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REPORT

OF

THE AUDITOR-GENERAL

ON

MUNICIPALITY OF LAMU

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

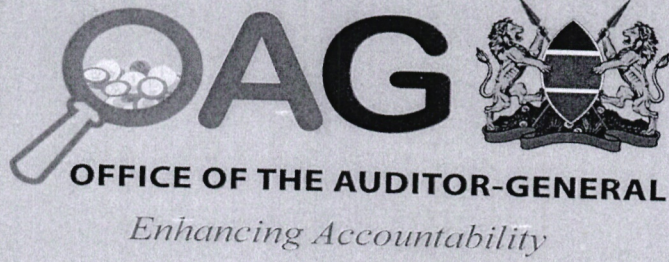


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REPORT

OF

THE AUDITOR-GENERAL

ON

MUNICIPALITY OF LAMU

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

OFFICE OF THE AUDITOR GENERAL
NORTH EASTERN REGIONAL OFFICE

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MUNICIPALITY OF LAMU

County Government of Lamu

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30TH JUNE 2019

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

5575 131 2 0

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1. Key Entity Information and Management

a) Background information

Section 9 of the Urban Areas and Cities Act empowers the County Governor, on the resolution of the County Assembly, to confer on a qualifying town, the status of a Municipality by grant of a Charter in the prescribed form. Section 9 (1) of the Urban Areas and Cities Act, (No. 13 of 2011) as complemented by section 72 of the Interpretations and General Provisions Act (Chapter 2) and all other enabling provisions of law, the County Governor of Lamu County GRANTS the Municipality of Lamu this charter on this 30th day of JANUARY, 2018.

b) Principal Activities

1. Provide for efficient and accountable management of the affairs of the Municipality.
2. Provide for a governance mechanism that will enable the inhabitants of the Municipality to:
 - a. Participate in determining the social services and regulatory framework which will best satisfy their needs and expectations.
 - b. Verify whether public resources and authority are utilized or exercised, as the case may be, to their satisfaction.
 - c. Enjoy efficiency in service delivery.
3. Vigorously pursue the developmental opportunities which are available in the Municipality and to institute such measures as are necessary for achieving public order and the provisions of civic amenities, so as to enhance the quality of life of the inhabitants of the Municipality.
4. Provide a high standard of social services in a cost-effective manner to the inhabitants of the Municipality.

5. Promote social cohesiveness and a sense of civic duty and responsibility among the inhabitants and stakeholders in the Municipality in order to facilitate collective action and commitment towards achieving the goal of a harmonious and stable community.
6. Providing for services, laws and other matters for Municipality's benefit.
7. Fostering the economic, social and environmental well-being of its community.

Vision

A center of excellence in sustainable management of urban development and service delivery.

Mission

To sustainably manage the development of Lamu Municipality and service delivery in the Town through ensuring controlled land use and delivering quality socio-economic, infrastructural environmental services to the Town's residents, traders and visitors.

Objectives

- a) Promotion, regulation and provision of refuse collection and solid waste management services;
- b) Promotion and provision of water and sanitation services and infrastructure (in areas within the Municipality not served by the Water and Sanitation Provider);
- c) Construction and maintenance of urban roads and associated infrastructure;
- d) Construction and maintenance of storm drainage and flood controls;
- e) Construction and maintenance of walkways and other non-motorized transport infrastructure;
- f) Construction and maintenance of recreational parks and green spaces;
- g) Construction and maintenance of street lighting;
- h) Construction, maintenance and regulation of traffic controls and parking facilities;
- i) Construction and maintenance of bus stands and taxi stands;
- j) Regulation of outdoor advertising;

- k) Construction, maintenance and regulation of municipal markets and abattoirs;
- l) Construction and maintenance of fire stations; provision of fire-fighting services, emergency preparedness and disaster management;
- m) Promotion, regulation and provision of municipal sports and cultural activities;
- n) Promotion, regulation and provision of animal control and welfare;
- o) Development and enforcement of municipal plans and development controls;
- p) Municipal administration services (including construction and maintenance of administrative offices);
- q) Promoting and undertaking infrastructural development and services within municipality;
- r) Any other functions as may be delegated by the County Executive Committee.

Core Value

Upholding values of accountability, transparency, excellence, accessibility, integrity, responsiveness, equity and team work.

c) Municipality Board

		n
1	Dr. Farida Hassan	Chairperson
2	Ms. Ummulkheri Athman Bakari	Member
3	Dr. Abubakar Abdalla	Member
4	Ms. Khadija Shekue	Member
5	Mr. Ahmed Hemed	Member
6	Dr. Mashrab Muhdhar Saggaf	Member
7	Ms. Martha Wairimu Wambui	Member
8	Mr. Abdalla Fadhil	Vice chairman
9	Mr. Said Bwanamkuu	County Chief Officer Lands- B. Member
10	Mr. Omar Famau	Municipal Manager

d) Key Management

Ref	Name	Position
1	Dr. Farida Hassan	Chairperson
2	Mr. Omar Famau	Municipal Manager
3	Mr. Said Bwanamkuu	County Chief Officer- Lands, Urban Development. Lamu Municipality Board Member

e) Fiduciary Oversight Arrangements

- i) Audit and Risk Management Committee
- ii) County Assembly committees
- iii) Committees of the Senate

f) Registered Offices

Lamu Municipality
P.O. Box 74- 80500
Amu, Lamu.

