

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

MERU COUNTY ALCOHOLIC DRINKS
CONTROL BOARD

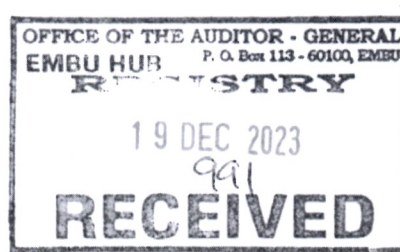
FOR THE YEAR ENDED
30 JUNE, 2023

PAPERS LAID
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Revised 30th June 2023



MERU COUNTY ALCOHOLIC DRINKS CONTROL BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2023

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

Meru County Alcoholic Drinks Control Board
Annual Report and Financial Statements for the year ended June 30, 2023

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1. Acronyms and Glossary of Terms

a) Acronyms

BOM	Board of Management
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
Kshs	Kenya Shillings

b) Glossary of Terms

Fiduciary Management	The key management personnel who had financial responsibility
MCADCB	Meru County Alcoholic Drinks Control Board
CSR	Corporate Social Responsibility

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2. Key Entity Information and Management

a) Background information

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and accountability from Meru County Alcoholic Drinks Control Act of 2016 of the Meru County Assembly which was repealed and re-enact by Meru County Alcoholic Drinks Control Act of 2016.

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

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

The Fund is wholly owned by the County Government of Meru and is domiciled in Kenya. The Fund's principal activity is to advise the County on all matters relating to licensing and control of alcoholic drinks within the County.

b) Principal Activities

The principal activity of the Meru County Alcoholics Drinks Control Board is to guide the Governor and other Heads of the County regarding licensing of all alcohol outlets in Meru County and control of alcoholic drinks within the County.

c) Board of Trustees/Fund Administration Committee

Ref	Name	Position
1	Chairman of the Board	Daniel Kinoti
2	Chief Officer finance	CPA Charles Mwenda Kaibiria
3	Board Member	Agnes Makena
4	Board Member	Monica Kagwima
5	Board Member	Dr Kimathi
6	Fund Manager/ Administrator	Dr Silas Mbaabu Muguna

d) Key Management Steam

Ref	Name	Position
1	Fund Manager/ Administrator	Dr Silas Muguna Mbaabu
2	Fund Accountant	Charles Mwenda Kaibiria

Key Entity and Management (Continued)

e) Fiduciary Oversight Arrangements

SN	Position	Name
1	Directorate Internal Audit	Crispus Mutoni

f) Registered Offices

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

g) Fund Contacts

Telephone: (254) 202381720
E-mail: alcoholboard@gmail.com
<https://meru.go.ke/>

h) Fund Bankers

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

Key Entity and Management (Continued)

3. Independent Auditors

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



4. Principal Legal Adviser

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

5. County Attorney

County Government of Meru
Department of Legal Affairs
P.o Box 120 -60200
Meru

3. Board of Trustees/ Fund Administration Committee (Or Any Other Corporate Governance Body for The Fund)

NAME	DETAILS OF QUALIFICATIONS AND EXPERIENCE
<p>Dr Silas Muguna Mbaabu</p>	<p>Position: Acting Chief Executive Officer DOB: 1966 Qualifications: PhD Leadership and Management, MA Leadership and Management, BED Arts</p> <p>Experience: 14 years as Principal of secondary school, 7 years as a Deputy Principal and 10 years as a Senior Administrative Head in government.</p>
 <p>Daniel Kinoti</p>	<p>Position: Board Member DOB: 1973 Qualifications: Diploma in Hotel Management Experience: Over 25 years' experience as Manager in Hotel Industry</p>
 <p>Agnes Makena</p>	<p>Position: Board Member DOB: 1966 Qualifications: Bachelor of Project Planning Experience: Over 30 years' experience in various positions</p>
<p>Dr Paul Kimathi</p>	<p>Position: Board Member DOB: 1975 Qualifications: Bachelor of Public Health Experience: Over 20years as a senior Public Health officer</p>

Meru County Alcoholic Drinks Control Board
Annual Report and Financial Statements for the year ended June 30, 2023

4. Management Team

<p>1. Dr Silas Muguna Mbaabu</p>	<p>Position: Acting Chief Executive Officer DOB: 1966 Qualifications: PhD Leadership and Management, MA Leadership and Management, BED Arts</p> <p>Experience: 14 years as Principal of secondary school, 7 years as a Deputy Principal and 10 years as a Senior Administrative Head in government.</p>
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5. Board/Fund Chairperson's Report

I take this opportunity to present annual report and financial statements for the year ended June 30, 2023 in pursuant of section 10 of the Meru County Alcoholic Drinks Control Board on behalf of the Board of Directors.

During the financial year under review the board undertook sensitization to the people of Meru county, inspection and enforcement of alcohol outlets in Meru County to ensure the mandate of the board is met.

In the financial year of 2022-2023 the Board realized high revenues due to the mitigation in inspection and enforcement process. The board managed to increase its revenues by a margin of 74% compared to the prior year.

This was the highest amount of revenues that the board has ever achieved since its inception. The achievement of revenue target helped the board clear some of its pending bills and create more sensitization across the regions in the county.

During the financial year the board ensured that it capitalizes in ensuring that high level of campaign on drug and drug abuse is spread across the county as per the Act of 2016.

The board additionally ensured that the staffs were well equipped with trainings to harness them with knowledge on how to conduct their duties well. In line with this the management ensured that the board has partnered with legal team and NACADA in providing capacity building to board staff.

