World Bank through the County Government in FY 2018/2019

As at 30th June, 2021 Kshs. 79,440,783.75 had been utilized on this project. (Approximately 82%)

REFURBISHMENT OF OLOITIPTIP MARKET AND SERVICE ROAD



The Kilifi Municipality had some challenges which affected the completion duration of the project;

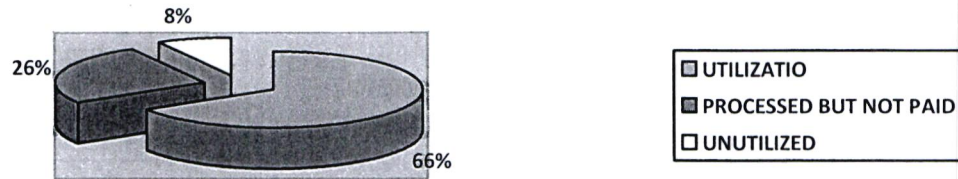
- Identification of Relocation site to accommodate the traders took some time hence the delay
 - Inadequate capacity of the Supervising County Department staff hence the delay
 - Covid 19 pandemic guidelines led to stoppage of the work hence the delay
2. The Municipality also received Kshs 96,750,100 from the Kenya Urban Support Program towards Construction of a Fire station and emergency Centre. An additional Kshs 30,000,000 towards the same project is to be funded by the County Government of Kilifi making a total budget of Kshs 126,750,100 for the whole project. Construction of the Fire station has commenced.

In the implementation of the project, the contractor, Daeco Construction Ltd faced some challenges:

The project site was very rocky making it very difficult in excavation hence delay towards commencement of the project.

The County Government of Kilifi allocated Kshs. 25,000,000 to the Municipality during the Financial year 2020/2021. Kshs. 16,442,343 was expended being 66%.

BUDGET UTILIZATION



In the implementation of the allocation the following challenges were faced;

- Some payments taken to the County treasury were returned unpaid hence the Municipality could not expend their full budget.
- Covid-19 Pandemic delayed some payments processes due to scaling down of operations at the offices
- 3. Risk Management; The Municipality has Internal Audit officer to ensure internal controls and accountability of the Grant and the County Funds is achieved

Signed

Elius K. Chipa
Municipal Manager

7. CORPORATE GOVERNANCE STATEMENT

a. The Board

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

The Kilifi Municipality Board was sworn in on 21st August 2019. The Board has the overall mandate to deliver Urban services to the urban residents

- i. Boards succession plan, as per Urban Areas and Cities Act No.13 of 2011 and as amended in 2019, Section 19 specifies process of appointment of Board members. The removal Board Members is highlighted in Section 14.
- ii. The term of the board is specified in the Urban Areas and Cities Act No.13 of 2011 and Municipal charter as 5 years on part time basis.
- iii. The remuneration of the board is guided by SRC guidelines. The board members are paid allowances as advised by the SRC
- iv. Roles and functions of the Board members, Section 20 of the act and part IV of the Kilifi Municipal charter
- v. Conflict of interest, Part VII Miscellaneous Provision – Section 50
- vi. Ethics and conduct as well as governance audit undertaken if any - The board has an internal auditor and also formed an Audit committee

b. Board Meetings

The Board during the 2020/2021 held four (4) meetings in line with the Municipal Charter. These meetings were attended by all board members

The Board also operates through Board Committees. There are five Committees namely:

- Finance and Administration;
- Transport and Infrastructure;
- Physical Planning, Urban Development and Environment;
- Social Services and Economic Development; and
- Audit, Monitoring and Evaluation

