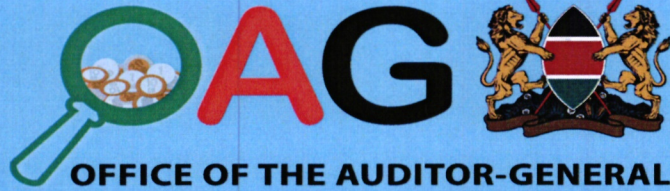


REPUBLIC OF KENYA



*Enhancing Accountability*

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# REPORT

OF

**THE AUDITOR-GENERAL**

ON

**KITUI COUNTY TEXTILE CENTRE**

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





20 DEC 2022

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**KITUI COUNTY TEXTILE CENTRE**

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2022**

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**Prepared in accordance with the Accrual Basis of Accounting Method under the  
International Financial Reporting Standards (IFRS)**



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## **I. KEY ENTITY INFORMATION**

### **Background information**

The entity was established by the Kitui County Corporation Act on 25 November 2019. At County cabinet level, the entity is represented by the County Executive Committee, who is responsible for the general policy and strategic direction of the entity. The entity is domiciled in Kitui County Kenya.

### **Principal Activities**

The principal activity of the entity is to manage textile manufacturing in the county in accordance with Kitui County Corporation Act 2019, promote best practices in and regulate production, processing and marketing of apparel, garments and textiles.

### **Directors**

The Directors who served the entity during the year/period were as follows:

- |    |                                   |                               |                           |
|----|-----------------------------------|-------------------------------|---------------------------|
| 1. | Patrick Wambua King'ole           | - Chairman                    | - Appointed on 29/01/2020 |
| 2. | Isaac Maluki                      | - Member                      | - Appointed on 29/01/2020 |
| 3. | Brayan Wambua                     | - Member                      | - Appointed on 29/01/2020 |
| 4. | Joan Mati                         | - Member                      | - Appointed on 28/09/2021 |
| 5. | Ann Mutua                         | - Member                      | - Appointed on 28/09/2021 |
| 6. | Chief officer - Ministry of trade | - Member                      | - Appointed on 29/01/2020 |
| 7. | Chief officer - County treasury   | - Member                      | - Appointed on 29/01/2020 |
| 8. | Ben Jackson                       | -CEO - Secretary to the board |                           |

**I. KEY ENTITY INFORMATION (CONTINUED)**

**Registered Office**

Kitui County Textile Centre  
Syongila Youth Polytechnic  
P. O Box 72 - 90200  
Kitui  
Kenya

**Corporate Headquarters**

Kitui County Textile Centre  
Syongila Youth Polytechnic  
P. O Box 72 - 90200  
Kitui  
Kenya

**Corporate Contacts**

+254798151515 or +254707444111  
Kicotec@kitui.go.ke  
www.kitui.go.ke

**Corporate Bankers**

Equity Bank Kenya Limited  
P.O. Box 563 - 90200  
Kitui  
Kenya

**Independent Auditors**

Auditor General  
The Office of the Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100

Nairobi, Kenya

**Principal Legal Advisers**

1. The County Attorney  
Kitui County Government  
P.O. Box 33-90200  
Kitui  
Kenya

**II. THE BOARD OF DIRECTORS**

We are in the process of getting passport for each director and their professional qualification because the documents had been misplaced. In the next financial reporting, all the information will be available

Ref	Directors	Details
1.	Patrick Wambua King'ole	Board Chair
2.	Ann Mutave	Board member
3.	Brayan Wambua	Board member
4.	Isaac Maluki	Board member
5.	Caroline Musango	Board member
6.	C.O. Kitui county Treasury	Board member
7.	C.O. Kitui County Ministry of Trade	Board member
8.	Ag. CEO KICOTEC	Board secretary

**III. MANAGEMENT TEAM**

Insert each key manager's passport-size photo and name, and key profession/academic qualifications

Ref	Management	Details
1.	Ben Jackson	CEO
2.	Peter Yoma	Finance and Admin Manager
3.	Elvis Ombati	Human Resource Manager
4.	Boniface Ndunda	Factory Manager
5.	Tabitha Mwanja	Supply Chain Manager

#### **IV. CHAIRMAN'S STATEMENT**

As the chairman of Kitui County Textile Centre I am honoured to release our annual report for the year ended 30<sup>th</sup> June 2022. Although the year under review we didn't do well in terms of performance due to Covid-19 pandemic, we still have a lot of hope KICOTEC will continue operating as a going concern entity.

##### **Operating Environment**

As we are aware there have been numerous challenges facing our country especially the Covid-19 pandemic hence during the financial year there was generally slowed economic growth which affected all sectors of the economy and generally capital investment was lower than expected. The demand for our goods and services has continued to rise and we have various strategies to ensure that all our customers have products which satisfies their requirement. We continued to engage with our stakeholders to ensure all their concerns are addressed. The environment we operate in require constant networking to guarantee sustainability of our business.

As a board we have ensured that we operate in a socially responsible manner. This includes a continued focus on operational efficiency, resources availability and responding to the needs of our customers.

##### **Expansion Programmes**

Various programmes have been initiated to expand our business, to ensure we produce more products which will reach more customers here in Kenya and abroad.

##### **Financial Performance**

Am delighted to report another year of continued progress for Kitui County Textile Centre in which our financial performance showed a steady growth despite in revenues in the year 2021/2022 we are reporting. Profit/loss before tax decreased from Kes 6.6 million in the year 2020/2021 to a loss of Kes 90 million in the year 2021/2022. The company is in its endeavour to diversify its revenue streams by engaging more customers to buy its products.

##### **Future Plans**

Our future can only be brighter depending on our ability to figure out the future by anticipating and responding to various changes. Looking ahead, the board will continue to

support investment in new projects to ensure the continued growth of the company and progress towards achieving the company's main objectives, that of delivering greater value to its customers for socio-economic development. The year ended in a promising position and having all enabling policies and right frameworks we will be able to achieve our entire plans and realize our vision and mission as we fulfil our mandate to all stakeholders.

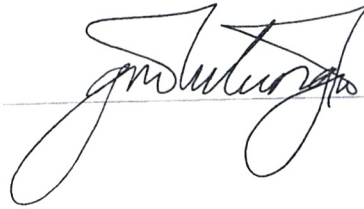
Tribute

I must acknowledge the role and dedication of KICOTEC board of directors, Kitui County Government, our customers for their support. I salute management and employees of KICOTEC for their hard work throughout the financial year.

Thank you

Isaac Maluki  
Ag. CHAIRMAN

SIGN

A handwritten signature in black ink, appearing to read 'Isaac Maluki', is written over a horizontal line. The signature is stylized and cursive.

**V. REPORT OF THE CHIEF EXECUTIVE OFFICER/ MD/ DG**

**General Overview**

Am delighted to report annual performance for the company for the period ended 30th June 2022. The company's performance has remained stable despite the challenges experienced this year as a result of Covid-19 pandemic. During the year under review our revenue decreased by 62% as compared to the previous year. The profit/loss before tax decreased to a loss of 90 million compared to a profit of 6.6 million in the previous year. The company is putting a lot of effort to ensure we get many customers as much as possible in order to generate more revenues. It is only through such strategies, which can make KICOTEC a going concerns. We are also ensuring we try as much as possible to reduce our costs in order to have enough cash flow for daily operations.