g) Contacts

Telephone: (254) 768274115
Email: lamumunicipality@lamu.go.ke
Website: www.lamu.go.ke

h) Bankers

Equity Bank Lamu Branch
P.O. Box 191- 80500
Lamu - Kenya.

i) Independent Auditor




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

j) Principal Legal Adviser

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

2. Municipality Board

NAME	PROFILE
<p>Dr. Farida Hassan Chairperson</p> 	<p>Dr. Farida Hassan has over 26 years of field experience working with rural communities in the implementation of community development initiatives, environmental conservation and agriculture programmes in Kenya. Prior of her appointment, she worked as a Manager for a community led development project at the Kenya Coast financed by the World Bank financed. Dr. Hassan has in past also served the Lamu County Governments as a Chief Officer for two (2) years She currently works as Social Development Consultant.</p>
<p>Mr. Abdalla Fadhil Vice Chairman</p> 	<p>Mr. Abdalla Fadhil has Masters of Business Administration & Masters of project planning management and was appointed member of the Board to represent the private sector in the Lamu Municipality. Mr. Abdalla currently serves as the Chairman for Lamu County Public Service Board</p>
<p>Ms. Ummulkheir Athman Board Member</p> 	<p>Ms. Ummulkheir is appointed as a member of the board to represent registered associations. She is an Alumni of Alliance Girls High School and a graduate from Kenyatta University with a Bachelor of Science degree in Community Resource Management and Extension. Currently pursuing a master's degree in Strategic Management at Jomo Kenyatta University of Agriculture and Technology. She has worked as a human resource officer intern at KENGEN company limited and with Lamu Youth Alliance as program coordinator. Currently she is a County Technical Assistant to the world-bank funded programme of fisheries for Lamu County Government.</p>
<p>Ms. Khadija Shekue Board Member</p> 	<p>Born in 1988 Lamu, she is a graduate from Moi University with a Bachelor of Science degree in wildlife management. Mrs. Shekue is currently pursuing a master's degree in environmental science at Pwani University. Since 2013, Mrs Shekue has been working with Save Lamu (local NGO) and raises through ranks from senior administration officer, senior research and documentation officer to the current position of Programme coordinator. Her appointment to the Board is to represent registered neighborhood associations in the area.</p>

<p>Dr. Mashrab Sagaf Board member</p> 	<p>Mr. Mashrab holds Bachelor of medicine and bachelor of surgery from Sumy state university, Ukraine where he graduated in year 2014 as a medical doctor. Prior to his appointment, he was working with the County Government of Lamu as Medical Superintendent at Lamu Referral hospital. Mr. mashrab was competitively appointed to be a member of Lamu Municipality Board.</p>
<p>Mr. Ahmed Hemed Board Member /CEC Lands</p> 	<p>Born in Lamu 1958 Mrs Ahmed Hemed brings to the Board vast of experience in strategic management and visionary leadership. He served as Lamu town clerk for over 13 years before devolution. He was later appointed as deputy County Secretary for Tharakanithi County Government where he worked for 4 years before being appointed as CECM for Lamu County Government in year 2017 to date. He holds Bachelor of Arts in Education</p>
<p>Mrs. Martha Wairimu Board Member</p> 	<p>Mrs. Martha Wairimu has a professional in teaching with over 11 years' experience. She holds Bachelor of Arts in Education from Kenyatta University and was competitively appointed to be a member of Lamu Municipality Board.</p>
<p>Mr. Abubakar Abdalla Board Member</p>	<p>Bachelor of Medicine & Surgery and Diploma in Clinical Medicine and Surgery from Moi university. Currently pursuing Master of Science in Health Service Management at Kenya Methodist University. Mr. Abubakar is the Director Medical Service at Lamu County Government providing technical leadership to the department of Health with over 600 staff and 45 public and private facilities. He is also appointed as Board Member in Lamu Municipality since October,2019 to date. He has over ten years' experience and has worked in several health institution both at technical and managerial level.</p>
<p>Said Bwanamkuu Board Member CO Lands, Urban Development</p>	<p>Mr. Said Bwanamkuu has a Masters in Education:(Leadership and Management) at Mt. Kenya University Thika 2015 and a Bachelor in Education: Kenyatta University 2008. He's currently the chief officer - Lands, physical planning and urban development.22/7/2019- to date Chief officer – Education 4/3/2018 to 21/7/2018. Chief officer – Health support, Environment and cleansing 15/5/2018 to 3/3/2018. District Education Officer, Sub –County Director of Education Embu East 2009-2016 and Makindu Sub-County 2016 - TO</p>






DATE.
Teachers Advisory Tutor (TAC-TUTOR), Inspector of schools,
Quality Assurance Officer, Senior Quality Assurance Officer
1991-2009
A Teacher, Deputy Head teacher and Head teacher: 1985 to
1991

Mr. Omar Famua
Municipal Manager



Mr. Famau has completed Bachelor's Degree in Business
Management from San Juan De La Cruz University in Costa
Rica. Currently working as Municipal Manager Lamu
Municipality in Lamu county Government.
1997 TO 2016- Chairman, and Chief Executive; Tawasal
Foundation Trust Fund
2003 - Nominated councilor – Chairman, Tourism and
Environment
2004 - 2007- Chairman Lamu County Council, When I took
over 2004 the County Council budget was around ten million.