The meeting held by the various committees are tabulated below

S/No.	BOARD COMMITTEE NAME	DATE	ATTENDANCE
1	Finance & Administration	19.08.2020	All members
		23.02.2021	All members
		12.03.2021	All members
		08.06.2021	All members
2	Audit, Monitoring & Evaluation	30.03.2021	All members
		28.06.2021	All members
3	Physical Planning, Urban Development & Environment	20.08.2020	All members
		01.03.2021	All members
		30.03.2021	All members
4	Social Services & Economic Development	20.08.2020	All members
		10.02.2021	All members
5	Transport & Infrastructure	21.08.2020	All members
		24.02.2021	All members

c. Internal Control and Risk Management

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

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

8. MANAGEMENT DISCUSSION AND ANALYSIS

a. Financial Performance

There was a balance brought forward of Ksh. 63,552,096 under Urban Development Grant and Kshs. 46,019,668 was utilized on refurbishment of Oloitiptip market and service road project (Approximately 48%) during 2020-2021 financial year bringing the total utilized amount to Kshs. 79,440,783.75 (Approximately 82%) of the total budget of the project. A total of Ksh. 3,133,052 was also used for the construction of fire station project.

The County Government of Kilifi allocated Kshs. 25,000,000 to the Municipality during the financial year 2020/2021. The expenditure incurred and duly processed was Kshs. 23,076,112 at a utilization rate of 92%, of which Kshs. 16,442,343 was actually paid at a utilization rate of 66%, and Kshs. 6,633,769 worth of processed vouchers were returned unpaid.

b. Projects

Through funding from World Bank, the Municipality is implementing one Project- Construction of Fire Station. This project is on going

c. Compliance with Statutory requirement

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

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

d. Major risks facing the Municipality

1. Inadequate Cash disbursement/ Payments by the County on behalf of the Municipality

The County Government of Kilifi allocated Kshs. 25,000,000 to the Municipality during the financial year 2020/2021. The expenditure incurred and duly processed was Kshs. 23,076,112 at a utilization rate of 92%, of which only Kshs. 16,442,343 was actually paid on behalf of the Municipality at a utilization rate of 66%, and Kshs. 6,633,769 worth of processed vouchers were returned unpaid.

2. Inadequate budgetary allocation

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

3. In adequate staff and other resources

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

9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

1. Community Engagements-

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

2.Environmental Performance

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

Through the support from the County department of Lands the Municipality procured seedlings and garbage collection containers

3.Employee welfare

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

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

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

10. REPORT OF THE BOARD

The Board submitted their report for the period ended June 30th, 2021 which show the state of the board affairs.

Principal activities

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

Results

The results of the Board for the year ended June 30th, 2021 are set out on page 9.

Trustees

The members of the Board who served during the year are shown from page 5 to 8

Auditors

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

By Order of the Board



DR. S.M. CATHIBWI

Member of the Board

Date: 21/09/2021

11. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

The Municipal Manager is responsible for the preparation and presentation of the Municipality's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30th, 2021. This responsibility includes:

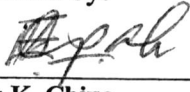
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Fund;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Municipal Manager accepts responsibility for the Board'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 the Urban and Cities Act. The Municipal Manager of the Board is of the opinion that the Board's financial statements give a true and fair view of the state of Board's transactions during the financial year ended June 30th, 2021, and of the Board's financial position as at that date. The Municipal Manager further confirms the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Municipal Manager has assessed the Board'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 Municipal Manager to indicate that the Municipality Board will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

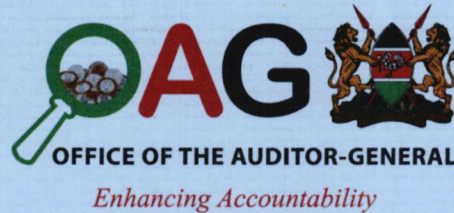
The Board's Financial Statements were approved by the Board on 21st September 2021 and signed on its behalf by:



Elius K. Chipa
Municipal Manager

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON MUNICIPALITY OF KILIFI FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Municipality of Kilifi set out on pages 25 to 50, which comprise of the statement of financial position as at 30 June, 2021, 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 the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion Section of my report, the financial statements present fairly, in all material respects, the financial position of the Municipality of Kilifi as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Urban Areas and Cities Act, 2011 and Kilifi County Subsidiary Legislation, 2019 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Inaccuracy in Surplus for the Year

The statement of financial performance reflects a surplus balance of Kshs.39,596,698 while the statement of changes in net assets reflects surplus balance of Kshs.49,943,782 resulting in an unreconciled variance of Kshs.10,347,084.

In the circumstances, the accuracy and completeness of the reported surplus balance of Kshs.39,596,698 could not be confirmed.