The impact of staff trainings was impactful since it was one of the major factors why the board was able to scale up its revenues with high margins.

One of the major notable things that the Board has initiated in 2022-2023 is kicking off the plan to build a state of the art rehabilitation centre in Meru. The rehabilitation centre will be constructed in partnership with Department of Health and Department of Culture.

This project will ensure that the addicts in Meru and individuals all over the country secure treatment against the addiction menace. The process of the construction is ongoing and in the next financial year notable strides will be reported.

DANIEL KUNDO
Name.....Signature.....Date...14/12/2023

Chairperson of the Board/Fund

6. Report of The Fund Administrator

The Fund Administrator has day to day management responsibility of running of the board and the implementation of its strategy and policies as agreed by the board of directors.

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

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

Previously, the board has been experiencing lagged revenue income due to weak measures in enforcement. This therefore led the Board to put more stringent measure on revenue collection and regulation of bar outlets. Consequently, this led to high expenditure in enforcement and crackdown cost.

In the F/Y 2022-2023, the board was able to achieve and surpass its revenue estimation by 8% due to high level of mitigation undertaken in inspection and enforcement.

In the year 2022-2023 the Board collected Ksh 55,949,045 which was an increase by Ksh 23,790,045 compared to the revenue of Ksh 32,159,000 collected the previous year. This made it possible for the board to cover all its expenses and increase its reserves.

The increased income enabled the Board create more awareness to the people of Meru on drug and drug abuse. This led to a major road show marathon for 3 days across the county to sensitize individuals in all corners on Kaa Sober Tunakujali Tunakudhamini. The road show created a huge impact since it created awareness to over 3,000 people. This is where the board was able to realize the importance of a rehabilitation centre since many individuals the board met were suffering from addiction.

7. Statement of Performance Against the County Fund's Predetermined Objectives

Introduction

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each County Government entity Government entities in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the county government entity's performance against predetermined objectives.

The key development objectives of the Fund as per the strategic plan for (Indicate period of the strategic plan) are to:

- a) Provide sensitization to the public on alcohol abuse.
- b) Provide inspection and enforcement of alcohol outlets.
- c) Help in support of Rehabilitation of people in drug abuse and follow up.

Progress on attainment of Strategic development objectives

Program	Objectives	Outcomes	Indicators	Performance
Provide sensitization to the public on alcohol abuse.	To ensure public awareness to people on drug and drug abuse especially in regard to alcohol.	To reduce alcohol abuse by people in Meru. To minimise the number of deaths due to alcohol intake.	Number of Addicts in rehab	In FY 22/23 we reduced the number of addicts in Meru. The board followed up and sensitized more to youths.
Provide inspection and enforcement of alcohol outlets.	Inspect and enforce non licensed bars To enforce compliance with time and alcohol sold.	To wipe out non-compliant outlets. To control alcohol intake in Meru. To do away with traditional brews.	Number of Licensed outlets Number of illicit brews	The board reduced selling of illicit brews and non-compliance of bar owners
Help in support of Rehabilitation of people in drug abuse and follow up.	Reduce number of addicts and help in their productivity	Reduce people in rehabs Stable families Productive individuals	Number of addicts. Complains	The board supported more rehabs and helped improve and rehab addicts

8. Corporate Governance Statement

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

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

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

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

The primary responsibility of the board of directors is to provide leadership and strategic direction to the board. The board members are expected to exercise the highest degree of care, skill and diligence in discharging their duties. The principal responsibilities of the board shall include (i) establishing short and long term goals of the board, develop strategies to achieve these goals and monitor the boards performance against the set goals; (ii) spearheading preparation of financial statements and reports; (iii) approving and reviewing budgets; (iv) overseeing affairs of the board in light of emerging risks and opportunities and ;(v) ensuring that the board has adequate systems and internal controls together with appropriate monitoring of compliance activities

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

In the financial year 2022-2023, the Board Members held 24 meetings. During every board meeting and travel, board members in attendance are entitled to a sitting allowance, lunch

Meru County Alcoholic Drinks Control Board
Annual Report and Financial Statements for the year ended June 30, 2023

allowance, accommodation allowance and millage reimbursement where applicable within the set government limit.

9. Management Discussion and Analysis

During the year, the board collected Kshs **55,949,045** from liquor licencing activities within the county against an expenditure of Ksh **52,194,643** resulting to a surplus of Kshs **3,754,402**

Since the boards' core mandate is advice the County on all matters relating to licensing and control of alcoholic drinks within the County all the expenditures were recurrent in nature and were geared towards supporting the board to discharge its core mandate and hence there were no projects budgeted / implemented during the period under review.

During the period under review the board faced major challenge whereby there was increased sale of tradition brews, contraband alcoholic drinks and increased cases of addiction and menaces related to alcohol. Hence there was a risk of existence of illicit drinks within the market which could pose a hazardous risk if consumed by the residents.

KEY PROJECTS OF THE BOARD

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

10. Environmental and Sustainability Reporting

The Board did not engage in any major Corporate Social Responsibility activities since it allocated all the funds for CSR as share in the upcoming rehabilitation centre.

11. Report of The Trustees

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2023 which show the state of the Fund affairs.