3. Management Team

Name	Details of qualifications and experience
<p>Dr. Farida Hassan Chairperson</p> 	<p>Dr Farida Hassan has over 26 years of field experience working with rural communities in the implementation of community development initiatives, environmental conservation and agriculture programmes in Kenya. Prior of her appointment, she worked as a Manager for a community led development project at the Kenya Coast financed by the World Bank financed. Dr. Hassan has also served the Lamu County Governments as a Chief Officer for two (2) years She currently serves as Social Development Consultant.</p>
<p>Mr. Said Bwanamkuu Board Member CO Lands, Urban Development</p> 	<p>Mr. Said Bwanamkuu has a Masters in Education :(Leadership and Management) at Mt.Kenya University Thika 2015 and a Bachelor in Education: Kenyatta University 2008. He's currently the chief officer - Lands, physical planning and urban development.22/7/2019- to date Chief officer – Education 4/3/2018 to 21/7/2018. Chief officer – Health support, Environment and cleansing 15/5/2018 to 3/3/2018. District Education Officer, Sub –County Director of Education Embu East 2009-2016 and Makindu Sub-County 2016 - TO DATE. Teachers Advisory Tutor (TAC-TUTOR), Inspector of schools, Quality Assurance Officer, Senior Quality Assurance Officer 1991-2009 A Teacher, Deputy Head teacher and Head teacher: 1985 to 1991</p>
<p>Mr. Omar Famua Municipal Manager</p> 	<p>Mr. Famau has completed Bachelor's Degree in Business Management from San Juan De La Cruz University in Costa Rica. Currently working as Municipal Manager Lamu Municipality in Lamu county Government. 1997 TO 2016- Chairman, and Chief Executive; Tawasal Foundation Trust Fund 2003 - Nominated councilor – Chairman, Tourism and Environment 2004 - 2007- Chairman Lamu County Council, When I took over 2004 the County Council budget was around ten million.</p>

4. Municipality Board Chairperson's Report

On behalf of the board, it is my pleasure to present the Municipality of Lamu Annual Report and financial statements which reflect financial performance of the Municipality for the year ended 30th June 2019.

Sustainability

In our pursuit to improve on transparency and accountability in public financial management, the Municipality of Lamu Board has and will continue to manage its finances in accordance with the principles of fiscal responsibility as spelt out in the Public Finance Management Act (2012) and its regulations and any other applicable laws on public finance.

Board and Management Changes

There were no changes in the board of management during the year under review.

Review of performance Revenue

The Board received a total of Ksh. 91,200,000.00 for UIG and UDG accounts. Process are under to transfer the said monies from the CBK special purpose account to Lamu Municipality Commercial Accounts.

Expenditures

The Municipality of Lamu utilized Ksh 1,752,600.00 under the UDG to sensitize its Board members and selected stakeholders.

Future outlook

In terms of our future plans, the Board focuses to build a robust and sustainable fund. As we are still experiencing the challenge of having inadequate staff to serve in the municipality, the Board still targets to make advances in this area by working closely with the HR department of the County Government.

Appreciation

I would like to appreciate the County Executive for giving the Municipal Charter which brought the Lamu Municipality Board members and entire Municipality team for their dedication and cooperation during the transition period. While acknowledging the challenging context for the Municipality of Lamu in terms of limited financial and human resources, we as the Board commit to put our best foot forward in ensuring that the goals and aspirations of the Board are realized and felt by each and every person living within the Lamu Municipality. May God bless all of us and the county in general.



Mr. Abdalla M.A Fadhil

Ag. CHAIRPERSON- MUNICIPALITY OF LAMU

5. Report of the City/Municipality Manager

The Municipality of Lamu Board achieved great milestone in the discharging of its mandate. In compliance with the Constitutional requirement and vision 2030 goals, the Board had set a uniform criteria and guidelines that promote equity, equality and fairness in provision of services to the people of Lamu. The Board made sure that equal rights are provided to the marginalized and people living with disability.

The Board has to a great extent, involved stakeholders created a cohesive environment that enables it to carry its mandate effectively and efficiently. The Board was able to instantly address grievances and acknowledge recommendations from the public. The Board has embraced technology in its service delivery and office operations.

Financial Performance

a) Revenue

The Board received a total of Ksh. 91,200,000.00 for UIG and UDG accounts. Process are under to transfer the said monies from the CBK special purpose account to Lamu Municipality Commercial Accounts.

b) Expenditures

The Municipality of Lamu utilized Ksh 1,752,600.00 under the UDG to sensitize its Board members and selected stakeholders.

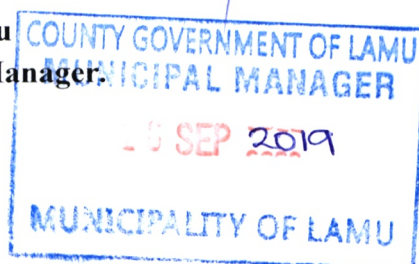
Conclusion

FY 2018/2019 was a good year generally good progress was made and a momentum has been created to enable the Board continue on trajectory into prosperity. We have identified gaps and areas to improve on in the subsequent years.

I take this opportunity to thank the board members for their support. I would also want to thank all staff whom we have worked with hand in hand to ensure that Municipality of Lamu achieves its mission.

.....

Omar Famau
Municipal Manager



6. Statement of Performance Against Predetermined Objectives for the FY 2018/2019

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

The key development objectives of the Municipality of Lamu Board 2018-2019 are to:

1. Renovation and extension of Amu Market.

7. Corporate Governance Statement

THE BOARD

Municipality of Lamu is established by Urban Areas and Cities Act 2012 and derives its authority and accountability from the Act. The Board objectives vigorously pursue the developmental opportunities which are available in the Municipality and to institute such measures as are necessary for achieving public order and the provisions of civic amenities, so as to enhance the quality of life of the inhabitants of the Municipality among others.

The Board is committed to ensuring compliance with the Urban Areas and Cities Act 2012. Essential to the Act is to ensure that management together with the board of trustees is at its apex.

THE MEMBERS OF THE BOARD

The Board of the Municipality shall be composed of nine (9) members. Four (4) members of the Board of the Municipality shall be appointed through a competitive process by the County Executive Committee and approved by the County Assembly. Five (5) members of the Board shall be nominated by the following umbrella bodies:

- (a) an umbrella body representing professional associations in the area;
- (b) an association representing the private sector in the area;
- (c) a cluster representing registered associations of the informal sector in the area;
- (d) a cluster representing registered neighborhood associations in the area; and
- (e) an association of the Municipality. and appointed by the County Executive Committee with the approval of the County Assembly

The board members are responsible for the long-term strategic direction. The board of members exercises leadership, enterprise, integrity and judgment in directing the Municipality.

The members are provided with full, appropriate and timely information that enables them to maintain full and effective control over the strategic, financial, operational and compliance issues. The day-to-day running of the operations of the fund is vested on the Municipal Manager.

BOARD MEETINGS

The board members are to meet at least three times in a quarter in order to monitor the implementation of the funds strategic plan and achievement of the targets. However, as provided by the act the Chairman shall, upon requisition by members convene a special meeting of the board at any time. The members held four full board meetings during the FY 2018/2019.

STATEMENT OF COMPLIANCE

The board of trustees confirmed that the Municipality had throughout the FY 2018/2019 complied with all statutory and regulatory requirements and that the Municipality had been managed in accordance with the principles of good corporate governance.

INTERNAL CONTROL AND RISK MANAGEMENT

Standing Instructions

The Municipal is in the process to develop a strategic plan, Code of Ethics and Service Charter that will be applicable to all employees. This will entail a number of standing instructions to employees of the fund designed to enhance internal control.

Organization Structure

The Board is on the process of updating its organizational structure that will clearly detail lines of authority and control responsibilities in line with the Urban and Cities Act 2012.

Internal Control Framework

The Board continues to review its internal control to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed in an ongoing

basis. No significant failings or weaknesses were identified during the FY 2018/2019.

Risk Management

The Board targets to develop a risk management framework which will guide the Municipality in identifying, assessing and managing the risks and prescribe mitigating measures of all the risks both external and internal.

Management Team

The management team headed by the Chairman, the Manager and Chief Officer for Lamu Municipality implements the board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the board objectives are achieved effectively and efficiently.

Auditor

The fund is audited by the Auditor-General.

8. Management Discussion and Analysis

The Municipality of Lamu has continued to grow over the years and the management has put measures in place to safeguard risks. The management has ensured that we comply with statutory requirements relating to the functions of the fund.

Operational and financial performance of the Fund/Board

The Board received a total of Ksh. 91,200,000.00 for UIG and UDG accounts. Process are under to transfer the said monies from the CBK special purpose account to Lamu Municipality Commercial Accounts. The Lamu Municipality utilized Ksh 1,752,600.00 under the UDG to sensitize its Board members and selected stakeholders. Although the monies were transferred late on the financial year steps and plans have been put in place to ensure 100% absorption.

Key projects or investments decision implemented or ongoing

1. Renovation and extension of Amu Market.

Compliance with statutory requirements

The Fund complied with the following listed requirements but not limited to:

- Lamu Municipality Act 2019
- Public Finance Management Act 2012
- Public procurement disposal Act 2015.

Major challenges facing the fund

- The Lamu Municipality Board is new hence needs a lot of capacity building in order to understand the environment and working procedures of Municipalities.

Conclusion

We appreciate the unrelenting support from the board of trustees, management, staff, the county government, development partners and all the key stakeholders. We look forward to continuing partnership and cooperation in areas of mutual interest in the FY 2019/2020.

9. Environmental and Sustainability Reporting

The Board was recently established hence not involved in any corporate social responsibility, however, the Board look forward to be engaged in CSR activities in the financial year 2019/2020.

10. Report of the Municipality Board Members

The Board submitted their report together with the audited financial statements for the year ended June 30, 2019 which showed the state of the Fund affairs.

Principal activities

Municipality of Lamu Board is established by Urban Areas and Cities Act 2012 and derives its authority and accountability from the Act. The Board objectives seek to provide an enabling environment for development of economic opportunities available within the Municipality and to institute measures necessary for achieving public order while enhancing provisions of civic amenities and access to basic social services. The ultimate goal of the board is to improve that the quality of life of the residents of the Lamu Municipality.

Results

The results of the Fund for the year ended June 30, 2019 are set out on page 1 – 5.

Board

There were no changes in the board of management of the Municipality of Lamu.

Auditors

The Auditor General is responsible for the statutory auditing of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act, 2015.

By Order of the Board



Mr. Abdalla Fadhil

Ag. CHAIRPERSON - MUNICIPALITY OF LAMU

11. Statement of Management's Responsibilities

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

The Municipality manager is responsible for the preparation and presentation of the Municipality's financial statements, which give a true and fair view of the state of affairs of the City/Municipality 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 Municipality, (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) Safeguarding the assets of the Municipality, (v) Selecting and applying appropriate accounting policies, and (vi) Making accounting estimates that are reasonable in the circumstances.

The Municipality Manager accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and *Urban Areas and Cities Act No. 13 of 2011*. The Municipality Manager is of the opinion that the financial statements give a true and

fair view of the state of Municipality's transactions during the financial year ended June 30, 2019, and the financial position as at that date.

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

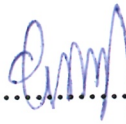
Nothing has come to the attention of the Municipality Manager to indicate that the Municipality will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

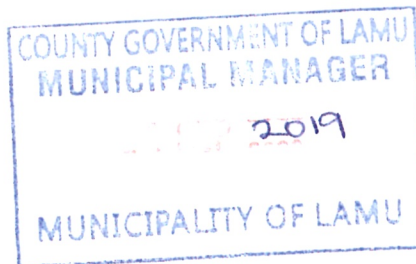
The Municipal's financial statements were approved by the Board on 26/09/2019 and signed on its behalf by:



.....
Name: Abdalla Fadhil
Ag. Chairperson of the Board

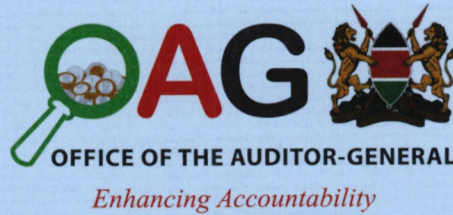


.....
Name: Omar Famau
Municipal Manager



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 MUNICIPALITY OF LAMU FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Municipality of Lamu set out on pages 1 to 30, which comprise of the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of the Municipality of Lamu 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 Public Finance Management Act, 2012, the Urban Areas and Cities Act, 2011, and Municipality of Lamu Charter of 2018.

Basis for Qualified Opinion

Lack of Approved Budget

The statement of comparison of budget and actual amounts reflects final revenue budget of Kshs.91,200,000 and final recurrent expenditure budget of Kshs.91,200,000. Further, the statement reflects capital expenditure budget of Kshs.50,000,000. However, Management did not provide an approved itemized budget to support the amounts.

In the circumstances, the regularity of the amounts reflected in the statement of comparison of budget and actual amounts could not be confirmed.

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

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

Key Audit Matters

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

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. Late Submission of Financial Statements

The financial statements for the year ended 30 June, 2019 were submitted on 9 March, 2022. This was twenty-nine (29) months after the end of the financial year, contrary to Section 164(4)(a) of the Public Finance Management Act, 2012 which stipulates that not later than three months after the end of each financial year, the Accounting Officer for a County Government entity shall submit the entity's financial statements to the Auditor-General.

In the circumstances, Management was in breach of law.

2. Operation without Board of Municipality

The members of the Board of the Municipality were gazetted on 15 August, 2019. The Municipality however carried out operations including incurring expenditure during the financial year under review before the gazettelement of the Municipality Board members. This was contrary to paragraph 3.2 of the Municipality of Lamu Charter, which outlines the powers and functions of the Board of the Municipality. These functions include among others; (a) oversee the affairs of the Municipality, and (b) preparing and submitting its annual budget estimates to the relevant County Treasury for consideration and submission to the County Assembly for approval as part of the annual County Appropriation Bill.

In the circumstances, Management was in breach of 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

1. Independence of the Municipality

The Municipality of Lamu was established on 30 January, 2018 vide Municipality of Lamu Charter. During the year under review, the operations of the Municipality were undertaken by the Department of Lands, Physical Planning, Urban Development and Infrastructure of the Lamu County Government.

In the circumstances, the Municipality did not operate as a separate corporate body as established by the Municipal Charter.

2. Lack of a Risk Management Policy

During the review, the Municipality did not have a Risk Management policy. This was contrary to Regulation 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to develop risk management strategies, which include fraud prevention mechanism and internal controls that builds robust business operations.

In the circumstances, the effectiveness of any risk management strategies employed by the Municipality could not be confirmed.

3. Lack of Internal Audit Function and Audit Committee

The audit revealed that the Municipality did not have an Internal Audit Unit and an audit committee to give risk, control and governance and associated assurance to the Accounting Officer in the management of public resources.

In the circumstances, the effectiveness of risk management and governance processes could not be confirmed.

4. Information Communication Technology Environment

Review of the ICT environment revealed that the Municipality did not have an Information Technology (IT) Department and no formal approved Information Communication Technology (ICT) Policy was in place to enable the Management to effectively manage business processes for the delivery of services to the stakeholders in an effective and efficient manner.

In the circumstances, efficiency and effectiveness in the processes for service delivery in the Municipality could not be confirmed.

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

Responsibilities of the Management and the Municipality Board

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Because of its inherent limitations, the system of 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 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 misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Municipality's ability 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 Municipality to cease 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 Municipality to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


 CPA Nancy Gathungu, SBS
AUDITOR-GENERAL

Nairobi

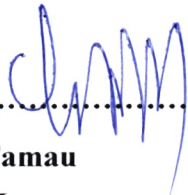
02 September, 2022

13. Statement of Financial Performance for The Year Ended 30th June 2019.

	Notes	2018/2019
		Kshs.
Revenue from non-exchange transactions		
Transfers from the County Government	6	91,200,000.00
Total revenue		91,200,000.00
Expenditure		
Use of goods and services	12	1,752,600.00
Total expenses		1,752,600.00
Surplus/(deficit) for the period		89,447,400.00

The notes set out on pages 6 to 19 form an integral part of these Financial Statements.

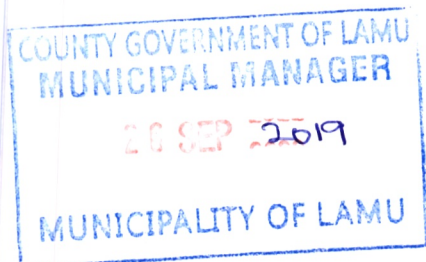
The entity financial statements were approved on 26/09/2019 and signed by:



.....
Name: Omar Famau
Municipality Manager



.....
Name: Mohamed A. Abubakar
Director Accounting Services
ICPAK M/No:23585



14. Statement of Financial Position As at 30th June 2019

	Note	2018/2019
		Kshs.
Assets		
Current assets		
Cash and cash equivalents	17	89,447,400.00
Non-current assets		-
Total assets		89,447,400.00
Liabilities		
Current liabilities		-
Non-current liabilities		-
Total liabilities		-
Net assets		89,447,400.00
Capital Fund		-
Reserves		-
Accumulated surplus		89,447,400.00
Total net assets and liabilities		89,447,400.00

The notes set out on pages 9 to 19 form an integral part of these Financial Statements.

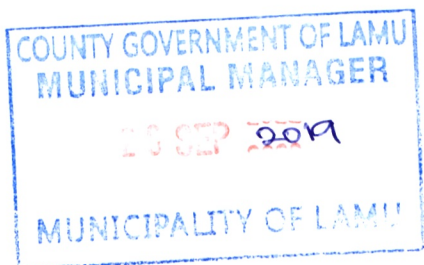
The entity financial statements were approved on 26/09/2019.....and signed by:



.....
Name: Omar Famau
Municipality Manager

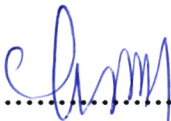


.....
Name: Mohamed A. Abubakar
Director Accounting Services
ICPAK M/No:23585



15. Statement of Changes in Net Assets for the year ended 30th June 2019

	Capital Fund	Revaluation Reserve	Accumulated surplus	Total
		Kshs	Kshs	Kshs
Balance As At 1st July 2018	-	-	-	-
Surplus/(Deficit) For the Period	-	-	89,447,400.00	-
Funds Received During the Year	-	-	-	-
Transfers	-	-	-	-
Revaluation Gain	-	-	-	-
Balance As At 30th June 2019	-	-	89,447,400.00	89,447,400.00



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Name: Omar Famau
Municipality Manager



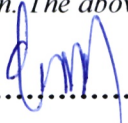
.....
Name: Mohamed A. Abubakar
Director Accounting Services
ICPAK M/No:23585



16. Statement of Cash Flows for The Year Ended 30th June 2019

	Note	2018/2019
		Kshs.
Cash flows from operating activities		
Receipts		
Transfers from the County Government		91,200,000.00
Total Receipts		91,200,000.00
Payments		
Use of goods and services		1,752,600.00
Total Payments		1,752,600.00
Net cash flows from operating activities	28	89,447,400.00
Cash flows from investing activities		-
Cash flows from financing activities		-
Net increase/(decrease) in cash & cash equivalents		89,447,400.00
Cash And Cash Equivalents At 1 July	17	-
Cash And Cash Equivalents At 30 June	17	89,447,400.00

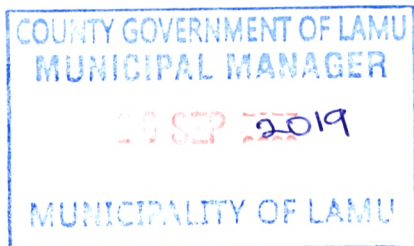
(IPSAS 2 allows an entity to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation. The above illustration assumes direct method)



.....
Name: Omar Famau
Municipality Manager



.....
Name: Mohamed A. Abubakar
Director Accounting Services
ICPAK M/No:23585



County Government of Lamu
Municipality of Lamu
Annual Report and Financial Statements for the year ended June 30, 2019

17. Statement of Comparison of Budget & Actual Amounts for the Year ended 30th June 2019

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
	A	b	c=(a+b)	d	e=(c-d)	f=d/c
Revenue		Kshs.	Kshs.	Kshs.	Kshs.	
Transfers from the County Government	91,200,000.00	-	91,200,000.00	91,200,000.00	-	100
Total Revenue	91,200,000.00	-	91,200,000.00	91,200,000.00	-	100
Expenses						
Use of goods and services	91,200,000.00		91,200,000.00	1,752,600.00	89,447,400.00	1.92
Total Expenditure	91,200,000.00	-	91,200,000.00	1,752,600.00	89,447,400.00	1.92
Surplus for the period	-		-	89,447,400.00		
Capital Expenditure	50,000,000.00	0.00	50,000,000.00	0	50,000,000.00	0

Budget notes

1. The monies were late transferred to the special account.
2. The Board was not fully constituted


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Name: Omar Famau
Municipality Manager




.....

Name: Mohamed A. Abubakar
Director Accounting Services
ICPAK M/No:23585

18. Notes to the Financial Statements

1. General Information

Section 9 of the Urban Areas and Cities Act empowers the County Governor, on the resolution of the County Assembly, to confer on a qualifying town, the status of a Municipality by grant of a Charter in the prescribed form. Section 9 (1) of the Urban Areas and Cities Act, (No. 13 of 2011) as complemented by section 72 of the Interpretations and General Provisions Act (Chapter 2) and all other enabling provisions of law, the County Governor of Lamu County GRANTS the Municipality of Lamu this charter on this 30th day of JANUARY, 2018.

2. Statement of Compliance and Basis of Preparation

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

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act (*include any other applicable legislation*), and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

(Notes to financial statements continued)

3. Application of New and revised standards (IPSAS)

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

IPSASB deferred the application date of standards from 1st January 2022 owing to COVID 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.

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

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity’s future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset’s cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity’s risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.

<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the Entity;</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the Entity’s financial performance, financial position and cash flows.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
<p>Other improvements to IPSAS</p>	<p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> • <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> • IPSAS 29: Financial instruments: Recognition and Measurement <p>Standard no longer included in the 2021 IPSAS handbook as it is now</p>

County Government of Lamu
Municipality of Lamu
Annual Report and Financial Statements for the year ended 30th June , 2019

	superseded by IPSAS 41 which is applicable from 1 st January 2023.
IPSAS 43	<p><i>Applicable 1st January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p>

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018/19

4. Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

ii) Revenue from exchange transactions

Interest income

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

b) Budget information

The original budget for FY 2018/19 was approved by the County Assembly on June 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Municipality upon receiving the respective approvals in order to conclude the final budget.

The Municipality's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 14 of these financial statements.

c) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Municipality recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in

surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

d) Intangible assets

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

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 at initial recognition.

Loans and receivables

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

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Municipality 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 Municipality assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have 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 Municipality of financial assets that can be reliably estimated asset or the entity of financial assets that can be reliably estimated.

Evidence of impairment may include the following indicators:

- *The debtors or an 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.

e) Inventories

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

Raw materials: purchase cost using the weighted average cost method

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

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

f) Provisions

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

g) Contingent liabilities

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

h) Contingent assets

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

i) Nature and purpose of reserves

The Municipality maintains no reserves.

j) Changes in accounting policies and estimates

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

k) Employee benefits – Retirement benefit plans

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

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

l) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported in the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting 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.

m) 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.

n) Related parties

The Municipality regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Municipality, or vice versa. Members of key management are regarded as related parties and comprise the Board members, the Municipality Managers and Municipality Accountant.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. 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.

p) Comparative figures

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

q) Events after the reporting period

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

- (a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- (b) Those that are indicative of conditions that arose after the reporting date (*non-adjusting events after the reporting date*).

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

r) Currency

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

5. Significant judgments and sources of estimation uncertainty

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

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

Useful lives and residual values

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

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

(Notes to the Financial Statements)

6. Transfers from County Government

Description	2018/2019
	Kshs
Transfers From County Govt. –Operations	91,200,000.00
Payments By County On Behalf Of The Entity	-
Total	91,200,000.00

7. Public contributions and donations

Description	2018/2019
	Kshs

8. Fines, penalties and other levies

Description	2018/2019
	Kshs

9. Other revenues from Non-exchange transactions

Description	2018/2019
	Kshs

10. Interest income

Description	2018/2019
	Kshs

11. Other income

Description	2018/2019
	Kshs.

12. Use of Goods and Services

Description	2018/2019
	Kshs.
Domestic travel and subsistence	1,469,900.00

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Hospitality supplies and services	282,700.00
Total	1,752,600.00

13. Staff costs

Description	2018/2019
	Kshs.

14. Board expenses

Description	2018/2019
	Kshs.

15. Finance costs

Description	2018/2019
	Kshs

16. Gain/(loss) on disposal of assets

Description	2018/2019
	Kshs

17. Cash and cash equivalents

Description	2018/2019
	Kshs
Special Purpose Account	89,447,400.00
Total Cash And Cash Equivalents	89,447,400.00

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

	Account number	2018/2019
		Kshs
a) Special Purpose Account		
Lamu County Kenya Urban Support Programme (UDG)	1000371234	48,247,400.00
Lamu County Kenya Urban Support Programme (UIG)	1000419008	41,200,000.00
Grand Total		89,447,400.00

18. Receivables from exchange transactions

Description	2018/2019
	Kshs

Additional disclosure on interest receivable

Description	2018/2019
	Kshs

19. Receivables from Non-Exchange transaction

Description	2018/2019
	Kshs.

20. Prepayments

Description	2018/2019
	Kshs

21. Inventories

Description	2018/2019
	Kshs

22. Property, plant and equipment

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers and office equipment	Capital Work in progress	Total
Cost	Kshs	Kshs	Kshs	Kshs		Kshs

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23. Intangible assets

Description	2018/2019
	Kshs

24. Trade and other payables from exchange transactions

Description	2018/2019
	Kshs

25. Provisions

Description	Leave provision	Bonus provision	Other provision	Total
	Kshs	Kshs	Kshs	Kshs

26. Borrowings

Description	2018/2019
	Kshs

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

	2018/2019
	Kshs

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

Description	2018/2019
	Kshs
Total	

27. Employee benefit obligations

Description	Defined benefit plan	Post employment medical benefits	Other Provisions	2018-2019
	Kshs	Kshs	Kshs	Kshs

28. Cash generated from operations

	2018/2019
	Kshs
Surplus/ (Deficit) For the Year Before Tax	89,447,400.00
Adjusted For:	
Depreciation	-
Amortisation	-
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	89,447,400.00

Other Disclosures

29. Related party balances

a) Nature of related party relationships

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

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

b) Related party transactions

	2018/19
	Kshs.
Total	-

c) Key management remuneration

	2018/19
	Kshs.
Total	-

d) Due from related parties

	2018/19
	Kshs.
Total	-

e) Due to related parties

	2018/19
	Kshs.

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Total	-
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30. Contingent liabilities

Contingent liabilities	2018/19
	Kshs.
Total	-

31. Contingent Assets

Contingent liabilities	2018/19
	Kshs.
Total	-

32. Financial risk management

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

I. Credit risk

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external 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

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by the Municipality's management based on prior experience and their assessment of the current economic environment.

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

	Total amount Kshs.	Fully performing Kshs.	Past due Kshs.	Impaired Kshs.
At 30 June 2018				
Receivables from exchange transactions	-	-	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
Total	-	-	-	-
At 30 June 2019	-	-	-	-
Receivables from exchange transactions	-	-	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
Total	-	-	-	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Municipality has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The Municipality Board sets policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

II. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Municipality Manager, who has built an appropriate liquidity risk management framework for the management of the

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Municipality's short, medium and long-term liquidity management requirements. The Municipality manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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

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

III. Market risk

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Municipality's income or the value of its holding of financial instruments. The objective of market risk management is to manage

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

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

IV. Foreign currency risk

The Municipality has no transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The carrying amount of the Municipality's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

		Other currencies	Total
	Kshs.	Kshs.	Kshs.
At 30 June 2019			
Financial assets	-	-	-
Investments	-	-	-
Cash	-	-	-
Debtors/ receivables	-	-	-
Liabilities	-	-	-
Trade and other payables	-	-	-
Borrowings	-	-	-
Net foreign currency asset/(liability)	-	-	-

Foreign currency sensitivity analysis

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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.
2018			
Euro	10%	-	-
USD	10%	-	-
2019			
Euro	10%	-	-
USD	10%	-	-

V. Interest rate risk

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

Management of interest rate risk

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

VI. Capital risk management

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

	2018/19
	Ksh.
Revaluation reserve	-
Capital Fund	-
Accumulated surplus	89,447,400.00
Total Funds	89,447,400.00
Total borrowings	-

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Less: cash and bank balances	(89,447,400.00)
Net debt/(excess cash and cash equivalents)	-
Gearing	

19. Annexes

Annex 1. Progress on Follow up of Auditors Recommendations.

The Municipality has not been audited yet.

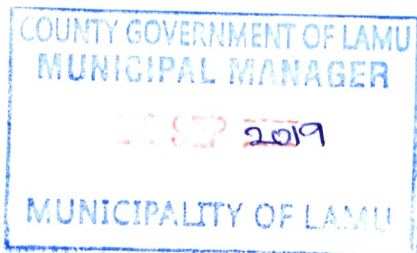
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)

Guidance Notes:

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



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To be Signed by the Accounting officer of the Entity




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Annex 2: Inter Entity Transfers

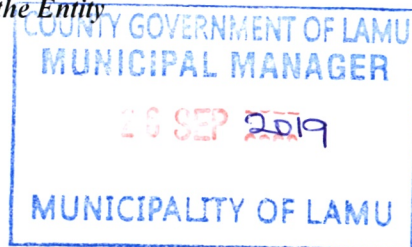
MUNICIPALITY NAME: MUNICIPALITY OF LAMU			
Breakdown of Transfers from the County Executive of Lamu County			
FY 2018-2019			
a. Recurrent Grants	<u>Bank Statement Date</u>	<u>Amount (Ksh.)</u>	<u>Indicate the FY to which the amounts relate</u>
Lamu County Kenya Urban Support Programme UIG	15/07/2019	41,200,000.00	FY 2018/2019
	Total	41,200,000.00	
b. Development Grants	<u>Bank Statement Date</u>	<u>Amount (Ksh.)</u>	<u>Indicate the FY to which the amounts relate</u>
Lamu County Kenya Urban Support Programme UDG	16/01/2019	50,000,000.00	FY 2018/2019
	Total	50,000,000.00	
c. Direct Payments	<u>Bank Statement Date</u>	<u>Amount (Ksh.)</u>	<u>Indicate the FY to which the amounts relate</u>
Lamu County Kenya Urban Support Programme UDG	07/3/2019	1,687,000.00	FY 2018/2019
	25/06/2019	65,600.00	FY 2018/2019
	Total	1,752,600.00	

(The above amounts have been communicated to and reconciled with the parent Department in the County.)

Signed by:


.....

Head of Accounts of the Entity




.....

Head of Accounts of the transferring Entities

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Annex 3: Reporting of Climate Relevant Expenditures

Name of the Organization: Municipality of Lamu
Telephone Number: 0721960415
Email Address: omarfamau@yahoo.com
Name of Municipal Manager: Omar Famau

Name and contact details of contact person (in case of any clarifications) : Ali Sheyumbe - 0700445856

Project Name	Project Description	Project Objectives	Project Activities					Source Of Funds	Implementing Partners
				Q1	Q2	Q3	Q4		

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Annex 4: Disaster Expenditure Reporting Template

Date:

Entity

Period to which this report refers (FY)	Year			Quarter		
Name of Reporting Officer						
Contact details of the reporting officer:	Email			Telephone		
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

