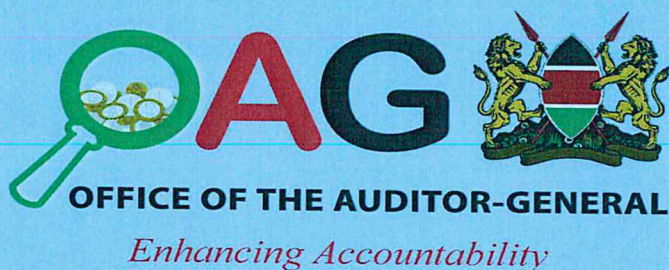


REPUBLIC OF KENYA



REPORT

OF

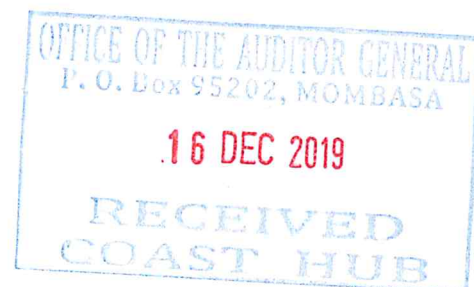
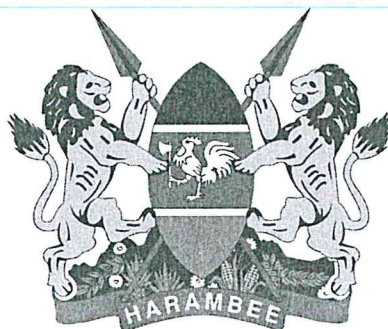
THE AUDITOR-GENERAL

ON

**MOMBASA COUNTY ALCOHOLIC DRINKS
CONTROL FUND**

**FOR THE YEAR ENDED
30 JUNE, 2019**

08/9/2021
Gen. Daghis
Majority leader
Kawata Musyoka



MOMBASA COUNTY
ALCOHOLIC DRINKS CONTROL FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019

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

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
Reports and Financial Statements
For the year ended June 30, 2019

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Fund is constituted as per the Mombasa County Liquor Licensing Act, 2014 and is administered by the Director, subject to the general directions of the County Executive Member in charge of Trade, Tourism & Investment.

The fund's objective is to control growth of alcoholic retail outlets and rehabilitate alcoholics.

The Fund's principal activity is levying fees on alcoholic outlets to control their growth and using the funds obtained to educate and rehabilitate alcoholics.

b) Principal Activities.

The Board has the following activities/ mandate:

- a. Receive and consider applications for liquor licenses in accordance with the Act
- b. Provide advice to the County Executive Committee on matters of policy relating to control and regulation of liquor
- c. Collaborating with relevant government agencies for effective implementation of the Act;
- d. Carrying out public education in collaboration with other public and private players on liquor control in the County
- e. Involvement with citizen through public participation in matters related to liquor control
- f. Performing any other functions as may be assigned to by the County Executive Member from time to time.

c) Board of Trustees/Fund Administration Committee

No.	Designation	Name	Period
1.	Ag Chairperson	Victor Shitakha	October 2018- 30 Jun 2019
2.	Member	Farrah Abdirahim	October 2018- 30 Jun 2019
3.	Member	Dr June Mwajuma	October 2018- 30 Jun 2019
4.	Member	Eng Keno	October 2018- 30 Jun 2019
5.	Member	Tuni Mwalukumbi	October 2018- 30 Jun 2019
6.	Member	Asha Abdi	October 2018- 30 Jun 2019
7.	Member	Aisha Abubakar	October 2018- 30 Jun 2019
8.	Member	Sam Ikwaye	October 2018- 30 Jun 2019
9.	Member	Lilian Kalela	October 2018- 30 Jun 2019
10.	Member	Reishi Parikh	October 2018- 30 Jun 2019

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11.	Member	Stellah Sululu	October 2018- 30 Jun 2019
12.	Member	Edward Juma	October 2018- 30 Jun 2019

d) Key Management

No.	Designation	Name	Period
1.	C.O Tourism	Innocent Mugabe	Aug 2018 –30 June 2019
2.	Director	Veronica Gitonga	Jan 2018 – To date
3.	Acting Chairman	Victor Shitakha	October 2018- To date

1111

e) Registered Offices

Betting Control & Licensing Building
Near Mombasa Hospital

f) Fund Contacts

P.O. Box 90440-80100
Mombasa, KENYA.
Telephone: (254) 41-2311531
E-mail: countysec@mombasa.go.ke
Website: www.mombasacounty.go.ke

g) Fund Bankers

Kenya Commercial Bank Limited
Treasury Square Branch,
P.O. Box 90254
GPO 80100
Mombasa, Kenya.

h) Independent Auditors

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

i) Principal Legal Adviser

The Attorney General

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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2. THE BOARD OF TRUSTEES