Principal activities

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

Results

The results of the Fund for the year ended June 30, 2023 are set out on page 1 to 28

Trustees

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

Auditors

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



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Daniel Kinoti

Chair of the Board/Fund Administration Committee

Date: 14/12/2023

12. Statement of Management's Responsibilities

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

The Administrator of the County Public Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2022. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Administrator of the County Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Meru County Alcoholic Drinks Control Act of 2014 of the Meru County Assembly which was repealed and re-enact by Meru County Alcoholic Drinks Control Act of 2016. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2022, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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

Meru County Alcoholic Drinks Control Board
Annual Report and Financial Statements for the year ended June 30, 2023

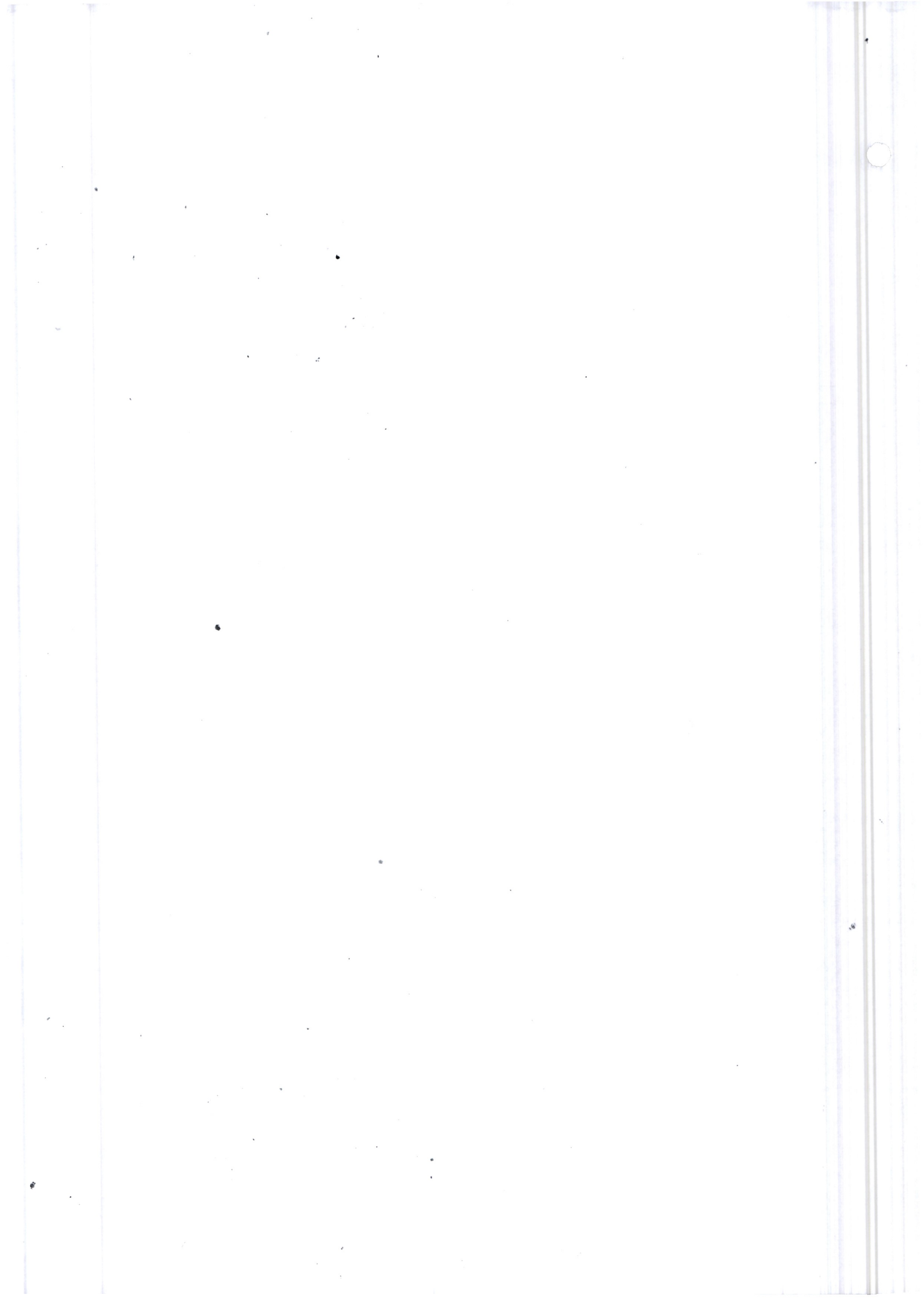
the use of going concern basis of preparation of the financial statements. There is nothing that has come to the attention of the Administrator to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

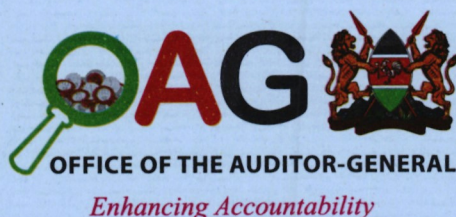
The Fund's financial statements were approved by the Board on 14th/12/ 2023 and signed on its behalf by:



.....
Name: Dr Mbaraka S. Mvungu
Administrator of the County Public Fund



REPUBLIC OF KENYA



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

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

REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY ALCOHOLIC DRINKS CONTROL BOARD FOR THE YEAR ENDED 30 JUNE, 2023

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 Meru County Alcoholic Drinks Control Board set out on pages 1 to 28, which comprise of the statement of financial position as at 30 June, 2023, and the statement of financial performance, statement of

Report of the Auditor-General on Meru County Alcoholic Drinks Control Board for the year ended 30 June, 2023

changes in net assets, statement of cash flows and the 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 Meru County Alcoholic Drinks Control Board as at 30 June, 2023, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis), and comply with the Public Finance Management Act, 2012 and the Meru County Alcoholic Drinks Control Act, 2016.

