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REPORT

OF

THE AUDITOR-GENERAL

ON

**MERU COUNTY ALCOHOLIC DRINKS
CONTROL BOARD**

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

PAPERS LAID	
DATE	02/03/2022
TABLED BY	Sml
COMMITTEE	-
CLERK AT THE TABLE	DANIEL



MERU COUNTY ALCOHOLIC DRINKS CONTROL BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

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

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

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and accountability from Meru County Alcoholic Drinks Control Act of 2016 of the Meru County Assembly which was repealed and re-enact by Meru County Alcoholic Drinks Control Act of 2016.

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

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

b) Principal Activities

The Fund's principal activity is to advise the County on all matters relating to licensing and control of alcoholic drinks within the County.

c) Board of Trustees/Fund Administration Committee

Ref	Name	Position
1	Prof. kimathi Kigatira	Chairman
2	Peter Imuru	Board Member
3	Rose Ngaku	Board Member
4	Lewis Kithinji	Board member
5	Cyprian Kalaine	Board Member
6	Kanana kimonye	Board Member

d) Key Management

Ref	Name	Position
1	Mr Paul Mwaki Arimi	CEO
2	Gitonga Akubu	Director Enforcement
3	Leah kinya	Director Admin and Rehabilitation

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e) Registered Offices

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

f) Fund Contacts

Telephone: (254) 202381720
E-mail: alcoholboard@gmail.com

g) Fund Bankers

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






h) Independent Auditors

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


i) Principal Legal Adviser

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

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

NAME	DETAILS OF QUALIFICATIONS AND EXPERIENCE
 Prof. Kimathi Kigatira	Position: Board Chairperson DOB: 1955 Qualifications: Bachelor of Medicine & Bachelor of surgery Masters of Medicine (mental health) Experience: over 30years in University management and as an Academician.
 Peter Murungi Imuru	Position: Board Member Qualifications: O-level Experience: Over 20years in Church Ministry as a Bishop
 Rose Ngaku	Position: Board Member Qualifications: 0-level Experience: Over 20 years in Women leadership (Maendeleo ya wanawake)
 Lewis Kithinji	Position: Board Member DOB: 1984 Qualifications: Bachelors of Development studies Experience: Over 5years in Administration position at Mount Kenya University
 Cyprian Kalaine	Position: Board Member/chief officer culture DOB:1962 Qualifications: Bachelors of arts Experience: Over 20years in Parastatal Managerial position

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 <p>Dr. Kanana kimonye</p>	<p>Position: Board Member/chief officer health DOB:1986 Qualifications: Bachelor of Medicine & surgery Experience: Over 5years as a Medical Doctor at Meru Level 5 Hospital</p>
 <p>Mr Paul Mwaki</p>	<p>Position: Chief Executive Officer DOB: 1970 Qualifications: BED Arts MA linguistics Experience: Over 20years as High School teacher and a University Lecturer.</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 Government entities in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the county government entity's performance against predetermined objectives.

The key objectives of the Meru County Alcoholic Control Board, Meru County Government Entity's 2018-2022 plans are to:

- a) Inspect all liquor outlets in Meru and ensure compliance with required standards.
- b) Enforce to ensure compliance with the law.
- c) Sensitize and create awareness to the general public in order to control alcohol consumption.
- d) Engage in Corporate Social Responsibility to create awareness and support to youths and the general public.

However, with the above listed objectives the board faced challenges in enforcing, inspection and creating awareness to the general public due to Covid 19 pandemic.