No.	Name	Details of qualifications and experience
1.	Innocent Mugabe	Bachelors of science- Tourism Management
2.	Farrah Abdirahim	
3.	Dr June Mwajuma	PhD – Environmental Science
4.	Eng Keno	BSC. Science- Civil Engineer, Registered graduate Engineer.
5.	Tuni Mwalukumbi	B.A Social science, MBA Finance, CPA-K
6.	Asha Abdi	Bachelors in Economics, M.A(PPM)- Ongoing, Dip in international studies
7.	Aisha Abubakar	Bsc- Nursing
8.	Sam Ikwaye	Bachelor's In Entrepreneurship, Masters in Entrepreneurship., Diploma in hospitality Management
9.	Lilian Kalela	Bachelor's degree in Journalism and media studies
10.	Victor Shitakha	BSC- Hospitality and Tourism Management
11.	Reishi Parikh	BSc in I.T, lecture and Publisher
12.	StellahSululu	BSc in Biochemistry
13.	Edward Juma	Diploma in textile technology

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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3. MANAGEMENT TEAM

No.	Name	Details of qualifications and experience
1.	C O Tourism Innocent Mugabe	Bachelors of science- Tourism Management
2	Director Veronica Gitonga	B.E D-Maths & Economics, M.A-PPM. PhD- Economics (Ongoing)
3	Ag. Chairman Victor Shitakha	BSC- Hospitality and Tourism Management

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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For the year ended June 30, 2019

4. BOARD/FUND CHAIRPERSON REPORT

The fund has been managed for the last one year of the financial year by acting Chairperson Victor Shitakha who has competently ensured the smooth running of Fund activities

The Fund saw the Net assets growing by Kshs. 27,602,650 compared to Net Assets of Financial year 2017/2018 of Kshs 17,435,697. The net Assets for Financial year 2018/2019 is 45,038,355. The Revenue of the Fund increased by Kshs. 12,866,910 as compared to year 2017/2018 of Kshs.20,901,770. This was attributed to improved compliance with liquor laws by Mombasa resident thus they avoided the levies. However, we had few cases where some retail owners petitioned the levies in Court of Law.

As people are not going to forsake drinking any time soon, there was need to encourage moderate drinking and help few who may become alcoholics. This was to be achieved by enforcing control mechanism through licensing to only those that obey the stipulated laws.

It has been expressed that the Mombasa County Liquor Licensing Act does not define the functions of the Fund and provide for winding up procedures. These and any other shortcomings in the law will be looked at and rectified.

I wish to thank all stakeholders who are giving us support to pursue this worthwhile cause and it is my believe, we shall have residents who drink responsibly.



Victor Shitakha
Ag. Chairperson of the Fund

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
Reports and Financial Statements
For the year ended June 30, 2019

5. REPORT OF THE FUND ADMINISTRATOR

In accordance with section 22. (1) of the Mombasa County Liquor Licensing Act 2014, which states that the Director shall ensure that the accounts for the Fund and the annual financial statements relating to those accounts comply with the requirements of the Public Finance Management Act and the Public Audit Act.

I am therefore glad to oversee the presentation of the final statements for the financial year ended 30 June 2019 which have been prepared in accordance with the accounting standards prescribed and published by the Accounting Standards Board from time to time.

Notable achievements during the Period were:

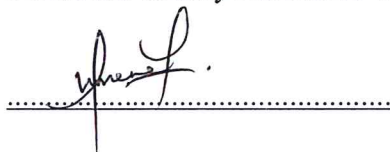
Successful engagement in public sensitization, workshops and crackdowns on illegal liquor outlets to educate stakeholders and public on implementation of the Act; won court cases which were brought by liquor outlet operators; support youth and cultural activities on anti-alcohol abuse thematic activities including rehabilitations; Automation on liquor licensing procedure.

Implementation challenges of strategic objectives were:

Insufficient support from NACADA; Poor working relations between the National and County Government due to some grey area in the Act; lack of key staffs especially in Accounting, Auditing, Procurement and other technical areas; inability to address several complains from the public against Liquor outlets flouting the Act due to poor work relations between the two levels of Government; reluctance by the National Government to recognize mnazi drinks as legal Liquor.

On the way forward, the Fund is enhancing revenue collection through automation to seal collection leakages.

It is my believe that the annual financial statements presents fairly the state of affairs of the Mombasa County Alcoholic Drinks Control Fund.



