

REPUBLIC OF KENYA



Enhancing Accountability

REPORT



OF

THE AUDITOR-GENERAL

ON

KISII MUNICIPALITY

**FOR THE YEAR ENDED
30 JUNE, 2024**

PAPERS LAID	
DATE	6/3/2025
TABLED BY	Dep. Mg. Whip
COMMITTEE	
CLERK AT THE TABLE	Maalim



KISII MUNICIPALITY
County Government of Kisii

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2024

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



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1. Acronyms and Definition of Key Terms

PSASB	Public Sector Accounting Standards Board
FY	Financial Year
OSHA	Occupational Safety & Health Act

Fiduciary Management - Members of Management

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank
Comparative FY	Financial year proceeding the current financial year.
Financial performance	Statement of revenues and expenses
Surplus	A situation in which revenues are more than expenses
Deficit	A situation in which expenses are more than revenues
Financial position	Statement of assets and liabilities as at a particular time
Asset	A resource with economic value and future benefits to an entity
Liability	An obligation that an entity owes to others, such as debt or taxes
Statement of Cash flow	The movement of cash into and out of an entity over a period of time.
Net assets	Residual interest in the assets of an entity after deducting liabilities

2. Key Entity Information and Management

a) Background information

Kisii Municipality is established by and derives its authority and accountability from Urban Areas and Cities Act No. 13 of 2011 (amended 2019) and Cities and Municipal Charter on 4th September, 2018. The Municipality is under the County Government of Kisii and is domiciled in Kenya.

b) Principal Activities

The principal activity/mission/ mandate of the Municipality is to provide for efficient and accountable management of the affairs of the municipality, provide for governance mechanism that will enable the inhabitants of the municipality to participate in determining the social services and regulatory framework which will satisfy their needs and expectations, provide for services, laws and other matters for municipality's benefit, provide high standard of social services in a cost effective manner to inhabitants of the municipality and fostering the economic, social and environmental wellbeing of its community.

c) Key Management

The Municipality's management is under the following key organs:

- County department of in charge of Municipalities
- Board of Management
- Accounting Officer/ Municipality Manager
- Management

d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were:

Ref	Position	Name
1	CECM Lands and physical planning and urban planning	Grace K Nyarango
2	C.O Lands and physical planning and urban planning	Cleopas Okioi
3	Municipality Manager	Albert Oisebe
4	Municipal Engineer	Haron Oyaro

e) **Fiduciary Oversight Arrangements**

i) **Audit and Risk Management Committee**

The functions and responsibilities of the audit committee were as follows:

- To obtain assurance from management that all financial and non-financial internal control and risk management functions are operating effectively and reliably.
- To provide an independent review of the County Executive's reporting functions to ensure the integrity of financial reports.
- To monitor the effectiveness of the County Executive's performance management and performance information.
- To provide strong and effective oversight of County Executive's internal audit function.
- To provide effective liaison and facilitate communication between management and external audit.
- To provide oversight of the implementation of accepted audit recommendations.
- To ensure that the County Executive effectively monitors compliance with legislative and regulatory requirements and promotes a culture committed to lawful and ethical behaviour.

ii) **County Assembly committees**

County Assembly of Kisii County

The responsibilities of the County Assembly of Kisii were as follows:

- To vet and approve nominees for appointment to county public offices as may be provided for in the relevant laws;
- To perform the roles set out under Article 185 of the Constitution;
- To approve the budget and expenditure of the county government in accordance with Article 207 of the Constitution, and the legislation contemplated in Article 220(2) of the Constitution, guided by Articles 201 and 203 of the Constitution;
- To approve the borrowing by the county government in accordance with Article 212 of the Constitution;
- To approve county development planning; and
- To perform any other role as may be set out under the Constitution or legislation

iii) **Committees of the Senate**

Public Accounts and Investment Committee of the Senate

The main function of the Senate Public Accounts and Investment Committee is to invite the Governor to appear before it to adduce evidence on the reports of the Auditor-General

f) Registered Offices

P.O. Box 4550-40200

Fire station Building

Next to Storm Hotel

KISII, KENYA

g) Contacts

Kisii Municipality

Telephone: (254) 582030005

E-mail: info@kisii.go.ke

Website: www.kisii.go.ke

h) Bankers

Equity Bank-Kisii Branch

SBM-Kisii Branch

i) Independent Auditor

Auditor General

Office of The Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

j) Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya





k) Kisii County Attorney

Next to Governor's Office




P.O.Box 4550-40200

Kisii, Kenya





3. Kisii Municipality Board

Serial No.	Name	Details of qualifications and experience
1	JamilShamji- Chairman 	. He holds B.A in Marketing. Hold a certificate for sustainable Urban development. He is the Chairman of Kisii Municipal board, Director (non -executive)of Diamond trust bank ltd, Director Sansora bakers and confectioners ltd. He was a director of Kisii teaching and referral hospital from October 2014 – Feb 2022. He is the owner of A.JiwaShamnji
2	LinetMoruri-Vice Chair 	She holds MBA in Strategic management and BA in mass communication. She is the vice chair of Kisii Municipality board. She is an independent board member.
3	Albert Oisebe-Secretary 	He holds an MBA in Finance and Bachelor of Education –Arts. He is the Secretary to the board.
4	Albert Omari- Member 	He holds MBA in marketing and a B.E.D Arts degree. He is the chair of the finance and planning committee of Kisii Municipality board. He is an independent board member

County Government of Kisii
Kisii Municipality
Annual Report and Financial Statements for the year ended June 30, 2024

	<p>Alfred Onuonga- Member</p> 	<p>He holds MBA in Urban and regional planning and BA in economics and Geography He is the chair of Municipal planning committee in Kisii Municipality. He is a lecturer at Kisii university. He is an independent board member.</p>
	<p>Philip Motonu- Member</p> 	<p>He holds a bachelor's degree in Business administration. He is a former member of Kisii County assembly. He is an independent board member.</p>
	<p>Elizabeth Orengo- Member</p> 	<p>She holds a master's degree in Education (curriculum studies). She is a retired senior principal graduate. She is an independent board member.</p>