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4. MANAGEMENT TEAM

Name	Details of qualifications and experience
 Mr. Paul Mwaki	Position: Chief Executive Officer DOB: 1970 Qualifications: BED Arts MA linguistics Experience: Over 20years as High School teacher and a University Lecturer.
 Mr. Gitonga Akubu	Position: Head of Enforcement & Compliance DOB:1980 Qualifications: Bachelors of Business Administration Experience: Over 5years as an Administrator in County Government of Meru
 Ms. Leah Kinya	Position: Senior Administrative officer DOB:1986 Qualifications: Bachelor's degree in Education (Science) Experience: Over 6years as an Administrator in County Government of Meru

5. BOARD/FUND CHAIRPERSON'S REPORT

On behalf of the board of directors, Meru County Alcoholic Drinks Control Board, I take this opportunity to present financial statements for the period ended on 30th June 2020 in pursuant of section 10 of the Meru County Alcoholic drinks control act 2016.

The board is tasked with licencing of alcoholic drinks for the county government of Meru in pursuant to part II of the Fourth schedule of the constitution so as to control the production, sale, distribution, promotion and use of alcoholic drinks and the promotion of research, treatment and rehabilitation of persons dependent on alcoholic drinks.

In the financial year under review there were no changes in board or key management team. During the year, the board undertook inspection of all liquor outlets within the county, licenced them and undertook various enforcement measures to ensure that no non-licenced outlets were operated within the year.

The board experienced various challenges, among them Covid 19 pandemic, limited personnel, and inadequate funding. The Covid 19 pandemic adversely affected Board's revenue collection for the F/Y 2019-2020. The board expects to resume its normal operations after the lifting of restrictions in the country.

Signed: 

Prof. Kimathi Kigatira

6. REPORT OF THE FUND ADMINISTRATOR

The chief executive officer has day to day management responsibility of running of the board and the implementation of its strategy and policies as agreed by the board of directors. The chief executive officer has a key role in the process of setting and reviewing strategy. The chief executive officer is the vision carrier of the board's culture and standards, which include appropriate corporate governance throughout the board.

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

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

The board has encouraged adequate systems and controls for identification and redress of grievances arising from unethical practices as well as ensuring professional standards and corporate values are put in place that promote integrity for the board, senior management and other employees.

In the F/Y 2019-2020, the board was not able to achieve its revenue estimation due to the Covid -19 pandemic which resulted to closure of bars.

During the year, the board collected kshs **37,824,540** on liquor licencing operations and spent Ksh **50,547,079** on its various activities. The deficit between collection and expenditure was catered for by cash balance brought forward from previous year's operation.

Signed:  _____ -

Mr. Paul Mwaki

Fund Administrator

7. CORPORATE GOVERNANCE STATEMENT

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

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

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

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

The primary responsibility of the board of directors is to provide leadership and strategic direction to the board. The board members are expected to exercise the highest degree of care, skill and diligence in discharging their duties. The principal responsibilities of the board shall include (i) establishing short and long term goals of the board, develop strategies to achieve these goals and monitor the boards performance against the set goals; (ii) spearheading preparation of financial statements and reports; (iii) approving and reviewing budgets; (iv) overseeing affairs

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of the board in light of emerging risks and opportunities and ;(v) ensuring that the board has adequate systems and internal controls together with appropriate monitoring of compliance activities

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

In the financial year 2019-2020, the Board Members held 24 meetings. During every board meeting, board members in attendance are entitled to a sitting allowance, lunch allowance, accommodation allowance and millage reimbursement where applicable within the set government limit. The chairman receives a monthly honorarium.

8. MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the board collected Kshs **37,824,540** from liquor licencing activities within the county against an expenditure of **Ksh 50,547,079** resulting to a deficit of Kshs **(12,722,539)**. Since the boards' core mandate is advice the County on all matters relating to licensing and control of alcoholic drinks within the County all the expenditures were recurrent in nature and were geared towards supporting the board to discharge its core mandate and hence there were no projects budgeted / implemented during the period under review.

During the period under review the board faced major challenge/ risk of Covid 19 pandemic, not having requisite technology/ know how to distinguish between genuine and contraband alcoholic drinks and relied on the expertise from the Kenya Bureau of standards. Hence there always existed a risk of existence of illicit drinks within the market which could pose an hazardous risk if consumed by the residents

KEY PROJECTS OF THE BOARD

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

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4	Corporate Social Responsibility – donations	To create awareness and help control alcohol consumption among youths in Meru County
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9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

During the period the board donated funds as part of Corporate Social Responsibility which included donation to Rotary club Nkubu Marathon.

