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REPORT

OF

THE AUDITOR-GENERAL

ON

MUNICIPALITY OF KILIFI

**FOR THE EIGHTEEN MONTHS PERIOD
ENDED 30 JUNE, 2020**



**KILIFI COUNTY GOVERNMENT
MUNICIPALITY OF KILIFI**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR 18 MONTHS ENDED
JUNE 30TH 2020**

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

Municipality of Kilifi
Reports and Financial Statements
For 18 months ended June 30, 2020

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

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

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

Re	Name	Position
1	Charles M. Ngala	Chairperson
2	Ms Munira Jadeed	Vice Chairperson
3	Hon.MaureenMwangovya	Executive Committee Member-Urban Development-Member
4	Moses Gunda Munga	Chief Officer-Urban Development-Member
5	Zainab Salim	Member
6	Dr.Silas Mzungu Chitibwi	Member
7	Getrudah Sidi Kirenge	Member
8	Patricia Luvuno Chonga	Member

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9	Dancan Nyale	Member
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d) Key Management

Ref	Name	Position
1	Elius K.Chipa	Municipal Manager
2	Jacinta Ismail	Principal Accountant

e) Registered Offices

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

f) Fund Contacts

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

g) FundBankers

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

h) Independent Auditors



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



i) Principal Legal Adviser

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




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2. THE BOARD OF TRUSTEES (or any other corporate governance body for the Fund)

Name	Passport Size Photo	Details of qualifications and experience
1.Charles M. Ngala		<p>a. Date of birth:12th .11.1958</p> <p>b. Academic Qualification: He holds a Bachelor of Arts Major in Economics from the University of Nairobi. Has a Qualifying Diploma in Shipping (UK)</p> <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 Boarda wealth of experience in management, transport and Logistics.
2.Ms Munira Jadeed		<p>a. Date of birth:30th .06.1984</p> <p>b. Academic Qualification:1.Master Degree in Project Planning and Management 2.Bachelors Degree in Urban and Regional Planning</p> <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>3.Hon.Maureen MnyaziMwangovya</p>		<p>a. Date of Birth:10th .10.1964</p> <p>b. Academic Qualification: M.A in Project Planning and Management and a B.A in Economics Government at University of Nairobi</p> <p>c. Experience: 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>
<p>4.Moses GundaMunga</p>		<p>a. Date of Birth:24th 06.1982</p> <p>b. Academic Qualification: Bachelors of Architecture</p> <p>c. Experience:1.He is an architect with 12years 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>

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<p>5.Zainab Salim</p>		<p>a. Date of Birth:20th April 1958 b. Academic Qualification: Certificate in Child Counselling, Kenya Association of Professional Counsellors c.Experience: 1.Served as a Board Member of KIMAWASCO 2.National Delegate Representing Kilifi County MaendeleoyaWanawake 3.Head of State Commendation (HSC-Civilian Division)</p>
<p>6.Dr.Silas MzunguChitibwi</p>		<p>a. Date of Birth:21st Oct 1952 b.Academic Qualification: Bachelor of veterinary Medicine c.Experience: Veterinary surgeon by profession and a Community Worker by choice and practise He is an alumni of LenanaSchools (Duke of York) and The University of Nairobi Veterinary School.</p>
<p>7.Getrudah SidiKirenge</p>		<p>a. Date of Birth:27th Aug 1988 b. Academic Qualification: 1.Masters of Arts 2. Bachelor of Law. c. Experience: Kanchory and Company Advocates Associate Advocate</p>

<p>8. Patricia Luvuno Chonga</p>		<p>a. Date of Birth :29th June 1986</p> <p>b. Academic Qualification: BachelorsDegree 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</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>

**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 objective, of the Board of Municipality of Kilifi 2019/2020 plans was to:

- a) Provide quality and sustainable physical infrastructure in the County
- b) To enhance provision of quality Urban Services
- c) To promote environmental sustainability




Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
Program 1	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.	Improvement of the drainage system Increase in the amount of revenue collection.	The flagship project is around 50% complete.

