***Issued 30th June 2024***

|  |  |  |
| --- | --- | --- |
|  |  | *(Add your County Logo)* |

**XXX County Government**

**Equalization Fund**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED**

**30TH JUNE 20xx**

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

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# Acronyms and Definition of Key Terms

**A: Acronyms**

AGPO Access to Government Procurement Opportunities

CA County Assembly

CBK Central Bank of Kenya

CDF Constituency Development Fund

CEO Chief Executive Officer

CECM County Executive Committee Member

CIDP County Integrated Development Plan

CRA Commission on Revenue Allocation

CT County Treasury

EF Equalisation Fund

EFAB Equalisation Fund Advisory board

ICPAK Institute of Certified Public Accountants of Kenya

IPSAS International Public Sector Accounting Standards

OCOB Office of the Controller of Budget

OAG Office of the Auditor General

NGO Non-Governmental Organisation

OSHA Occupational Safety and Health Act of 2007

PFM Public Finance Management

PIIC Project Identification and Implementation Committee

PPE Property, Plant & Equipment

PPPs Public Private Partnerships

PSASB Public Sector Accounting Standards Board

SAGAs Semi-Autonomous Government Agencies

WB World Bank

**B: Definition of Key Terms**

**Fiduciary Management**- Members of Management are directly entrusted with the responsibility of the financial resources of the organization.

**Comparative Year**- Means the prior period.

*(This list is an indication of the common acronyms and abbreviations; the Entity should include all from the annual report and financial statements prepared)*

# Key Entity Information and Management

1. **Background information**

The Equalisation Fund was established under Article 204 (1) of the Constitution of Kenya (CoK), 2010, and operationalized by the Public Finance Management (Equalisation Fund Administration) Regulations, 2021. The Equalisation Fund (EF) is domiciled in XXX County, Kenya.

1. **Principal Activities**

The EF shall be used to provide basic services, including water, roads, health facilities, and electricity, to marginalized areas to the extent necessary to bring the quality of those services to the level generally enjoyed by the rest of the nation.

1. **Key Management**

The *Fund’s* management is under the following key organs:

| **No.**  | **Designation** |
| --- | --- |
| 1. | County Technical Committee |
| 2. | Sub County Technical Committee |
| 3. | Project Identification and Implementation Committee |

1. **Fiduciary Management**

The key management personnel who held office during the financial year ended 30th June 20xx and who had direct fiduciary responsibility were:

| **No.**  | **Designation** | **Name** |
| --- | --- | --- |
| 1. | County Executive Committee Member for Finance |  |
| 2. | Head of Finance |  |
| 3. | Head of Procurement |  |
| 4. | Other *(specify)* |  |

*(Include positions regarded as top management in running the Fund as per your organizational structure).*

**Key Entity Information and Management (continued)**

1. **Fiduciary Oversight Arrangements**

 *Here, provide a high-level description of the key fiduciary oversight arrangements covering (say):*

* *Equalisation Fund Advisory Board*
* *Parliamentary Oversight (Special Funds Committee)*
* *Other oversight arrangements*
1. **Entity Headquarters**

P.O. Box XXXXX

XXX Building/House/Plaza

XXX Avenue/Road/Highway

XXX, KENYA

1. **Entity Contacts**

Telephone: (254) XXXXXXXX

E-mail: xxxx@xxx.com

Website: [xxx.go.ke](http://www.go.ke)

1. **Entity Bankers**

Central Bank of Kenya

Haile Selassie Avenue

P.O. Box 60000

City Square 00200

**NAIROBI, KENYA**

1. **Independent Auditor**

Auditor-General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

1. **Principal Legal Adviser**
2. The Attorney General

State Law Office and Department of Justice

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

1. County Attorney

P.O. Box xxx

XXX

County

#  Key Management Team

|  |  |
| --- | --- |
| **Name** | **Details** |
| County Executive Committee Member for Finance*Insert each key manager’s passport-size photo and name, and key profession/academic qualifications* | *Indicate the main area of responsibility – without details* |
| Head of Finance |  |
| Head of Procurement |  |
| Others *(specify)* |  |

#

# Report of the County Executive Committee Member for Finance

***(Two to three pages)***

*Under this section, CECM Finance will give his/her report, which highlights the key operational and financial performance, mentioning consolidated successes and challenges faced by the fund.*