Basis for Qualified Opinion

1.0 Unsupported Maintenance of Motor Vehicles

The statement of financial performance reflects general expenses of Kshs.36,297,674 as disclosed in Note 4 to the financial statements. Included in this amount is Kshs.2,413,780 relating to maintenance of motor vehicles out of which Kshs.1,505,060 is in respect to repairing two (2) motor vehicles. However, review of the post inspection report revealed that the inspection of the motor vehicles was not done immediately after the repairs casting doubt as to whether the repairs were done as stated in the report.

In the circumstances, the accuracy and value for money for the expenditure of Kshs.1,505,060 could not be confirmed.

2.0 Unsupported Daily Subsistence Allowance

The statement of financial performance reflects general expenses of Kshs.36,297,674 as disclosed in Note 4 to the financial statements. Included in this amount is Kshs.2,719,600 relating to daily subsistence allowance out of which Kshs.150,750 is in respect to daily subsistence allowance paid to eight members of staff (8) involved in barrier manning and after hours' operations. However, the attendance register showing the date the operations were done, the area where the operations took place, authority to support the rates used to pay and criteria used to identify the staff were not provided for audit review contrary to Section 104(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the accuracy and regularity of the expenditure of Kshs.150,750 could not be confirmed.

3.0 Inaccurate Income

The statement of financial performance reflects other income of Kshs.55,949,045 as disclosed in Note 1 to the financial statements. However, review of ledger, banking slips and receipt books counterfoil revealed the following;

- i) The Board had collected revenue of Kshs.55,949,045 and spent Kshs.52,194,643 which is more than 3% of the budget contrary to Section 8(5)(b) of the Meru County Alcoholic Drinks Control Act, 2016. Further, the Board did not allocate an amount not less than 30% of the budget for treatment and rehabilitation services and programmes to the county department responsible for health services contrary to Section 8(5)(a) of the Meru County Alcoholic Drinks Control Act, 2016;
- ii) The license books though serialized were issued without any sequence. Further, the register showing how the licenses were issued and to whom they were issued to was not provided for audit review;
- iii) The income ledger provided did not indicate the serial number of licenses issued and the names of the applicants; and
- iv) An amount of Kshs.425,000 included in the income ledger supporting the financial statements was not supported with the banking slips, the client's information and dates of payment.

In the circumstances, the accuracy and completeness of other income amount of Kshs.55,949,045 could not be confirmed. Further, the Management was in breach of the law.

4.0 Training Expenses

4.1 Doubtful Expenditure on Training

The statement of financial performance reflects general expenses of Kshs.36,297,674 as disclosed in Note 4 to the financial statements. Included in this amount is Kshs.2,249,523 relating to training expenses out of which Kshs.870,718 was paid for facilitation of a NACADA training held in Nanyuki. However, review of documents revealed that this was an imprest paid to forty-one (41) officers for a three-day training. It was not clear why the training was held in Nanyuki when all the participants were drawn from the Board which is contrary to The National Treasury Circular No. 20/2015 of 4 November, 2015 which required that where majority of participants are drawn from one duty station then workshops and retreat are held within the precincts of the duty station.

In the circumstances, the accuracy and value for money for the expenditure amount of Kshs.870,718 could not be confirmed. Further, the Board was in breach of the law.

4.2 Unsupported Payment of Training Expenses

The statement of financial performance reflects general expenses of Kshs.36,297,674 as disclosed in Note 4 to the financial statements. Included in this amount is Kshs.2,249,523 in respect of training expenses out of which Kshs.831,962 was paid as imprest to facilitate staff retreat per diem at Isiolo. However, the supporting documents including venue of the training and how it was sourced, name of facilitators, authority supporting rates used to pay the facilitators, the work tickets, training program and back to office report were not provided for audit review. Further, no explanation was given that the training was held outside the precincts of Meru town when all the participants were drawn from Board which

is contrary to The National Treasury Circular No. 20/2015 of 4 November, 2015 which required that where majority of participants are drawn from one duty station then workshops and retreat are held within the precincts of the duty station.

In the circumstances, the accuracy and value for money for the expenditure of Kshs.831,962 could not be confirmed. Further, the Board was in breach of the law.

5.0 Unsupported Payment of Travel Costs

The statement of financial performance reflects general expenses of Kshs.36,297,674 as disclosed in Note 4 to the financial statements. Included in this amount is Kshs.3,911,380 in respect to travel costs out of which Kshs.1,809,000 was paid to officers while undertaking official duties to different destinations. However, the supporting documents including the program of activities and back to office reports were not provided for audit review contrary to Section 104(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation. Further, the meeting took place outside Meru County and all members who attended were from the Board contrary to The National Treasury Circular No. 20/2015 of 4 November, 2015 which required that where majority of participants are drawn from one duty station then workshops and retreat are held within the precincts of the duty station.

In addition, an amount of Kshs.30,000 was paid to cater for conference facility. However, the procurement documents including the quotations, tender opening and evaluation minutes, professional opinion and the contract agreement signed by both parties were not provided for audit review.

In the circumstances, the accuracy, regularity, and value for money for the expenditure of Kshs.1,809,000 could not be confirmed. Further, the Management was in breach of the law.

6.0 Unsupported Expenditure on Fuel, Oil and Lubricants

The statement of financial performance reflects general expenses of Kshs.36,297,674 as disclosed in Note 4 to the financial statements. Included in this amount is Kshs.1,430,000 incurred on fuel, oil and lubricants. However, supporting documents including the supplier statements showing liters of fuel consumed and the vehicles that consumed the fuel, updated work tickets with fuel consumed for motor vehicle 12CG024A and 12CG027A, invoices from supplier and delivery notes were not provided for audit review contrary to Section 104(1) of Public Finance Management (County Governments) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the accuracy and value for money for the expenditure of Kshs.1,430,000 could not be confirmed. Further, the Management was in breach of the law.