4. MANAGEMENT TEAM

Name	Passport Size Photo	Detail of qualifications and experience
1. Elius K. Chipa		<p>a. Date of Birth:30th January.1972</p> <p>b. Academic Qualification : -Masters 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>
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</p> <p>2. Experience: Over 20 years' experience in Financial Management. She is the Principal Accountant for the Municipality of Kilifi</p>
2.Margaret Mapezi Chivila		<p>a. Date of Birth:07th /August/1983</p> <p>b. Academic Qualification: Bachelors Degree in Mass Communication</p> <p>c. Experience She is a Principal Administrative officer for the Municipality of Kilifi</p>

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<p>4. Caroline Mwaka Mutana</p>		<p>a. Date of Birth:25th .January.1981</p> <p>b. Academic Qualification: 1. Bachelor of Business Administration(HR)option 2.MSC.HRM</p> <p>c. Experience: 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 is an Environmental Officer for the Municipality of Kilifi</p>
<p>6. Janet Tsuma</p>		<p>a. Date of Birth:09th /October/1975</p> <p>b. Academic Qualification: BDS,MBA(Strategic Management)</p> <p>c. Experience: 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 18 Months ended 30th June 2020

The Board is composed of nine (9) Members. The Board affairs are conducted through the following Board Committees.

1. Social Services and Economic Development Committee
2. Finance and Administration Committee
3. Transport and Infrastructure Committee
4. Physical Planning, Urban Development and Environment Committee
5. Audit Monitoring & Evaluation Committee

Each of these Committees is made up of a Chairperson and at least four (4) Members

Board and Management Changes

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

Future Outlook

The Board is in the process of developing a five (5) year Strategic Plan to guide its operations. The Board will ensure that the Public is involved in all its undertaking as provided 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 FUND ADMINISTRATOR

It is my pleasure to present the Kilifi Municipality Financial statement for 18 Months ended 30th June; 2020. The Financial Statement presents the Financial Performance of the Municipality over the past year.

The Municipality of Kilifi was established by and derives its authority and accountability from 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

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, 2019 Kshs.33, 421,115.75 have been expended on this project. (35%)

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.
- Capacity of the Supervising County Department was wanting hence the delay.
- Covid 19 pandemic guidelines led to stoppage of the work hence the delay

The County Government of Kilifi allocated Kshs.19.6M to the Municipality during the 1stSupplementary FY 2019/2020. Kshs.11, 650,006 was expended being 59%

In the implementation of the allocation the following challenges were faced

-mapping of the Municipality into Ifmis took some time

-Covid-19 Pandemic delayed the processes

Signed: 

Elius K. Chipa
Municipal Manager

7. CORPORATE GOVERNANCE STATEMENT

The Board

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

The Municipality has a gazetted Municipal Charter.

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

The Board has the overall mandate to oversight

Board Meetings

The Board was inducted and thereafter held Eight (8) Board meetings attended by all Board members

The Board is required to meet 4 times per year in ordinary meetings

The Board operate through Committees.

Internal Control and Risk Management

Internal Control

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

Organisation Structure

The Municipality has an Organization structure approved by the Board and currently has key seconded staff from the County

Risk Management

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

Financial Performance

The Municipality of Kilifi as at 1st July 2019 had not been allocated a budget by the County Government

However, there was a balance brought forward of Ksh.96, 748,312.50 under Urban Development Grant and an allocation of Kshs.19.6M during the 1st Supplementary Budget.

9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Community Engagements-

1. Public participation forums

The Municipality of Kilifi led by the board Chairperson Mr Charles Mwachondo Ngala and the Municipal Manager Mr. Elius K. Chipa held Citizen engagement fora in all the 4 wards, that is Mnarani, Sokoni, Kibarani and Tezo.

The main aim of the public participation exercise was to create awareness to the public about the formation of the Municipality, introduce the board members to the public and local leaders as well as creating a culture of involving the public in matters of governance and largely solicit views from the residents of the municipality.

The Board is keen to ensure a people-centred and people-driven development as enshrined in the Constitution. Since sworn in office; the board has prioritized citizen involvement and participation in development agenda and projects from the start so as to achieve inclusive Urban Development.

10. REPORT OF THE BOARD

The Board submit their report together with the audited financial statements for the period ended June 30, 2020 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 bylaws
- Foster the economic, social and environmental wellbeing of the inhabitants

Results

The results of the Board for the year ended June 30, 2020 are set out on page 9.