**………………………….**

***(To be signed by the CECM Finance)***

# Statement of Performance against Predetermined Objectives for FY 20xx/20xx-1

***(Two-to-three pages)***

*Section 164 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to present a statement of performance against predetermined objectives. (This guidance statement should be removed in the final set of financial statements).*

*XXX* has *X* strategic pillars/ themes/issues and objectives within the current Strategic Plan for the FY 20xx/20xx-1. These strategic pillars/ themes/ issues are as follows:

 Pillar /theme/issue 1:

 Pillar/theme/issue 2:

*XXX* develops its annual work plans based on the above *X* pillars/Themes/Issues. Assessment of the Board’s performance against its CIDP is done on a quarterly basis. The *XXX* achieved its performance targets set for the *FY 20xx* period for its xx strategic pillars, as indicated in the table below:

*(NB: Entities can prepare this performance information as per the table below or in a more relevant format suitable for the nature of its activities)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Strategic Pillar/Theme/Issues** | **Objective** | **Key Performance Indicators** | **Activities** | **Achievements** |
| Pillar/ theme/ issue 1: |  |  |  |  |
| Pillar/ theme/ issue 1: |  |  |  |  |

*(Under this section, therefore, the management should include performance against the strategic objectives of the organization. The management should outline the strategic Pillars, activities towards their achievement, and outputs under each strategic pillar. The organization should also briefly outline how they have tied achievements to performance contracts)*

#

# Corporate Governance Statement

1. **Composition of Committees.**

**County Technical Committee**

1. County Commissioner-Chairperson
2. County Executive Committee Member for Finance.
3. Constituency Development Fund managers.
4. Representative of County Assembly.
5. Representatives of implementing sectors with prioritized Projects.
6. Chairperson of the Constituency Development Fund (CDF)

**Sub-County Technical Committee**

1. Sub-County Commissioner-Chairperson.
2. Four technical officers from ministries relevant to funding priorities.
3. Chairpersons of Project Identification and Implementation Committees within the sub-county.
4. Secretary of the Constituency

**Project Identification and Implementation Committee**

1. Assistant Sub-County Commissioner-Chairman
2. The village administrators of areas defined by the Commission on Revenue Allocation as marginalized.
3. Representative of the women, youth, minorities and persons with disabilities from marginalized areas.
4. A representative of the Constituency Development Fund committee member at the sub-county level; A representative of religious group or local Non-Governmental Organisation (NGO) with office at ward level
5. **Functions of Committees**

**County Technical Committee**

1. Approving all projects to be financed from the Fund.

**Sub-County Technical Committee.**

1. Receive project funding proposals from respective Project Identification and Implementation committees.
2. Evaluate and prioritize all development proposals from the Project Identification and Implementation Committees.
3. Assess the feasibility and cost all project proposals received from the Project Identification and Implementation Committees.
4. Submit project proposals and funding requests received from the Project Identification and Implementation Committees to the county government.
5. Monitor all projects being undertaken and ensure they meet the objectives they are originally meant to achieve.
6. Prepare quarterly reports on funds received and implementation status of all projects financed by the Fund to the county technical committee with a copy to the County Executive Committee Member responsible for matters relating to finance.
7. Prepare and submit annual reports on implementation of all projects financed by the Fund to the county technical committee with a copy to the County Executive Committee Member for Finance.

**Project Identification and Implementation Committee.**

1. Undertake public participation, in beneficiary areas.
2. Identify and prioritize project in beneficiary areas in line with guidelines issued by the administrator of the Fund.
3. Prepare and submit project funding proposals to sub-county technical committee.
4. Provide oversight on project implementation.