**Information and Technology**

Each and every day the technology is changing and we have to strategically position ourselves to tap these changes in technology in order to enhance service delivery. Our plan is to automate all our operations in order to increase our business efficiency. This will also enable the company produce it's reports on a timely manner.

**Regards**

I take this opportunity to sincerely thank the board of directors for their strategic and policy guidance during the concluded financial year 2021/2022. The management and entire staff members of KICOTEC has continued to discharge their mandate with commitment and dedication. I thank them all with confidence that we have all the skills necessary to manage the significant opportunities and challenges that lie before us.

I also take this opportunity to thank all those not mentioned above but have given us moral as well as material support. It is through your contributions that we have reached where we are and we encourage you to continue supporting us even in the future.

Kind regards

Ben Jackson  
CEO

SIGN 

**VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES  
 FOR FY 2021/2022**

Kitui County Textile Centre (KICOTEC) has 3 strategic pillars and objectives within the current Strategic Plan for the FY 2021/2022. These strategic pillars/ themes/ issues are as follows:

Pillar 1: Increased revenue

Pillar 2: Increased customer satisfaction

Pillar 3: Enhance institutional capacity

KICOTEC develops its annual work plans based on the above 3 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The corporation achieved its performance targets set for the FY 2021/2022 period for its 3 strategic pillars, as indicated in the diagram below:

<b>Strategic Pillar/Theme/Issues</b>	<b>Objective</b>	<b>Key Performance Indicators</b>	<b>Activities</b>	<b>Achievements</b>
Pillar 1: Increase revenue	To Increase our sales	-timely collection of revenue and invoicing of customers -Increase customers -increased production	- Increased sales	-improvement in collection efficiency
Pillar 2: Increased customer satisfaction	Good customer relations	-Less customer complaints Prompt handling of customer issues -Increased customer/ stakeholder participation	-Good Customer care services -Implement an effective feedback mechanism for customers -Enhance collaborations between customers	-Good customer relations

**KITUI COUNTY TEXTILE CENTRE**  
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**For the year ended June 30, 2022**

				and stakeholders	
Pillar 3: Enhance institutional capacity	To attract and retain qualified staff	-High productivity -improved performance -increased performance -increased staff motivation and productivity	-Ensure optimal staff complement -Enhance staff training -Performance management and reward	-Job Evaluation being done	
	-To increase funding to KICOTEC	-timely collection of revenue Adequate financial planning	-Improve revenue collection efficiency -Enhance effective financial management	-Collection efficiency is much enhanced	

## **VII. CORPORATE GOVERNANCE STATEMENT**

Corporate governance is the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing stakeholder's long term value.

The company conducts its operations in accordance with the principles of good corporate governance as provided in the Kitui County Corporations (KICOTEC) regulations,2019.

### **Board of Directors**

The composition of the board is compliant with good corporate governance practices and KICOTEC regulations. The roles of the Chairman and the Chief Executive Officer are segregated. The Chief Executive Officer is in charge of the day to day running of the business of the company. A non-executive director acts as the Chairman of the board.

The current board is composed of the Chief Executive Officer and seven other directors drawn from various stakeholders. The board is therefore composed of committed individuals with diverse and complementary skills to ensure that there is sufficient wealth of experience at board level.

### **Board Meetings**

Board meetings are held every quarter and in exceptional circumstances as dictated by demand and exigencies of operations.

Type of Meeting	No.
Special board meeting	5
Full Board Meeting	2
Finance & HR Committee meeting	8
Technical & Strategic Planning	2
Total	17

### **Board Committees**

The board has approved the delegation of certain authorities to the board sub committees where applicable and to the management. The board has three committees which are guided by clear

terms of reference. The committees are instrumental in monitoring the company operations, systems and internal controls. The committees are as follows.

**Finance HR and Admin committee**

The committee comprises of four non-executive directors and CEO KICOTEC as an ex-official. The committee is chaired by a non-executive director and meets four times a year.

The role of the committee is to monitor and review the operational and financial performance of the company against key performance indicators, identifying shortcomings and ensuring corrective measures and action are taken.

The committee also reviews the company's investment plans in capital expenditure and recommends to the board for approval. The committee has also the responsibility of ensuring that the systems of financial controls are effectively administered. The committee as well has the responsibility of ensuring the company has the right staff, at the right place and doing the right thing. More so, the committee will ensure that staff welfare is guaranteed.

Their terms of reference include but not confined to human resource planning, employee welfare, recruitment. Training, performance appraisal, discipline, health and safety and HIV/AIDS.

**Technical and Planning Committee**

The committee comprises of four non-executive directors and a CEO as an ex-official. The committee is chaired by a non-executive director and meets four times a year.

This committee oversees planning, coordination and execution of development and rehabilitation projects to ensure expansion of reticulation system and improve efficiency in KICOTEC production of goods & services.

**Director's Remuneration**

The remuneration of non-executive directors consists of sitting allowances in connection with board and committee meetings.

**Process of appointment and removal of directors**

The persons appointed shall be by name and by notice in the Gazette. The person appointed shall hold office for a term of three years, but shall on the basis of satisfactory performance be

eligible for re-appointment for one further term of three years. A board member can cease to be a member if he/she is judged a bankrupt.

**Induction and training**

After every Annual general meeting, the directors undergo an induction and training.

**Ethics and Conduct of directors**

To show commitment of proper utilization and management of public resources and proper running of corporation affairs, KICOTEC has developed a code of ethics to be signed by all board members. A code of ethics provides guidance and direction in the manner in which members of the board of directors are expected to conduct themselves when handling matters relating to the company.

## **VIII. MANAGEMENT DISCUSSION AND ANALYSIS**

### **Operational and Financial Performance**

#### **Income analysis**

During the year ended 30th June 2022 The Kitui County Textile Centre raised a total of Kshs. 78 Million against a total budget of Kshs. 380 million. The revenue was below our budget as a result of the Covid-19 pandemic which adversely affected our business operations and the country at large.

#### **Expenditure Analysis**

During the financial year ended 30th June 2022 Kitui County Textile Centre incurred expenditure amounting to Kes 169 million against budgeted amount totalling to Kshs. 313 million. The expenditures were slightly lower than what we had budgeted due to lower business operations than what we had not expected. This was as a result of Covid-19 pandemic which seriously affected our countries economy and global.

#### **Statement of the Financial Position**

The statement of the financial position indicates that Kitui County Textile Centre closed the financial year ended 30th June 2022 with total assets worth Kes 202 million as compared to Kes 249 million from the previous period.

#### **Major Risks**

##### **Operational risks**

Loss resulting from inadequate or failed procedures, systems or policies for example some debtors delayed honouring their debts on time.

##### **Risks Mitigation Strategies**

Enhanced debt collection measures

##### **Market risks**

Losses that affect the overall performance of markets. The risks of failing to attract enough customers to act as the market leaders due to competition.

**Risks Mitigation Strategies**

Aggressive marketing of our products and also enhance the diversity and quality of our products.

**Liquidity Risks**

Inability to meet short term financial demands. This usually occurs due to inability to convert assets like debts to cash. KICOTEC experienced financial challenges during the financial year ended 30th June 2022 whereby it was not able to meet some of the daily operations as a result of cash flow problems.

**Risks Mitigation Strategies**

Aggressive debt collection from the customers and also control of expenditures to manageable levels.