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

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.124,567,916 and Kshs.116,010,258 respectively, resulting in an underfunding of Kshs.8,557,658 or 7% of the budget. Similarly, budgeted expenditure was Kshs.121,750,100 against an actual expenditure of Kshs.66,066,476, resulting in an under expenditure of Kshs.55,683,624 or 46% of the budget.

In the circumstances, the under performance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Irregular Roads Contract

As disclosed in Notes 4A and 4B to the financial statements, the statement of financial performance reflects expenditure on Urban Development Grant Projects accrued balance of Kshs.49,152,720 and Kshs.10,347,084 respectively, both totalling to Kshs.59,499,804. The expenditure relates to refurbishment of Oloititip Market and Service Road by the County Executive for a period of eight (8) months, from 13 March, 2019 upto 12 November, 2019. The contract sum was Kshs.95,362,190. Records provided indicated that Management reviewed the contractor's final account on 18 October, 2021. However, the following anomalies were noted:

1.1 Failure to Account for Provisional Sums

The bill of quantities provided for a provisional sums for electrical installations and contingency amount of Kshs.3,250,000 and Kshs.8,669,290 respectively, all totalling to Kshs.11,919,290. However, the contractor's final account did not account for these provisional sums.

1.2 Irregular Contract Variation

The contractor's final account included consultancy services amounting to Kshs.9,436,870 that were not part of the contract. This was contrary to Section 82 of the Public Procurement and Asset Disposal Act, 2015 which provides that, the tender sum as submitted and read out during the tender opening shall be absolute and final and shall not be the subject of correction, adjustment or amendments.

1.3 Undelivered Supplies

The contract also included supply of twenty-five (25) forty-foot (40) steel used containers at a cost of Kshs.28,485,000 as per the bill of quantities. However, the containers were not seen during physical verification.

1.4 Unrecovered Liquidated Damages

The project's expected practical completion date was 12 November, 2019 which was delayed by over one and a half years. It was completed and in use in November, 2021.

However, the reviewed contractor's project final account did not factor in the savings for liquidated damages of Kshs.11,700,000 at the rate of Kshs.20,000 per day for the 585 days delay. This was contrary to Paragraph 43.1 of the Appendix to the conditions of the signed contract which provides for the liquidated damages.

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

2.0 Delayed Remittance of Withholding Tax

Review of Withholding Tax remittances revealed that tax totalling to Kshs.4,309,667 was remitted late by more than five (5) months. This was contrary to Section 42.A (4B) of the Value Added Tax (VAT) Act which provides that, "the tax withheld under this section shall be remitted to Commissioner on or before the twentieth day of the month following the month in which the deduction is made".

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Weaknesses in Municipality Board

The Municipality Board of Kilifi is composed of seven (7) members, out of whom only three (3) members were appointed through a competitive process, contrary to the requirement of the Section 9 of the Municipality of Kilifi Charter, 2019 which provides that the Board of the Municipality shall be comprised of not more than nine (9) members, four (4) of whom are women and shall be appointed through a competitive process by County Executive Committee and approved by County Assembly.

In the circumstances, effectiveness of the governance structure could not be confirmed.

2. Weaknesses in Management of the Municipality

Review of records indicated that the control over budget and actual performance were still domiciled in the parent Department including the development budget allocation

totalling to Kshs.96,750,100 for Urban Development Grant that was fully under the control of the of Department of Lands, Energy, Housing, Physical Planning and Urban Development.

Further, the Municipality had total approved substantive positions of three hundred and eighty four (384). However, it had filled only one (1) substantive position while eleven (11) members of staff were on secondment.

In the circumstances, the Municipality might not fully meet its mandate.