#

# Management Discussion and Analysis

**(**Two-to- three pages)

*(Under this section, the management gives a report on the operational and financial performance of the Fund for the year 20xx, the Fund’s key projects implemented or ongoing, the Fund’s compliance with statutory requirements, major risks facing the Fund, material arrears in statutory and other financial obligations, review of the economy, review of the sector, future developments and any other information considered relevant to the users of the financial statements.)*

*The management should make use of tables, graphs, pie charts, and other descriptive tools to make the information as understandable as possible.)*

#

# Environmental and Sustainability Reporting

**(Two to three pages)**

1. ***Sustainability strategy and profile***

*Top management, especially the accounting officer, should mention sustainable efforts, broad trends in political and macroeconomics affecting sustainability priorities, international best practices, and key achievements and failures.*

1. ***Environmental performance***

*Outline clearly, environmental policy guiding the organisation, provide evidence of the policy. Outline successes, shortcomings, efforts to manage biodiversity, waste management policy and efforts to reduce environmental impact of the organisation’s products.*

1. ***Employee welfare***

*Give account of the policies guiding the hiring process and whether they take into account the gender ratio, marginalised and people with disabilities, stakeholder engagements and how often they are improved. Explain efforts made in improving skills and managing careers, appraisal and reward systems. The organisation should also disclose their policy on safety and compliance with Occupational Safety and Health Act of 2007, (OSHA.)*

1. ***Marketplace practices-***

*The organization should outline its efforts to:*

1. ***Responsible competition practice.***

*Explain how the organization ensures responsible competition practices with issues like anti-corruption, responsible political involvement, fair competition, and respect for competitors.*

1. ***Responsible Supply chain and supplier relations***

*Explain how the organization maintains good business practices and treats its own suppliers responsibly by honouring contracts and respecting payment practices. Also, mention how the entity gave opportunities to AGPO and marginalized.*

1. ***Responsible marketing and advertisement***

*Outline efforts to maintain ethical marketing practices.*

1. ***Product stewardship***

*Outline efforts to safeguard consumer rights and interests.*

#

# Statement of Management Responsibilities

Section 167 of the Public Finance Management Act, 2012 and Sec 20 of the Public Finance Management (Equalisation Fund Administration) Regulations, 2021 requires that, at the end of each financial year, the Administrator of a County Fund shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Management of the County Equalisation 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 as at the end of the financial year ended on June 30, 20xx. 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 Management of the County Equalisation Fund accepts responsibility for the Fund’s financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Public Finance Management (Equalisation Fund Administration) Regulations, 2021. The Management of the Fund is of the opinion that the Fund’s financial statements give a true and fair view of the state of the Fund’s transactions during the financial year ended June 30, 20xx, and of the Fund’s financial position as at that date. The Management further confirms 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 Management of the County Equalisation Fund has assessed the Fund’s ability to continue as a going concern and nothing has come to the attention of the Management 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 Management on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 20xx and signed on its behalf by:

|  |
| --- |
| ……………………………………… |
| **Name** |
| **CECM Finance and Economic Planning** |

#

# Report of the Independent Auditor for the Financial Statements of (*Specify Entity Name*)

# Statement of Financial Performance for the year ended 30 June 20xx

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Note** | **Insert****Current Year** | **Insert Comparative FY** |
| **Kshs** | **Kshs** |
| **Revenue from Non-Exchange Transactions** |  |  |  |
| Transfers from Equalisation Fund | 5 | xx | xx |
| **Total Revenue** |  | **xxx** | **xxx** |
|  |  |  |  |
| **Expenditure** |  |  |  |
| Use of goods and services | 6 | xx | xx |
| **Total Expenditure** |  | **xxx** | **xxx** |
|  |  |  |  |
| **Surplus/(deficit) for the year** |  | **xxx / (xxx)** | **xxx / (xxx)** |

The notes set out on pages xxx to xxx form an integral part of these Financial Statements. The Financial Statements set out on pages xxx to xxx were signed by:

|  |  |  |
| --- | --- | --- |
| **………………………………** |  | **………………………………** |
| **Name:** |  | **Name:** |
| **CECM-Finance** |  | **Fund Accountant** |
|  |  | **ICPAK M/No:** |
| **Date**  |  | **Date**  |

*\*Comparative year means prior year/ previous period*

# Statement of Financial Position as at 30 June 20xx

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Note** | **Insert****Current FY** | **Insert Comparative FY** |
| **Kshs** | **Kshs** |
| **Assets** |  |  |  |
| **Current Assets** |  |  |  |
| Cash And Cash Equivalents | 7 | xx | xx |
| Receivables non-exchange transactions | 8 | xx | xx |
| **Total Assets** |  | **xxx** | **xxx** |
|  |  |  |  |
| **Liabilities** |  |  |  |
| **Current Liabilities** |  |  |  |
| Certificates Payable | 9 | xx | xx |
| Retention | 10 | xx | xx |
| **Total Liabilities** |  | **xxx** | **xxx** |
|  |  |  |  |
| **Total Net Assets** |  | **xxx** | **xxx** |
|  |  |  |  |
| **Net Assets** |  |  |  |
|  |  |  |  |
| Accumulated Surplus |  | **xx** | **xx** |
|  |  |  |  |
| **Total Net Assets** |  | **xxx** | **xxx** |