4. Key Management Team

S/ No	Name	Details of qualifications and experience
1.	 Grace K.Nyarango CECM Lands and physical planning and urban planning	MBA in Business Administration
2.	 Cleopas Okioi C.O Lands and physical planning and urban planning.	Bachelor of commerce in IT
3.	 Albert Oisebe Municipal Manager	BED –Arts MBA-Finance
4.	 Haron Oyar Municipal Engineer	BSC Civil Engineering

5. Municipality Board Chairperson's Report

Section 81 (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 National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objectives are to:

- a) Support for the establishment, operationalization and strengthening of the institutional framework for urban management.
- b) Strengthening coordination of urban finances.
- c) Provision of support for planning, urban infrastructure, and service delivery.
- d)

Objectives To Be Attained

- a) Provide for efficient and accountable management of the affairs of the Municipality
- b) Provide a higher standard of social services in a cost effective manner to the inhabitants of the Municipality
- c) To provide for services, laws and other matters for the Municipality.
- d) Promote regulate the provision of refuse collection and solid waste management services.

Challenges

- a) Budgetary constraints.
- b) Lack of proper planning and development control.
- c) Human resource challenges.
- d) Lack of political goodwill.

Opportunities

- a) Extension of connectivity on the neighbouring and connecting roads.
- b) Opening up the area for support with other donor programmes on the Nyanchwa green belt under UKAid-sustainable urban Economic Development (SUED)
- c) Effective monitoring and protection of the riparian from encroachment and pollution.
- d) Potential for upgrading and improvement of the Nubia slum due to proximity to town areas.



.....
Name: Jamaludin Shamji

Chairperson of the Board

6. Report Of the Municipality Manager

In the Current year, the Kisii Municipality had an approved budget of Kshs 20,000,000 for Urban Development Grant which was later removed through a supplementary budget and kshs.2,339,915 for Urban Institutional Grant. However there was no was disbursement made by the County Treasury.

The Municipality key development objectives are to:

- a) Support for the establishment, operationalization and strengthening of the institutional framework for urban management.
- b) Strengthening coordination of urban finances.
- c) Provision of support for planning, urban infrastructure, and service delivery.

Objectives To Be Attained

- a) Provide for efficient and accountable management of the affairs of the Municipality
- b) Provide a higher standard of social services in a cost effective manner to the inhabitants of the Municipality
- c) To provide for services, laws and other matters for the Municipality.
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Challenges

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- a) Extension of connectivity on the neighbouring and connecting roads.
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- c) Effective monitoring and protection of the riparian from encroachment and pollution.
- d) Potential for upgrading and improvement of the Nubia slum due to proximity to town areas.

The management intend to make the Municipality more active in the so that enough resources are available as and when required.

.....

Name: **Albert Oisebe**

Municipality Manager

7. Statement of Performance Against Predetermined Objectives for the FY 2023/2024

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer for a County Government entity shall prepare financial statements in respect of the entity in formats to be prescribed by the Accounting Standards Board including a statement of the county government entity's performance against predetermined objectives.

The key development objectives of the Kisii Municipality plan are to:

- a) Provide quality physical infrastructure.
- b) Urban planning.
- c) Urban governance and administration

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
Establishment of waste collection facility	-Material recovery facility that allows circulation of waste management cycle	-Waste segregation -Recovery of waste material into useful raw materials -Improved sanitation within the Municipality.	Segregated waste from source	Efficient use of waste to useful raw materials

8. Corporate Governance Statement

- a. Process of appointment and removal of Board members.
 - A member of the Board shall cease to hold office if the member
 - is unable to perform the function of the office by reason of mental or physical infirmity
 - is declared or becomes bankrupt or insolvent
 - is convicted of a criminal offense and is sentenced to a term of imprisonment of 6 months or more
 - resigns in writing to the county governor
 - Without reasonable cause the member is absent from 3 consecutive meetings of the board or committee of the board of the municipality within one FY.
 - Is found guilty of professional misconduct by the relevant professional body
 - Dies
 - Is disqualified from holding public office under the constitution.
 - Fails to declare interest in any matter being considered or to be considered by the board or board committees.
 - Engages in any gross misconduct
- b. Roles and functions of the Municipality Board members
 - Oversee the affairs of the municipality
 - Formulate and implement an integrated development plan
 - Develop or adopt policies, plans, strategies, and programs and set targets for service delivery
 - Administering and regulating its internal affairs
 - Implementing applicable national and county legislation
 - Monitoring the impact and effectiveness of any services, policies, programs or plans
 - Preparing and submitting its annual budget estimates to the relevant county treasury for consideration and submission to the county assembly for approval as part of the annual county appropriation bill.

- c. Number of Municipality Board meetings held and the attendance to those meetings by members,

The board holds its sittings once every three months to transact its business.

- d. Existence of a service charter

Kisii Municipality is established by and derives its authority and accountability from Urban Areas and Cities Act No. 13 of 2011(amended 2019) and Cities and Municipal Charter on 4th September, 2018 .The Municipality is under the County Government of Kisii and is domiciled in Kenya.

- e. Board remuneration

The board are not entitled to a salary but they are paid allowances as the county executive committee with the approval of the county assembly and the advice of the SRC determine.

9. Management Discussion and Analysis

In the Current year, the Kisii Municipality had an approved budget of Kshs 144,534,906 for current expenditure and 127,826,294 for development expenditure.

The key development objectives are to:

- e) Support for the establishment, operationalization and strengthening of the institutional framework for urban management.
- f) Strengthening coordination of urban finances.
- g) Provision of support for planning, urban infrastructure, and service delivery.