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

Responsibilities of Management and those Charged with Governance

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 control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Municipality of Kilifi's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Municipality or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those Charged with Governance are responsible for overseeing the Municipality's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error,

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal 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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

exists related to events or conditions that may cast significant doubt on the Municipality's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Municipality to cease to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Municipality to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

07 September, 2022

13. FINANCIAL STATEMENTS

13.1. MUNICIPALITY OF KILIFI STATEMENT OF FINANCIAL PERFORMANCE
 FOR THE YEAR ENDED 30TH JUNE 2021

	Note	2020/2021	2019/2020
		KShs	KShs
Revenue from non-exchange transactions			
Urban Development Grant	1	96,750,100	96,750,100.00
Payments by County on behalf of the entity	2	23,076,112	11,650,006.00
		119,826,211	108,400,106.00
Revenue from exchange transactions			
Interest income	3	2,817,816	269,924.21
Total revenue		122,644,027	108,670,030.21
Expenses			
Urban Development Grant Projects	4A	49,152,720	33,421,115.75
Urban Development Grant Projects Accrued	4B	10,347,084	-
Staff costs	5	7,280,544	3,641,403.00
General expenses	6A	16,266,982	8,055,415.13
Total expenses		83,047,329	45,117,934
Surplus/(deficit) for the period		39,596,698	63,552,096

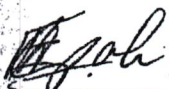
NB: The opening balance (2019-2020) under general expenses includes a figure of 674,163 being prepaid rent for the entity's 1st quarter of 2020-2021 period. The difference between the statement of performance surplus and the surplus reported in the statement of changes in net assets of 10,347,084 is due to accrued expenses recognized in the statement of performance whose actual cash outflow had not taken place as at the reporting date.

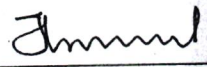
The notes set out on pages 47 to 49 form an integral part of these Financial Statements

13.2. MUNICIPALITY OF KILIFI STATEMENT OF FINANCIAL POSITION AS AT
30TH JUNE 2021

	Notes	2020/2021 KShs	2019/2020 KShs
ASSETS			
Current assets			
Cash and cash equivalents	7	113,495,879	63,552,096
Receivables-County Executive	7A	6,633,769	-
Total Current Assets		120,129,648	63,552,096
Non-current assets			
		-	-
Total assets		120,129,648	63,552,096
LIABILITIES			
Current liabilities			
UDG Payables	8	10,347,084.00	-
Suppliers of Goods and services Payable	8	5,290,169.00	-
Board allowances Payable	8	991,500.00	-
Staff Allowances Payable	8	352,100.00	-
Non-current liabilities			
		-	-
Total liabilities		16,980,853.00	-
Net assets		103,148,795	63,552,096
Accumulated surplus		-	-
Total net assets and liabilities		120,129,648	63,552,096

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 21.09. 2021 and signed by:


Municipal Manager
Name: Elius Chipa


Municipality Accountant
Name: Jacinta Ismail
CPA # 28256

13.3. MUNICIPALITY OF KILIFI STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2021

	Revolving Fund	Revaluation	Accumulated surplus	Total
		Reserve		
		KShs	KShs	KShs
Balance as at 01 July 2019	-	-		
Surplus/(deficit) for the period	-	-	63,552,096	63,552,096
Funds received during the year	-	-	-	
Revaluation gain	-	-	-	-
Balance as at 30 June 2020	-	-	63,552,096	63,552,096
Balance as at 1 July 2020	-	-	63,552,096	63,552,096
Surplus/(deficit) for the period	-	-	49,943,782	
Funds received during the year	-	-		
Revaluation gain	-	-	-	-
Balance as at 30th June 2021	-	-	113,495,879	63,552,096

13.4 MUNICIPALITY OF KILIFI STATEMENT OF CASHFLOWS FOR
 THE YEAR ENDED 30TH JUNE 2021

	Note	2020/2021	2019/2020
		KShs	KShs
Cash flows from operating activities			
Receipts			
Urban Development Grant	1	96,750,100	96,750,100
Payments by County on behalf of the entity	2	16,442,343	11,650,006
Interest received	3	2,817,816	269,924
Receipts from other operating activities			
Total Receipts		116,010,258	108,670,030
Payments			
Urban Development Grant Projects	4B	49,152,720	33,421,116
Staff Cost	5	7,280,544	3,641,403
General Expenses	6	9,633,213	8,055,415
Total Payments		66,066,476	45,117,934
Net cash flows from operating activities		49,943,782	63,552,096
Cash flows from investing activities			
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		-	-
Net cash flows used in investing activities		-	-
Cash flows from financing activities			
Proceeds from revolving fund receipts		-	-
Additional borrowings		-	-
Repayment of borrowings		-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at 1 JULY		63,552,096	-
Cash and cash equivalents at 30 JUNE	7	113,495,879	63,552,096