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

Key Audit Matters

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

Other Matter

Unresolved Prior Year Audit Issues

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, some issues remained unresolved as at 30 June, 2023 contrary to Section 149(2)(l) of Public Finance Management Act, 2012 which require Accounting Officers designated for County Government entities to try to resolve any issues resulting from an audit that remain outstanding

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, I confirm that, nothing 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

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 governance were not effective.

1.0 Lack of Disaster Recovery Plan

The Board has not assessed the impact of an outage or disruption to the Information Communication Technology (ICT) system and developed business continuity plan or IT disaster recovery plan. In case of a disaster significant delays or disruptions of activities may occur.

In the circumstances, the Board may not recover or restore critical infrastructure services and systems affecting all operations that rely on the ICT.

2.0 Un-Serialized Payment Vouchers

Review of the Board's payment vouchers for the year revealed that payment vouchers were not serialized contrary to Regulation 104(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the internal control on payment vouchers need a review for improvement.

3.0 Lack of Risk Management Policy and Internal Audit Function

The Board did not have Internal Audit Section and a Risk Management Policy. Further, there was no established Internal Audit Charter as at 30 June, 2023. The internal auditors shall have a duty to give reasonable assurance through the Audit Committee on the state of risk management, control and governance within the organization,

In the circumstances, it was not possible to ascertain how risks were identified, controlled, monitored and mitigated during the year under review.

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material

misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Board's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Board or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Board'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 controls 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 (1)(a) of the Public Audit Act, 2015 and submit

the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

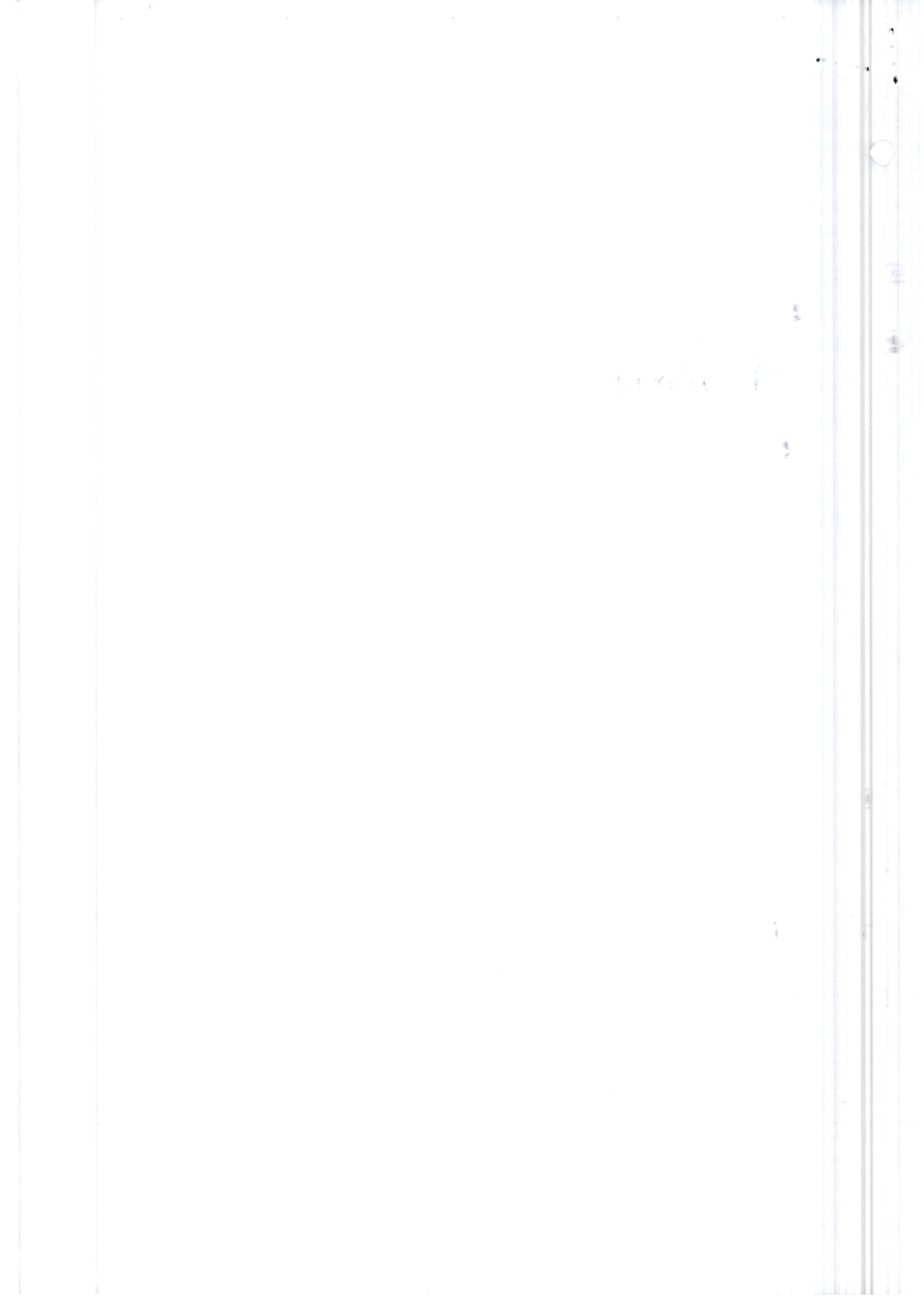
I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 January, 2024