Objectives to Be Attained

- a) Reduced number of accidents attributed vehicular and non-vehicular conflict.
- b) Reduced travel time enhancing productivity and convenience.
- c) Emerging new development on the road corridor.
- d) Transformation of estate to a mixed use area from purely residential estate hence creating new Frontiers on otherwise unutilized areas.
- e) Enhanced services delivery i.e. shorter route for utilities, efficient garbage collection.

Challenges

- 10. Explosion in the utilization of the facility rendering the previous routes unusable.
- 11. Potential accidents being a residential estate with institutions surrounding.
- 12. Main truck sewer crossing with perpetual overflow and spillage.
- 13. Axle load control of heavy traffic.

Opportunities

- e) Extension of connectivity on the neighbouring and connecting roads.
- f) Opening up the area for support with other donor programmes on the Nyanchwa green belt under UKAid-sustainable urban Economic Development (SUED)
- g) Effective monitoring and protection of the riparian from encroachment and pollution.
- h) Potential for upgrading and improvement of the Nubia slum due to proximity to town areas.

The Municipality had major changes in the key management team following the change of regime in the Gubernatorial and executive members. The management did not find time to review the municipality's performance due to the substantial time taken to settle. Additionally the new management took substantive time to verify the existing pending bills to ascertain legible and ineligible bills.

The Kisii Municipality prepares and submits its financial statements yearly to the statutory bodies on time. The reports are audited by the office of the Auditor- General.

The management intend to make the Municipality more active in the so that enough resources are available as and when required.

14. Environmental and Sustainability Reporting

1. Sustainability strategy and profile

The Municipality has also engaged in capacity building of its human resource to ensure that they remain competitive and relevant in a competitive market

Socially the Municipality has built town access roads to ensure that the people enjoy improved and quality life by making ease access to the town.

2. Environmental performance

Kisii Municipality through the county government passed legislation in the County Assembly for the cutting of eucalyptus trees which have adversely affected the water table. The county has also encouraged the replacement of eucalyptus trees which have no effect to water table.

Through the ministry of environment water and natural resources, the county has initiated spring protection works and rehabilitation of water schemes.

It has also embarked on recovery of riparian land by partnering with other government agencies such as NEMA

3. Employee welfare

Kisii municipality through the County Government of Kisii provides equal employment opportunities to the citizen through advertisement of vacancies on its website and local media for easy access of the applicants. It also strives to attain the gender balance in the recruitment process.

The County Government of Kisii has consistently increased capacity building of its employees in equipping them on their career development. This involves necessary skills to enable them discharge their duties and responsibilities in an ever changing working environment.

It also takes care of employee's welfare through provision of comprehensive medical insurance scheme.

4. Market place practices

The county has installed high mast solar streetlights in all major markets to enable a 24 hour economy. In empowering its citizens, the County through the department of trade, tourism and industrialization has constructed market stalls and shades to make business possible.

The Kisii Municipality has also constructed an access road to banana and avocado processing plant to enable the locals' access easy market of their locally grown produce

5. Community Engagements

The county has engaged in the construction of peoples' recreational park whose objective is to offers an opportunity for social groups as well as individuals of all ages to meet and interact.

The park also offers an opportunity for reduction of crime and juvenile delinquency. It has also provided an opportunity for people to experience nature and engage in physical activities and relax.

15. Report of Kisii Municipality Board Members

The Board Members submit their report together with the audited financial statements for the year ended June 30, 2024 which show the state of the Municipality affairs.

Principal activities

The principal activities of the Municipality are to provide for efficient and accountable management of the affairs of the municipality, provide for governance mechanism that will enable the inhabitants of the municipality to participate in determining the social services and regulatory framework which will satisfy their needs and expectations, provide for services, laws and other matters for municipality's benefit, provide high standard of social services in a cost effective manner to inhabitants of the municipality and fostering the economic, social and environmental wellbeing of its community.

Performance

The performance of the Municipality for the year ended June 30, 2024 is set out on page 1 to 26.

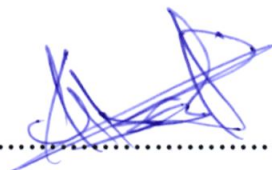
Board Members

The members of the Board who served during the year are shown on page vii and viii.

Auditors

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

By Order of the Board



Name: Albert Oisebe

Secretary of the Board

16. Statement of Management's Responsibilities

Section 180 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer of the Municipality established by Urban Areas and Cities Act No. 13 of 2011 shall prepare financial statements in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Municipality 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 Municipality for and as at the end of the financial year ended on June 30, 2024. 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 Municipality, (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 Municipality, (v) Selecting and applying appropriate accounting policies, and (vi) Making accounting estimates that are reasonable in the circumstances.

The Municipality Manager accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Urban Areas and Cities Act No. 13 of 2011. The Municipality Manager is of the opinion that the financial statements give a true and fair view of the state of Municipality's transactions during the financial year ended June 30, 2024, and the financial position as at that date.

The Municipality Manager further confirms the completeness of the accounting records which have been relied upon in the preparation of financial statements as well as the adequacy of the systems of internal financial control.

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In preparing the financial statements, the Directors have assessed the Fund's ability to continue as a going concern.