The financial statements set out on pages xxx to xxx were signed by:

|  |  |
| --- | --- |
| **………………………………** | **………………………………** |
| **Name:** | **Name:** |
| **CECM-Finance** | **Fund Accountant** |
|  | **ICPAK M/No:** |
| **Date**  | **Date**  |

# Statement of Changes in Net Assets for the year ended 30 June 20xx

|  |  |
| --- | --- |
| **Description**  | **Accumulated surplus** |
| **Kshs** |
|  **Prior Year** |  |
| Balance As At 1 July 20xx  | xx |
| Surplus/(Deficit) For the Period | xx |
| Balance As At 30 June 20xx | **xxx** |
|  |  |
| **Current Year** |  |
| Balance As At 1 July 20xx | xx |
| Surplus/(Deficit) For The Period | xx |
| Balance As At 30 June 20xx | **xxx** |

#

# Statement of Cash Flows for the year ended 30 June 20xx

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Note** | **Insert****Current FY** | **Insert Comparative FY** |
|  | **Kshs**  | **Kshs**  |
| **Cash flows from operating Activities** |  |  |  |
| **Receipts** |  |  |  |
| Receipt from Equalisation Fund |  | xx | xx |
| **Total Receipts** |  | **xx** | **xx** |
|  |  |  |  |
| **Payments** |  |  |  |
| Use of goods and services |  | xx | xx |
|  |  |  |  |
| **Net cash flows (to)/from operating activities (a)** | 11 | **xxx** | **xxx** |
|  |  |  |  |
| **Cash flows from investments** |  |  |  |
|  |  | xx | xx |
| **Net cash flows (to)/from investing activities (b)** |  | **xxx** | **xxx** |
|  |  |  |  |
| **Cash flows from financing** |  |  |  |
|  |  | xxx | xxx |
| **Net cash flows (to)/from financing activities (c)** |  | **xxx** | **xxx** |
|  |  |  |  |
| **Movement in cash and cash equivalents** |  |  |  |
|  |  |  |  |
| Net increase/ decrease in cash and cash equivalents. **(d)** = **(a) + (b) +(c)** |  | xx | xx |
| **Cash and cash equivalents at the beginning of the year** |  | **xx** | **xx** |
| **Cash and cash equivalents at the end of the year** |  | **xxx** | **xxx** |

*(PSASB has now prescribed the direct method of cashflow presentation for all entities under the IPSAS Accrual basis of accounting).*

# Statement of Comparison of Budget and Actual Amounts for the Year ended 30 June 20xx

|   | **Original** **budget(s)****As****Appropriated in current Year** | **Balance from Previous Years** | **Final budget****of Total funds appropriated** | **Actual** **on comparable basis** | **Performance difference** | **% of utilization** |
| --- | --- | --- | --- | --- | --- | --- |
| **Kshs** | **Kshs** | **Kshs** | **Kshs** | **Kshs** |  |
|  **Revenue** | **a** | **b** | **c=(a+b)** | **d** | **e=(c-d)** | **f=d/c\*100** |
| **Transfers from EF** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** |
|  |  |  |  |  |  |  |
| **Expenses** |  |  |  |  |  |  |
| Road projects | xxx | xxx | xxx | xxx | (xxx) | xxx |
| Water project | xxx | xxx | xxx | xxx | (xxx) | xxx |
| Health facilities | xxx | xxx | xxx | xxx | (xxx) | xxx |
| Energy | xxx | xxx | xxx | xxx | (xxx) | xxx |
| Education facilities | xxx | xxx | xxx | xxx | (xxx) | xxx |
| Others *(specify)* | xxx | xxx | xxx | xxx | xxx | xxx |
| **Total** **Expenditure** | **xxx** | **xxx(xxx)** | **xxx** | **xxx** | **(xxx)** | **xxx** |
| **Surplus/Deficit** **for** **the** **period** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** | **xxx** |