Veronica Gitonga

Funds Administrator

6. CORPORATE GOVERNANCE STATEMENT

a. No. of Board meetings

The Board held 6 meetings in the year under review whose major agenda under discussion included: 2017/2018 Audit reports; Crackdown on unlicensed liquor outlets; Proposals of 2018/2019 budget; Mombasa county E-Services challenges/2019, Liquor Licensing progress and renewal of the board members. The quorum for the meetings was attained.

b. Succession Plan

The Board has an elaborate succession plan where incoming officers are given 6 months' probation period to undergo induction while under close supervision of the out-going officers. The Board has a lifetime of 3 years (renewable once).

c. Board Charter

The Board has initiated the process of coming up with a service charter to enable the public to understand its mandate.

d. Process of appointment and removal of trustees

The trustees are appointed by the CECM in charge of the Liquor Licensing for period of 3 years (renewable once)

e. Role and functions of the Board

The Board has the following mandate:

- To receive and consider applications for liquor licenses in accordance with the Act;
- To advise the County Executive Committee on matters of policy relating to control and regulation of liquor;
- To collaborate with relevant government agencies for effective implementation of the Act;
- To carry out public education in collaboration with other public and private players on liquor control in the County;
- To facilitate citizen participation in matters related to liquor control;
- To perform any other function as may be assigned to it by the County Executive Member as the County Executive Member may from time to time determine.

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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For the year ended June 30, 2019

7. MANAGEMENT DISCUSSION AND ANALYSIS

Revenue generated through online licensing of liquor outlets as shown on chart and graph

ONLINE LIQUOR LICENSING REVENUE COLLECTED PER MONTH BETWEEN JULY 2018 AND JUNE 2019	
Month	Amount (Kshs)
July 2018	4,184,000/=
Aug 2018	2,890,000/=
Sept 2018	3,408,500/=
Oct 2018	1,574,000/=
Nov 2018	402,000/=
Dec 2018	1,265,996/=
Jan 2019	424,000/=
Feb 2019	478,000/=
Mar 2019	1,146,000/=
Apr 2019	968,050/=
May 2019	2,444,000/=
Jun 2019	4,866,000/=
Total	24,050,564/=

Financial Year Stats

KES Revenue : 24,050,546
 Applications : 1,247
 Customers : 1,089

JULY 2018 - JUNE 2019 REVENUE - KES

Click the columns to drill down to monthly view



MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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The management held five meetings in the financial year under review whose main agenda touched on the prospects of raising revenue. In two of the meetings it was resolved that enforcement measures should be taken on unlicensed liquor outlets to increase revenue.

The members also discussed on the ways to reduce challenges faced by the liquor outlets on the issue of using the e - licensing platform.

8. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Today most large companies in the alcohol industry, like other corporate sectors, undertake corporate social responsibility (CSR) initiatives. The details in ISO 26 000 is that ‘business and organizations do not operate in a vacuum. Their relationship to the society and environment in which they operate is a critical factor in their ability to continue to operate effectively’ and defines a ‘CSR initiative’ as ‘programme or activity expressly devoted to meeting a particular aim related to social responsibility’.

Some of the CSR strategies undertaken were: -

Provision of education and information through publications and media advertising outlets on issues such as personal and/or parental responsibility, moderation, under-age drinking, health effects of drinking alcohol through partnership with private manufacturers and retailers within the county.

Through activities designed to influence policy making regarding consumption and production of alcoholic drinks in the county. Such activities includes and not limited to publication and dissemination of policy documents e.g. reviews of alcohol policy issues, charters, working papers and guides to policy implementation and policy tool kits; support through partnership in charities that are active in alcohol policy implementation.

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
Reports and Financial Statements
For the year ended June 30, 2019

9. REPORT OF TRUSTEES

I. INTRODUCTION;

The Directorate of liquor control and licensing is established by Mombasa county liquor licensing Act, 2014. It comprises of Director, Secretary and twelve members appointed by the county executive member of the Department of Trade, Tourism and Investment.

Memberships of the trustees are:

S/N	NAME	QUALIFICATION	DESIGNATION
1	Innocent Mugabe	Bachelors of science- Tourism Management	Aug 2018 –30 June 2019
2	Veronica Gitonga	B.ED(Maths &Economics),M.A-PPM . PhD- Economics (ongoing)	Director(Jan 2018-todate)
3	Mr. Victor Shitakha	BSC- Hospitality and Tourism Management	Ag. Chairman
4	Mr. Reish Parikh	BSc in I.T, lecture and Publisher	Member
5	Ms. Stella Sululu	BSc in Biochemistry	Member
6	Mr. Edward Juma	Diploma in textile technology	Member
7	Ms Lilian Kalela	Bachelor's degree in Journalism and media studies	Member
8	Mr. Sam Ikwaye	Bachelor's in Entrepreneurship, Masters in Entrepreneurship., Diploma in hospitality Management	Member
9	Asha Abdi	Bachelors in Economics, M.A(PPM)- Ongoing, Dip in international studies	Member
10	Farrah Abdirahim		Member
11	Eng Keno	BSC. Science- Civil Engineer.	Member
12	Tuni Mwalukumbi	B.A Social science, MBA Finance, CPA-K	Member
13	Aisha Abubakar	Bsc- Nursing	Member
14	Dr June Mwajuma	PhD – Environmental Science	Member

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
Reports and Financial Statements
For the year ended June 30, 2019

II. Achievements

- The office introduced & implemented e-licensing
 - Revenue generated was Kshs**24,050,564/=**
- Activities in the year under review
 - Trustee performed the following activities:
 - Received and considered applications for liquor license in accordance with the act
 - Advised the County Executive Committee on matter of policy relating to control a regulation of liquor
 - Carried out public education in collaboration with public & private player on liquor control in the county

10. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of the Mombasa County Alcoholic Drink Control Fund established by *Mombasa County Liquor Licensing Act, 2014*, 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 Mombasa County Alcoholic Drink Control 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, 2019. 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 Mombasa County Alcoholic Drink Control 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 *Mombasa County Liquor Licensing Act, 2014*. 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, 2019, 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 Mombasa County Alcoholic Drink Control Fund has assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the 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

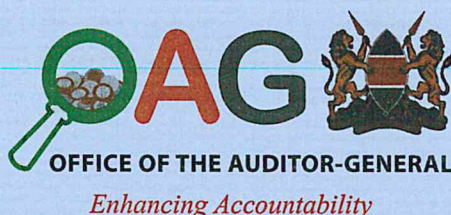
The Fund's financial statements were approved by the Board on 27th Sept 2019 and signed on its behalf by:



Fund Administrator

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 MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mombasa Alcoholic Drinks Control Fund set out on pages 16 to 47, which comprise the statement of financial position as at 30 June, 2019, the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Mombasa County Alcoholic Drinks Control Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Mombasa County Liquor Licensing Act, 2014 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracy of the Financial Statements

The statement of financial position as at 30 June, 2019 reflects net assets figure of Kshs.17,443,697 while re-casted balance is Kshs.42,507,234 resulting to an unreconciled and an unexplained variance of Kshs.25,063,537.

In the circumstances, the accuracy and completeness of the statement of financial position as at 30 June, 2019 could not be confirmed.

2. Transfers from County Government

The statement of financial performance for the year ended 30 June, 2019 reflects transfers from County Government of Kshs.3,627,436 of which the supporting schedules were not provided for audit verification.

In the circumstances, the accuracy and completeness of the transfer from County Government of Kshs.3,627,436 for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Prior Year Adjustment

The statement of financial position as at 30 June, 2019 reflects a cash and cash equivalents balance of Kshs.138,723 for the year 2017/2018 after prior year adjustment of Kshs.8,000 from the certified balance of Kshs.130,723. However, no explanatory note or journal voucher was provided in support of the restatement or prior year adjustment.

Consequently, the validity of the prior year adjustment of Kshs.8,000 and the accuracy and completeness of the cash and cash equivalents balance of Kshs.138,723 as at 30 June, 2019 could not be confirmed.

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

Emphasis of Matter

These financial statements are transitional statements from cash basis accounting framework to International Public Sector Accounting Standards (Accruals Basis). Therefore, the audit is in cognizant of IPSAS 33 (first time adoption of accrual basis) which grants the entity certain exemptions for fair presentation of the financial statements and its ability to assert compliance with International Public Sector Accounting Standards (Accrual Basis) for a period of at least 3 years before full compliance. This is the client's second year of adoption of the standard.

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

1.0 Budget Controls and Performance

1.1 Unrealized Revenue

The Fund had an approved revenue estimates of Kshs.55,000,000 voted for the financial year 2018/2019 against actual revenue of Kshs.27,678,000 or 50%, resulting to unrealized revenue of Kshs.27,322,000 or 50% of the voted budget .

The revenue shortfall of Kshs.27,322,000 or 50% is significant and may have impacted negatively on the object and purpose of the Fund which is to control production, sale,

distribution, promotion, use of alcoholic drinks, and promotion of research, treatment and rehabilitation for persons dependent on alcoholic drinks and drugs.

Therefore, the Fund Management needs to device more strategic budget making mechanisms to ensure that all the budgeted revenue is collected and that the revenue budget is as realistic as possible.

1.2 Expenditure

The Fund had an approved expenditure budget of Kshs.13,000,000 voted for the financial year 2018/2019 against actual expenditure of Kshs.2,614,463, resulting to under absorption of Kshs.10,385,537 or 80% of the voted budget as shown below;

Item	Budget (Kshs.)	Expenditure (Kshs.)	Budget Under Absorption (Kshs.)	% Under Absorption (Kshs.)
Fund Administration Expenses	8,000,000	2,539,120	5,460,880	68
General Expenses	5,000,000	75,343	4,924,657	98
Total Expenditure	13,000,000	2,614,463	10,385,537	80

The low utilization of funds is an indicator that activities and strategies aimed at controlling liquor consumption in Mombasa County were ineffective. The Fund management needs to devise more effective strategies and mechanisms of ensuring that all voted funds are utilized on intended purposes within the fiscal year. Further, the budget should be as realistic as possible.