(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)

**13.5 MUNINICIPALITY OF KILIFI STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
 FOR THE YEAR ENDED 30thJUNE 2021**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021
	KShs	KShs	KShs	KShs	KShs	
Revenue						
Urban Development Grant	96,750,100	-	96,750,100	96,750,100	-	100%
Transfers from the County Government	25,000,000		25,000,000	16,442,343	8,557,657	66%
Interest income	-	2,817,816	2,817,816	2,817,816	-	100%
Other income	-	-			-	
Total income	121,750,100	2,817,816	124,567,916	116,010,258	8,557,657	
Expenses						
Urban Development Grant Projects	96,750,100	-	96,750,100	49,152,720	47,597,380	51%
General expenses	25,000,000		25,000,000	16,913,756	8,086,244	68%
other operating costs	-	-			-	
Total expenditure	121,750,100	-	121,750,100	66,066,476	55,683,623	54%
Surplus for the period	-	2,817,816	2,817,816	49,943,782	(47,125,966)	

Budget notes

- The Municipality of Kilifi (MOK) budget was uploaded as part of the County executive budget. This meant that the MOK depended on the executive goodwill to make payments on its behalf. This resulted to some processed vouchers not being paid by the close of the financial year 2020-2021. Hence the MOK wasn't able to fully utilize the budget.*

13.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

The Board'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 board. 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 2021

Standard/ Amendments: Applicable: 1 st January 2021:	Impact
a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks	There was no impact of the amendment to IPSAS 13 with respect to the current financial report
b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved	There was no impact of the amendment to IPSAS 13 and IPSAS 17 with respect to the current financial report as the entity did not apply any of the transitional provisions in the FY 2020/2021
c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.	There was no impact of the amendment to IPSAS 21 and IPSAS 26 with respect to the current financial report as the entity does not have Non-Cash Generating Assets and neither did it have impaired cash generating assets.

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<p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</p>	<p><i>Document the impact if the fund is reporting for the first time on accrual/ Otherwise indicate that there was no impact</i></p>
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b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2022: 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:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p><i>(State the impact of the standard to the entity if relevant)</i></p>
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2022 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> <ol style="list-style-type: none"> (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows. <p><i>(State the impact of the standard to the entity if relevant)</i></p>

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Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	Applicable: 1st January 2022: a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
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c) Early adoption of standards

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

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 the year 2020/2021 was approved by the County Assembly on 24th June 2020.

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.

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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 12.4 of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Property, plant and equipment

All property, plant and equipment in use by Municipality of Kilifi are not stated at any value in the statement. The furniture, office machines and computers being used by the entity are from the County Government and the Urban Institutional Grant (UIG). Subsequently the values of these assets are excluded from the financial statements in accordance IPSAS 33: First time adoption paragraph 36-62 of IPSAS accrual.

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

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

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.

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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. Nature and purpose of reserves

The reserves are for Urban Development Grant projects which are yet to be completed.

11. 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.

12. 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.

13. 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)

14. Borrowing costs

No borrowing costs were capitalized against qualifying assets as part of property, plant and equipment where assets were donated by the County Government or bought by Urban Institutional Grant, under KUSP funding.

15. 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 Municipal Manager and the Municipal Accountant.

16. 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.

17. Comparative figures

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

18. Events after the reporting period

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

19. Ultimate and Holding Entity

The entity is a Municipality established through the Urban Areas and Cities Act 2011 and as amended in 2019 and the Municipal Charter. Its ultimate parent is the County Government of Kilifi.

20. Currency

The financial statements are presented in Kenya Shillings (Kshs) and all the figures are rounded off to the nearest shilling.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21. 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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

22. Financial risk management

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

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

a) Credit risk

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

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The entity's interest rate risk arises from bank deposits. This exposes the Board to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Board'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 Board 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.