*Budget notes*

*1. Provide below a commentary on significant underutilization (below 90% of utilization) and any overutilization (IPSAS 24.14)*

*2. Provide an explanation of changes between the original and final budget, indicating whether the difference is due to reallocations or other causes. (IPSAS 24.29)*

*3. Where the total of actual on a comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis*

*(budget is cash basis, statement of financial performance is accrual) provide a reconciliation****.***

#

# Notes to the Financial Statements

1. **Statement of Compliance and Basis of Preparation**

The County Equalisation Fund 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 indirect method. The Financial Statements are prepared on the accrual basis.

1. **Adoption of New and Revised Standards**
2. ***New and amended standards and interpretations in issue effective in the year ended 30 June 2024*.**

There were no new and amended standards issued in the financial year.

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

| **Standard** | **Effective date and impact:** |
| --- | --- |
| IPSAS 43Leases | ***Applicable 1st January 2025***The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities. ***State the expected impact of the standard to the Entity if relevant***  |
| IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations | ***Applicable 1st January 2025***The Standard requires,Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.***State the expected impact of the standard to the Entity if relevant*** |
| IPSAS 45- Property Plant and Equipment | ***Applicable 1st January 2025***The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.***State the expected impact of the standard to the Entity if relevant*** |
| IPSAS 46 Measurement | ***Applicable 1st January 2025***The objective of this standard was to improve measurement guidance across IPSAS by:1. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used.
2. Clarifying transaction costs guidance to enhance consistency across IPSAS;
3. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures.

The standard also introduces a public sector specific measurement bases called the current operational value.***State the expected impact of the standard to the Entity if relevant*** |
| IPSAS 47- Revenue | ***Applicable 1st January 2026***This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.***State the expected impact of the standard to the Entity if relevant*** |
| IPSAS 48- Transfer Expenses | ***Applicable 1st January 2026***The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.***State the expected impact of the standard to the Entity if relevant*** |
| IPSAS 49- Retirement Benefit Plans | ***Applicable 1st January 2026***The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.***State the expected impact of the standard to the Entity if relevant*** |

1. ***Early adoption of standards***

The Entity did not early – adopt any new or amended standards in the financial year or *the entity adopted the following standards early (state the standards, reason for early adoption and impact on entity’s financial statements.)*

1. **Summary of Significant Accounting Policies**
2. **Revenue recognition**
3. **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 *Fund* and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realized in the statement of financial performance upon fulfilling the conditions set. Revenue shall be recognised upon submission and approval of the payment request by the transferring agency (Equalisation Fund).

1. **Certified Works**

Certified works are recognized when the works can be measured reliably and/ or when certificates of work done are received and approved by the Equalisation Fund.

1. **Budget information**

The Appropriation Act for the FY was passed by Parliament. The allocation shall continue in force until all projects identified are completed.

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. Included in the budget statement are balances of appropriations from previous years, not yet disbursed.

1. **Financial instruments**

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

1. **Financial assets**

**Classification of financial assets**

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

**Subsequent measurement**

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

**Amortized cost**

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

**Fair value through net assets/ equity**

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

**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.

**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.

**Impairment**

The Fund 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.*

1. **Financial liabilities**

**Classification**

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

1. **Changes in accounting policies and estimates**

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

1. **Related parties**

TheFund 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 Fund, or vice versa. Members of key management of the Fund are regarded as related parties.

1. **Cash and cash equivalents.**

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the Central Bank of Kenya special purpose account and the deposit account at the end of the financial year.

1. **Comparative figures**

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

1. **Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 20xx.

1. **Significant Judgments and Sources of Estimation Uncertainty**

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

**Estimates and assumptions.**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the 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.