Nothing has come to the attention of the Municipality Manager to indicate that the Municipality 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 Municipal financial statements were approved by the Board on 20/06/2024 and signed on its behalf by:



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Name: Jamaludin Shamji

Chairperson of the Board

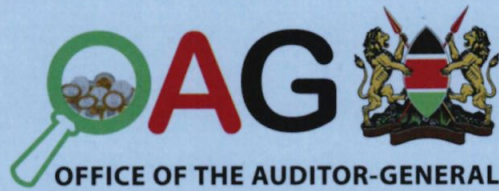


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Name: Albert Oisebe

Accounting officer of the Board

REPUBLIC OF KENYA



Enhancing Accountability

Telephone: +254-(20) 3214000
Email: 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 KISII MUNICIPALITY FOR THE YEAR ENDED 30 JUNE, 2024

PREAMBLE

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

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

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Kisii Municipality set out on pages 1 to 39, which comprise the statement of financial position as at 30 June, 2024, 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

Report of the Auditor-General on Kisii Municipality for the year ended 30 June, 2024

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 Kisii Municipality as at 30 June, 2024 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Universities Act, 2012 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unconfirmed Revenue and Staff Costs Amounts

The statement of financial performance reflects transfers from the County Government amount of Kshs.229,294,901, while the supporting Note 6 to the financial statements indicates a corresponding amount of Ksh.212,210,573, resulting in an unreconciled variance of Kshs.17,084,328.

Similarly, the statement of financial performance reflects an amount of Kshs.205,011,946 in respect of staff costs. However, the supporting Note 8 to the financial statements shows staff costs amounting to Kshs.187,927,618, resulting in a variance of Kshs.17,084,328 which has not been reconciled.

Further, Management did not provide for audit approved staff establishment, letter(s) from the County Public Service Board indicating the officers mandated to serve in the municipality and the Municipality payroll for the year under review in support of the staff costs amount of Kshs.187,927,618.

In the circumstances, the accuracy and completeness of the reported amounts for transfers from the County Government and staff costs could not be confirmed.

2. Unsupported Board Expenses

The statement of financial performance reflects an amount of Kshs.762,000 in respect of Board expenses. However, Management has provided supporting documents for Kshs.273,000, leaving an amount of Kshs.453,000 unsupported. Further, the Gazette Notice for the board members was not provided for audit review.

In the circumstances, the accuracy, completeness and regularity of the Board expense of Kshs.762,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kisii Municipality 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts shows that the Municipality had a revenue budget of Kshs.144,534,906 and realized actual revenue of Kshs.229,294,901, resulting in excess revenue of Kshs.84,759,995, or 59% of the budget. Similarly, the Municipality spent Kshs.229,807,006 out of the budget amount of Kshs.144,534,906, resulting in an over-expenditure of Kshs.85,272,100, or 99% of the budget.

In addition, the statement reflects a capital expenditure budget of Kshs.127,827,294 and actual on comparable basis amount of Kshs.16,786,235, resulting in an under-expenditure of Kshs.111,040,059 or 87% of the budget.

Further, review of the supplementary budget revealed projects with total budgetary allocation of Kshs.42,700,952, listed below, that had not been implemented:

S/No	Unimplemented Projects	Amount (Kshs.)
1	Construction of toilets at Peoples Park	1,292,146
2	Civil works at Buspark stage	6,000,000
3	Purchase of Waste Tipping Trailer	650,000
4	Fencing around Kisii Municipality Offices at Fire station	7,000,000
5	Nyanchwa link road streetlighting	4,968,806
6	Prison-Deliverence Jogoo Road	1,615,000
7	Soko Mjinga Nyaura SDA Road	855,000
8	Gekomu,SDA-Menyinkwa Road	4,688,000
9	Equator-kisii eye –club seal	2,907,000
10	Nairobi women-Daraja mbili secondary	2,508,000
11	St.Mark-Kisii bottlers	2,717,000
12	Tree planting from Kisii hotel-Huduma centre	2,000,000
13	Civil works for lower side of Kisii main bus park	4,000,000
14	Construction of Ogembo street toilet	1,500,000
	Total	42,700,952

The excess revenue realized is an indication of poor budgeting process, the authorization of the over expenditure of Kshs.85,272,100 could not be confirmed, while the underfunding of capital expenditure affected planned development activities and may have negatively impacted service delivery to the public.

My opinion is not modified in respect of these matters.

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. Excepts for the matters described in the Basis for Qualified opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Audit Matters

In the audit report for the 2022/2023 financial year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources sections. However, Management has not resolved the issues or given satisfactory explanations for failure to resolve them.

Other Information

Management is responsible for the other information set out on page iii to xix, which comprises Key Entity Municipality Information and Management, Kisii Municipality Board, Key Management Team, City/Municipality Board Chairperson's Report, Report of the Municipality Manager, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Kisii Municipality Board Members and Statement of Management's Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

In connection with my audit on the Municipality's financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

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 matters 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

1. Unjustified Payments of Consultancy Fees - Kshs.3,200,000

The statement of financial position reflects property, plants and equipment balance of Kshs.380,306,065 which, as disclosed in Note 14 to the financial statement, includes infrastructural assets balance of Kshs.313,925,844 which further includes additions during the year under review amounting to Kshs.16,786,235. Includes in the later amount is Kshs.1,700,000 paid to a consultant for the provision of consultancy audit for the

construction to bitumen standards of Nyanchwa Link Road in Kisii Town. However, the environmental audit report was submitted on 25 May, 2023, while the payment was made on 25 July, 2023 after issuance of a certificate of substantial completion by Kisii Municipality on 21 December, 2021. According to the certificate, Kisii Municipality had certified all works and made payments totalling Kshs.111,521,518 and, therefore, there was no rationale for payment for provision of consultancy audit.

Further, Kisii Municipality also paid Kshs.1,500,000 to another consultant on 31 July, 2023 for the provision of consultancy services for environmental audit for the augmentation of Huduma Center-Kisii Hotel drainage within Kisii Town. The project equally had been completed and a certificate of substantial completion issued on 17 October, 2022.

In the circumstances, value for money realized from the expenditure of Kshs.3,200,000 could not be confirmed.

2. Anomalies in the Upgrading of Jogoo-KARI-KIHBIT Road to Bitumen Standards

The statement of financial position reflects property, plants and equipment balance of Kshs.380,306,065 which, as disclosed in Note 14 to the financial statement, includes infrastructural assets balance of Kshs.313,925,844 which further includes additions during the year under review amounting to Kshs.16,786,235. Includes in the later amount is Kshs.16,720,155 spent in respect of a contract for the upgrading of Jogoo-KARI-KIHBIT Road to bitumen standards at a contract sum of Kshs.49,459,667. Review of the expenditure records for the contract revealed that the contractor had been paid a total of Kshs.34,403,291 which includes the first (1st) Moiety of retention money of practical completion of Kshs.3,133,918. However, the following anomalies were noted;

- i. The bill of quantities (B.O.Q) for the works was not provided for audit amount to only Kshs.8,437,000.
- ii. The payment of retention money of Kshs.3,133,918 dated 27 March, 2024 was done before the completion of the road works and after the contractor had terminated the contract.
- iii. Review of procurement records and physical inspection of the road works on 1 November, 2024 revealed that Kisii Municipality entered into another contract with a company at a contract sum of Kshs.23,500,109, resulting in cost escalation against the original road works contract of Kshs.49,459,667 by Kshs.8,443,733. The contractor was on site to complete the unfinished road works.

In the circumstances, value for money of the additional cost of 16,720,155 could not be confirmed.

3. Failure to Maintain Retention Account

The statement of financial position reflects trade and other payables balance of Kshs.2,922,803 which, as disclosed in Note 15 to the financial statements, relates to retentions. However, Management did not maintain a separate retentions account for such monies to cover any defect in construction contracts. This amount may have been used for other purposes, since the cash and cash equivalents balance as at 30 June,

2024 was only Kshs.108,155. Therefore, Management violated the provisions of Section 149(1) of the Public Finance Management Act, 2012.

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

4. Failure to Operationalize the Kisii Municipality Charter

During the year under review, Kisii Municipality board failed to operationalize the Municipality Charter, thus denying the municipality the opportunity to undertake its functions as stipulated in Clause 2.3.1 of the charter. Further, it was established that the Municipality has not been able to;

- i. Keep records and track all exchequer issues for its recurrent and development as budgeted.
- ii. Discharge its revenue collection function to sustain its operations. The revenue collection function was being executed by Kisii County Executive's Revenue Department.
- iii. Establish its own staff for effective and efficient management of its operations. In this regard it was noted that there was no approved organogram; approved staff establishment; letter(s) from the County Public Service Board indicating the officers mandated to serve in the Municipality; and staff payroll for the municipality.

It was further noted that, failure to recruit staff had crippled the operation of the Municipality as crucial policy and procedures documents had not been developed at the time of the audit. They include human resource manual, staff career progression guidelines, finance regulation and procedures manual, fraud policy document, ICT policy document, and disaster recovery policy document.

This was contrary to Section 20 (1)(b) and (h) of the urban and cities Act, 2011, which stipulate that subject to the provisions of this Act a board of a city or municipality shall develop and adopt policies, plans, strategies and programmes, and may set targets for delivery of services and administer and regulate its internal affairs.

In the circumstances, Management was in breach of the law and the Municipality may not meet its set objectives and effectively perform its functions.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my

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

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Municipality's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention 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 complies with the authorities which govern them, and that public resources are applied in an effective way.

The Kisii Municipality Board is 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


My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the INTOSAI Framework of Professional Pronouncements (IFPP). The Framework requires that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48

of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I also I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

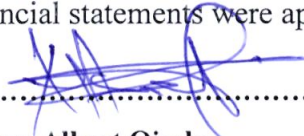
24 December 2024

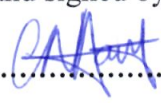
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18. Statement of Financial Performance for The Year Ended 30 June 2024.

Description	Note	2023-2024	2022-2023
		Kshs.	Kshs.
Revenue from non-exchange transactions			
Transfers from the County Government	6	229,294,901	2,339,915
Public contributions and donations		-	-
Levies Fines and Penalties		-	-
Other revenues (<i>Specify</i>)		-	-
		-	-
Revenue from exchange transactions			
Interest income		-	-
Miscellaneous Income		-	-
		-	-
Total revenue		229,294,901	2,339,915
Expenditure			
Use of goods and services	7	21,929,045	1,854,420.00
Staff costs	8	205,011,946	-
Board expenses	9	762,000	-
Finance costs		-	-
Depreciation and amortization		-	-
Repairs and maintenance	10	2,104,015	-
Total expenses		229,807,006	1,854,420
Other gains/losses		-	-
Gain/loss on disposal of assets		-	-
Surplus/(deficit) for the period		(512,105)	485,495.00

The notes set out on pages 1 to 26 form an integral part of these Financial Statements. The entity financial statements were approved on 30/09/2024 2024 and signed by:


 Name: Albert Oisebe
 Municipality Manager


 Name: CPA George Ogware
 Municipal Accountant
 ICPAK M/No.8093

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19. Statement of Financial Position As At 30 June 2024

Description	Note	2023-2024	2022-2023
		Kshs.	Kshs.
Assets			
Current assets			
Cash and cash equivalents	11	108,155	21,711,500
Receivables from exchange transactions		-	-
Receivables from non-exchange transactions		-	-
Prepayments	12	-	-
Inventories	13	-	-
Total current assets		105,155	21,711,500
Non-current assets			
Property, plant, and equipment	14	380,306,065	363,519,830
Intangible assets		-	-
Total Non-current Assets		380,306,065	363,519,830
Total assets (A)		380,414,220	385,231,330
Liabilities			
Current liabilities			
Trade and other payables	15	2,922,803	7,227,808
Refundable deposits from customers		-	-
Provisions		-	-
Borrowings		-	-
Employee benefit obligations		-	-
Deferred Income		-	-
Social Benefits		-	-
Total current liabilities		2,922,803	378,003,522
Non-current liabilities			
Provisions		-	-
Borrowings		-	-
Non-current employee benefit obligation		-	-
Deferred Income		-	-
Social Benefits		-	-
Total liabilities (B)		-	-
Net Assets (A-B)		377,491,417	385,231,330

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Description	Note	2023-2024	2022-2023
		Kshs.	Kshs.
Represented by:			
Capital/Development Grants/Fund		371,370,958	371,370,958
Reserves		-	-
Accumulated surplus		6,120,459	6,632,564
Net Assets/Equity		377,491,357	378,003,462

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 30/09/ 2024 and signed by:



Name: Albert Oisebe
Municipality Manager
Date:



Name: George Ogware
Municipal Accountant
ICPAK M/No.8093
Date:

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20. Statement of Changes in Net Assets For the Year Ended 30 June 2024

Description	Capital/ Development Grants/Fund	Revaluation Reserve	Accumulated surplus	Total
		Kshs.	Kshs.	Kshs.
Bal as at 1 July 2022 (previous year)	371,370,958	-	6,147,008	3,77,517,906
Surplus/(deficit) for the year		-	485,556	485,556
Funds received during the year	-	-	-	-
Revaluation gain/loss	-	-	-	-
Bal as at 30 Jun 2023	371,370,958	-	6,632,564	378,003,462
Bal as at 1 July 2023 (current year)	371,370,958	-	6,632,564	378,003,462
Surplus/(deficit) for the year		-	(512,105)	(512,105)
Funds received during the year	-	-	-	-
Revaluation gain/loss	-	-	-	-
Balance as at 30 June 2024	371,37,958	-	6,120,459	377,491,357

21. Statement Of Cash Flows for The Year Ended 30 June 2024

Description	Note	2023-2024	2022-2023
		Kshs.	Kshs.
Cashflows from operating activities			
Receipts			
Transfers from the County Government	6	229,294,901	2,339,915
Public contributions and donations		-	-
Interest received		-	-
Miscellaneous receipts (<i>Specify</i>)		-	-
Total Receipts		229,294,901	2,339,915
Payments			
Use of goods and services	7	21,929,045	1,854,359
Staff costs		205,011,946	-
Board expenses		762,000	-
Repair and maintenance		2,104,015	-
Total Payments		(229,807,006)	(1,854,359)
Net cash flows from operating activities	16	(512,105)	485,556
Cash flows from investing activities			
Purchase of PPE & intangible assets	14	(16,786,235)	(57,075,876)
Proceeds from sale of PPE		-	-
Retention money		1,358,623	5,707,588
Refund of retention money		(5,663,628)	(5,797,707)
Net cash flows used in investing activities		(21,091,240)	(57,165,994)
Cashflows from financing activities			
Receipts from Capital grants		-	-
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash & cash equivalents		(21,603,345)	(56,680,438)
Cash And Cash Equivalents At 1 July	11	21,711,500	78,391,938
Cash And Cash Equivalents At 30 June	11	108,155	21,711,500

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22. Statement of Comparison of Budget & Actual Amounts for the Year ended 30 June 2024

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
	a	b	c=(a+b)	d	e=(c-d)	f=d/c
Revenue		Kshs.	Kshs.	Kshs.	Kshs.	
Transfers from the County Government	144,534,906	-	144,534,906	229,294,901	(84,759,995)	159%
Public contributions and donations	-	-	-	-	-	%
Interest income	-	-	-	-	-	%
Miscellaneous income (<i>specify</i>)	-	-	-	-	-	%
Total Revenue	144,534,906	-	144,534,906	229,294,901	(84,759,995)	%
Expenses						
Use of goods and services	42,234,906	-	42,234,906	21,929,045	18,201,846	57 %
Board expenses	4,800,000	-	4,800,000	762,000	4,038,000	16 %
Staff Costs	95,000,000	-	95,000,000	205,011,946	(92,927,618)	216 %
Repair and maintenance	2,500,000	-	2,500,000	2,104,015	395,985	84 %
Total Expenditure	144,534,906	-	144,534,906	229,807,006	(85,272,100)	%
Surplus for the period	-	-	-	(512,105)	-	
Capital Expenditure	127,826,294	-	127,826,294	16,786,235	111,040,059	13%

Budget notes

- i. The underutilization of expenses of use of goods and services, board expenses and repair and maintenance was due to late disbursement of by the National treasury to the County Government.
- ii. The over expenditure on staff cost was occasioned by frequent transfers made by the County executive to and from the Municipality.

23. Notes to the Financial Statements

1. General Information

Kisii Municipality is established by and derives its authority and accountability from Urban Areas and Cities Act No.13 of 2011(amended 2019 and Cities and Municipal Charter on 4th September, 2018. The Municipality is under the Kisii CountyGovernment and is domiciled in Kenya.

The Municipality's principal activity is to provide for efficient and accountable management of the affairs of the Municipality, provide for governance mechanism that will enable the inhabitants of the municipality to participate in determining the social services and regulatory framework which will satisfy their needs and expectations,provide for services,law and other matters for municipality's benefit, provide high standard of social services in a cost effective manner to inhabitants of the municipality and fostering the economic, social and environmental wellbeing of its community

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts, and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgmentin the process of applying the *entity's* accounting policies.The areas involving a higher degree of judgmentor complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *entity*.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act (*include any other applicable legislation*), and International Public Sector

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Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. Application of New and revised standards (IPSAS)

- i. New and amended standards and interpretations in issue effective in the year ended 30 June 2024.*

There are no new standards effective in the financial year ended 30th June 2024.

- ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2024.*

Standard	Effective date and impact:
IPSAS 43: Leases	<i>Applicable 1st January 2025</i> The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<i>Applicable 1st January 2025</i> The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.
IPSAS 45: Property Plant and Equipment	<i>Applicable 1st January 2025</i> The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g. valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.

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<p>IPSAS 46: Measurement</p>	<p><i>Applicable 1st January 2025</i></p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ol style="list-style-type: none"> i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS. iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures. <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p>
<p>IPSAS 47: Revenue</p>	<p><i>Applicable 1st January 2026</i></p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p>
<p>IPSAS 48: Transfer Expenses</p>	<p><i>Applicable 1st January 2026</i></p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.</p>
<p>IPSAS 49: Retirement Benefit Plans</p>	<p><i>Applicable 1st January 2026</i></p> <p>The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.</p>

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iii. Early adoption of standards

The Entity did not early – adopt any new or amended standards in the financial year.

4. Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services, and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Entity and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realised in the statement of financial performance over the useful life of the assets that have been acquired using such funds.

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 for each period.

b) Budget information

The original budget for FY 2023/24 was approved by the County Assembly on 30th June 2023. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Municipality upon receiving the respective approvals in order to conclude the final budget.

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

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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. 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 112 of these financial statements.

c) Property, plant and equipment

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

d) Intangible assets

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

e) Financial instruments

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The entity does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets

Classification of financial assets

The entity classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity or fair value through surplus and deficit on the basis of both the entity's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless an entity has made irrevocable election at initial recognition for particular investments in equity instruments.

Subsequent measurement

Based on the business model and the cash flow characteristics, the entity classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through net assets/ equity

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue, and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through surplus or deficit

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through a surplus or deficit model.

Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year-end.

Impairment

The entity assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The entity recognizes a loss allowance for such losses at each reporting date.

Financial liabilities

Classification

The entity classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

f) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

Raw materials: purchase cost using the weighted average cost method

Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Municipality.

g) Provisions

Provisions are recognized when the Municipality has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Municipality expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

h) Social Benefits

Social benefits are cash transfers provided to i) specific individuals and/or households that meet the eligibility criteria, ii) mitigate the effects of social risks and iii) Address the needs of society as a whole. The entity recognises a social benefit as an expense for the social benefits scheme at the same time that it recognises a liability. The liability for the social benefit scheme is measured at the best estimate of the cost (the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.

i) Contingent liabilities

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

j) Contingent assets

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

reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs

k) Nature and purpose of reserves

The Municipality creates and maintains reserves in terms of specific requirements. Municipality to state the reserves maintained and appropriate policies adopted

l) Changes in accounting policies and estimates

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

m) Employee benefits– Retirement benefit plans

The Municipality provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions if the Municipality does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to scheme 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 benefits 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.

n) 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 in 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

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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

o) 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.

p) Related parties

The City/Municipality 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 Municipality, or vice versa. Members of key management are regarded as related parties and comprise the Board members, the Municipality Managers and Municipality Accountant.

q) 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 various commercial banks at the end of the financial year.

r) Comparative figures

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

s) Events after the reporting period

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified:

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(a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

(b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The Municipality should indicate whether there are material adjusting and non-adjusting events after the reporting period.

t) Currency

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

5. Significant judgments and sources of estimation uncertainty

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

State all judgements, estimates and assumptions made.

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 City/Municipality based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the City/Municipality. Such changes are reflected in the assumptions when they occur.

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:

- i) The condition of the asset based on the assessment of experts employed by the Municipality.
- ii) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- iii) The nature of the processes in which the asset is deployed.
- iv) Availability of funds to replace the asset.
- v) Changes in the market in relation to the asset.

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Notes to the Financial Statements

6. Transfers from the County Government

Description	2023-2024	2022-2023
	Kshs.	Kshs.
Transfers from County Govt. – Recurrent	-	2,339,915
Payments by County on behalf of the entity	212,209,873	-
Unconditional development grants	-	-
Cash deposit	700	-
Total	212,210,573	2,339,915

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7. Use of Goods and Services

Description	2023-2024	2022-2023
	Kshs.	Kshs.
Utilities, supplies and services	18,124,308	-
Communication, supplies and services	54,600	554,600
Domestic travel and subsistence	1,055,600	-
Foreign travel and subsistence	-	-
Printing, advertising, supplies & services	698,800	-
Rent and rates	-	-
Training expenses	-	1,292,550
Hospitality supplies and services	-	-
Insurance costs	-	-
Specialized materials and services	-	-
Office and general supplies and services	-	-
Fuel, oil and lubricants	1,991,132	-
Other operating expenses (<i>Specify</i>)	-	-
Routine maintenance – other assets	-	-
Contracted Professional Services	-	-
Audit fees	-	-
Hire of Transport, equipment etc	-	-
Bank Charges	4,605	7,270
Social Benefit expenses*	-	-
Total	21,929,045	1,854,420

8. Staff costs

Description	2023-2024	2022-2023
	Kshs.	Kshs.
Salaries and wages	163,951,696	-
Staff gratuity	-	-
Social security contribution	23,975,921	-
Other staff costs (<i>Specify</i>)	-	-
Total	187,927,618	-

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9. Board expenses

Description	2023-2024	2022-2023
	Kshs.	Kshs.
Chairman/Members' Honoraria	-	-
Sitting allowances	762,000	-
Medical Insurance	-	-
Induction and Training	-	-
Travel and accommodation	-	-
Conference Costs	-	-
Other allowances (<i>Specify</i>)	-	-
Total	762,000	-

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10. Repairs and Maintenance

Description	2023-2024	2022-2023
	KShs	KShs
Property- Buildings	-	-
Office equipment	-	-
Furniture and fittings	-	-
Motor vehicle expenses	2,104,015	-
Maintenance of civil works	-	-
Totalrepairsandmaintenance	2,104,015	-

11. Cash and cash equivalents

Description	2023-2024	2022-2023
	Kshs.	Kshs.
Fixed deposits account	-	-
On – call deposits	-	-
Current account	108,155	21,711,500
Others(<i>specify</i>)	-	-
Totalcashandcashequivalents	108,155	21,711,500

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

Financial institution	Account number	2023-2024	2022-2023
		Kshs.	Kshs.
a) Fixed deposits account			
Kenya Commercial bank		-	-
Equity Bank, etc		-	-
Sub- total		-	-
b) On - call deposits			
Kenya Commercial bank		-	-
Equity Bank - etc		-	-
Sub- total		-	-
c) Current account			
SBM bank	0252375439001	286	508,986
Equity Bank - etc	0510280766471	107,869	21,202,514
Sub- total		108,155	21,711,500
d) Others(specify)			
Cash in transit		-	-
Cash in hand		-	-
Mobile Money		-	-
Sub- total		-	-
Grand total		108,155	21,711,500

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12. Prepayments

Description	2023-2024	2022-2023
	Kshs.	Kshs.
Prepaid rent	-	-
Prepaid insurance	-	-
Prepaid electricity costs	-	-
Other prepayments(<i>specify</i>)	-	-
Total	-	-

13. Inventories

Description	2023-2024	2022-2023
	Kshs.	Kshs.
Stationery	-	-
Consumables	-	-
Other inventories(<i>specify</i>)	-	-
Total inventories at the lower of cost and net realizable value	-	-

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14. Property, Plant and Equipment

Description	Land	Building	Motor vehicles	Furniture and fittings	Computers	Infrastructural Assets	Capital Work in progress	Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
As at 1 July 2022	-	53,919,752	1,400,000	3,806,643	2,498,262	297,139,609	4,755,564	306,443,955
Additions	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-	-	-	-
As at 30 th June 2023	-	53,919,752	1,400,000	3,806,643	2,498,262	297,139,609	4,755,564	363,519,830
Additions for the year	-	-	-	-	-	16,786,235	-	-
Disposals for the year	-	-	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-	-	-
As at 30 th June 2024	-	53,919,752	1,400,000	3,806,643	2,498,262	313,925,844	4,755,564	380,306,065
Depreciation and impairment								
At 1 July 2022		-	-	-	-	-	-	-
Depreciation		-	-	-	-	-	-	-
Impairment		-	-	-	-	-	-	-
Transfers/ Adjustments		-	-	-	-	-	-	-
As at 30 June 2023		-	-	-	-	-	-	-

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Description	Land	Building	Motor vehicles	Furniture and fittings	Computers	Infrastructural Assets	Capital Work in progress	Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
Depreciation for the year		-	-	-	-	-	-	-
Disposals for the year		-	-	-	-	-	-	-
Impairment for the year		-	-	-	-	-	-	-
Transfer/adjustment		-	-	-	-	-	-	-
As at 30th June 2024		-	-	-	-	-	-	-
NBV as at 30th Jun 2023	xxx	53,919,752	1,400,000	3,806,643	2,498,262	297,139,609	4,755,564	363,519,830
NBV as at 30th Jun 2024	xxx	53,919,752	1,400,000	3,806,643	2,498,262	313,925,844	4,755,564	380,306,065

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15. Trade and other payables from exchange transactions

Description	2023-2024		2022-2023	
	Kshs.		Kshs.	
Trade payables	-		-	
Retentions	2,922,803		7,227,808	
Accrued expenses	-		-	
Other payables(<i>Specify</i>)	-		-	
Total trade and other payables	2,922,803		7,227,808	
Ageing analysis:	2023-2024	% of the Total	2022-2023	% of the Total
Under one year	1,358,623	%	5,707,587	79%
1-2 years	1,564,180	%	1,520,221	21%
2-3 years	-	%	-	%
Over 3 years	-	%	-	%
Total	2,922,803	%	7,227,808	100%

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16. Cash generated from operations

Description	2023-2024	2022-2023
	Kshs.	Kshs.
Surplus/ (deficit) for the year before tax	(512,105)	485,495
Adjusted for:		
Depreciation	-	-
Amortisation	-	-
Gains/ losses on disposal of assets	-	-
Working Capital adjustments		
Increase in inventory	-	-
Increase in receivables	-	-
Increase in payables	-	-
Net cash flow from operating activities	(512,105)	485,495

17. Related party balances

a) Nature of related party relationships

Entities and other parties related to the Municipality include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members. The Municipality/scheme is related to the following entities:

- a) The County Government.
- b) The Parent County Government Ministry.
- c) County Assembly.
- d) Key management.
- e) City/Municipality Board; etc.

18. Financial risk management

The Municipality's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Municipality's overall risk management programme focuses on the 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 Municipality 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 Municipality's financial risk management objectives and policies are detailed below:

I. Credit risk

The City/Municipality 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 assessments in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Municipality's management based on prior experience and their assessment of the current economic environment. The carrying amount of financial assets recorded in the financial statements representing the Municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

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

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

II. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Municipality Manager, who has built an appropriate liquidity risk management framework for the management of the Municipality's short, medium and long-term liquidity management requirements. The

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Municipality manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Municipality 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.

III. Market risk

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

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

IV. Foreign currency risk

The Municipality has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The carrying amount of the Municipality's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

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.

V. 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.

VI. Capital risk management.

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

24. Appendices

Appendix 1. Progress on Follow up of Auditors Recommendations.

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0	Unsupported training expenses	The management is in the process of solving the matter	Not resolved	31 st December 2024
2.0	Failure to Depreciate property, plant and equipment	The management is in the process of resolving the issue	Not resolved	31 st December 2024
1.0	Budgetary control and performance	The management is in the process of resolving the issue	Not resolved	31 st December 2024
2.0	Failure to maintain Retention account	The management is in the process of resolving the issue	Not resolved	31 st December 2024

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
1.0	Delayed Upgrading of Jogoo-KARI-KIHBIT Road to Bitumen Standards	The management has resolved the matter	Resolved	
2.0	Own Generated Revenue not accounted for	The management has resolved the matter	Resolved	
3.0	Late submission of financial statements	The management has resolved the matter	Resolved	


 Ag. Municipal Manager

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