Trustees

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

Auditors

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

By Order of the Board

CHARLES NGALA



Member of the Board

Date: 29/09/20

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 30, 2020. 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 areas 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 30, 2020, and of the Board's financial position as at that date. The Municipal Manager further confirm 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

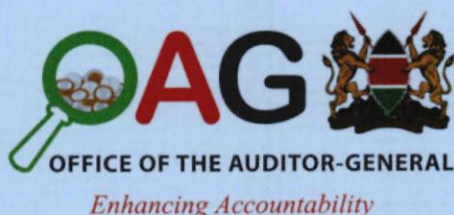
The Board's Financial Statements were approved by the Board on 29th September 2020 and signed on its behalf by:



Municipal Manager
Elius K. Chipa

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON MUNICIPALITY OF KILIFI FOR THE EIGHTEEN MONTHS PERIOD ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Municipality of Kilifi set out on pages 20 to 42, which comprise of the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the eighteen (18) months period 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, the financial statements present fairly, in all material respects, the financial position of the Municipality of Kilifi as at 30 June, 2020, and of its financial performance and its cash flows for the eighteen (18) months period then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Urban Areas and Cities (Amendment) Act, 2011 and Kilifi County Subsidiary Legislation, 2019 and the Public Finance Management Act, 2012.

Basis for Opinion

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 opinion.

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.116,620,024 and Kshs.108,670,030 respectively resulting to an under-funding of Kshs.7,949,994 or 7% of the budget. Similarly, the Municipality spent Kshs.45,117,934 against an approved budget of Kshs.116,350,100 resulting to an under-expenditure of Kshs.71,232,166 or 61% of the budget.

The underfunding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Kilifi.

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 of Conclusion

Expenses on Training and Workshops

The statement of financial performance reflects general expenses of Kshs.8,055,415 and as disclosed in Note 6 to the financial statements includes other expenses amounting to Kshs.3,462,300 in respect to trainings and workshops during the period under review. However, training needs assessment report on existing knowledge and skills gaps was not provided for audit verification. This is contrary to Section H (2 -3) of Human Resource Policies and Procedures Manual for the Public Service, 2016 which requires entities to prepare training projections based on Training Needs Assessment to guide the human resource management advisory committees in nominating officers for training.

Further, procurement records and contract agreements in respect of the venues for the conferences, committee meetings and seminars were not provided for audit verification. Although Management indicated that open tender was used before entering into the framework contracts for the training venues, the contracts were not provided for audit review.

Consequently, the regularity and validity of the expenditure of Kshs.3,462,300 incurred on trainings could not be confirmed.

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, 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.

Basis of Conclusion

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as 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'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 the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation

to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance 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 Municipality of Kilifi's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Municipality of Kilifi 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

07 February, 2022

13. FINANCIAL STATEMENTS

13.1. STATEMENT OF FINANCIAL PERFORMANCE FOR 18 MONTHS ENDED
 30th JUNE 2020

	Note	2019/2020 K.shs	2018/2019 K.shs
Revenue from non-exchange transactions			
Urban Development Grant	1	96,750,100	-
Payments by County on behalf of the entity	2	11,650,006	-
		108,400,106	-
Revenue from exchange transactions			
Interest income	3	269,924	-
			-
Total revenue		108,670,030	-
Expenses			
Urban Development Grant Projects	4	33,421,116	-
Staff costs	5	3,641,403	-
General expenses	6	8,055,415	-
Total expenses		45,117,934	-
Surplus/(deficit)for the period		63,552,096	-

The notes set out on pages 40 to 41 form an integral part of these Financial Statements

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13.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	2019/2020 KSh.	2018/2019 KSh.
Assets			
Current assets			
Cash and cash equivalents	7	63,552,096	-
		63,552,096	-
Non-current assets			
			-
Total assets		63,552,096	-
Liabilities			
Current liabilities			
Non-current liabilities		-	
Total liabilities		-	-
Net assets		63,552,096	-
Accumulated surplus		-	-
Total net assets and liabilities		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 29/09/2020 2020 and signed by:



Municipal Manager
Name: Elius Chipa



Municipality Accountant
Name: Jacinta Ismail

13.3. STATEMENT OF CHANGES IN NET ASSETS FOR 18 MONTHS ENDED 30 JUNE 2020

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2018	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Funds received during the year	-	-	-	-
Revaluation gain	-	-	-	-
Balance as at 30 June 2019	-	-	-	-
Balance as at 1 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

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1.1. STATEMENT OF CASH FLOWS FOR THE 18 MONTHS ENDED 30 JUNE 2020

	Note	2019/2020	2018/19
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Urban Development Grant	1	96,750,100	-
Payments by County on behalf of the entity	2	11,650,006	-
Interest received	3	269,924	-
Receipts from other operating activities			-
Total Receipts		108,670,030	-
Payments			
Urban Development Grant Projects	4	33,421,116	-
Staff Cost	5	3,641,403	-
General Expenses	6	8,055,415	-
		45,117,934	
Adjusted for:			
Decrease/(Increase) in Accounts receivable:		-	-
(outstanding imprest)		-	-
Increase/(Decrease) in Accounts Payable:		-	-
(deposits and retention)		-	-
Net cash flows from operating activities		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 2019		-	-
Cash and cash equivalents at 30 JUNE 2020	7	63,552,096	-