1. **Transfers from Equalisation Fund**

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert Current FY** | **Insert** **Comparative FY** |
| **Kshs** | **Kshs** |
| Transfers for roads | xxx | xxx |
| Transfers for water projects | xxx | xxx |
| Transfers for health facilities | xxx | xxx |
| Transfers for energy | xxx | xxx |
| Transfers for education facilities | xxx | xxx |
| Others *(specify)* | xxx | xxx |
| **Total** | **xxx** | **xxx** |

1. **Use of Goods and Services**

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert Current FY** | **Insert Comparative FY** |
| **Kshs** | **Kshs** |
| Certified works for roads | xxx | xxx |
| Certified works for water project | xxx | xxx |
| Certified works for health facilities | xxx | xxx |
| Certified works for energy | xxx | xxx |
| Certified works for education facilities | xxx | xxx |
| Others *(specify)* | xxx | xxx |
| **Total** | **xxx** | **xxx** |

1. **Cash and Cash Equivalents**

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert Current FY** | **Insert****Comparative FY** |
| **Kshs** | **Kshs** |
| Special Purpose Account | xxx | xxx |
| Deposit Account | xxx | xxx |
| Cash balances | xxx | xxx |
| **Total** **Cash** **and** **cash** **equivalents** | **xxx** | **xxx** |

1. **Receivables from non-exchange transactions**

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert Current FY** | **Insert****Comparative FY** |
| **Kshs** | **Kshs** |
| Receivables from Equalisation Fund | xxx | xxx |
| **Total receivables** | **xxx** | **xxx** |

**Ageing analysis for Receivables from non-exchange transactions**

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert Current FY** | **Insert****Comparative FY** |
| **Kshs** | **Kshs** |
|  | **Current FY** | **% of the total** | **Comparative** **FY** | **% of the total** |
| Less than 1 year | xxx | % | xxx | % |
| Between 1- 2 years | xxx | % | xxx | % |
| Between 2-3 years | xxx | % | xxx | % |
| Over 3 years | xxx | % | xxx | % |
| **Total** | **xxx** | **%** | **xxx** | **%** |

1. **Certificates Payable**

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert****Current FY** | **Insert****Comparative FY** |
| **Kshs**  | **Kshs**  |
| Certificates payables | xx | xx |
| **Total Payables** | **xxx** | **xxx** |

**Ageing analysis of certificates payable**

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert Current FY** | **Insert****Comparative FY** |
| **Kshs** | **Kshs** |
|  | **Current FY** | **% of the total** | **Comparative** **FY** | **% of the total** |
| Less than 1 year | xxx | % | xxx | % |
| Between 1- 2 years | xxx | % | xxx | % |
| Between 2-3 years | xxx | % | xxx | % |
| Over 3 years | xxx | % | xxx | % |
| **Total**  | **xxx** | **%** | **xxx** | **%** |

1. **Retention**

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert Current FY** | **Insert****Comparative FY** |
| **Kshs** | **Kshs** |
| Retention monies | xxx | xxx |
| **Total** **retention money** | **xxx** | **xxx** |
|  |  |  |
| **Ageing analysis: (Retention deposits)** | **Current FY**  | **% of the Total**  | **Comparative** **FY** | **% of the Total**  |
| **Under one year** | **xxx** | % | **xxx** | % |
| 1-2 years | xxx | % | xxx | % |
| 2-3 years | xxx | % | xxx | % |
| Over 3 years | xxx | % | xxx | % |
| **Total** | **xxx** |  | **xxx** |  |

*(Provide brief explanation*)

1. **Cash Generated from Operations**

| **Description** | **Insert Current FY** | **Insert****Comparative FY** |
| --- | --- | --- |
| **Kshs** | **Kshs** |
| **Surplus for the year before tax** | **xxx** | **xxx** |
| **Adjusted for:** |  |  |
|  | xxx | xxx |
| **Working capital adjustments** |  |  |
| Increase in receivables | (xxx) | (xxx) |
| Increase in payables | xxx | xxx |
| **Net cash flow from operating activities** | **xxx** | **xxx** |

*(The total of this statement should tie to the cash flow section on net cash flows from/ used in operations)*

1. **Financial Risk Management**

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:

* 1. **Credit risk**

The entity 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, as well as receivables. 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 entity’s management based on prior experience and their assessment of the current economic environment.