These activities were used to sensitize youth against drug abuse and promote behaviour change among the youth as part of its corporate social responsibility.

**Meru County Alcoholic Drinks Control Board
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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 Meru County Alcoholic Drinks Control Board's affairs.

Principal activities

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

Results

The results of the Fund for the year ended June 30, 2020 are set out on page 19-42.

Trustees

The members of the Board of Trustees who served during the year are shown on page 4-5.

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



Cyprian Kalaine.

Member of the Board

Date: 30/11/2020

11. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a County Public Fund established by Meru County Alcoholic Drinks Control Act of 2014 of the Meru County Assembly which was repealed and re-enact by Meru County Alcoholic Drinks Control Act of 2016 shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Administrator of the County Public Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 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 Administrator of the County Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Meru County Alcoholic Drinks Control Act of 2014 of the Meru County Assembly which was repealed and re-enact by Meru County Alcoholic Drinks Control Act of 2016. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2020, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

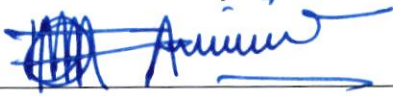
In preparing the financial statements, the Administrator of the County Public Fund has assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to

**Meru County Alcoholic Drinks Control Board
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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

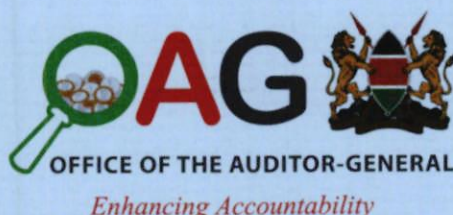
The Fund's financial statements were approved by the Board on 30/11/ 2020 and signed on its behalf by:



Administrator of the County Public Fund

REPUBLIC OF KENYA

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



HEADQUARTERS
Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY ALCOHOLIC DRINKS CONTROL BOARD FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru County Alcoholic Drinks Control Board set out on pages 19 to 43, which comprise 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 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 matters 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 Meru County Alcoholic Drinks Control Board as at 30 June, 2020, 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 Public Finance Management Act, 2012 and the Meru County Alcoholic Drinks Control Board Act, 2016.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

1.1 Inaccurate Statement of Financial Performance

The statement of financial performance reflects prior year adjustment comparative balance of Kshs.1,859,462. However, the 2018/2019 financial statements reflect nil balance in respect to the same item resulting to unexplained variance of the same amount.

In addition, the statement of financial performance reflects comparative balance of Kshs.2,495,367 for the surplus for the period. However, the 2018/2019 financial statements reflect an amount of Kshs.635,905 resulting to an unexplained variance of Kshs.1,859,462.

In the circumstances, the accuracy of the prior year adjustment comparative balances of Kshs.1,859,462 could not be confirmed.

1.2 Inaccurate Statement of Financial Position

The statement of financial position reflects prior year comparative balance for accumulated surplus amounting to Kshs.28,370,318. However, the 2018/2019 financial statement reflects a balance of Kshs.26,510,856 in respect to the same item resulting to unreconciled variance of Kshs.1,859,462.

In the circumstances, the accuracy of accumulated surplus comparative balance of Kshs.28,370,318 could not be confirmed.

1.3 Inaccurate Statement of Changes in Net Assets

The statement of changes in net assets reflects accumulated surplus balance of Kshs.28,370,318 as at 30 June, 2019. However, the 2018/2019 financial statements reflect a balance of Kshs.26,510,856 on the same item resulting to unexplained variance of Kshs.1,859,462. In addition, a review of documents showed that the amount of Kshs.1,859,462 was an adjustment to the statement of changes in net assets as a prior year error whose supporting documents including journal vouchers were not provided for audit.