**Compliance with statutory Deductions**

KICOTEC has strived to meet its statutory obligations. This includes regulatory fees, Taxes, NHIF, NSSF and not forgetting pension service providers as directed by employees

## **IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING**

Kitui County Textile Centre - KICOTEC being a public entity embraces the policy of corporate social responsibility (CSR) through engaging herself with the following amongst many social responsibilities Offering both social and economic support to the external community through provision of casual labour opportunities and supplies wherever such opportunities arise. KICOTEC in conjunction with the county government of Kitui has embarked on a massive marketing for KICOTEC products to ensure that our products remain competitive and relevant in the market which will also ensure sustainability

### **Environmental performance**

Active participation in tree planting in collaboration with Kitui County. We participated in tree planting in various primary and secondary schools. The corporation also engages in planting of trees in the surroundings.

### **Employee Welfare**

KICOTEC offers equal employment to all irrespective of gender, race, tribe, religion etc. Therefore, transparency in recruitment and selection process is key.

KICOTEC offers internship and industrial attachment to the youth from the surrounding community and institutions participating in environmental awareness

We believe our responsibility extends beyond the statutory obligation to comply with the legislation and therefore voluntary take action to improve the quality of life among our employees and their families, local communities and society at large.

We are dedicated to creating a workplace that is safe, fair and enriching. Safety procedures and programs are constantly monitored and improved to help ensure that our employees work safely.

### **Market Place Practices**

KICOTEC is a corruption free zone and has cultivated a culture of integrity within its employee complement. The corporation ensures high quality products are supplied to the market through vigorous quality checks.

**Community Engagements**

The corporation has been in the fore front in impacting the community positively especially women groups. Kicotec has engaged numerus women group in training and empowering them with skills in the apparel industry

**X. REPORT OF THE DIRECTORS**

The directors submit their report and the financial statements for the year ended 30 June 2022, which disclose the state of affairs of the company.

**INCOPORATION**

Kitui County Textile Centre was incorporated on on 25 November 2019 in accordance to Kitui County Corporation Act. The Entity started trading in year 2018 and got its legal status 2019.

**PRINCIPAL ACTIVITIES**

The principal activity of the entity is to manage textile manufacturing in the county in accordance with Kitui County Corporation Act 2019, promote best practices in and regulate production, processing and marketing of apparel, garments and textiles.

<b>RESULTS</b>		<b>2021/ 2022</b>	<b>2020/2021</b>
		<b>Shs</b>	<b>Shs</b>
Profit /loss before tax		(90,902,130)	6,643,588
Tax		23,448,496	(2,629,644)
Profit/Loss after tax		(67,453,633)	4,013,943

**DIRECTORS**

The directors who held office during the year and to the date of this report are shown on page iv

**AUDITORS**


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

**KITUI COUNTY TEXTILE CENTRE**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2022**

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By Order of the Board

Name  
*BEN JACKSON*  
Secretary to the Board

Signature  


Date  
*19/12/2022*

## **XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 164 of the Public Finance Management Act, 2012 and Kitui County Coporation Act, 2019 require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year and the operating results of the entity for that year. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity.

The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year ended on June 30, 2022.

This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (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 entity;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and (the Kitui County Corporation Act, 2019. The

**KITUI COUNTY TEXTILE CENTRE**  
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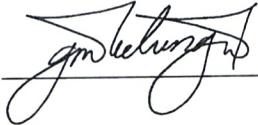
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Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2022, and of the entity's financial position as at that date.

The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the board of directors on 29/9/ 2022 and signed on its behalf  
by:



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Isaac Maluki

Ag. Chairperson of the Board



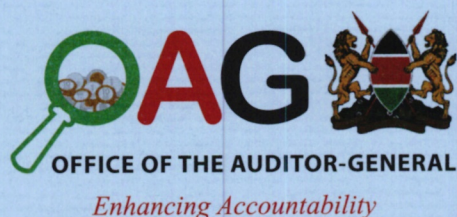
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Ben Jackson

CEO

# REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



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

## REPORT OF THE AUDITOR-GENERAL ON KITUI COUNTY TEXTILE CENTRE FOR THE YEAR ENDED 30 JUNE, 2022

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### PREAMBLE

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

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

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

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

### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Kitui County Textile Centre set out on pages 2 to 36, which comprise of the statement of financial position as at

30 June, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kitui County Textile Centre as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and the Kitui County Corporations (KICOTEC) Regulations, 2019.

### **Basis for Qualified Opinion**

#### **1. Non-Compliance with the Format Prescribed by the Public Sector Accounting Standards Board**

Directors' passport photos, academic/profession qualifications, date of birth and work experience are not indicated. In addition, Management team's passport-size photos, key profession qualifications/academic, date of birth and main area of responsibilities are not indicated. Further, Appendix 1: Progress on follow-up of Auditor recommendations has been omitted.

In the circumstances, the financial statements do not comply with the financial reporting template prescribed by the Public Sector Accounting Standards Board.

#### **2. Inaccuracies in the Financial Statements**

##### **2.1 Differences between Opening Balances and Prior Year Audited Financial Statements Differences**

Note 18 to the financial statements on related party transactions discloses sale of goods and services to County Executive of Kitui comparative balance of Kshs.6,858,154. However, the audited financial statements reflected an amount of Kshs.66,858,154 resulting to an unexplained variance of Kshs.60,000,000.

##### **2.2 Misclassification of Expenditure**

The statement of profit or loss and other comprehensive income reflect loss before tax of Kshs.90,902,130. Review of expenditure items for various components revealed misclassifications of expenditure as tabulated below:

SNo.	Expenditure Item	Financial Statements Amount (Kshs)	Misclassified Expenditure (Kshs)	Account Charged	Correct Account
1	Depreciation	10,305,829	10,305,829	Operating Expenses	Administrative Expenses
2	Cleaning Services	3,758,417	2,500,000	Maintenance of Equipment	Cleaning Services

### 2.3 Misstatement of Cleaning Services Expenditure

The statement of profit or loss and other comprehensive income reflects administrative expenses amount of Kshs.82,247,489 and as disclosed in Note 7 to the financial statements, includes Nil cleaning expenses. However, schedules provided reflect payments of Kshs.2,566,561 made to two (2) firms for cleaning services resulting to an unexplained variance of Kshs.2,566,561.

In the circumstances, the accuracy and completeness of the Nil cleaning services could not be confirmed

### 2.4 Unsupported Expenditures

The statement of profit or loss and other comprehensive income reflects administrative expenses amount of Kshs.82,247,489. However, review of relevant expenditure documents revealed that Kshs.1,149,140 for Office and General supplies could not be verified due to lack of payment vouchers while Kshs.252,996 for Board Expenses was not supported by minutes and attendance registers.

In the circumstances, the accuracy and completeness of Kshs.1,149,140 for Office and General Supplies and Kshs.252,996 for Board Expenses could not be confirmed.

### 3. Unsupported Staff costs

The statement of profit or loss and other comprehensive income reflects administrative expenses of Kshs.82,247,489 which and as disclosed in Notes 7 and 8 to the financial statements include staff costs of Kshs.57,959,511. The staff costs of Kshs.57,959,511 include Kshs.49,142,975 for salaries and wages attributable to production. Review of documents in respect of salaries and wages of casual employees revealed the following anomalies:

- i. The rates applied for the wages was at variance with the recommendation by the Salaries and Remuneration Commission (SRC).
- ii. There were cases of casual employees being engaged continuously for period exceeding three (3) months contrary to Section 37 of the Employment Act, 2007.
- iii. There was no updated master roll for determination of number of days worked for purposes of daily wage payments.

In the circumstances, the accuracy, completeness and validity of salaries and wages to casual employees of Kshs.49,142,975 could not be confirmed.

#### **4. Long Outstanding Receivables**

The statement of financial position reflects trade and other receivables balance of Kshs.61,407,917. However, review of documents relating to receivables revealed the following anomalies:

- i. The Management has no policy on provisions for the long outstanding debts and did not provide details on how the provision for expected credit loss from trade debtors of Kshs.587,540 was determined.
- ii. The ageing analysis provided for review indicated that debts worth Kshs.28,561,605 (approximately 46% of the total debts) were over 180 days old, with Kshs.25,262,655 comprising of debts over 1-year-old, and Management did not demonstrate how it intended to recover the debts.
- iii. The trade and other receivables balance of Kshs.61,407,917 includes VAT recoverable balance of Kshs.3,770,227. This related to Value Added Tax (VAT) refunds due from the Kenya Revenue Authority (KRA). The balance had been outstanding over the last 2 years and the Corporation had not made any provisions to cover the uncertainty in the claim.

In the circumstances, the accuracy, and recoverability of VAT recoverable balance of Kshs.3,770,227 could not be confirmed.

#### **5. Material Uncertainty in Relation to Going Concern**

Review of Kitui County Textile Centre financial statements and books of accounts for the year under review showed unfavorable trends in its financial performance as follows:

- i. Current liabilities increased to Kshs.90,720,666 in 2021/2022 from Kshs.68,034,510 in 2020/2021.
- ii. Revenues decreased from Kshs.203,184,603 in 2020/2021 to Kshs.78,636,192 in 2021/2022.
- iii. Profitability declined by 1468% from a profit (before tax) of Kshs.6,643,588 in 2020/2021 to a loss of Kshs.90,902,130 in 2021/2022.

In addition, the statement of financial position reflects current assets balance of Kshs.95,941,498 which include trade and other receivables balance of Kshs.61,407,917. This represents about 64% of the total current assets implying that the Centre's working capital is dependent on trade and other receivables whose recoverability is majorly doubtful.

In the circumstances, going concern of the Centre is in doubt.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kitui County Textile Centre Management

in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

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

### **Other Matter**

#### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.380,000,000 and Kshs.78,636,192 respectively resulting to an under performance by Kshs.301,363,808 (or 79%) of the budget. In the circumstances, the underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

#### **2. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not fully resolved the issues.

#### **3. Long Overdue Trade and Other Payables**

The statement of financial position reflects trade and other payables balance of Kshs.87,670,038 which include balances brought forward from 2020/2021 financial year. Failure to settle debts may affect the Company's business continuity as suppliers and other service providers lose confidence and faith in the Company, and this affects the profitability and survival of the Company.

### **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. Irregular Expenditures Incurred on Mutomo KICOTEC Factory**

Note 7 to the financial statement reflects Kshs.3,758,417 for maintenance of office equipment, computers and repairs. The amount includes Kshs.259,840 irregularly paid to a firm carrying out cleaning services for Mutomo KICOTEC Factory during the year under review. Further, the Centre incurred an expenditure totalling to Kshs.1,470,434 out of Kshs.49,142,975 for staff costs to pay casual staff at Mutomo KICOTEC Factory, for the months of March, 2022 to June, 2022. No explanation was advanced to justify the expenditures. Further, there exists no Memorandum of Understanding (MOU) between the two entities.

In the circumstances, Management was in breach of Section 149(1) of Public Finance Management Act of 2012 which among other things, require accounting officers to ensure that resources of the entity are used in a way that is lawful and authorized.

### **2. Non-Remittance and Delays in Remittance of Statutory Deductions**

Review of Statutory Deductions files revealed instances of delay and failure to remit the deducted amount to the National Hospital Insurance Fund (NHIF) and the National Social Security Fund (NSSF).

Documents showed that a total amount of Kshs.902,050 was remitted to NHIF between December, 2021 and May, 2022 but there were delays in remittance contrary to Section 15(4) of the National Hospital Insurance Fund 1998. Further, Kshs.502,800 for months of November, 2021 to February, 2022 was not remitted to NSSF contrary to Section 27(1) of the National Social Security Act, 2013.

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

### **3. Non-Adherence to Fiscal Responsibility Principle on Wage Bill**

The Statement of Profit or Loss and Other Comprehensive Income reflects Administrative Expenses of Kshs.82,247,489 which as disclosed in Note 7 to the financial statements, includes Kshs.57,959,511 for Staff Costs. The expenditure is equivalent to 74% of the total revenue of Kshs.78,636,192 collected during the year under review.

Thus, the expenditure on wages and benefits exceeded the set ceiling of 35% for the item contrary to Section 25(1)(a) of the Public Finance Management (County Government) Regulations, 2015 which limits expenditure on wages and benefits for its public officers to thirty-five (35) percent of the entity's total revenue.

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

### **4. Payments Made for Doubtful Deliveries**

The statement of profit or loss and other comprehensive income reflects cost of sales amount of Kshs.76,985,003. This includes payments of Kshs.1,275,228 and Kshs.633,684 made to two contractors for the supply of polypropylene (17gsm) and

polypropylene (70gsm) respectively. However, although the deliveries were recorded in Counter Receipt Vouchers (S13), items delivered were never recorded in stores Stock Cards and Counter Requisition and Issue Vouchers (S11).

Further, the items indicated delivered and received could not be traced in store records and issued for production purposes. The entity therefore risks losing the amount of Kshs.1,908,912 paid to the two suppliers.

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

## **5. Failure of Board to Comply with Mwongozo Code of Governance**

The statement of profit or loss and other comprehensive income reflects administrative expenses amount of Kshs.82,247,489 which as disclosed in Note 7 to the financial statements, includes Directors' (Board) emoluments amounting to Kshs.3,162,460.

However, audit review of Board records revealed the following anomalies;

- i. The Board held only two meetings in the year, while the Mwongozo recommends a maximum of four (4) meetings in a year spread quarterly and two (2) allowable ad hoc Committee meetings.
- ii. Personal files for Board of Directors were not availed for audit review, and it was not therefore possible to confirm the terms of service of the board members.
- iii. Further, the board did not establish an audit committee as required by Mwongozo code of governance.

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

## **6. Lack of Operational Autonomy**

Review of Minutes of special Board meeting held on the 26 of January, 2022, to facilitate change of entity's bank signatories Min.2/26/01/2022 revealed that two Chief Officers of Kitui County Government (who also sat in Board as Members) were appointed/designated as mandatory and alternative signatories of Kitui County Textile Centre's bank accounts. This implies that no transaction could be undertaken without their administrative input, leading to loss of operational autonomy of the entity.

In the circumstances, the entity is in violation of Section 149(1)(a) and (b) of the Public Finance Management (County Government Regulations, 2015) which requires Accounting Officers to be responsible and accountable for the entity's resources.

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

# REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

## **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters 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**

### **1. Lack of an Assets Register**

The statement of financial position reflects Kshs.85,273,654 for property, plant and equipment. However, the entity does not maintain a register of assets.

In the circumstances, the Textile Centre may not keep track of all its assets.

### **2. Lack of Information Communication Technology (ICT) Policy**

Review of Textile Centre's Information Communication Technology (ICT) environment revealed that the Textile Centre did not have an approved ICT policy in place to enable the Centre manage the IT data confidentiality, accuracy, reliability, integrity and availability from being compromised. Further, there is the risk of data manipulation since all records are manually prepared and maintained and further, IT operations may not have been effectively managed and aligned to support the operations of the entity during the year under review.

### **3. Lack of Risk Management Policy and Disaster Recovery Plan**

Review of the Textile Centre's risk management framework revealed that there was no Risk Management Policy Framework to guide in identification, assessment and mitigation of risks. In addition, the Textile Centre did not have a Disaster Recovery and Business Continuity Plan in place.

In the absence of Risk Management Policy and a Disaster Recovery and Business Continuity Plan, the Textile Centre lacks a blue print for identifying, preventing and mitigating against risks and disasters to ensure that its operations are not interrupted in case of unforeseen events.

### **4. Lack of Human Resource Policies and Guidelines**

Kitui County Textile Centre lacked approved Human Resource Manual, career guidelines or scheme of service, Training Policy, and approved staff establishment. The Management therefore lacks the basis for recruitment and remuneration of staff.

In the absence of approved Human Resource Manual, career guidelines or scheme of service, Training Policy, and approved staff establishment, the Textile Centre's capability to plan for an optimum staffing level and associated cost, attract, recruit and maintain staff can not be confirmed.

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

### **Responsibilities of Management and the Board of Directors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Centre'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 intention to liquidate the Centre or to cease operations.

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

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

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with

Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Centre's policies and procedures may deteriorate.

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

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

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

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

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

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

  
CPA Nancy Gathungu, CBS  
**AUDITOR-GENERAL**

**Nairobi**

**20 April, 2023**

**XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR  
THE YEAR ENDED 30 JUNE 2022.**

		2021/2022	2020/2021
	Notes	Shs	Shs
Revenue	4	78,636,192	203,184,603
Cost of sales	5	76,985,003	71,382,497
<b>Gross profit</b>		<b>1,651,189</b>	<b>131,802,106</b>
Selling and distribution	6	-	7,427,156
Administrative expenses	7	82,247,489	107,762,243
Operating expenses	9	10,305,829	9,969,120
<b>Total Expenditure</b>		<b>92,553,318</b>	<b>125,158,519</b>
<b>Profit/Loss before tax</b>		<b>(90,902,130)</b>	<b>6,643,588</b>
Tax charge for the year	10	23,448,496	2,629,644
<b>Profit/Loss after tax</b>		<b>(67,453,633)</b>	<b>4,013,943</b>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income/Loss for the year</b>		<b>(67,453,633)</b>	<b>4,013,943</b>

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**XIV.STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022**

			<b>2021/2022</b>	<b>2020/2021</b>
	<b>Notes</b>		<b>Shs</b>	<b>Shs</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	12		85,273,654	94,361,907
Deferred tax	17		21,570,589	
<b>Total non-current assets</b>			<b>106,844,243</b>	<b>94,361,907</b>
<b>Current assets</b>				
Inventories	13		18,488,427	52,020,592
Trade and other receivables	14		61,407,917	95,015,327
Cash and cash equivalents	15		16,045,154	8,033,300
<b>Total current assets</b>			<b>95,941,498</b>	<b>155,069,219</b>
<b>TOTAL ASSETS</b>			<b>202,785,741</b>	<b>249,431,126</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Capital injected	11		168,608,089	168,608,089
Retained earnings			(56,543,014)	10,910,619
<b>Capital and Reserves</b>			<b>112,065,075</b>	<b>179,518,708</b>
<b>Non-current liabilities</b>				
Deferred tax			-	1,877,908

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Trade and other payables	16	87,670,038	66,559,810
Current Tax	10	3,050,628	1,474,700
<b>Total current liabilities</b>		<b>90,720,666</b>	<b>68,034,510</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>202,785,741</b>	<b>249,431,126</b>

The financial statements were approved by the Board on 29/9/22 2022 and signed on its behalf by:

CEO

Name: Ben Jackson

sign:



Head of Finance

Name: Peter Yoma

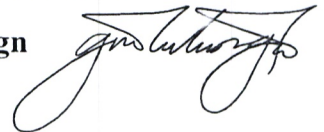
ICPAK M/NO: 7548



Ag. Chairman of the Board

Isaac Maluki

Sign



**XV.STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022**

Equity Changes	Note	Capital injected	Accumulated	Total
		Shs	Profit/losses	Shs
			Shs	Shs
<b>At July 1, 2020</b>		<b>166,219,549</b>	<b>6,896,676</b>	<b>173,116,225</b>
Capital injected by Kitui County Government 2020/2021	11	2,388,540	-	2,388,540
Total comprehensive profit/(loss) for the year 2020/2021			4,013,943	4,013,943
<b>As at June 30, 2021</b>		<b>168,608,089</b>	<b>10,910,619</b>	<b>179,518,708</b>
<b>As at July 1, 2021</b>		<b>168,608,089</b>	<b>10,910,619</b>	<b>179,518,708</b>
Capital injected by Kitui County Government 2021/2022		-		-
Total comprehensive profit/(loss) for the year 2021/2022			(67,453,633)	(67,453,633)
Dividend Declared			-	-
<b>As at June 30, 2022</b>		<b>168,608,089</b>	<b>(56,543,014)</b>	<b>112,065,075</b>

**XVI.STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022**

		<b>2021/2022</b>	<b>2020/2021</b>
	<b>Notes</b>	<b>Shs</b>	<b>Shs</b>
<b>Operating activities</b>			
Profit before tax		(90,902,330)	6,643,588
<b>Add back: Non-cash items</b>			
Depreciation on property, plant and equipment	12	10,305,829	9,969,120
<b>Cash before operating activities</b>		<b>(80,596,501)</b>	<b>16,612,708</b>
<b>Changes in working capital</b>			
<b>Cash generated from/(used in) operations</b>			
Increase/Decrease in Inventories		33,532,165	(8,988,550)
Increase/Decrease in Trade and other receivables		33,607,410	442,535
Increase/Decrease in Trade and other payables		22,686,156	3,257,870
<b>Net Cash from Operating Activities</b>		<b>9,229,431</b>	<b>11,324,561</b>
Tax paid		-	-
<b>Net cash from operating activities</b>		<b>9,229,431</b>	<b>11,324,561</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	12	(1,217,576)	(9,092,042)

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<b>Net cash from investing activities</b>		<b>(1,217,576)</b>	<b>(9,092,042)</b>
<b>Financing activities</b>			
Capital injection by Kitui county Government	11	-	2,388,540
		-	
<b>Net cash generated from financing activities</b>			<b>2,388,540</b>
Increase in cash and cash equivalents		8,011,855	4,621,059
<b>Movement in cash and cash equivalents</b>			
At start of year 2021		<b>8,033,298</b>	3,412,240
Increase for the year 2022		8,011,855	4,621,059
<b>At end of year 2022</b>	15	<b>16,045,154</b>	<b>8,033,298</b>

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**XVII.STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2022**

	Original Budget	Adjustment s	Final Budget	Actual on Comparable basis	Performance difference	% of utilisation
<b>Revenue</b>	<b>2022</b>	<b>2022</b>	<b>2022</b>	<b>2022</b>	<b>2022</b>	<b>2022</b>
Sale of goods	380,000,000	0	380,000,000	78,636,192	301,363,808	20.69%
Transfers from County Government of Kitui	0	0	0	0	0	
<b>Total Income</b>	<b>380,000,000</b>	<b>0.00</b>	<b>380,000,000</b>	78,636,192	<b>301,363,808</b>	20.69%
Expenses						
Compensation of employees (Staff Cost)	92,000,000	0	92,000,000	57,959,511	34,040,489	63.00%
Cost of sales	120,000,000	0	120,000,000	76,985,003	43,014,997	64.15%
Administrative Expenses	88,920,000	0	88,920,000	24,137,986	54,326,192	38.90%
Selling and distribution	13,000,000	0	13,000,000	-	13,000,000	0.00%
<b>Total Expenditure</b>	<b>313,920,000</b>	<b>0</b>	<b>313,920,000</b>	<b>159,082,500</b>	<b>144,381,678</b>	54.01%
Profit for the year	<b>66,080,000</b>		136,880,000	(80,446,308)	156,982,130	
<b>Profit for the year</b>				<b>(80,446,308)</b>		
<b>Less</b>						
salaries paid by County				0.00		

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Government of Kitui						
Bank charges				117,503		
<b>less non-cash items</b>						
Provision for bad debts	-	-	-	32,490	-	-
Depreciation on PPE				10,305,829		
<b>Profit before tax as per the financial performance</b>				<b>(90,902,130)</b>		

**Notes:**

- During this financial period, the sale of goods was affected by the COVID – 19 Pandemic which restricted the movement of goods and people.
- The use of goods & other services, administrative expenses, selling & distribution was generally affected by the limited orders we got due to COVID – 19 Pandemic
- In addition, the operations of the corporation were also affected by the Pandemic hence utilization of the budget was not very effective as per our budget expectations

## **XVIII. NOTES TO THE FINANCIAL STATEMENTS**

### **1. General information**

Kitui County Textile Centre is domiciled in Kenya where it is incorporated under the Kitui County Corporation Act, 2019. The address of its registered office and principal place of business is as set out on page 2.

The principal activity of the entity is to manage textile manufacturing in the county in accordance with Kitui County Corporation Act 2019, promote best practices in and regulate production, processing and marketing of apparel, garments and textiles.

### **2. Basis of preparation**

The financial statements of Kitui County Textile Centre have been prepared in accordance with the International Financial Reporting Standard (IFRS). The financial statements are presented in Kenya shillings (Shs) have been prepared under the historical cost convention. The entity functional currency is Kenya Shillings (Shs). The preparation of financial statements in conformity with the IFRS for SME's requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements, are disclosed in note 3 (a). For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

#### **Going concern**

The financial performance of the company is set out in the report of the directors and in the statement of profit or loss and other comprehensive income. The financial position of the company is set out in the statement of financial position. Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

### **3. Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**a) Key sources of estimation uncertainty**

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The directors have made the following judgements and assumptions that are considered to have the most significant effect on the amounts recognised in the financial statements:

- Impairment of trade receivables

The company reviews their portfolio of receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected. Additional disclosure of these estimates of provisions is included in Note 14.

- Useful lives of property, plant and equipment

Management reviews the useful lives and residual values of the items of property, plant and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**1. Application of New and Revised International Financial Reporting Standards (IFRS)**

**i. New and amended standards and interpretations in issue effective in the year ended 30 June 2022.**

Title	Description	Effective Date
IAS 39-Financial Instruments: Recognition and Measurement	IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 4- Insurance Contracts (Superseded)	IFRS 4 "Insurance Contracts" applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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Title	Description	Effective Date
IFRS 7- Financial Instrument Disclosures	IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 16- Leases	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Application of New and Revised International Financial Reporting Standards (IFRS)**

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

<b>Title</b>	<b>Description</b>	<b>Effective Date</b>
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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Title	Description	Effective Date
IAS 16 — Property, Plant and Equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 41 — Agriculture	IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 1 — First-time Adoption of International Financial Reporting Standards	IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

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Title	Description	Effective Date
IFRS 3 — Business Combinations	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.
IFRS 17 — Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.]

*The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.*

**iii. Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2021/2022

**NOTES TO THE FINANCIAL STATEMENTS (Continues)**

**3. Summary of significant accounting policies (continued)**

**b) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and/or performance of services, in the ordinary course of business and is stated net of Value Added, Tax (VAT), rebates and discounts.

The entity recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for the company's activity as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

- i) Sale of goods is recognised upon delivery of product and customer acceptance.
- ii) Other income is recognised on receipt basis.

**c) Property, plant and equipment**

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation on other assets is calculated on straight line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate %
Buildings	4
Plant and machinery	12.5

Motor vehicle	25
Equipment	12.5
Furniture and fittings	12.5
Computer equipment	33.33

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit.

**d) Translation of foreign currencies**

Transactions in foreign currencies during the period are converted into Kenyan shillings (the reporting currency at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenyan shillings at closing rates. The resulting differences from conversion and translation are dealt with in the statement of changes in equity.

**e) Financial assets**

Trade and other receivables are initially recognised at the transaction price. Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. Debt instruments such as Treasury bills or corporate bonds are initially recognised at the transaction price including transaction costs, and subsequently measured at amortised cost using the effective interest method.

**f) Financial liabilities**

Financial liabilities are initially recognised at the transaction price (less transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest. Interest bearing liabilities are subsequently measured at amortised cost using the effective interest method.

**g) Retirement benefit obligations**

The company and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate. NSSF

contribution are charged to the income statement in the year to which they relate.

**h) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of inventory in trade comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

**i) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and financial assets with maturities of less than 3 months, net of bank overdrafts and money market lines.

**j) Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in the comprehensive income or in equity. In this case, the tax is also recognised in other comprehensive income and equity.

The current tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

**Offsetting**

An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously

**k) Budget information**

The original budget for FY 2021-2022 was approved by the board of directors on 28th September 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final

budget. The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on these financial statements.

**l) Capital injected**

Cash injected by Kitui County government has been classified as capital injected and classified under equity.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	<b>2021/2022</b>	<b>2020/2021</b>
	<b>Shs</b>	<b>Shs</b>
<b>4. Revenue</b>		
Gross sales of goods (KICOTEC account)	91,217,983	206,006,026
Less: Value added tax on gross sales	<u>(12,581,791)</u>	<u>(2,821,423)</u>
<b>Total (sale of ppe's, uniforms and other garments)</b>	<u><u>78,636,192</u></u>	<u><u>203,184,603</u></u>
<b>5. Cost of sales</b>		
Cost of sales on goods	<u>76,985,003</u>	<u>71,382,497</u>
<b>Total cost of sales</b>	<u><u>76,985,003</u></u>	<u><u>71,382,497</u></u>
<b>6. Selling and distribution</b>		
Marketing and promotional expenses	<u>----</u>	<u>7,427,156</u>
<b>7. Administrative expenses</b>		
Staff costs (Note 8)	57,959,511	62,362,991
Directors' (Board) emoluments	3,162,460	5,847,178
Electricity and water	3,540,906	2,850,709
Communication services and supplies	528,000	207,173
Transportation, travelling and subsistence	7,049,413	10,891,931
Stationery, Printing and photocopying		4,119,999
Licenses	317,850	50,700
Security expenses		1,107,000
Hospitality supplies and services	567,805	1,641,693
Training Expense (including capacity building)		126,282
Refined Fuel	1,403,100	3,300,000
Bank charges and commissions	117,503	71,622