14 NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description	2020/2021	2019/2020
	KShs	KShs
Urban Development Grant	96,750,100	96,750,100
Total	96,750,100	96,750,100

2. Transfers from County Government

Description	2020/2021	2019/2020
	KShs	KShs
Payments by County on behalf of the entity	23,076,112	11,650,006
Total	23,076,112	11,650,006

2A. Transfers from County Gov. -cash inflow

Description	2020/2021	2019/2020
	KShs	KShs
Payments by County on behalf of the entity	16,442,343	11,650,006
Total	16,442,343	11,650,006

3. Interest income

Description	2020/2021	2019/2020
	KShs	KShs
Interest income on bank deposits	2,817,816	269,924
Total interest income	2,817,816	269,924

4A. Urban Development Grant Cash outflow

	2020/2021	2019/2020
Urban Development Grant Projects	49,152,720	33,421,116

4B. Urban Development Grant Accrued Expenditure

	2020/2021	2019/2020
Urban Development Grant Projects	10,347,084	

5. Staff costs

Description	2020/2021	2019/2020
	KShs	KShs
Salaries and wages	7,280,544	3,641,403
Total	7,280,544	3,641,403

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6. General expenses Cash outflow

Description	2020/2021	2019/2020
	KShs	KShs
Consumables	1,895,946	515,000
Purchase of Computers and computer accessories	939,950	1,331,340
Rental costs	674,163	1,136,163
Telecommunication	198,000	174,000
Bank Charges	471,414	46,812
Utilities	18,000	-
Publicity, Campaigns and Advertisement	195,100	-
Hospitality	2,075,600	1,389,800
Other expenses	3,165,040	3,462,300
Total	9,633,213	8,055,415

6A. General expenses

Description	2020/2021	2019/2020
	KShs	KShs
Consumables	1,895,946	515,000
Purchase of Computers and computer accessories	939,950	1,331,340
Rental costs	674,163	1,136,163
Telecommunication	198,000	174,000
Bank Charges	471,414	46,812
Utilities	18,000	-
Publicity, Campaigns and Advertisement	195,100	-
Hospitality	2,075,600	1,389,800
Expenses pending payment	6,633,769	-
Other expenses	3,165,040	3,462,300
Total	16,266,982	8,055,415

7. Cash and cash equivalents

Description	2020/2021	2019/2020
	KShs	KShs
Current account	113,495,879	63,552,096
Total cash and cash equivalents	113,495,879	63,552,096
Detailed analysis of the cash and cash equivalents are as follows:		

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		2020/2021	2019/2020
Financial institution	Account number	KShs	KShs
a) Current account			
<i>KCG - KILIFI MUNICIPALITY UDG ACCOUNT</i>	1007077325	113,495,879	63,552,096
Sub- total		113,495,879	63,552,096
Grand total		113,495,878.57	63,552,096

7A. Cash and cash equivalents		
Description	2020/2021	2019/2020
	KShs	KShs
Receivables-From County Executive	6,633,769	

8. Payables

Description	2020/2021	2019/2020
	KShs	KShs
UDG Payables	10,347,084.00	
Suppliers of Goods and services	5,290,169	
Board allowances payable	991,500	
Staff Allowances payable	352,100	
Total accounts payable	16,980,853.00	

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15 PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR’S 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)
		Not received the final report		No issue unresolved	

Guidance Notes:

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

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16. APPENDIX I: INTER-ENTITY TRANSFERS

ENTITY NAME:				
Break down of Transfers from the County Executive of Kilifi County Government				
FY 2020/2021				
a.	Recurrent Grants	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		Total		
b.	Development Grants	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	KENYA URBAN SUPPORT PROGRAMME	07-05-2021	27,550,675.00	2020-2021
	KENYA URBAN SUPPORT PROGRAMME	25-08-2020	69,199,424.50	2020-2021
		Total		
c.	Direct Payments	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	various	1-1-2020-30-06-2021	16,442,343	2020-2021
		Total	113,192,442.5	

The above amounts have been communicated to and reconciled with the parent Ministry.

Principal Accountant
Municipality of Kilifi

Sign. 

Head of Accounting services
county government of Kilifi

Sign. 