In the circumstances, the accuracy of the adjustment for prior year error amounting to Kshs.1,859,462 in the financial statements could not be confirmed.

1.4 Inaccurate Statement of Cash Flows

The statement of cash flows reflects amounts of Kshs.54,275,162, Kshs.5,139,923 and Kshs.20,865,489 in respect to comparative balances on total receipts, net cash flows from operating activities and cash and cash equivalents as at 01 July, 2018 respectively. However, the 2018/2019 statement of cash flows reflects balances of Kshs.52,415,700, Kshs.3,280,461 and Kshs.22,724,951 on the same items respectively resulting to an unexplained similar variance of Kshs.1,859,462 in each of the three items.

In the circumstances, the accuracy of the statement of cash flows could not be confirmed.

2.0 Irregular Payment of Board Allowances

The statement of financial performance reflects general expenses amounting to Kshs.34,171,768 which includes an amount of Kshs.25,816,008 in respect to other expenses which further includes an amount of Kshs.5,220,916 in respect to Board expenses as disclosed in Note 4 to the financial statements. The Board expenses expenditure of Kshs.5,220,916 includes an amount of Kshs.810,000 irregularly paid to Board members on various dates instead of an amount of Kshs.405,000 computed from the rates contained in the Salaries and Remuneration Commission (SRC) circular referenced SRC/ADM/CIR/1/13(122) dated 16 April, 2014 resulting to overpayment of Kshs.405,000.

In the circumstances, the regularity of the Board expenses amounting to Kshs.405,000 could not be confirmed. In addition, the Management is in breach of the law.

3.0 Unsupported Liquor License

The statement of financial performance reflects liquor license fees amounting to Kshs.37,824,540 as disclosed in Note 1 to the financial statements. However, as reported

in the previous year, supporting documents including type of license issued, license serial number and fee receipt issued were not provided for review.

In the circumstances, the accuracy and completeness of the liquor license fees amounting to Kshs.37,824,540 could not be confirmed.

4.0 Unsupported Other Expenses

4.1 Unsupported Training Expenses

The statement of financial performance reflects general expenses amounting to Kshs.34,171,768 as disclosed in Note 4 to the financial statements which includes an amount of Kshs.25,816,008 in respect to other expenses which further includes an amount of Kshs.3,148,900 in respect to training expenses. However, included in the training expenses totalling Kshs.3,148,900 is an amount of Kshs.2,086,400 whose supporting documents including training needs analysis, invitation letters, training timetable, back to office reports and evidence of travel were not provided for audit.

In the circumstances, the accuracy and completeness of the other expenses amounting to Kshs.2,086,400 could not be confirmed.

4.2 Unsupported Daily Subsistence Allowance

The statement of financial performance reflects general expenses amounting to Kshs.34,171,768 as disclosed in Note 4 to the financial statements which includes an amount of Kshs.25,816,008 in respect to other expenses which further includes an amount of Kshs.6,954,368 in respect to daily subsistence allowances. However, included in the daily subsistence allowances totalling Kshs.6,954,368 is an amount of Kshs.1,257,800 whose supporting documents including evidence of travel, back to office report and attendance register were not provided for audit.

In the circumstances, the accuracy and completeness of the other expenses amounting to Kshs.1,257,800 could not be confirmed.

5.0 Unsupported Expenditure – Hospitality

The statement of financial performance reflects general expenses amounting to Kshs.34,171,768 as disclosed in Note 4 to the financial statements which includes an amount of Kshs.3,378,618 in respect to hospitality which further includes an amount of Kshs.1,118,200 in respect to various hospitality activities whose supporting documents including program of activities, evidence of travel, back to office report and attendance register were not provided for review.

In the circumstances, the accuracy and completeness of the hospitality expenses amounting to Kshs.1,118,200 could not be confirmed.