Meru County Alcoholic Drinks Control Board
Annual Report and Financial Statements for the year ended June 30, 2023


15. Statement of Financial Position As at 30 June 2023

Assets			
Current assets			
Cash and cash equivalents	6	8,026,152	3,311,470
Current portion of long- term receivables from exchange transactions			
Receivables from Non- exchange transactions			
Prepayments	7	50,000	50,000
Inventories			
		8,076,152	3,361,470
Non-current assets			
Long term receivables from exchange transactions			
Property, plant and equipment	8	5,332,042	916,196
Intangible assets			
		5,332,042	916,196
Total assets		13,408,193	4,277,666
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	9	1,547,880	1,844,314
Provisions			
Current portion of borrowings			
Employee benefit obligations	10	787,759	
		2,335,639	1,844,314
Non-current liabilities			
Long term portion of borrowings		-	
Non-current employee benefit obligation		-	
		-	
Total liabilities		2,335,639	1,844,314
Net assets			


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		11,072,554	2,433,352
Revolving Fund			-
Reserves			-
Accumulated surplus		11,072,554	2,433,352
Total net assets and liabilities		11,072,554	2,433,352

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 14/12 2023 and signed by:



 Name: Dr Imbaabon Smuguna
 Administrator of the Fund



 Name: Charles Nwanda
 Fund Accountant
 ICPAK Member Number: 20191

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16. Statement Of Changes in Net Assets for the year ended 30th June 2023

Balance As At 1 July (2021-2022)	0	0	9,414,608	9,414,608
Surplus/(deficit) for the period	0	0	(6,981,256)	(6,981,256)
Funds received during the year	0	0	-	-
Transfers	0	0	-	-
Revaluation gain	0	0	-	-
Balance As At 30 June (2021-2022)	0	0	2,433,352	2,433,352
Balance As At 1 July (2022-2023)	0	0	2,433,352	2,433,352
Surplus/(deficit) for the period	0	0	3,754,402	3,754,402
Funds received during the year	0	0	-	-
Transfers	0	0	-	-
Revaluation gain	0	4,884,800	-	4,884,800
Balance As At 30 June (2022-2023)	0	4,884,800	6,187,754	11,072,554

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17. Statement of Cash Flows for The Year Ended 30 June 2023

	Note	2022/2023	2021/2022
		KShs	KShs
Cash flows from operating activities			
Receipts			
Receipts from other operating activities	1	55,949,045	32,159,000
Total Receipts		55,949,045	32,159,000
Payments			
Fund administration expenses		14,849,912	16,324,339
General expenses		35,326,948	22,658,747
Increase/ Decrease in Trade Payables		(436,794)	(1,844,314)
Finance cost		-	-
Net cash flows from operating activities	11	6,208,979	(4,979,772)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(1,494,299)	-
Proceeds from sale of property, plant and equipment		-	-
Proceeds from loan principal repayments		-	-
Loan disbursements paid out		-	-
Net cash flows used in investing activities		(1,494,299)	-
Cash flows from financing activities			
Proceeds from revolving fund receipts		-	-
Additional borrowings		-	-
Repayment of borrowings		-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		4,714,680	(4,979,772)
Cash and cash equivalents at 1 JULY	6	3,311,470	8,291,242
Cash and cash equivalents at 30 JUNE	6	8,026,152	3,311,470

Disclosure Notes:

The general expenses in the cash flow statement is less by Ksh 970,726 compared to note 4 in the under notes to the financial statements. The difference is because the current payables for F/Y 2022/2023 totals Ksh 1,407,520 however KSh 970,726 does not affect the cash for the board since the payments have not been done. The Ksh 436,794 decrease in payables is the difference between Ksh 1,844,314 for F/Y 2021-2022 and Ksh 1,547,880 which is also deducted Ksh 140,360 which is items in payables factored in the prior year expenses, therefore need to be deducted.

Meru County Alcoholic Drinks Control Board
Annual Report and Financial Statements for the year ended June 30, 2023

18. Statement Of Comparison Of Budget And Actual Amounts For The Period

	Original budget 2022 KShs	Adjustments 2022 KShs	Final budget 2022 KShs	Actual on comparable basis 2022 KShs	Performance Difference 2022 Kshs	% utilisation 2022 %
Revenue						
Other income	50,236,233	9,024,282	59,260,515	55,949,045	(3,311,470)	94.41%
Total income	50,236,233	9,024,282	59,260,515	55,949,045	(3,311,470)	94.41%
Expenses						
Fund administration expenses	17,922,233		17,922,233	14,849,912	3,072,321	82.86%
General expenses	32,314,000	6,561,000	38,875,000	36,297,674	2,577,326	93.37%
Add: Depreciation				1,047,057		
Total expenditure	50,236,233	6,561,000	56,797,233	52,194,643	4,602,590	91.90%
Surplus for the period				3,754,402		

19. Notes to the Financial Statements

1. General Information

Meru County Alcoholic Drinks Control Board is established by and derives its authority and accountability from Meru County Alcoholic Drinks Control Act of 2014 of the Meru County Assembly which was repealed and re-enact by Meru County Alcoholic Drinks Control Act of 2016 Act. The entity is wholly owned by the County Government of Meru and is domiciled in Kenya. The entity's principal activity is to advise the County on all matters relating to licensing and control of alcoholic drinks within the County.