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

1.0 Inadequacy of the Enabling Legislation

As previously reported, audit review of the Mombasa County Liquor Licensing Act, 2014, noted the following inconsistencies in the Act:

- (i) Section 21 of the Act does not define the functions of the Fund in line with Section 197(1-e) of Public Finance Management (County Governments) Regulations, 2015 which states that "the County Executive Committee Member responsible for the county government entity shall certify in writing that the functions and the public

services to be delivered through the Fund cannot be delivered through the structure of budget appropriations”

- (ii) Contrary to Section 198 of the Public Finance Management (County Governments) Regulations, 2015, the Act does not provide for the winding up procedure of the Fund.

In the circumstances, the enabling legislation was not consistent with the Public Finance Management (County Governments) Regulations, 2015 for the year ended 30 June, 2019.

2.0 Appointment of Board of Trustees

The Key Entity Information and Management for year ended 30 June, 2019 indicates that the Board of Trustees’ terms of service ended on 30 June, 2018 and new members were appointed in October, 2018. However, appointment letters of the new Members were not provided for audit verification, contrary to Section 14 of the Mombasa County Liquor Licensing Act, 2014 which states that ‘where a vacancy occurs in the directorate, the County Executive Member shall appoint a new member’.

In absence of the appointment letters, it has not been possible to confirm if the appointments were valid and consistent with the law.

3.0 Non-Deduction of Pay As You Earn (PAYE)

The statement of financial performance for the year ended 30 June, 2019 reflects Fund administration expenses of Kshs.2,539,120, out of which Kshs.1,053,120 is in respect of sitting allowances paid to Board of Trustees. However, no evidence was provided to confirm that PAYE was deducted from the allowances, contrary to Income Tax Act, Cap.470 (PAYE) Rule 4(1) which states that “an employer who makes a payment of, or on account of, emoluments during a month to an employee of his who is liable to payment of tax shall deduct tax from those emoluments in accordance with these Rules.”

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

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

REPORT ON EFFECTIVENESS 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

Lack of Strategic Plan

Audit of available records indicated that Mombasa County Alcoholic Drinks Control Fund had not established a Strategic Plan in line with Section 30(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that "all budget proposals shall be supported by the county government entity's Strategic Plan".

Therefore, the Fund's effectiveness of internal controls and risk management is not assured in the absence of a Strategic Plan.

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

Responsibilities of Management and those Charged with Governance

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

17 September, 2021

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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For the year ended June 30, 2019


12. FINANCIAL STATEMENTS

12.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2019

	Note	FY2018/2019	FY2017/2018
		Kshs	KShs
Revenue from non-exchange transactions			
Public contributions and donations	1	-	-
Transfers from the County Government	2	3,627,436	256,620
Fines, penalties and other levies	3	24,050,564	20,645,150
Total		27,678,000	20,901,770
Revenue from exchange transactions			
Interest income	4	-	-
Other income	5	-	-
Total revenue		27,678,000	20,901,770
Expenses			
Fund administration expenses	6	2,539,120	3,290,671
General expenses	7	75,343	2,803,685
Finance costs	8	-	-
Total expenses		2,614,463	6,094,356
Other gains/losses			
Gain/loss on disposal of assets	9	-	-
Surplus/(deficit) for the period		25,063,537	14,807,414

The accounting policies and explanatory notes on page 34 to 44 form an integral part of the financial statements. The entity financial statements were approved on and signed by:


 Fund Administrator
 Name: Veronica Gitonga


 Fund Accountant
 Name: Joshua Rume Otieno
 ICPAK Member Number:21152

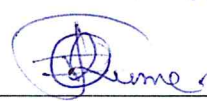
MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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12.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	FY 2018/2019	FY2017/2018
			RESTATED
Assets		Kshs	KShs
Current Assets			
Cash and cash equivalents	10	135,081	*138,723
Current portion of long-term receivables from exchange transactions	11	-	-
Debtors	12	45,000,000	17,322,000
Inventories	13		-
Total Current Assets		45,135,081	17,460,723
Non-current assets			
Property, plant and equipment	14	253,273	324,974
Intangible assets	15	-	-
Long term receivables from exchange transactions	11	-	-
Total Assets		45,388,354	17,785,697
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	16	2,881,120	342,000
Provisions	17	-	-
Current portion of borrowings	18	-	-
Employee benefit obligations	19	-	-
Total Current Liabilities		2,881,120	342,000
Non-Current Liabilities			
Non-current employee benefit obligation	19	-	-
Long term portion of borrowings	18	-	-
Total Liabilities		2,881,120	342,000
Net Assets		17,443,697	17,443,697
Fund Balance brought forward		-	-
Reserves		-	-
Accumulated surplus		25,063,537	17,443,697
Total Net Assets And Liabilities		42,507,234	*17,443,697

The accounting policies and explanatory notes on pages 34 to 44 form an integral part of the financial statements. The entity financial statements were approved on ... 27/9/2019 and signed by:


Fund Administrator
Name: Veronica Gitonga


Fund Accountant
Name: Joshua Rume Otieno
ICPAK Member Number: 21152

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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12.3. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2019

	Revolvin g Fund	Revaluatio n Reserve	Accumulated surplus	Total
				RESTATED
		KShs	Kshs.	Kshs,
Balance as at 1 July 2016	-	-	2,128,283	2,128,283
Surplus/(deficit) for the period	-	-	14,807,414	14,807,414
Prior Year Adjustment	-	-	500,000	500,000
Revaluation gain	-	-	-	-
Balance as at 30 June 2017	-	-	2,128,283	2,128,283
Balance as at 1 July 2017	-	-	2,128,283	2,128,283
Surplus/(deficit)for the period	-	-	14,807,414	14,807,414
Prior Year Adjustment	-	-	500,000	500,000
Revaluation gain	-	-	-	-
Balance as at 30 June 2018	-	-	17,443,697	17,443,697
Balance as at 1 July 2018			17,443,697	*17,443,697
Surplus/(deficit) for the period			25,063,537	25,063,537
Prior Year Adjustment				
Revaluation gain			-	-
Balance as at 30 June 2019			42,507,234	*42,507,234

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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12.4. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	FY 2018/2019	FY2017/2018
		Kshs	RESTAED KShs
Cash flows from operating activities			
Revenue			
Public contributions and donations	1		-
Transfers from the County Government	2	3,627,436	256,620
Interest received			-
Fines, penalties and other levies	3	24,050,564	20,645,150
Total Revenue		27,678,000	20,901,770
Expenses			
Fund administration expenses	6	(2,539,120)	(3,290,671)
General expenses	7	(75,343)	(2,803,685)
Finance cost	8	-	-
Total Expenses		(2,614,463)	(6,094,356)
Prior Year Adjustments			500,000
Decrease/(Increase) in Debtors/Prepayments	12	(27,678,000)	(17,322,000)
(Decrease)/Increase in Payables	16	2,539,120	(158,000)
Net cash flows from operating activities		(75,343)	(2,172,586)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	14	-	-
Proceeds from sale of property, plant and equipment			-
Depreciation	14	71,701	97,165
Loan disbursements paid out			-
Net cash flows used in investing activities		71,701	97,165
Cash flows from financing activities			
Proceeds from fund receipts			
Additional borrowings	18	-	-
Repayment of borrowings	18	-	-
Net cashflows used in financing activities			
Net increase/(decrease)in cash and cash equivalents		(3,642)	(2,075,421)
Cash and cash equivalents at 1July 2018		138,723	2,206,144

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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For the year ended June 30, 2019

Cash and cash equivalents at 30 June 2019	10	<u>135,081</u>	<u>*138,723</u>
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MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND

Reports and Financial Statements

For the year ended June 30, 2019

12.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30th JUNE 2019

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2019	2019	2019	2019	2019	2019
Revenue	KShs	KShs	KShs	KShs	KShs	
Public contributions and donations						
Transfers from County Govt.	30,000,000	0	30,000,000	3,627,436	26,372,564	12
Interest income						
Other income	25,000,000	0	25,000,000	24,050,564	949,436	96
Total income	55,000,000	0	55,000,000	27,678,000	27,322,000	
Expenses						
Fund administration expenses	8,000,000	0	8,000,000	2,539,120	5,460,880	32
General expenses	5,000,000	0	5,000,000	75,343	4,924,657	2
Finance cost						
Acquisition of Assets						
Total expenditure	13,000,000	0	13,000,000	2,614,463	10,385,537	20
Surplus for the Year	42,000,000	0	42,000,000	25,063,537	16,936,463	60

Budget notes

1. **Transfer from County Government-** Was under absorbed as Mombasa County has not remitted back the Funds revenue (45million)
2. **EXPENSES-** Was under absorbed as Mombasa County has not remitted back the Funds revenue (45million) deposited in its accounts.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Property, plant and equipment

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

6. Intangible assets

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

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

7. Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held-to-maturity

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

Impairment of financial assets

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

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

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Inventories

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

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

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

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

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

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

9. Provisions

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

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

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

Contingent liabilities

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent assets

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

10. Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements.

11. Changes in accounting policies and estimates

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

12. Employee benefits– Retirement benefit plans

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

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

13. Foreign currency transactions

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Borrowing costs

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

15. Related parties

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

16. Cash and cash equivalents

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

17. Comparative figures

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

18. Events after the reporting period

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

19. Ultimate and Holding Entity

The entity is a County Public Fund established by Mombasa alcoholic control drinks act, 2014Its ultimate parent is the County Government of Mombasa

20. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21. Significant judgments and sources of estimation uncertainty

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

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

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

Useful lives and residual values

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

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

Provisions

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

22. Financial risk management

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

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

a) Credit risk

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

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

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

	Total amount KShs	Fully performing KShs	Past due KShs	Impaired KShs
At 30 June 2019				
Receivables from exchange transactions				
Receivables from non-exchange transactions	45,000,000	45,000,000		
Bank balances	135,081	135,081		
Total	45,135,081	45,135,081		
At 30 June 2018				
Receivables from exchange transactions				
Receivables from non-exchange transactions	17,322,000	17,322,000		
Bank balances	130,723	130,723		
Total	17,452,723	17,452,723		

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

b) Liquidity risk management

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

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

	Less than 1 month	Between 1- 3 months	Over 5 months	Total
	KShs	KShs	KShs	KShs
At 30 June 2019				
Trade payables				
Current portion of borrowings				
Provisions				
Employee benefit obligation				
Total				
At 30 June 2018				
Trade payables				
Current portion of borrowings				
Provisions				
Employee benefit obligation				
Total				

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Market risk

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

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

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

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

i. Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

		Other currencies	Total
	KShs	KShs	KShs
At 30 June 2019			
Financial assets (investments, cash ,debtors)			
Liabilities			
Trade and other payables			
Borrowings			
Net foreign currency asset/(liability)			

The Fund manages foreign exchange risk form future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency sensitivity analysis

The following table demonstrates the effect on the Fund's statement of financial performance on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on surplus/ deficit	Effect on equity
	KShs	KShs	KShs
2019			
Euro	10%		
USD	10%		
2018			
Euro	10%		
USD	10%		

ii. Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase. A rate increase/decrease of 5% would result in a decrease/increase in profit before tax.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Capital risk management

The objective of the Fund's capital risk management is to safeguard the Fund's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2019		2018
	KShs		KShs
Revaluation reserve			
Fund receipts			
Accumulated surplus			
Total funds			
Total borrowings			
Less: cash and bank balances	(135,081)		(130,723)
Net debt/(excess cash and cash equivalents)			
Gearing	0		0

12.7. NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Donation from development partners		
Contributions from the public		
Total		

2. Transfers from County Government

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Transfers from County Govt. – operations	3,627,436	
Payments by County on behalf of the entity		
Total	3,627,436	

3. Fines, penalties and other levies

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Late payment penalties		
Fines		
Other incomes	24,050,564	20,645,150
Total	24,050,564	20,645,150

4. Interest income

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Interest income from loans(mortgage or car loans)		
Total interest income		

5. Other income

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Insurance recoveries		

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Income from sale of tender documents		
Miscellaneous income		
Total other income		

6. Fund administration expenses

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Staff costs	2,539,120	3,290,671
Loan processing costs		
Professional services costs		
Total	2,539,120	3,290,671

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. General expenses

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Bank charges	3,642	
Electricity and water expenses		
Fuel and oil costs		6,000
Insurance costs		
Postage		45,000
Printing and stationery		745,045
Rental costs		
Security costs		
Telecommunication		
Hospitality		881,190
Depreciation and amortization costs	71,701	97,165
Other expenses		1,029,285
Total	75,343	2,803,685

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Finance costs

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Interest on Bank overdrafts		
Interest on loans from banks		
Total		

9. Gain on disposal of assets

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Property, plant and equipment		
Intangible assets		
Total		

10. Cash and cash equivalents

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Fixed deposits account		
On – call deposits		
Current account	135,081	130,723
Others		
Total cash and cash equivalents	135,081	130,723

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

		FY2018/2019	FY2017/2018
Financial institution	Account number	KShs	KShs
a) Fixed deposits account			
Kenya Commercial bank			
Equity Bank e.t.c			
Sub- total			
b) On - call deposits			
Kenya Commercial bank			
Equity Bank – e.t.c			
Sub- total			
c) Current account			
Kenya Commercial bank	1171290918	135,081	130,723
Sub- total		135,081	130,723
d) Others(specify)			
Cash in transit			
Cash in hand			
MPesa			
Sub- total			
Grand total		135,081	130,723

11. Receivables from exchange transactions

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Current Receivables		
Interest receivable		
Current loan repayments due		
Other exchange debtors		
Less: impairment allowance		
Total Current receivables		
Non-Current receivables		
Long term loan repayments due		
Total Non-current receivables		
Total receivables from exchange transactions		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Debtors

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Prepaid rent		
Prepaid insurance		
Prepaid electricity costs		
Mombasa County Executive	45,000,000	17,322,000
Total	45,000,000	17,322,000

13. Inventories

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Consumable stores		
Spare parts and meters		
Catering		
Total inventories at the lower of cost and net realizable value		

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Property, plant and equipment

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
Cost	KShs	KShs	KShs	KShs	KShs
At 1st July 2017			220,000	495,900	715,900
Additions					
Disposals					
Transfers/adjustments					
At 30th June 2018			220,000	495,900	715,000
At 1st July 2018			220,000	495,000	715,000
Additions					
Disposals					
Transfer/adjustments					
At 30th June 2019			220,000	495,000	715,900
Depreciation and Impairment					
At 1st July 2018			72,617	318,309	390,926
Depreciation			18,423	53,277	71,701
Disposals					
Impairment					
Transfer/adjustment					
At 30th June 2019			91,040	371,586	462,627
Net book values					
At 30th June 2018			147,383	177,591	324,974
At 30 June 2019			128,960	124,314	253,273

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Intangible assets-software

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Cost		
At beginning of the year		
Additions		
At end of the year		
Amortization and impairment		
At beginning of the year		
Amortization		
At end of the year		
Impairment loss		
At end of the year		
NBV		

16. Trade and other payables from exchange transactions

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Trade payables		
Refundable deposits		
Accrued expenses		
Other payables	2,881,120	342,000
Total trade and other payables	2,881,120	342,000

17. Provisions

Description	Leave provision	Bonus provision	Other provision	Total
	KShs	KShs	KShs	KShs
Balance at the beginning of the year				
Additional Provisions				
Provision utilised				
Change due to discount and time value for money				
Transfers from non -current provisions				
Total provisions				

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Borrowings

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Balance at beginning of the period		
External borrowings during the year		
Domestic borrowings during the year		
Repayments of external borrowings during the period		
Repayments of domestics borrowings during the period		
Balance at end of the period		

The table below shows the classification of borrowings into external and domestic borrowings:

	FY2018/2019	FY2017/2018
	KShs	KShs
External Borrowings		
Dollar denominated loan		
Sterling Pound denominated loan		
Euro denominated loan		
Domestic Borrowings		
Kenya Shilling loan from KCB		
Kenya Shilling loan from Barclays Bank		
Kenya Shilling loan from Consolidated Bank		
Borrowings from other government institutions		
Total balance at end of the year		

The table below shows the classification of borrowings long-term and current borrowings:

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Short term borrowings(current portion)		
Long term borrowings		
Total		

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND**Reports and Financial Statements****For the year ended June 30, 2019****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****19. Employee benefit obligations**

Description	Defined benefit plan	Post Employment medical benefits	Other Provisions	Total
	KShs	KShs	KShs	KShs
Current benefit obligation				
Non-current benefit obligation				
Total employee benefits obligation				

20. Cash generated from operations

	FY2018/2019	FY2017/2018
	KShs	KShs
Surplus for the year before tax		
Adjusted for:		
Depreciation		
Gains/losses on disposal of assets		
Interest income		
Finance cost		
Working Capital adjustments		
Increase in Inventory		
Increase in receivables		
Increase in payables		
Net cash flow from operating activities		

21. Related party balances**a) Nature of related party relationships**

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

- The County Government;
- The Parent County Government Ministry;
- Key management;
- Board of Trustees e.t.c

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Related party transactions

	FY2018/2019		FY2017/2018
	KShs		KShs
Transfers from related parties'			
Transfers to related parties			

c) Key management remuneration

	FY2018/2019		FY2017/2018
	KShs		KShs
Board of Trustees			
Key Management Compensation			
Total			

d) Due from related parties

	FY2018/2019		FY2017/2018
	KShs		KShs
Due from parent Ministry			
Due from County Government			
Total			

e) Due to related parties

	FY2018/2019		FY2017/2018
	KShs		KShs
Due to parent Ministry			
Due to County Government			
Due to Key management personnel			
Total			

22. Contingent assets and contingent liabilities

Contingent Liabilities	FY2018/2019		FY2017/2018
	KShs		KShs
Court case against the Fund			
Bank guarantees			
Total			

(Give details)

MOMBASA COUNTY ALCOHOLIC DRINKS CONTROL FUND**Reports and Financial Statements****For the year ended June 30, 2019****13. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Late Submission of the Financial Statements			Resolved	
2	Presentation of the Accounting	Statements amended		Resolved	
2.1	Accounting Framework	Documents availed		Resolved	
2.2	Missing Information	Statements amended		Resolved	
3	Bank Balance	Documents availed		Resolved	
4	Cash Balance	Documents availed		Resolved	
5.	Other Receipts	Quarterly Report Availed		Resolved	
6.	Budgetary Control and Performance Accounts	Documents availed		Resolved	
7.	Inadequacy of the enabling legislation use of goods and service	The Act is under a review		Not yet resolved	Before the FY 2019/2020

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Guidance Notes:

- a) Use the same reference numbers as contained in the external audit report;
- b) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- c) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- d) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to County Treasury.