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

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs.55,036,484 and Kshs.37,824,540 respectively, resulting to an underfunding amounting to Kshs.17,211,944 or 31% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.55,036,484 and Kshs.50,547,079 respectively, resulting to an underperformance amounting to Kshs.4,489,405 or 8% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on the Board's performance.

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

Ethnic Imbalance

A review of the personnel records showed that Meru County Alcoholic Drinks Control Board has twenty-five (25) employees out of which twenty-four (24) or 96% were from the dominant ethnic community in the County contrary to Section 65(1)(e) of County Government Act, 2012 which require that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the County.

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

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

REPORT ON EFFECTIVENESS ON 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 governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 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.

In preparing the financial statements, Management is responsible for assessing the Board's ability 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 abolish the Board or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Board's financial reporting process, reviewing the effectiveness of how the Board 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 governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Board'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 Board'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 Board 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 Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 February, 2022

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14. FINANCIAL STATEMENTS

14.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2020

	Note	2019/2020	2018/2019
		KShs	KShs
Revenue from exchange transactions			
Other income	1	37,824,540	52,415,700
Add: Prior year Adjustment			1,859,462
Total revenue		37,824,540	54,275,162
Expenses			
Fund administration expenses	2	16,375,311	18,950,502
General expenses	4	34,171,768	32,829,293
Total expenses		50,547,079	51,779,795
Other gains/losses			
Gain/loss on disposal of assets			
Surplus/(deficit) for the period		(12,722,539)	2,495,367

The notes set out on pages 37 - 42 form an integral part of these Financial Statements

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14.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	2019/2020	2018/2019
		KShs	KShs
Assets			
Current assets			
Cash and cash equivalents	5	13,530,143.00	25,208,412
Current portion of long- term receivables from exchange transactions			
Prepayments			
Inventories			
Non-current assets			
Property, plant and equipment	6	2,117,636.00	3,161,906
Intangible assets			
Long term receivables from exchange transactions			
Total assets		15,647,779.00	28,370,318
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions		0.00	0.00
Provisions		0.00	0.00
Current portion of borrowings		0.00	0.00
Employee benefit obligations		0.00	0.00
Non-current liabilities			
Non-current employee benefit obligation		0.00	0.00
Long term portion of borrowings		0.00	0.00
Total liabilities		0.00	0.00
Net assets			
Revolving Fund		0.00	0.00
Reserves		0.00	0.00
Accumulated surplus		15,647,779.00	28,370,318
Total net assets and liabilities		15,647,779.00	28,370,318

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The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30/11 2020 and signed by:



Administrator of the Fund
Name: Paul Mwaki



Fund Accountant
Name: CPA Joseph Chabari
ICPAK Member Number: 14516

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14.3. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2020

				Total KShs
Balance as at 1 July 2018	0	0	25,874,951	25,874,951
Surplus/(deficit) for the period	0	0	635,905	635,905
Funds received during the year	0	0	-	-
Revaluation gain	0	0	-	-
Add: Adjustment for prior year error	0	0	1,859,462	1,859,462
Balance as at 30 June 2019	0	0	28,370,318	28,370,318
Balance as at 1 July 2019	0	0	28,370,318	28,370,318
Surplus/(deficit) for the period	0	0	(12,722,539)	(12,722,539)
Funds received during the year	0	0	-	-
Revaluation gain	0	0	-	-
Balance as at 30 June 2020	0	0	15,647,779	15,647,779

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14.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019/2020 KShs	2018/2019 KShs
Cash flows from operating activities			
Receipts			
Receipts from other operating activities- Licences	1	37,824,540	52,415,700
Add: Prior year Adjustment			1,859,462
Total Receipts		37,824,540	54,275,162
Payments			
Fund administration expenses	2	16,375,311	18,950,502
General expenses	4	34,171,768	32,829,293
Adjustment for depreciation	6	1,044,270	2,644,556
Finance cost			
Total Payments		49,502,809	49,135,239
Adjusted for:			
Decrease/(Increase) in Accounts receivable: (outstanding imprest)			
Increase/(Decrease) in Accounts Payable: (deposits and retention)			
Net cash flows from operating activities		(11,678,269)	5,139,923
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	6	-	(797,000)
Proceeds from sale of property, plant and equipment			
Proceeds from loan principal repayments			
Loan disbursements paid out			
Net cash flows used in investing activities		-	(797,000)
Cash flows from financing activities			
Proceeds from revolving fund receipts			