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(IPSAS 2 allows an entity to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation. The above illustration assumes direct method)

13.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE 18 MONTHS ENDED
30th JUNE 2020

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2020	2020	2020	2020	2020	2020
	KShs	KShs	KShs	KShs	KShs	
Revenue						
Urban Development Grant	96,750,100	-	96,750,100	96,750,100	-	100%
Transfers from the County Government	-	19,600,000	19,600,000	11,650,006	7,949,994	59%
Interest income	-	-	269,924	269,924	-	
Other income	-	-			-	
Total income	96,750,100	19,600,000	116,620,024	108,670,030	7,949,994	
Expenses						
Urban Development Grant Projects	96,750,100	-	96,750,100	33,421,116	63,328,984	35%
General expenses	-	19,600,000	19,600,000	11,696,818	7,903,182	60%
other operating costs	-	-			-	
Total expenditure	96,750,100	19,600,000	116,350,100	45,117,934	71,232,166	
Surplus for the period	-	-	269,924	63,552,096	(63,282,172)	

Budget notes

1. The Municipality of Kilifi budget was uploaded in late February together with the supplementary budget. This meant that the MOK had only 5 months to implement the budget. Hence there wasn't enough time to fully utilize the budget.
2. The Municipality of Kilifi Budget was integrated in the executive budget during the first supplementary hence the difference between the original and final 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 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 2020

Standard	Impact
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019 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 2020

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	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: <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

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Standard	Effective date and impact:
	<p>that is applicable to all financial instruments subject to impairment testing; and</p> <ul style="list-style-type: none"> • 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</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ul style="list-style-type: none"> (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>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2022:</p> <ul style="list-style-type: none"> 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. <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>Applicable: 1st January 2021:</p> <ul style="list-style-type: none"> 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 b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment.

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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 revalue 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>

c) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020.

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 2019/2020 was approved by the County Assembly on 24th June 2019.

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

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Inventories

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

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

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

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

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

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

9. Provisions

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

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

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

Contingent liabilities

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent assets

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

10. 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 were 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

20. The entity is a Municipality established by the Urban Areas and Cities Act 2011 and was amended in 2019. Its ultimate parent is the County Government of Kilifi.

21. 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)

22. Significant judgments and sources of estimation uncertainty

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

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

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

Useful lives and residual values

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

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

Provisions

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

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)

23. Financial risk management

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

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

a) Credit risk

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

b) Liquidity risk management

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Market risk

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

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

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

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

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.

i. Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

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

13.7. NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description	2019/2020	2018/2019
	KSh	KSh
Urban Development Grant	96,750,100	-
Total	96,750,100	-

2. Transfers from County Government

Description	2019/2020	2018/2019
	KSh	KSh
Payments by County on behalf of the entity	11,650,006	-
Total	11,650,006	-

3. Interest income

Description	2019/2020	2018/2019
	KSh	KSh
Interest income on bank deposits	269,924	-
Total interest income	269,924	-

4. Urban Development Grant

Description	2019/2020	2018/2019
	KSh	KSh
Urban Development Grant Projects	33,421,116	-

5. Staff costs

Description	2019/2020	2018/2019
	KSh	KSh
Salaries and wages	3,641,403	-
Total	3,641,403	-

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6. General expenses

Description	2019/2020	2018/2019
	KSh	KSh
Consumables	515,000	-
Printing and stationery	1,331,340	-
Rental costs	1,136,163	-
Telecommunication	174,000	-
Bank Charges	46,812	-
Hospitality	1,389,800	-
Other expenses	3,462,300	-
Total	8,055,415	-

7. Cash and cash equivalents		
Description	2019/2020	2018/2019
	KSh	KSh
Current account	63,552,096	-
Total cash and cash equivalents	63,552,096	-
Detailed analysis of the cash and cash equivalents are as follows:		
Description	2019/2020	2018/2019
	KSh	KSh
a) Current account		
<i>KCG - KILIFI MUNICIPALITY UDG ACCOUNT</i>	1007077325	63,552,096
Sub- total		63,552,096
Grand total		63,552,096

14. 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 (From date when you expect the issue to be resolved)

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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