**Financial Risk Management**

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:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Description | **Total amount** | **Fully performing** | **Past due** | **Impaired** |
| **Kshs** | **Kshs** | **Kshs** | **Kshs** |
| **As at 30th June (Current FY)** |  |  |  |  |
| Receivables from non-exchange transactions | xxx | xxx | xxx | xxx |
| Bank balances | xxx | xxx | xxx | xxx |
| **Total** | **xxx** | **xxx** | **xxx** | **xxx** |
| **As at 30 June (Previous FY)** |  |  |  |  |
| Receivables from non-exchange transactions | xxx | xxx | xxx | xxx |
| Bank balances | xxx | xxx | xxx | xxx |
| **Total** | **xxx** | **xxx** | **xxx** | **xxx** |

*(NB: The totals column should tie to the individual elements of credit risk disclosed in the Entity’s statement of financial position).*

**Financial Risk Management**

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 entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The entity has significant concentration of credit risk on amounts due from xxx. The Board of Directors sets the entity’s credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

* 1. **Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Fund’s management, who have 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 entity 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.

| Description | **Less than 1 month** | **Between 1-3 months** | **Over 5 months** | **Total** |
| --- | --- | --- | --- | --- |
| **Kshs** | **Kshs** | **Kshs** | **Kshs** |
| **As at 30th June (Current FY)** |  |  |  |  |
| Payables | xxx | xxx | xxx | xxx |
| **Total** | **xxx** | **xxx** | **xxx** | **xxx** |
| **As at 30th June (Previous FY)** |  |  |  |  |
| Payables | xxx | xxx | xxx | xxx |
| **Total** | **xxx** | **xxx** | **xxx** | **xxx** |

* 1. **Market risk**

The Entity 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 Entity’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 way it manages and measures the risk.

1. **Interest rate risk**

Interest rate risk is the risk that the entity’s financial condition may be adversely affected as a result of changes in interest rate levels. The entity’s interest rate risk arises from bank deposits. This exposes the entity to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the entity’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 entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on the surplus or deficit 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 of Kshs xxx (Current FY: Kshs xxx). A rate increase/decrease of five percent would result in a decrease/increase in surplus before tax of Kshs xxx (Current FY – Kshs xxx)

**Fair value of financial assets and liabilities**

1. **Financial instruments measured at fair value.**

**Determination of fair value and fair values hierarchy**

IPSAS 30 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *Entity’s* market assumptions. These two types of inputs have created the following fair value hierarchy:

* Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
* Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
* Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *Entity* considers relevant and observable market prices in its valuations where possible.

There were no transfers between levels 1, 2 and 3 during the year. Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

**iv) Capital Risk Management**

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

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert Current FY** | **Insert****Comparative FY** |
| **Kshs** | **Kshs** |
| Accumulated surplus | xxx | xxx |
| **Total Funds** | **xxx** | **xxx** |
| Total Borrowings | xxx | xxx |
| Less: Cash and Bank Balances | (xxx) | (xxx) |
| Net Debt/(Excess cash and cash Equivalents) | xxx | xxx |
| **Gearing** | xx% | xx% |

1. **Related Party Disclosures**
2. **Nature of related party relationships**

Entities and other parties related to *xxx* corporation 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.

1. **County Government of xx**

The county Government of xx is the principal shareholder of the *Entity*, holding 100% of the *Entity’s* equity interest. The County Government has provided full guarantees to all long-term lenders of the entity.

1. **Other related parties include:**
2. The Parent Department.
3. County Governments
4. Other County Corporations
5. xxx.
6. Key management.
7. **Transactions with related parties**

| **Description** | **Insert** **Current FY** | **Insert****Comparative FY** |
| --- | --- | --- |
| **Kshs** | **Kshs** |
|  |  |  |
| 1. **Sales to related parties**
 |  |  |
| Others (*specify*)  | xxx | xxx |
| **Total** | **xxx** | **xxx** |
| **B) purchases from related parties** |  |  |
| Others (*specify*) | xxx | xxx |
| **Total** | **xxx** | **xxx** |
| 1. **Grants /transfers from the government**
 |  |  |
| Grants from EF | xxx | xxx |
| Grants from other levels of Government | xxx | xxx |
| Donations in kind | xxx | xxx |
| **Total** | **xxx** | **xxx** |
| 1. **Expenses incurred on behalf of related party**
 |  |  |
| Payments for goods and services for xxx | xxx | xxx |
| **Total** |  |  |
| 1. **Key management compensation**
 |  |  |
| Compensation to key management | xxx | xxx |
| **Total** | **xxx** | **xxx** |