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Additional borrowings			
Repayment of borrowings			
Net cash flows used in financing activities			
Net increase/(decrease) in cash and cash equivalents		(11,678,269)	4,342,923
Cash and cash equivalents at 1 JULY	5	25,208,412	22,724,951
Less: Adjusted Prior year overstatement		-	(1,859,462)
Cash and cash equivalents at 1 JULY		25,208,412	20,865,489
Cash and cash equivalents at 30 JUNE	5	13,530,143	25,208,412

14.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30th JUNE 2020

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2020	2020	2020	2020	2020	2020
	KShs	KShs	KShs	KShs	KShs	
Revenue						
Licenses	55,036,484		55,036,484	37,824,540	(17,211,944)	68.73%
Total income	55,036,484		55,036,484	37,824,540	(17,211,944)	68.73%
Expenses						
Fund administration expenses	23,450,000	(3,000,000)	20,450,000	16,375,311	4,074,689	80.07%
General expenses	31,586,484	3,000,000	34,586,484	34,171,768	414,716	98.80%
Total expenditure	55,036,484		55,036,484	50,547,079	4,489,405	91.84%
Surplus for the period	-		-	(12,722,539)		

Budget notes

The estimated revenue collection was not actualized because of the COVID 19 pandemic which affected the revenue streams.

14.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

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

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

2. Adoption of new and revised standards

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

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Standard	Effective date and impact:
	<ul style="list-style-type: none"> • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
<p>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>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

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Standard	Effective date and impact:
	<p>Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved</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>

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 FY 2019/2020 was approved by the County Assembly on 21st May 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. The Fund did not record any additional appropriations on the FY 2019/2020 budget.

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Property, plant and equipment

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

Computers	33.30%
Furniture	8%
Motor vehicles	25%

6. Intangible assets

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

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

7. Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held-to-maturity

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

Impairment of financial assets

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

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

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Inventories

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

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

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

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

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

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

9. Provisions

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

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

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

Contingent liabilities

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent assets

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

10. Nature and purpose of reserves

The fund did not create or maintain any reserves for the period under audit.

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

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

16. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

17. Comparative figures

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

18. Events after the reporting period

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

19. Ultimate and Holding Entity

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

20. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21. Significant judgments and sources of estimation uncertainty

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

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

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.

22. Prior Period Accounting Errors

Prior period errors are omissions from, and misstatements in prior period financial statements resulting from failure to use or the misuse of, reliable information that was available, or could

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be reasonably expected to have been obtained at the time of preparation of those financial statements. (IAS 8).

For the correction of prior period accounting errors the comparative amounts of each prior period presented that is F/Y 2018-2019 which contain errors have been restated.

An error which relates to a reporting period that is before the earliest prior period presented which is F/Y 2018-2019, the opening balances of assets, statement of financial performance, and cash and cash equivalent have been restated.

The error that occurred was due to misstatement of Ksh 1,859,462 revenue in the wrong financial year. The F/Y 2018-2019 revenue was understated by Ksh 1,859,462 since the revenue was recognized in the F/Y 2017-2018 instead of F/Y 2018-2019 therefore the cash and cash equivalent for F/Y 2017-2018 was overstated by Ksh 1,859,462.

14.7. NOTES TO THE FINANCIAL STATEMENTS

1. Other income

Description	2019/2020	2018/2019
	KShs	KShs
Liquor License	37,824,540	52,415,700
Add : Prior year adjustment		1,859,462
Total other income	37,824,540	54,275,162

2. Fund administration expenses

Description	2019/2020	2018/2019
	KShs	KShs
Staff Costs (Note 3)	16,375,311	18,950,502
Total other income	16,375,311	18,950,502

3. Staff costs

Description	2019/2020	2018/2019
	KShs	KShs
Salaries and wages	13,158,255.00	13,179,402
Staff gratuity	902,876.00	
Staff training expenses		
Social security contribution	1,975,180.00	
Other staff costs	339,000.00	5,771,100
Total	16,375,311.00	18,950,502

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. General expenses

Description	2019/2020	2018/2019
	KShs	KShs
Electricity and Water expenses	10,295.00	
Fuel and oil costs	840,443.00	776,662
Printing and Stationery	1,451,862.00	
Motor Vehicle Repairs and Maintenance	309,613.00	567,963
Inpection		6,059,460
Rental costs	600,000.00	-
Enforcement		4,007,600
Travel and Subsistence		5,866,550
Telecommunication	679,620.00	
Bank Charges	41,039.00	
Hospitality	3,378,618.00	
Depreciation and amortization costs	1,044,270.00	2,644,556
Other expenses	25,816,008.00	12,906,502
Total	34,171,768.00	32,829,293

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Cash and cash equivalents

Description	2019/2020	2018/2019
	KShs	KShs
Current account	13,530,143.00	25,208,412
Total cash and cash equivalents	13,530,143.00	25,208,412

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Financial Statement		Account number	2019/2020 KShs	2018/2019 KShs
a) Current account				
Cooperative Bank		01141418844301	6,435,328.00	11,615,588
Family Bank		063000039570	7,094,815.00	13,592,824
Sub- total			13,530,143.00	25,208,412
Grand total			13,530,143.00	25,208,412

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Property, plant and equipment

	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
Cost	KShs	KShs	KShs	KShs
At 1 st July 2016	6,401,147	1,463,884	1,578,275	9,443,306
Additions	-	-	-	-
At 30 th June 2017	6,401,147	1,463,884	1,578,275	9,443,306
Additions	3,150,000	-	-	3,150,000
At 30 th June 2018	9,551,147	1,463,884	1,578,275	12,593,306
Additions	-	497,000	300,000	797,000
At 30 th June 2019	9,551,147	1,960,884	1,878,275	13,390,306
Additions	-	-	-	-
Disposal	6,401,147	-	1,578,275	7,979,422
At 30 th June 2020	3,150,000	1,960,884	300,000	5,410,884
Depreciation and impairment				-
At 1 st July 2016	1,600,287	117,111	608,720	2,243,384
Depreciation	1,600,287	117,111	525,566	2,243,484
At 30 th June 2017	3,200,574	234,222	1,134,285	4,486,868
At 1 st July 2017	3,200,574	234,222	1,134,285	4,486,968
Depreciation	2,387,786	182,986	526,102	3,096,875

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At 30 th June 2018	5,588,361	417,208	1,578,275	7,583,844
At 1 st July 2018	5,588,361	417,208	1,578,275	7,583,844
Depreciation	2,387,786	156,870	99,900	2,644,556
At 30 th June 2019	7,976,147	574,078	1,678,175	10,228,400
At 1st July 2019	1,575,000	574,078	99,900	10,228,400
Depreciation	787,500	156,870	99,900	1,044,270
At 30th June 2020	2,362,500	730,948	199,800	3,293,248
Net book values				-
At 30 th June 2017	3,200,574	1,229,663	526,103	4,569,080
At 30 th June 2018	3,962,786	1,046,677	-	5,009,463
At 30 th June 2019	1,575,000	1,386,806	200,100	3,161,906
At 30 th June 2020	787,500	1,229,936	100,200	2,117,636

15. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

The board has not yet received audited certificate for the F/Y 2018-2019, hence, the board is not in a position to update the table for the progress report.