2. Statement of compliance and basis of preparation

The Fund's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. The accounting policies have been consistently applied to all the years presented. The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

3. Adoption of new and revised standards

- (i) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023*

IPSAS 41: Financial Instruments	<p>Applicable: 1st January 2023</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for
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	<p>financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</p> <ul style="list-style-type: none"> • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ul style="list-style-type: none"> (a) The nature of such social benefits provided by the Entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for

**Meru County Alcoholic Drinks Control Board
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Standard	Effective date and impact
	<p>accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p>(</p>
Other improvements to IPSAS	<p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> • <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> • IPSAS 29: Financial instruments: Recognition and Measurement <p>Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.</p>

(ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.*

Standard	Effective date and impact
IPSAS 43	<p>Applicable 1st January 2025</p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>

Meru County Alcoholic Drinks Control Board
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Standard	Effective date and impact
IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p>

(iii) Early adoption of standards

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

1. Significant Accounting Policies

a) Revenue recognition

i. Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

ii. Revenue from exchange transactions

Interest income

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

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the Entity's right to receive payments is established.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

The original budget for FY 2022-2023 was approved by the County Assembly on 16th May 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.

Summary of Significant Accounting Policies (Continued)

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

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

c) Property, plant and equipment

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

The property, plant and equipment have been depreciated as per the rates below;

Computers	33.3%
Furniture	8%
Motor vehicles	25%

Additionally, the Board procured the services of a valuation company in the month of September 2022 to revalue all the assets as per the market price. The property, plant and equipment cost was revalued and the new cost used to depreciate the assets for the F/Y 2022-2023.

d) Intangible Assets

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

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

e) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-

Meru County Alcoholic Drinks Control Board
Annual Report and Financial Statements for the year ended June 30, 2023

day maintenance of an investment property. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Summary of Significant Accounting Policies (Continued)

f) Financial instruments

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets

Classification of financial assets

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

Subsequent measurement

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

Summary of Significant Accounting Policies (Continued)

Amortized cost

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

Fair value through net assets/ equity

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

Fair value through surplus or deficit

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

Trade and other receivables

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

Impairment

The entity assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The entity recognizes a loss allowance for such losses at each reporting date. Critical estimates and significant judgments made by management in determining the expected credit loss (ECL) are set out in *Note xx*.

Significant Accounting Policies (Continued)

Financial liabilities

Classification

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

g) Inventories

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

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

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

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

h) Provisions

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

i) Social Benefits

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

Summary of Significant Accounting Policies (Continued)

j) Contingent liabilities

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

Contingent assets

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

k) Nature and purpose of reserves

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

l) Changes in accounting policies and estimates

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

m) Employee benefits – Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

Summary of Significant Accounting Policies (Continued)

n) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

o) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

p) Related parties

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

q) Cash and cash equivalents

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

r) Comparative figures

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

Summary of Significant Accounting Policies (Continued)

5. Significant judgments and sources of estimation uncertainty

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

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

a) Estimates and assumptions –

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

b) Useful lives and residual values

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

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

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

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

6. Notes To The Financial Statements

1. Fines, penalties and other levies

Description	2022/2023 KSh	2021/2022 KShs
Liquor Licences	55,949,045	32,159,000
Total	55,949,045	32,159,000

This is revenue paid by all alcohol outlets for their operation as the Act of 2016.

2. Employee Costs

Description	2022/2023 KSh	2021/2022 KShs
Staff costs (Note 3)	14,849,912	16,324,339
Total	14,849,912	16,324,339

3A. Staff costs

Description	2022/2023 KSh	2021/2022 KShs
Salaries and wages	13,381,150	15,131,385
Staff gratuity	400,044	1,192,954
Staff training expenses	-	-
Social security contribution	1,068,718	-
Other staff costs		
Total	14,849,912	16,324,339

4. General expenses

Description	2022/2023 KSh	2021/2022 KShs
Telephone, Telex, Facsimile and mobile phone services	-	611,000
Travel Costs	3,911,380	1,965,770
Accomodation-Domestic travel	3,637,380	1,418,440
Daily Subsistence Allowance	2,719,600	2,250,900
Subscriptions to Newspapers, Magazines and Periodicals	33,600	
Publishing and printing services	1,012,919	589,655

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Advertising, awareness and publicity campaigns	1,964,500	3,712,013
Office rent	600,000	600,000
Training expenses-Other	2,249,523	622,456
Catering services, Accomodation, Gifts, Food & Drinks	3,416,943	1,135,037
Board, Committee & Conferences	1,601,500	537,000
General office supplies	135,632	884,483
Sanitary and Cleaning Materials, Supplies and Services	22,400	
Fuel, oil and lubricants	1,430,000	1,224,437
Enforcement cost	4,484,500	1,260,000
Inspection programme cost	3,252,000	3,584,000
Operating Expenses	2,826,736	
Maintenance of Motor Vehicles	2,413,780	946,620
Purchase of Computers, Printers and other IT Equipment	-	
Corporate Social Responsibility		1,254,000
Bank charges	56,682	36,913
Utility	29,799	26,023
Depreciation and amortization costs		
Other Expenses - Valuation	498,800	
Total	36,297,674	22,658,747

5. Depreciation and Amortization Expense

Description	2022/2023	2021/2022
	KSh	KShs
Property Plant and Equipment	1,047,057	157,170
Total	1,047,057	157,170

6. Cash and cash equivalents

Description	2022/2023	2021/2022
	KSh	KShs
Current account	8,026,152	3,311,470
Total cash and cash equivalents	8,026,152	3,311,470

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Notes to the Financial Statements Continued