1. **Contingent Assets and Contingent Liabilities**

**Contingent Assets**

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert Current FY** | **Insert****Comparative FY** |
| **Kshs** | **Kshs** |
| **Contingent Assets** |  |  |
| Receivables from government entities | xxx | xxx |
| Others (*Specify*) | xxx | xxx |
| **Total** | xxx | xxx |

*(Give details)*

**Contingent Liabilities**

|  |  |  |
| --- | --- | --- |
| **Description** | **Insert Current FY** | **Insert****Comparative FY** |
| **Kshs** | **Kshs** |
| **Contingent Liabilities** | xxx | xxx |
| Court case xx against the entity | xxx | xxx |
| Others (*Specify*) | xxx | xxx |
| **Total** | **xxx** | **xxx** |

*(Give details)*

1. **Events after the Reporting Period**

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

1. **Ultimate And Holding Entity**

The Entity is a Fund under the Department of *xxx*. Its ultimate parent is the County Government of *xxx*.

1. **Currency**

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

# Appendices

**Appendix 1: Implementation Status of Auditor General’s Recommendations**

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

| **Reference No. on the external audit Report** | **Issue / Observations from Auditor** | **Management comments** | **Status:*****(Resolved / Not Resolved)*** | **Timeframe:*****(Put a date when you expect the issue to be resolved)*** |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

***Guidance Notes:***

1. Use the same reference numbers as contained in the external audit report.
2. Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management.
3. Before approving the report, discuss the timeframe with the appointed Focal Point persons within your Entity responsible for the implementation of each issue.
4. Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report.

|  |
| --- |
| ……………………………………… |
| **County Executive Committee Member for Finance** |
| **Date:** |

**Appendix II: Projects Implementation Status Report.**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **S/No.** | **Project Name (A)** | **Sector(B)** | **Constituency (C)** | **Ward (D)** | **Approved Budget/total allocation (E)** | **Contract Sum (F)** | **Amount certified (G)** | **Amount Paid (H)** | **Payable amount****I=(G-H)** | **% Status of implementation (J)** |
|   |   |   |   |   |   |   |   |   |   |  |
|  |  |  |  |  |  |  |  |  |  |  |

**Appendix III: Transfers from Government Entities**

|  |  |  |  |
| --- | --- | --- | --- |
| **Name of the Entity Transferring the funds** | **Date received as per bank statement** | **Total Amount - KES** | **Where Recorded/recognized** |
| **Statement of Financial Performance** | **Receivables** | **Total Transfers during the Year** |
| Equalisation Fund | xxx | xxx | xxx | xxx | xxx |
| **Total** |  | **xxx** | **xxx** | **xxx** | **xxx** |

**Appendix IV- Inter-Entity Confirmation Letter**

Name of transferring entity:………………………………………………………..

Name of beneficiary entity:………………………………………………………...

|  |
| --- |
| **Confirmation of amounts received by [Insert name of beneficiary Entity] as at 30th June (Current FY)** |
| Reference Number | Date Received | Total | Remarks |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Total |  |  |  |
| I confirm that the amounts shown above are correct as of the date indicated.**Head of Accounts Department - Disbursing Entity:** **Name …………………………………………. Sign ……………………………. Date** **………………****Head of Accounts Department - Beneficiary Entity:****Name …………………………………………. Sign ……………………………. Date………………**\_\_\_\_\_\_\_\_ |

**Appendix V: Funding Summary**

|  |  |  |  |
| --- | --- | --- | --- |
| **Financial Year** | **Appropriation during the FY**a | **Funds received during the FY**b | **Outstanding funds**c=a-b |
| 20xx/20xx | xxx | xxx | xxx |
| 20xx/20xx | xxx | xxx | xxx |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Total** | xxx | xxx | xxx |

**Appendix VI: Reporting of Climate Relevant Expenditures**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Project Name** | **Project Description** | **Project Objectives** | **Project Activities** | **Quarter** | **Source of Funds** | **Implementing Partners** |
| **Q1** | **Q2** | **Q3** | **Q4** |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

**Appendix VII: Reporting on Disaster Management Expenditure**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Column I | Column II | Column III | Column IV | Column V | Column VI | Column VII |
| Programme | Sub-programme | Disaster Type | Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness) | Expenditure item | Amount (Kshs.) | Comments |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |