

REPUBLIC OF KENYA



*Enhancing Accountability*

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**REPORT**

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**OF**

**THE AUDITOR-GENERAL**

**ON**

**MUNICIPALITY OF HOMA BAY**

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



Office of the Auditor General  
P. O. Box 30784 - 00100, NAIROBI  
REGISTRY

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**MUNICIPALITY OF HOMA BAY**  
**COUNTY GOVERNMENT OF HOMA BAY**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**  
**30<sup>TH</sup> JUNE, 2022**

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

**County Government of Homa Bay  
Municipality of Homa Bay  
Annual Report and Financial Statements For the year ended June 30, 2022**

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**1. Key Municipality Information and Management**

**a) Background information**

The Municipality was created to give effect to article 184 of the constitution which provides for the classification, governance and management of urban areas and cities. Ultimately, the Board was mandated to make Homa Bay Municipality more attractive and sustainable through effective policy formulation and implementation. In view of the need to fence the Homa Bay Modern Municipal Market, complete works and provide other essential services, allocation to the Board for the FY 2021/2022 was revised upwards to KShs. 168,717,322 including KShs. 10,929,604 for recurrent and kshs. 157,787,718 for development purposes. The revised allocation was meant for fencing of the Homa Bay Municipal Modern market; upgrading to bitumen-standard the C19 Junction - Tom Mboya University link road; upgrading to bitumen-standard of the C19 Junction - Rose Muhando park - St. Paul Hospital; road designing and conducting of environmental impact analysis across the municipality, and facilitation of tendering and evaluation processes. Achievements and Challenges During the last FY, the Municipality has been able to successfully complete implementation of the first phase of the Homa Bay Municipal market which is now at 100%. For Phase II, procurement has been completed and the contractor should be on site now. Once complete, this will enhance revenue collection and improve the economic status of the traders. Additionally, the Board has been able develop urban roads chief of which is the Lake Primary – Tom Mboya University Slip Road which has been bituminized at a cost of KShs. 44,221,605.50. improving transport over 0.623 Km. Already works are ongoing on the upgrading to bitumen-standard of the C19 Junction - Rose Muhando Park - St. Paul Hospital Road. Ultimately, the Board's success has often been hampered by inadequate staffing and underfunding; lack of understanding of provisions of UACA and the Homabay municipality charter by key stakeholders; bureaucratic challenges as well as the high expectations from the residents and local business community on delivery of services by the urban management board The fund's objective is to provide overall policy and strategic direction for the transformation of the Homa Bay Municipality and to promote effective development, management and maintenance of all municipal facilities

The Fund's principal activity is as follows;

1. Enhanced service delivery to the residents of Homa Bay Municipality
2. Build and maintain functional infrastructure for the residents of the Municipality
3. Provide a framework to facilitate security of land tenure within the Municipality
4. Identify and analyse planning issues and challenges, harness existing opportunities and promote intervention measures for mitigating the planning issues and challenges.
5. Promote appropriate land uses, locations and permissible densities. Similarly, the Municipality will begin to provide a policy framework for socio-economic investments, economic use of space, infrastructure services and public facilities within the Municipality.

**County Government of Homa Bay  
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**VISION:** A Municipality of choice for all to invest, work, live and prosper.

**MISSION:** To make Homa Bay Municipality more attractive and sustainable through effective policy formulation and implementation.

**PROGRAMMES AND THEIR OBJECTIVES**

<b>PROGRAMMES</b>	<b>OBJECTIVE</b>
P1: Policy, Planning And Administration Services	To provide overall policy and strategic direction for the transformation of the Homa Bay Municipality
P2: Urban development services	To promote effective development, management and maintenance of all Municipal facilities

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

<b>Ref</b>	<b>Name</b>	<b>Position</b>
1	THOMAS OWINO ODIPO	Municipal Manager/Accounting Officer
2	JOSEPH OYUGI	Accountant
3		

**c) Key Management**

<b>Ref</b>	<b>Name</b>	<b>Position</b>
1	PROF.; DONALD OGWENO	Board Chairperson
2	CHARLES OBONDO	Board Vice chairperson
3	THOMAS ODIPO	Municipal Manager
4		
5		

**d) Registered Offices**

HOMA BAY MUNICIPAL BOARD OFFICES  
P.O. BOX 469  
HOMA BAY COUNTY COMMISSIONER'S COMPOUND  
HOMA BAY, KENYA

**e) Fund Contacts**

Telephone: (254) 721823217  
E-mail: [thomasodipo36@gmail.com](mailto:thomasodipo36@gmail.com)  
Website: [www.homabaycounty.go.ke](http://www.homabaycounty.go.ke) and [www.homabaymunicipality.co.ke](http://www.homabaymunicipality.co.ke)

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**f) Fund Bankers**

1. Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000  
City Square 00200  
Nairobi, Kenya
2. Kenya Commercial Bank  
Homa Bay Branch  
P.O. Box 368-40300  
Homa Bay, Kenya
3. Equity Bank  
Homa Bay Branch  
P.O. Box 75104-40300  
Homa Bay, Kenya

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**2. The Board of Trustees**

<b>Name</b>	<b>Details of qualifications and experience</b>

**County Government of Homa Bay**  
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**3. Statement of Performance against Municipality's Predetermined Objectives**

**Introduction**

The Municipality of Homa Bay is a creation of the Urban Areas and Cities Act, 2011 which operationalized Article 184 of the Constitution by providing for the classification, governance and management of urban areas and cities, the criteria for establishing urban areas and principle of governance and participation of citizen and for connected purposes.

The institutionalization of Homa Bay Municipality is complete considering that the Homa Bay Municipality Charter was approved by the County Assembly and gazetted. The Board of Management of the Municipality has been inaugurated having been approved by the County Assembly of Homa Bay. The Board of the Municipality of Homa Bay and the County Government of Homa Bay are working towards having proper Municipal plans that are prepared and implemented as per the County Governments Act of 2012, the Urban areas and Cities Act of 2011 (amended 2019), and the Homa Bay Municipality Charter. The Integrated Urban Development Plan of Homa Bay will ensure the Municipality is able to deal with the effects of urbanization such as urban sprawl, rise of informal settlements and uncontrolled developments.

**Key achievements by the Municipality during the period included:**

1. The County government committed to participate in KUSP by having all the minimum conditions that were set out, met as was confirmed during the 1<sup>st</sup> and 2<sup>nd</sup> Annual Performance Assessments (APA) by the Donor.
2. Municipal Charter was granted by the H.E the Governor, approved by the Assembly and gazetted through Kenya gazette supplement No.6 on 27<sup>th</sup> March 2019.
3. Members of the Municipal Board were vetted by the County Assembly, their appointment gazetted through Gazette Notice No. 6470 dated 9<sup>th</sup> July 2019 and sworn in office on 29 August 2019.
4. There was smooth and peaceful relocation of Homa Bay Traders from the old Homa Bay Municipal Market to pave way for construction of the proposed Homa Bay Municipal Market that shall boost the revenue base of the County.
5. Construction of the proposed Homa Bay Municipal Market is at 80% to completion.
6. The Municipal Board has prepared the following policy documents – Homa Bay Municipality Integrated Development Plan (IDEP), Strategic Urban Development Plan, Homa Bay Municipality Solid Waste Management Policy.
7. Members of the Homa Bay Municipal Board have been inducted.
8. The Homa Bay Municipal Board unlocked the second round of donor funds of Kshs.119,000,000 under the Kenya Urban Support Programme.
9. The Board of Homa Bay Municipality is among 7 Municipalities out of 59 Municipalities that recently got clearance for replenishment of Kshs.119M by the World Bank under the Kenya Urban Support Programme.
10. The Homa Bay Municipality was recognized by the World Bank for exceptional performance under the Kenya Urban Support Program as a result of which the Municipal Manager was the only Manager out of 59 Managers across the country identified to participate in the recently concluded 10<sup>th</sup> session of the World Urban forum (WUF10).

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This premier event is the largest global gathering on the future of cities convened by (UN-Habitat) every two years.

**Challenges**

1. Inadequate funding
2. Lack of understanding of provisions of UACA and the Homa Bay Municipality Charter by Key Stakeholders
3. High expectations from the residents and local business community on delivery of services by the urban management board
4. System bureaucracy and lack of team work spirit
5. The Municipality is yet to tap full potential of all revenue streams
6. The administrative unit of the Municipality is currently understand staffed
7. Inadequate office space and other utilities

The key development objectives of the Homa Bay Municipal Board 2018-2022 plan are to:

- a) Policy and planning services
- b) Administration and support services
- c) Land use planning and project coordination services
- d) Infrastructure development services
- e) Environmental Management services

**Progress on attainment of Strategic development objectives**

Below we provide the progress on attaining the stated objectives:

<b>Program</b>	<b>Objective</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance</b>
Civil Works, Building & Construction	To Construct Municipal market to global standards	Increased efficient trade on goods and services	Number of traders and people in the market	<b>In FY 19/20 the market is 80% complete</b>

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**4. Management Team**

Name	Details of qualifications and experience

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**5. Board Chairperson's Report**

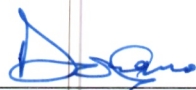
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In the financial year 2019/2020, the Homa Bay Municipality printed estimates totalled to KES 22,400,000. The department's revised estimates total to KES 190,676,194 of which KES 30,676,194 is for recurrent expenditure and Kshs.160,000,000 is for capital/development expenditure.

The Board is a young Municipality within the structure of County Government of Homa Bay with a vibrant team and big mandate that can be actualized with better funding by county government, and support from development partners and donors.

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



PROF. DONALD OGWENO

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**6. Report of the Municipal Manager**

**VISION:** A Municipality of choice for all to invest, work, live and prosper.

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**Key achievements by the Municipality during the period included:**

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3. Members of the Municipal Board were vetted by the County Assembly, their appointment gazetted through Gazette Notice No. 6470 dated 9<sup>th</sup> July 2019 and sworn in office on 29 August 2019.
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**Challenges**

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



**THOMAS OWINO ODIPTO**

**County Government of Homa Bay  
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**7. Corporate Governance Statement**

**BOARD MEETINGS**

The Municipality of Homa Bay has held quarterly full Board Meetings and public fora engagements as provided for in the Urban Areas and Cities Act and special Board meetings as need arose. A total of 5 full board meetings, 4 public fora meetings and 2 special Board meetings were held in the last financial year.

**BOARD CHARTER**

The Board was granted a Charter as an instrument of transfer of functions to the Urban Institution. The Municipal Charter was granted by the H.E the Governor, approved by the County Assembly and gazetted through Kenya Gazette Supplement No.6 on 27<sup>th</sup> March 2019.

**POWERS, OBJECTS AND FUNCTIONS OF THE MUNICIPALITY**

***Powers of the Municipality***

- (1) The Municipality of Homa Bay shall have all the powers, general and special, governmental or proprietary, expressed or implied, which may be possessed or assumed by municipalities under the Urban Areas and Cities Act, the County Government Act and the County of Homa Bay By-laws.
- (2) No enumeration of specific powers in the Charter shall be held to be exclusive. All such powers shall be exercised in the manner prescribed in the Charter, or, if not prescribed herein, in such manner as Board of the Municipality may determine, or, unless a contrary intent appears in this Charter or in the By-laws and Resolutions of the Board of the Municipality, in such manner as may be provided by the County of Homa Bay Bylaws.

***Objects of the Municipality***

The objects of the Municipality of Homa Bay are to—

- (a) provide for efficient and accountable management of the affairs of the Municipality.
- (b) provide for a governance mechanism that will enable the inhabitants of the Municipality to—
- (i) participate in determining the social services and regulatory framework which will best satisfy their needs and expectations.
- (ii) verify whether public resources and authority are utilized or exercised, as the case may be, to their satisfaction.
- (iii) enjoy efficiency in service delivery.
- (c) vigorously pursue the developmental opportunities which are available in the Municipality and to institute such measures as are necessary for achieving

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public order and the provisions of civic amenities, so as to enhance the quality of life of the inhabitants of the Municipality.

(d) provide a high standard of social services in a cost effective manner to the inhabitants of the Municipality.

(e) promote social cohesiveness and a sense of civic duty and responsibility among the inhabitants and stakeholders in the Municipality in order to facilitate collective action and commitment towards achieving the goal of a harmonious and stable community.

(f) providing for services, laws and other matters for Municipality's benefit.

(g) fostering the economic, social and environmental well-being of its community

**Functions of the Municipality**

The roles and functions of the Board are well stipulate in the Urban Areas and Cities Act and in the Homa Bay Municipality Charter. This include but is not limited to:-

The Municipality of Homa Bay shall, within the boundaries of the Municipality, perform the following functions—

(a) Promotion, regulation and provision of refuse collection and solid waste management services;

(b) Promotion and provision of water and sanitation services and infrastructure (in areas within the Municipality not served by the Water and Sanitation Provider);

(c) Construction and maintenance of urban roads and associated infrastructure;

(d) Construction and maintenance of storm drainage and flood controls;

(e) Construction and maintenance of walkways and other non-motorized transport infrastructure;

(f) Construction and maintenance of recreational parks and green spaces;

(g) Construction and maintenance of street lighting;

(h) Construction, maintenance and regulation of traffic controls and parking facilities;

(I) Construction and maintenance of bus stands and taxi stands;

(j) Regulation of outdoor advertising;

(k) Construction, maintenance and regulation of municipal markets and abattoirs;

(l) Construction and maintenance of fire stations; provision of fire-fighting services, emergency preparedness and disaster management;

(m) Promotion, regulation and provision of municipal sports and cultural activities;

(n) Promotion, regulation and provision of animal control and welfare;

(o) Development and enforcement of municipal plans and development controls;

(p) Municipal administration services (including construction and maintenance of

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administrative offices);

(q) Promoting and undertaking infrastructural development and services within the Municipality

(r) Any other functions as may be delegated by the County Executive Committee.

**BOARD REMUNERATION**

Board Members are paid allowances per the Salaries and Remuneration Commission circulars and guidelines.

**BOARD INDUCTION AND TRAINING**

The Homa Bay Municipal Board has been offered induction and capacity building training funded under the Kenya Urban Support Program.

**ETHICS AND CONDUCT**

Ethics and Conduct of Members of the Board of the Municipality are guided by existing Government Policies.

**BOARD MEMBER PERFORMANCE/GOVERNANCE AND AUDIT**

The Board of Homa Bay Municipality works through 4 committees and has so far formulated the Homa Bay Municipality Integrated Development Plan, the Homa Bay Municipality Strategic Urban Development Plan, Homa Bay Municipality Solid Waste Management Policy and Homa Bay Municipality bylaws. The Board just like every other spending Municipality within the County Government is oversighted by the Homa Bay County Assembly and Audited by Internal and External Government Auditors. The Board has not had any cases of conflict of interest since inception.

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**8. Management Discussion and Analysis**

In the last financial year, the Homa Bay Municipal Board initiated the implementation of the construction of the proposed Homa Bay Municipal Market. The construction is currently ongoing and completion is at over 80%. The Board has spent funds in line with the Public Finance Management Act and other relevant laws.

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**9. Corporate Social Responsibility Statement/Sustainability Reporting**

The Municipality of Homa Bay exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on the urban areas and cities act, the vision 2030, the Homa Bay Municipality Charter, the Homa Bay Municipality Integrated Development Plan, the Homa Bay Strategic Urban Development Plan pillars: putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar

**1. Sustainability strategy and profile -**

The fund's objective is to provide overall policy and strategic direction for the transformation of the Homa Bay Municipality and to promote effective development, management and maintenance of all municipal facilities

The Fund's principal activity is as follows;

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19. The Board of Homa Bay Municipality is among 7 Municipalities out of 59 Municipalities that recently got clearance for replenishment of Kshs.119M by the World Bank under the Kenya Urban Support Programme.
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**Challenges**

8. Inadequate funding
9. Lack of understanding of provisions of UACA and the Homa Bay Municipality Charter by Key Stakeholders
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14. Inadequate office space and other utilities

**2. Environmental performance**

The Homa Bay Municipal Board is in the process of formulating a solid and liquid waste Management Policy complete with an implementation Plan.

**3. Employee welfare**

Employees of the Homa Bay Municipal Board are hired by the County Public Service Board in line with the County Government Act save for Board members whose appointment procedure is provided for in the Urban Areas and Cities Act. The legislative frameworks takes care of gender ration and stakeholder engagements in the process. The Board members and staff are taken on periodic capacity building training to improve their skills and managing careers, appraisal and reward systems. The Board is also in compliance with Occupational Safety and Health Act of 2007 (OSHA).

**4. Market place practices-**

**5. Community Engagements-**

The Homa Bay Municipal Board holds quarterly meetings with all major stakeholders within the Municipality. This is a legal requirement as is enshrined in the Urban Areas and Cities Act and in the Homa Bay Municipality Charter. It is important to note that the Urban Institution is just one year old and has not conducted any charitable giving (cash & material) and Community Social Investment

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**10. Report of the Trustees**

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the Fund affairs.

**Principal activities**

**Results**

**Trustees**

The members of the Board of Trustees who served during the year are shown on page xxx (*refer to the key Municipality information and management page*). The changes in the Board during the financial year are as shown below:

**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. OR [XYZ Certified Public Accountants were nominated by the Auditor General to carry out the audit of the *Municipality* for the year/period ended June 30, 2022 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf].

By Order of the Board

Member of the Board

Date:



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**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 the Urban Areas and Cities Act shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Administrator of the County Public Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 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 the Urban Areas and Cities Act. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 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 the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Administrator to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

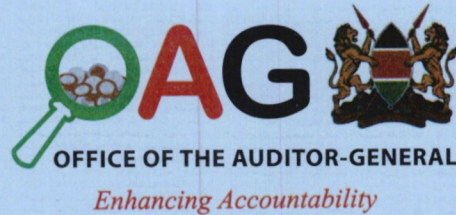
The Fund's financial statements were approved by the Board on 29/12/2022 and signed on its behalf by:

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



# REPUBLIC OF KENYA

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

## REPORT OF THE AUDITOR-GENERAL ON MUNICIPALITY OF HOMA BAY 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 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 Homa Bay as set out on pages 21 to 47, which comprise the statement of financial position as at 30 June, 2022, and the statement of financial performance, statement of changes in net

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*Report of the Auditor-General on Municipality of Homa Bay for the year ended 30 June, 2021*

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

In my opinion, except for the effect of the 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 Homa Bay as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Urban Areas and Cities Act, 2012.

## **Basis for Qualified Opinion**

### **1. Unsupported Expenditure on Consultancy Services**

The statement of financial performance and Note 4 to the financial statements indicates that Kshs.24,726,209 was spent on use of goods and services. Included in this expenditure is Kshs.2,806,539 in respect of consultancy services. However, Management did not provide the procurement records including the tender evaluation report and the certificate of professional opinion for audit review.

In the circumstances, the accuracy, propriety and value for money of the expenditure of Kshs.2,806,539 could not be confirmed.

### **2. Unsupported Prior Year Adjustments**

The statement of changes in net assets reflects prior year adjustment of Kshs.71,900,590. However, the adjustment was effected in the current financial year instead of prior year, contrary to International Public Sector Accounting Standard No.3 which states that except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Further, no supporting evidence was provided to support the prior year adjustment amount.

As a result, the accuracy, validity and completeness of the prior year adjustment of Kshs.71,900,590 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 Homa Bay in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable

to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of Matter**

#### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2022 reflects final revenue budget and actual on comparable basis of Kshs.148,197,443 and Kshs.89,869,661 respectively translating to an underfunding of Kshs.58,327,782 or 39% of the budget.

Similarly, the Municipality spent an amount of Kshs.73,287,466 out of the approved expenditure budget of Kshs.148,197,443 indicating an under expenditure of Kshs.74,909,977 or 51% of the budget.

The under realization of revenue and under-expenditure represents budgeted goods and services that were not delivered to the County residents of Homa Bay.

### **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 communicate in my report.

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **Delayed Completion in Construction of Roads**

The statement of financial position and Note 7 to the financial statements reflects a balance of Kshs.201,133,111 in respect of property, plant and equipment. Included in this balance is a balance of Kshs.38,190,499 in respect of the upgrading to bitumen standards of junction C-19 to Tom Mboya University Junction Link Road during the year under review at a contract sum of Kshs.44,370,899 entered on 12 May, 2021. Review of project records revealed that the contract period was for forty (48) weeks commencing on 26 May, 2021. However, physical verification undertaken in the month of October,

2022 five (5) months after the expected date of completion, revealed that the works were ongoing and no documentation was provided to prove that the contract period had been extended. Further, the road furniture works amounting to Kshs.775,000 as per the bill of quantities had not been executed. No reason was provided by Management for the delay in completion of the road works.

In the circumstances, value for money from the expenditure Kshs.38,190,499 incurred to date on the project could not be confirmed.

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 procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

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 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 such 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.

In preparing the financial statements, Management is responsible for assessing the Municipality's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Municipality or to cease operations, or have no realistic alternative but to do so.

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.

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

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

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

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

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

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Municipality's 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 Municipality's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Municipality to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Municipality 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**

**21 February, 2023**

**County Government of Homa Bay  
Municipality of Homa Bay  
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 Non-Exchange Transactions</b>			
Public contributions and donations - KUSP	1	70,175,301	122,112,981
Transfers from the County Government	2	19,694,360	4,000,000
<b>Total revenue</b>		<b>89,869,661</b>	<b>126,112,981</b>
<b>Expenditure</b>			
Staff Costs	3	188,000	
Use of Goods and Services	4	24,726,209	3,380,223
Finance Cost	5		81,583,282
<b>Total expenditure</b>		<b>24,914,209</b>	<b>84,963,505</b>
<b>Surplus for the Period</b>		<b>64,955,452</b>	<b>41,066,263</b>


**County Government of Homa Bay  
Municipality of Homa Bay  
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**14. Statement of Financial Position as At 30 JUNE 2022**

	Note	2021/2022 KShs	2020/202 KShs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	57,835,913	41,066,266
<b>Total Current Assets</b>		<b>57,835,913</b>	<b>41,066,266</b>
<b>Non-current assets</b>			
Property, Plant and Equipment	7	201,133,111	81,666,494
<b>Total assets</b>		<b>258,969,024</b>	<b>122,112,981</b>
<b>Total Net assets</b>			
Accumulated Surplus		258,969,024	
<b>Total net assets and liabilities</b>		<b>258,969,024</b>	<b>122,112,981</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Municipality financial statements were approved on 29<sup>th</sup> Dec 2022 2021 and signed by:

JHOMBA  
0010  
 Administrator of the Fund  
 Name: **29 DEC 2022**



JOSEPH OYOGI  
 Fund Accountant  
 Name:  
 ICPAK Member Number:

**County Government of Homa Bay  
Municipality of Homa Bay  
Annual Report and Financial Statements For the year ended June 30, 2022**

**15. Statement of Changes in Net Assets as At 30 JUNE 2022**

	<b>Accumulated Surplus</b>	<b>Total</b>
	<b>KShs</b>	<b>KShs</b>
<b>Balance as at 1 July 2021</b>	<b>122,112,981</b>	<b>122,112,981</b>
Prior Year Adjustment	71,900,590	<b>71,900,590</b>
<b>Restated Balance as at 1 July 2021</b>	<b>194,013,571</b>	<b>194,013,571</b>
Surplus for the period	64,955,452	<b>64,955,452</b>
<b>Balance as at 30 June 2022</b>	<b>258,969,024</b>	<b>258,969,024</b>

**County Government of Homa Bay  
Municipality of Homa Bay  
Annual Report and Financial Statements For the year ended June 30, 2022**

**16. Statement of Cash Flows for the Year Ended 30 JUNE 2022**

		<b>2021/2022</b>	<b>2020/2021</b>
<b>Cash Flows From Operating Activities</b>			
Public Contributions and Donations	1	70,175,301	122,112,984
Transfers from the County Government	2	19,694,360	4,000,000
<b>Total Receipts</b>		<b>89,869,661</b>	<b>126,112,984</b>
<b>Payments</b>			
Staff Costs	3	188,000	
Use of Goods and Services	4	24,726,209	3,380,223
Finance Cost	5		81,666,494
<b>Total Payments</b>		<b>24,914,209</b>	<b>85,046,717</b>
<b>Net cash flows from operating activities</b>		<b>64,955,452</b>	<b>41,066,266</b>
<b>Cash flows from investing activities</b>			
Additions to Market Construction	7	10,182,758	
Roads Construction	7	38,190,499	
		<b>48,373,257</b>	
<b>Net increase in cash and cash equivalents</b>		<b>16,582,195</b>	
Cash and cash equivalents at 1 JULY 2021	6	41,066,266	-
Prior Year Adjustment		187,452	
<b>Cash and cash equivalents at 30 JUNE, 2022</b>		<b>57,835,913</b>	<b>41,066,266</b>

17. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30th JUNE 2022

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2021/2022	2021/2022	2021/2022	2021/2022	2021/2022	2021/2022
	KShs	KShs	KShs	KShs	KShs	
<b>Revenue</b>						
Public contributions and donations-KUSP	126,135,430	0	126,135,430	70,175,301	55,960,129	56%
Transfers from County Govt.	22,062,013	0	22,062,013	19,694,360	2,367,653	89%
<b>Total Income</b>	<b>148,197,443</b>	<b>0</b>	<b>148,197,443</b>	<b>89,869,661</b>	<b>58,327,782</b>	<b>61%</b>
<b>Recurrent Expenses</b>						
General expenses	22,062,013	0	22,062,013	24,914,209	(2,664,196)	112%
Development Expenditure	126,135,430	0	126,135,430	48,373,257	77,762,173	62%
<b>Total Expenditure</b>	<b>148,197,443</b>		<b>148,197,443</b>	<b>73,287,466</b>	<b>75,097,978</b>	<b>51%</b>
<b>Surplus for the period</b>				<b>16,582,195</b>		

**County Government of Homa Bay  
Municipality of Homa Bay  
Annual Report and Financial Statements For the year ended June 30, 2022  
18. Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 41:</b> Financial Instruments	<b>Applicable: 1<sup>st</sup> January 2022:</b> The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Municipality's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> </ul>

**County Government of Homa Bay  
Municipality of Homa Bay  
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 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 Municipality'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 2022</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Municipality 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 Municipality;</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 Municipality'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: 1<sup>st</sup> January 2022:</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 hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</li> <li>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</li> </ul> <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>Applicable: 1<sup>st</sup> January 2021:</b></p> <ul style="list-style-type: none"> <li>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</li> <li>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment.</li> </ul>

**County Government of Homa Bay  
Municipality of Homa Bay  
Annual Report and Financial Statements For the year ended June 30, 2022**

Standard	Effective date and impact:
	<p>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</p> <p>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.</p> <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>IPSAS 40, Public Sector Combinations. Amendments to include the effective date paragraph which were inadvertently omitted when IPSAS 40 was issued</p>

**County Government of Homa Bay  
Municipality of Homa Bay  
Annual Report and Financial Statements For the year ended June 30, 2022  
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 Municipality and can be measured reliably.

**ii) Revenue from exchange transactions**

***Interest income***

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

**4. Budget information**

The original budget for FY 2021/2022 was approved by the County Assembly on June 2021. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Municipality upon receiving the respective approvals in order to conclude the final budget.

The Municipality's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial 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 12.5 of these financial statements.

**County Government of Homa Bay  
Municipality of Homa Bay  
Annual Report and Financial Statements For the year ended June 30, 2022  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5. Property, plant and equipment**

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

**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 Municipality 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.

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

***Impairment of financial assets***

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

- The debtors or a Municipality 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 Municipality 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.

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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 Municipality.

**9. Provisions**

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

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

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

***Contingent liabilities***

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Contingent assets***

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

**11. Changes in accounting policies and estimates**

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

**12. Employee benefits – Retirement benefit plans**

The Municipality provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an Municipality pays fixed contributions into a separate Municipality (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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**14. 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.

**15. Related parties**

The Municipality regards a related party as a person or an Municipality with the ability to exert control individually or jointly, or to exercise significant influence over the Municipality, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

**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 imprest 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. The prior year balances of accumulated surplus and cash and bank balances have been adjusted to correct errors and omissions.

**18. Events after the reporting period**

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

**19. Ultimate and Holding Municipality**

The Municipality is a County Public Fund established by Urban and Cities Act, 2012 under the Ministry of Lands. Its ultimate parent is the County Government of Homa Bay.

**20. Currency**

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**21. Significant judgments and sources of estimation uncertainty**

The preparation of the Municipality's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

State all judgements, estimates and assumptions made: e.g.

**Estimates and assumptions** – The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Municipality based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Municipality. Such changes are reflected in the assumptions when they occur. IPSAS 1.140.

**Useful lives and residual values**

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

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

**Provisions**

Provisions were raised and management determined an estimate based on the information available.

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**22. Financial risk management**

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

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

**a) Credit risk**

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

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

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

	<b>Total amount KShs</b>	<b>Fully performing KShs</b>	<b>Past due KShs</b>	<b>Impaired KShs</b>
<b>At 30 June 2022</b>				
Receivables from exchange transactions	0	0	0	0
Receivables from non-exchange transactions	0	0	0	0
Bank balances	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>At 30 June 2021</b>				
Receivables from exchange transactions	0	0	0	0
Receivables from non-exchange transactions	0	0	0	0
Bank balances	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

**b) Liquidity risk management**

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

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

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	KShs	KShs	KShs	KShs
<b>At 30 June 2022</b>				
Trade payables	0	0	0	0
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Employee benefit obligation	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>At 30 June 2022</b>				
Trade payables	0	0	0	0
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Employee benefit obligation	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**c) Market risk**

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

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

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

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

**i. Foreign currency risk**

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

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

		<b>Other currencies</b>	<b>Total</b>
	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>
<b>At 30 June 2022</b>			
Financial assets	0	0	0
Investments	0	0	0
Cash	0	0	0
Debtors/ receivables			
<b>Liabilities</b>			
Trade and other payables	0	0	0
Borrowings	0	0	0
Net foreign currency asset/(liability)	<b>0</b>	<b>0</b>	<b>0</b>

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*The Fund manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.*

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

**Foreign currency sensitivity analysis**

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

	Change in currency rate	Effect on surplus/ deficit	Effect on equity
	KShs	KShs	KShs
<b>2022</b>			
Euro	10%	0	0
USD	10%	0	0
<b>2021</b>			
Euro	10%	0	0
USD	10%	0	0

**ii. Interest rate risk**

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

*Management of interest rate risk*

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

*Sensitivity analysis*

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs xxx (2022: KShs xxx ). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs xxx (2022 – KShs xxx)

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d) Capital risk management**

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

	2020/2022	2020/2021
	KShs	KShs
Revaluation reserve	0	0
Revolving fund	0	0
Accumulated surplus	0	0
<b>Total funds</b>	<b>0</b>	<b>0</b>
Total borrowings	0	0
Less: cash and bank balances	0	0
Net debt/(excess cash and cash equivalents)	0	0
<b>Gearing</b>	<b>0%</b>	<b>0%</b>

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19. Notes to the Financial Statements**

**1. Public Contributions and Donations**

Description	2021/2022	2020/2021
	KShs	KShs
Donation from development partners	70,175,301	122,112,981
<b>Total</b>	<b>70,175,301</b>	<b>122,112,981</b>

**2. Transfers from County Government**

Description	2021/2022	2020/2021
	KShs	KShs
Transfers from County Govt. – operations	19,694,360	4,000,000
<b>Total</b>	<b>19,694,360</b>	<b>4,000,000</b>

**3. Staff Costs**

Description	2021/2022	2020/2021
	KShs	KShs
Salaries and wages	188,000	
<b>Total</b>	<b>188,000</b>	

**4. Use of Goods and Services**

Description	2021/2022	2020/2021
	KShs	KShs
Consumables	287,000	400,000
Electricity and water expense		71,000
Domestic Travel and Subsistence		1,500,000
Foreign Travel and Subsistence		1,200,000
Hospitality	9,249,240	620,223
Telecommunication	-	248,000
Training expenses-Devolution Conference	11,000,000	500,000
Fuel and oil costs	217,400	-
Printing and stationery	1,152,200	28,000
Consultancy Services	2,806,539	
Bank Charges	13,830	12,990
<b>Total</b>	<b>24,726,209</b>	<b>3,380,224</b>

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**5. Finance Cost**

Description	2021/2022	2020/2021
	KShs	KShs
Construction of Municipal Market		81,583,282
<b>Total</b>		<b>81,583,282</b>
<b>6. Cash and Cash Equivalents</b>		

Financial institution	2021/2022	2020/2021
	KShs	KShs
KCB Account	57,686,153	41,066,266
Equity Bank Account	149,760	
<b>Total</b>	<b>57,835,913</b>	<b>41,066,266</b>

**7. Property, Plant and Equipment**

	Land and Buildings	Roads and Infrastructure	
	KShs	KShs	KShs
<b>As at 30th June 2021</b>	<b>152,759,854</b>	<b>-</b>	<b>152,759,854</b>
Additions	10,182,758	38,190,499	48,373,257
<b>As at 30th June 2022</b>	<b>162,942,612</b>	<b>38,190,499</b>	<b>201,133,111</b>
<b>NBV as at 30<sup>th</sup> June 2021</b>	<b>152,759,854</b>	<b>-</b>	<b>152,759,854</b>
<b>NBV as at 30<sup>th</sup> June 2022</b>	<b>162,942,612</b>	<b>38,190,499</b>	<b>201,133,111</b>

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20. Annexes**

**Annex 1. Progress on Follow up of Auditors Recommendations.**

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

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
<b>Variances in Public Contribution and Donation</b>	<p>The statement of financial performance and as disclosed in Note1 to the financial statements reflects revenues from public contribution and donation amounting to Kshs.122,112,981. However, review of the Municipal records revealed that the actual amount of donor funds received in the year under review was Kshs.87,751,481, resulting to an unexplained variance of Kshs.34,361,500.</p> <p>In the circumstances, the accuracy and completeness of public contribution and donation balance of Kshs.122,112,981 could not be confirmed.</p>	<p>This was an error of overstatement brought about by internal borrowings and transfers through the two departmental accounts. It has since been corrected in the year 2021/22 financial statements.</p>	Resolved	
<b>Unsupported Transfers from County Government</b>	<p>As disclosed in Note 2 to the financial statements, the statement of financial performance reflects revenues from transfers from County Government amounting to Kshs.4,000,000. However, Management did not provide the supporting documents for audit review.</p> <p>In the circumstances, the accuracy and completeness of transfers from County</p>	<p>Attached is the prior year bank statement to support the transfer of funds to the department</p>	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Government of Kshs.4,000,000 could not be confirmed.			
<b>Variances in Consumables</b>	<p>As disclosed in Note 4 to the financial statement, the statement of financial performance reflects general expenditure amount of Kshs.3,380,223 which includes consumables of Kshs.400,000. However, audit review revealed that the supporting ledger balance amounting to Kshs.432,000 resulting to an unexplained variance of Kshs.32,000.</p> <p>In the circumstances, the accuracy and completeness of expenditure in respect to consumables of Kshs.400,000 could not be ascertained.</p>	The variance was due to an error in posting and has since been corrected in the year 2021/22 financial statements.	Resolved	
<b>Variances in Telecommunication Expenses</b>	<p>The statement of financial performance reflects general expenditure amount of Kshs.3,380,223 which as disclosed in Note 4 to the financial statements includes an amount of Kshs.248,000 in respect of telecommunication expenses which differs with the supporting ledger amount of Kshs.18,200 resulting to an unexplained variance of Kshs.229,800.</p> <p>In the circumstances, the accuracy and completeness of telecommunication expenses amounting to Kshs.248,000 could not be ascertained.</p>	The variance was due to an error in posting and has since been corrected in the year 2021/22 financial statements.	Resolved	
<b>Unsupported Domestic Travel</b>	The statement of receipts and payments reflects a	The actual amount spent on	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
<b>and Subsistence Allowances</b>	<p>balance of Kshs.3,380,223 which as disclosed in Note 4 to the financial statements includes an amount of Kshs.1,500,000 in respect of domestic travel and subsistence allowance which differs with the supporting ledger amount of Kshs.1,261,000 resulting to an unreconciled variance of Kshs.239,000.</p> <p>Further, the amount of Kshs.1,261,000 was not supported with motor vehicle work tickets or taxi cash receipts, attendance register, aircraft boarding passes and activity outcome/feedback reports.</p> <p>In the circumstances, the accuracy and completeness of domestic travel and subsistence allowances expenditure of Kshs.1,500,000 could not be confirmed.</p>	Domestic travel was Kshs 1,261,000. The error in posting to the financial statements has since been corrected in the year 2021/2022 financial statements		
<b>Unsupported Cash and Cash Equivalents Balances</b>	The statement of financial position reflects cash and cash equivalents balance of Kshs.41,066,266 as disclosed in Note 6 to the financial statements. However, a recast of the two (2) reported bank account balances revealed an amount to Kshs.41,253,717 resulting into an unreconciled variance of Kshs.187,451. Further, bank reconciliation statement and bank statements for the bank account held at Kenya Commercial Bank (KCB)	-All errors have since been corrected in the financial statements under review. Going forward we will ensure all bank reconciliations are availed for audit. -Failure to counter sign cancellations is well noted and we will ensure any cancelations are signed duly.	Resolved	

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>with a reported balance of Kshs.40,446,487 as at 30 June, 2021 was not provided for audit review.</p> <p>In addition, review of the cash and cash equivalent records revealed the following anomalies; -Cancellations made in the cash book for the months of November, April and May, 2021 were not counter signed. -Variances were noted in the cash balances between monthly bank reconciliation statements and the cash book for KCB bank cash book A/c No. 124795318 -Cheques totalling to Kshs.19,089,296 had not been presented for payment. Review of records revealed that the cheques had become stale but had not been reversed in the cash book.</p> <p>In the circumstances, the accuracy and completeness of the cash and cash equivalents of Kshs.41,066,266 could not be confirmed.</p>	<p>-These errors are well noted and have since been corrected in the financial statements for the current year.</p> <ul style="list-style-type: none"> <li>The cheques in question were never presented for payment and thus were cancelled.</li> </ul>		
<p><b>Unsupported Property, Plant and Equipment Balance</b></p>	<p>As disclosed in Note 5 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.81,666,494 . However, the assets movement schedule detailing brought forward value from previous year, categories of the assets and depreciation charges was not prepared. Further,</p>	<p>The figure reported was for construction of the Homa Bay municipal Market which was done in the year under audit and hence there was no value of assets brought forward.</p>	<p>Not Resolved</p>	<p>June 2023</p>

**County Government of Homa Bay  
Municipality of Homa Bay  
Annual Report and Financial Statements For the year ended June 30, 2022**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>payment schedules and ledgers together with sufficient payment vouchers were not provided for audit review.</p> <p>In the circumstances, the accuracy and completeness of property plant and equipment balance of Kshs.81,666,494 could not be confirmed.</p>	<p>-The supporting payment vouchers were misplaced by the former management . The department is following up to obtain and avail them for audit.</p>		
<b>Budgetary Control and Performance</b>	<p>The statement of comparison of budget and actual amounts for the year ended 30 June, 2021 reflects final revenue budget and actual on comparable basis of Kshs.156,600,000 and Kshs.126,112,981, respectively, resulting in an under-funding of Kshs.30,487,019 or 29% of the budget. Further, the Board spent an amount of Kshs.85,046,717 out of the approved expenditure budget of Kshs.156,600,000, resulting in under expenditure of Kshs.21,967,300 or 63% of the budget.</p> <p>The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.</p>	<p>Underfunding and under expenditure was due to late disbursement of funds from the county treasury. This is however noted and the department will follow up to ensure funds are disbursed in time</p>	Not Resolved	June 2023