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

Financial Institution	Account Number	2022/2023	2021/2022
		KSh	KSh
a) Current account			
Cooperative Bank	01141418844301	6,564,013	2,337,518
Family Bank	063000039570	1,462,139	973,952
Sub- total		8,026,152	3,311,470
Grand total		8,026,152	3,311,470

7. Prepayments

Description	2022/2023	2021/2022
	KSh	KSh
Prepaid rent	50,000.00	50,000.00
Total	50,000.00	50,000.00

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Notes To The Financial Statements (Continued)

8. Property, plant and equipment

	At 1 st July 2021	0	-	1,960,884.00	300,000.00	2,260,884.00
At 1 st July 2021	0	-	1,960,884.00	300,000.00	2,260,884.00	
Additions	0	-	-	-	-	-
Disposals	0	-	-	-	-	-
Transfer/adjustments	0	-	-	-	-	-
At 30 th June 2022	0	-	1,960,884.00	300,000.00	2,260,884.00	
At 1 st July 2022	0	-	-	-	-	-
Additions	0	-	365,400.00	1,128,899.00	1,494,299.00	
Disposals	0	-	-	-	-	-
Transfer/adjustments	0	3,700,000.00	444,000.00	740,800.00	4,884,800.00	
At 30 th June 2023	0	3,700,000.00	809,400.00	1,869,699.00	6,379,099.00	
Depreciation and impairment						
At 1 st July 2021	0	-	887,818.00	299,700.00	1,187,518.00	
Depreciation	0	-	-	-	-	-

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			156,870.00	300.00	157,170.00
Disposals	0	-	-	-	-
Impairment	0	-	-	-	-
Transfer/adjustment	0	-	-	-	-
At 30th June 2022	0	-	1,044,688.00	300,000.00	1,344,688.00
At 1st July 2022	0	-	-	-	-
Depreciation	0	770,833.33	39,344.00	236,880.10	1,047,057.43
Disposals	0	-	-	-	-
Impairment	0	-	-	-	-
Transfer/adjustment	0	-	-	-	-
At 30th June 2023	0	770,833.33	39,344.00	236,880.10	1,047,057.43
Net book values					
At 30th June 2022	0	-	916,196.00	-	916,196.00
At 30th June 2023	0	2,929,166.67	770,056.00	1,632,818.90	5,332,041.57

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9. Trade and other payables from exchange transactions

Description	2022-2023	2021-2022
	Kshs	Kshs
Trade Payables	1,547,880	651,360
Accrued Expenses	-	711,336
Other Payables	-	481,618
Total Trade And Other Payables	1,547,880	1,844,314

10. Employee benefit obligations

Description	2022/2023	2021/2022
	Kshs	Kshs
Current Benefit Obligation	787,759.00	787,759.00
Total	787,759.00	0

11. Cash generated from operations

Description	2022/2023	2021/2022
	KShs	KShs
Surplus/ (deficit) for the year before tax	2,119,743	(6,981,256)
Adjusted for:		
Depreciation	1,047,057	157,170
Working Capital Adjustments		
Increase in payables	1,547,880	1,844,314
Net cash flow from operating activities	4,714,680	(4,979,772)

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Annex I: Progress on Follow Up Of Prior Year Auditor's Recommendations

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

1	Inaccurate Comparative Figures	The financial reporting template for the financial year 2021-2022 required that depreciation to be under a different note which was captured	Resolved	
2.1	Unsupported Domestic Travel – Ksh 219,100	Documents were provided for review.	Resolved	
2.2	Unsupported Board, Committee and Conferences costs – Ksh 537,000	Documents were provided for review.	Resolved	
2.3	Unsupported Travel Costs – Ksh 86,769	Documents were provided for review.	Resolved	
2.4	Direct Procurement of Conference Facility – Ksh 120,000	Documents were provided for review.	Resolved	

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2.5	Unsupported Expenditure on Advertising, Awareness and Publicity Campaigns	Documents were provided for review.	Resolved	01/11/2023			
2.6	Unsupported Expenditure on Fuel, Oil and Lubricants	Documents were provided for review.	Resolved	01/11/2023			
2.7	Unsupported Maintenance of Motor Vehicles	Documents were provided for review.	Resolved	01/11/2023			
3.1	Variances between Accrued Expenses Trade and other payables	Financial statement was adjusted.	Resolved	01/11/2023			
3.2	Lack of Trade Payables Ageing Analysis	Trade payable ageing analysis provided for review	Resolved	01/11/2023			
4.0	Undervalued property, plant and equipment	Assets were re-valued	Resolved	01/11/2023			
Others	Budgetary Performance Control and	Management agreed to improve its performance in the subsequent years.	Not resolved	01/11/2023			

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Reference No on the external audit report	Issue/Observation from Auditor	Management Comments	Status	Timeframe (Please indicate when you expect the issue to be resolved)
	Unresolved prior year matters		Not resolved	01/11/2023
	Disaster Recovery Plan	The management agreed to prepare disaster recovery plan.	Not resolved	01/11/2023
	Lack of Approved Staff Establishment	Documents were provided for review.	Resolved	01/11/2023
	Poor Financial Performance	The management agreed to find new methods to improve its performance.	Not resolved	01/11/2023
	Un-serialized payment vouchers.	The management agreed to follow the advice of the Auditor.	Not resolved	01/11/2023
	Lack of Risk Management Policy for Internal Audit and Reports	The management agreed to prepare the policy.	Not resolved	01/11/2023

Fund Manager/Accounting Officer (enter title of head of Fund)

Date.....