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	<b>2021/2022</b>	<b>2020/2021</b>
	<b>Shs</b>	<b>Shs.</b>
Office and general supplies and services	1,910,221	3,877,222
Consultancy fees		3,280,680
PAYE/VAT Arrears	1,762,450	962,003
Other Operating Expenses	3,758,417	150,870
Maintenance of Factory Specialized Machines	137,363	2,816,900
Maintenance of Building and stations-non residential		595,900
Provision for bad and doubtful debts	32,490	188,000
Subscriptions and membership fees		210,170
Cleaning expenses		3,103,220
<b>Total administrative expenses</b>	<u>82,247,489</u>	<u>107,762,243</u>
<b>8. Staff costs</b>		
Salaries and wages - Production	49,142,975	56,750,980
Salaries and wages - Administrative	8,816,536	5,612,011
<b>Total salaries and wages</b>	<u>57,959,511</u>	<u>62,362,991</u>
 The average number of persons employed during the year, by category, were:		
		<b>Number of staff</b>
Production	338	300
Management and administration	12	17
 Total	<u>350</u>	<u>317</u>

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9. OPERATING EXPENSES	2021/2022	2020/2021
	Shs	Shs
Depreciation on property, plant and equipment (Note 12)	<u>10,305,829</u>	<u>9,969,120</u>
<b>Total operating expenses</b>	<u>10,305,829</u>	<u>9,969,120</u>
10. Taxation		
Current tax	--	1,474,700
Deferred tax (Note 17)	<u>(23,448,496)</u>	<u>1,154,944</u>
	<u>(23,448,496)</u>	<u>2,629,644</u>
The tax on the entities' (loss) before tax differs from the theoretical amount that would arise using the basic rate as follows:		
Loss/Profit before tax	<u>(90,902,130)</u>	<u>6,643,588</u>
Tax calculated at a tax rate of 25%	(22,725,532)	1,993,076
Tax effect of:		
temporal differences -	(722,964)	636,568
deferred tax on taxable profit not recognized -		
	<u>(23,448,496)</u>	<u>2,629,644</u>
11. Capital injected		
At start of the year	168,608,089	166,219,549
Capita injected 2022 by Kitui County Government		<u>2,388,540</u>
At end of year 2021/2022	<u>168,608,089</u>	<u>168,608,089</u>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**12. Property, Plant and Equipment**

<b>Year 2021/2022</b>	<b>Buildings and works</b>	<b>civil</b>	<b>Machinery</b>	<b>Equipments</b>	<b>Furniture and fittings</b>	<b>Computers</b>	<b>Total</b>
	<b>Shs</b>		<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>
	<b>4%</b>		<b>12.5%</b>	<b>12.5%</b>	<b>12.5%</b>	<b>33.33%</b>	
<b>Cost</b>							
At start of year - 1 July 2021	52,271,841		48,938,634	5,187,000	5,677,460	1,208,700	113,283,635
Additions	-		331,776	-	-	885,800	1,217,576
At end of 30 June 2022	52,271,841		49,270,410	5,187,000	5,677,460	2,094,500	114,501,211
<b>Depreciation</b>							
At start of year - 1 July 2021	4,022,289		11,821,441	1,296,751	1,325,722	455,526	18,921,728
Charge for the year	2,090,874		6,158,801	648,375	709,683	698,097	10,305,829
At end of 30 June 2022	6,113,162		17,980,243	1,945,126	2,035,404	1,153,623	29,227,557
<b>Net book value 30 June 2022</b>	<b>46,158,679</b>		<b>31,290,168</b>	<b>3,241,874</b>	<b>3,642,056</b>	<b>940,877</b>	<b>85,273,654</b>

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<b>Year 2020/2021</b>	<b>Buildings and civil works</b>	<b>Machinery</b>	<b>Equipments</b>	<b>Furniture and fittings</b>	<b>Computers</b>	<b>Total</b>
	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>
<b>Cost</b>						
At start of year - 1 July 2020	48,285,385	45,632,898	5,187,000	4,928,310	158,000	104,191,593
Additions	<u>3,986,456</u>	<u>3,305,736</u>	<u>-</u>	<u>749,150</u>	<u>1,050,700</u>	<u>9,092,042</u>
At end of year - 30 June 2021	<u>52,271,841</u>	<u>48,938,634</u>	<u>5,187,000</u>	<u>5,677,460</u>	<u>1,208,700</u>	<u>113,283,635</u>
<b>Depreciation</b>						
At start of year - 1 July 2020	1,931,415	5,704,112	648,376	616,039	52,666	8,952,608
Charge for the year	<u>2,090,874</u>	<u>6,117,329</u>	<u>648,375</u>	<u>709,683</u>	<u>402,860</u>	<u>9,969,120</u>
<b>At end of year - 30 June 2021</b>	<u>4,022,289</u>	<u>11,821,441</u>	<u>1,296,751</u>	<u>1,325,722</u>	<u>455,526</u>	<u>18,921,728</u>
<b>Net book value 30 June 2021</b>	<u>48,249,552</u>	<u>37,117,193</u>	<u>3,890,249</u>	<u>4,351,739</u>	<u>753,174</u>	<u>94,361,907</u>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	<b>2021/2022</b>	<b>2020/2021</b>
	<b>Shs</b>	<b>Shs</b>
<b>13. Inventories</b>		
Raw materials	8,763,881	33,033,344
Work in progress		73,359
Maintenance store	2,025,863	2,172,275
Finished products	7,698,683	16,741,614
	<u>18,488,427</u>	<u>52,020,592</u>
<b>14. Trade and other receivables</b>		
Trade debtors	58,225,230	91,988,150
Provision for expected credit loss	(587,540)	(743,050)
Net trade debtors	57,637,690	91,245,100
VAT recoverable	3,770,227	3,511,229
	<u>61,407,917</u>	<u>95,015,327</u>
<b>Movement in expected credit losses</b>		
At start of year	743,050	555,050
Less Debtors paid	(188,000)	
Add provision	32,490	188,000
At end of year	<u>587,540</u>	<u>743,050</u>
<b>15. Cash and cash equivalents</b>		
Equity Bank A/C No. Revenue (0720279696877)	12,607,685	5,648,982
Equity Bank A/C No. Operations(0720279696894)	3,437,469	2,384,317
<b>Total cash and cash equivalents</b>	<u>16,045,154</u>	<u>8,033,300</u>

For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:

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	2021/2022 Shs	2020/2021 Shs
Cash at bank	<u>16,045,154</u>	<u>8,033,300</u>
	<u>16,045,154</u>	<u>8,033,300</u>
<b>16. Trade and other payables</b>	<b>Shs</b>	<b>Shs</b>
Trade payables	87,670,038	64,188,771
Payroll liabilities		795,111
	<u>87,670,038</u>	<u>64,983,882</u>

**17 Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 25%. The movement on the deferred tax account is as follows:

	Shs	Shs
At start of year	1,877,907	722,964
Charge to profit or loss (Note 10)	(23,448,496)	1,154,944
At end of year	<u>(21,570,589)</u>	<u>1,877,908</u>

Deferred tax liability in the statement of financial position and deferred tax (credit)/charge in profit or loss are attributable to the following items:

2021/2022	At start of year Shs	(Credit)/ charge to profit or loss Shs	At end of year Shs
<b>Deferred tax liabilities</b>			
Property, plant and equipment			
- historical cost	1,877,908	(649,481)	1,228,428
-	-	-	-
	<u>1,877,908</u>	<u>(649,481)</u>	<u>1,228,428</u>

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<b>Deferred tax (asset)</b>			
- Tax losses carried forward	-	(22,799,016) -	(22,799,016)
<b>Net deferred tax liabilities</b>	<u>1,877,908</u>	<u>(23,448,496)</u>	<u>(21,570,588)</u>

<b>2020/2021</b>	<b>At start of year Shs</b>	<b>(Credit)/ charge to profit or loss Shs</b>	<b>At end of year Shs</b>
<b>Deferred tax liabilities</b>			
Property, plant and equipment			
- historical cost	722,964	1,154,944	1,877,908
-	-	-	-
	<u>722,964</u>	<u>1,154,944</u>	<u>1,877,908</u>
<b>Deferred tax (asset)</b>			
- Tax losses carried forward	-	-	-
<b>Net deferred tax liabilities</b>	<u>722,964.00</u>	<u>1,154,944</u>	<u>1,877,908</u>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**18. Related party transaction**

The following transaction were carried out with related parties

**i) Sale of goods and services**

- Kitui County Executive

**2021/2022      2020/2021**

**Shs.                      Shs**

13,401,402      6,858,154

13,401,402      6,858,154

**(ii) Receivable from related parties**

Kitui County  
Executive

31,511,844      26,439,570

31,511,844      26,439,570

**(iii) Key management personnel compensation**

The remuneration of directors and other members of key management during the period was as follows:

Salaries and wages - key management

7,347,605              2,463,470

Directors' fees - other allowances

3,162,460              5,847,178

10,510,065              8,310,648

**19. Risk management objectives and policies**

**Financial risk management**

Due to the nature of its operations, the entity is exposed to losses that may arise from market risks, credit risk and liquidity risks. The directors have adopted various measures to recognize losses that may arise from the exposures. These are explained as follows:

**(a) Market Risk**

The board has not put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial

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instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The company's Finance department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

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

**i. Price risk**

The entity does not hold any financial instruments that are susceptible to changes in price and therefore it does not face this risk.

**ii. Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The entity takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Since the base rates charged by the banks are determined by the market forces, the company has not formulated any practical measures to minimize the exposure. As at 30 June 2021, the entity did not have any interest bearing financial assets and financial liabilities.

**iv. Foreign exchange risk**

Foreign currency exchange risk arises when future commercial transactions, or recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

**(b) Credit risk**

Credit risk arises from cash and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that counterparty will default on its contractual obligations resulting in financial loss to the entity. Management assesses the credit quality of each customer, taking into account its financial position, past experiences and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored.

The entity's credit risk is primarily attributable to its related party, cash and cash equivalents and trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

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The credit risk is managed through management's constant assessment and monitoring of the status of the credit worthiness of its clients. The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings assigned by the banking regulatory authority.

The amount that best represents the company's maximum exposure to credit risk is made up as follows:

<b>2021/2022</b>	<b>Full performing Shs</b>	<b>Past due Shs</b>	<b>Impaired Shs</b>	<b>Total Shs</b>
Trade and other receivables	57,637,690	587,540	-	58,225,230
Cash and cash equivalents	<u>16,045,154</u>	<u>-</u>	<u>-</u>	<u>16,045,154</u>
	<u><u>73,682,844</u></u>	<u><u>587,540</u></u>	<u><u>-</u></u>	<u><u>74,270,384</u></u>
<b>2020/2021</b>	<b>Full performing Shs</b>	<b>Past due Shs</b>	<b>Impaired Shs</b>	<b>Total Shs</b>
Trade and other receivables	91,245,100	743,050	-	91,988,150
Cash and cash equivalents	<u>8,033,300</u>	<u>-</u>	<u>-</u>	<u>8,033,300</u>
	<u><u>99,278,400</u></u>	<u><u>743,050</u></u>	<u><u>-</u></u>	<u><u>100,021,450</u></u>

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 company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated. Cash and cash equivalents are fully performing.

**(c) Liquidity risk**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has put in place an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities and continuous monitoring of forecast and actual cash flows.

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The table below analyses the firm's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

<b>2021/2022</b>	<b>Less than 1 month Shs</b>	<b>1 -3 months Shs</b>	<b>Over 5 months Shs</b>	<b>Total Shs</b>
Trade and other payables	4,550,472.00	7,609,109	75,510,456.95	87,670,038
<b>2020/2021</b>	<b>Less than 1 month Shs</b>	<b>Between 1-3 months Shs</b>	<b>Over 5 months Shs</b>	<b>Total Shs</b>
Trade and other payables	<u>489,000.00</u>	<u>5,789,695</u>	<u>-</u> <u>58,705,186.80</u>	<u>66,559,810</u>

**20. Capital Management**

The entity manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the company consists of cash and cash equivalents and equity attributable to equity holders issued comprising capital, reserves and retained earnings.

The entity has no borrowings.

**21. Commitments**

Capital commitments at the year- end for which no provision has been made in these financial statements are:

**Contractual commitments for the acquisition of property, plant and equipment**

	<b>2021/2022 Shs</b>
Amounts authorised and contracted for	-
Amounts authorizes but not contracted for	-

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Less: Amounts included in work  
in progress

-

-

**2020/2021**  
**Shs**

Amounts authorised and contracted for  
Amounts authorized but not contracted for  
Less: Amounts included in work in  
progress

-

-

-

-

**22. Contingent liabilities**

As at 30 June 2022, the entity did not have any contingent liabilities.

**23. Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

**24.**

**Tax computation**

**2021/2022**  
**Shs**

**2020/2021**  
**Shs**

Profit before tax as per the financial statements

(90,902,130)

6,643,588

**Add:**

Depreciation on property, plant and equipment 10,305,829

10,305,829

9,969,120

9,969,120

Less income not subject to tax

(80,596,300)

16,612,70

Adjusted taxable profit

(80,596,300)

16,612,70

**Less Capital Allowances**

Wear and tear deductions

(10,599,763)

(10,599,763)

11,697,041

(11,697,0



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**25. Deferred tax account**

<b>2021/2022</b>	<b>Tax bases</b>	<b>Carrying values</b>	<b>Temporary Diff.</b>	<b>25%</b>
Machinery	33,391,735	31,290,168	(2,101,567)	(525,392)
Computers	1,189,097	940,877	(248,220)	(62,055)
Equipment's	3,875,151	3,642,056	(233,095)	(58,274)
Furniture and fittings	3,474,885	3,241,874	(233,011)	(58,253)
Building and Civil works	38,429,075	46,158,679	7,729,604	1,932,401
	80,359,942	85,273,654	4,913,712	1,228,428
Tax losses carried down	91,196,063	-	(91,196,063)	(22,799,016)
	<u>171,556,005</u>	<u>85,273,654</u>	<u>(86,282,352)</u>	<u>(21,570,588)</u>

**Subject:**

**DEFERRED TAX ACCOUNT**

<b>2020/2021</b>	<b>Tax bases</b>	<b>Carrying values</b>	<b>Temporary Diff.</b>	<b>25%</b>
Machinery	37,830,207	37,117,193	(713,014)	(213,904)
Computers	812,910	753,174	(59,736)	(14,934)
Equipments	4,428,744	4,351,739	(77,005)	(19,251)
Furniture and fittings	3,971,297	3,890,249	(81,048)	(24,314)
Building and Civil works	42,698,972	48,249,552	5,550,580	1,387,645
Tax losses carried down	-	-	-	-
	<u>89,742,129</u>	<u>94,361,906.90</u>	<u>4,619,778</u>	<u>1,115,241</u>

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**26. Currency**

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

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**APPENDICES**

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATION**