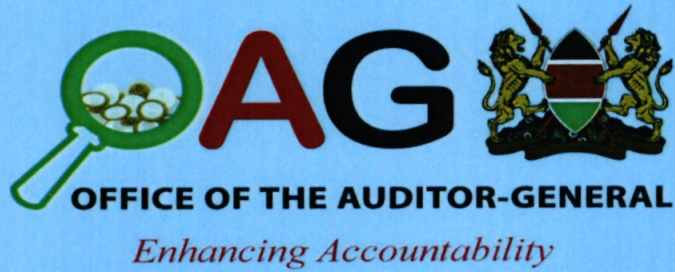


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**REPORT**

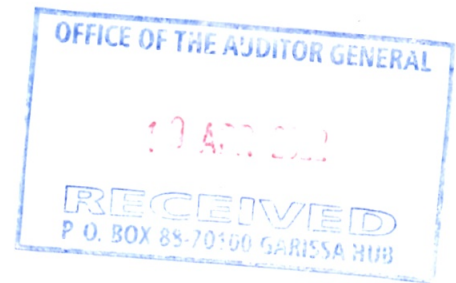
**OF**

**THE AUDITOR-GENERAL**

**ON**

**LAMU MUNICIPALITY BOARD**

**FOR THE YEAR ENDED  
30 JUNE, 2021**



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**LAMU MUNICIPALITY BOARD**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED**  
**JUNE 30, 2021**

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

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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 30<sup>th</sup> day of JANUARY, 2018.

**b) Principal Activities**

- (i) Provide for efficient and accountable management of the affairs of the Municipality.
- (ii) 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.
- (iii) 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.
- (iv) Provide a high standard of social services in a cost-effective manner to the inhabitants of the Municipality.
- (v) 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.
- (vi) Providing for services, laws and other matters for Municipality's benefit.
- (vii) 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 Values**

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

**c) Board of Trustees/Fund Administration Committee**

Ref	Name	Position
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) Registered Offices**

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

f) **Fund Contacts**

Telephone: (254) 768274115

E-mail:

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

g) **Fund Bankers**

Equity Bank

Lamu Branch

P.O. Box 191- 80500

Lamu - Kenya.

h) **Independent Auditors**

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O. Box 30084 GPO 00100

Nairobi, Kenya.

i) **Principal Legal Adviser**

The Attorney General

State Law Office




Harambee Avenue





P.O. Box 40112 City Square


00200 Nairobi, Kenya

2. THE BOARD OF TRUSTEES (or any other corporate governance body for the Fund)

The member of the Board during the financial year consisted of:

NAME	PROFILE
<p>Dr. Farida Hassan  <b>Chairperson</b></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  <b>Vice Chairman</b></p> 	<p>Mr. Abdalla Fadhil has Masters of Business Administration &amp; 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  <b>Board Member</b></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><b>Ms. Khadija Shekue</b>  <b>Board Member-          Chairperson Finance</b></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><b>Dr. Mashrab Sagaf</b>  <b>Board member</b></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><b>Mr. Ahmed Hemed</b>  <b>Board Member /CEC Lands</b></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><b>Mrs. Martha Wairimu</b>  <b>Board Member</b></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><b>Mr. Abubakar Abdalla Board Member</b></p>	<p>Bachelor of Medicine &amp; 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 institutions both at technical and managerial level.</p>
<p><b>Said Bwanamkuu Board Member/ CO Lands, Urban Development</b></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.</p> <p>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><b>Mr. Omar Famua Municipal Manager</b></p> 	<p>Mr. Famua 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.</p> <p>1997 TO 2016- Chairman, and Chief Executive; Tawasal Foundation Trust Fund        2003 - Nominated councillor - Chairman, Tourism and Environment        2004 - 2007- Chairman Lamu County Council, When I took over 2004 the County Council budget was around ten million.</p>

### **3. STATEMENT OF PERFORMANCE AGAINST COUNTY ENTITY'S PREDETERMINED OBJECTIVES**

#### **Introduction**

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer 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 Lamu Municipal Board 2020-2021 are to:

1. Completion of renovation and extension of Amu Market.
2. Construction of Mokowe Market.
3. Consultancy service for solid waste management policy, development of Lamu Island Urban Development Plan and Lamu Municipality Integrated Plan.

**4. MANAGEMENT TEAM**

Name	Details of qualifications and experience
<p><b>Dr. Farida Hassan</b> <b>Chairperson</b></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><b>Mr. Said Bwanamkuu</b> <b>Board Member/ CO Lands, Urban Development</b></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.</p> <p>He's currently the chief officer - Lands, physical planning and urban development.22/7/2019- to date</p> <p>Chief officer - Education 4/3/2018 to 21/7/2018.</p> <p>Chief officer - Health support, Environment and cleansing 15/5/2018 to 3/3/2018.</p> <p>District Education Officer, Sub -County Director of Education Embu East 2009-2016 and Makindu Sub-County 2016 - TO DATE.</p> <p>Teachers Advisory Tutor (TAC-TUTOR), Inspector of schools, Quality Assurance Officer, Senior Quality Assurance Officer 1991-2009</p> <p>A Teacher, Deputy Head teacher and Head teacher: 1985 to 1991</p>
<p><b>Mr. Omar Famua</b> <b>Municipal Manager</b></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.</p> <p>1997 TO 2016- Chairman, and Chief Executive; Tawasal Foundation Trust Fund</p> <p>2003 - Nominated councilor - Chairman, Tourism and Environment</p> <p>2004 - 2007- Chairman Lamu County Council, When I took over 2004 the County Council budget was around ten million.</p>

## 5. BOARD/FUND CHAIRPERSON'S REPORT

On behalf of the board, it is my pleasure to present the Lamu Municipality Board Annual Report and financial statements which reflect financial performance of the Municipality for the year ended 30<sup>th</sup> June 2021.

### **Sustainability**

In our pursuit to improve on transparency and accountability in public financial management, the Lamu Municipality 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. 14,238,060 for UDG expenditures.

### **Expenditures**

The Lamu Municipality utilized Ksh. 18,001,366.09 under the UDG for the renovation and extension of Amu Market which is currently at 75% completion rate. A total of Ksh. 6,318,720.55 was used under the UIG for payment of consultancy services for the development of policy documents for the Municipality. In addition, the Municipality also used Ksh. 150,000.00 to facilitate payment of logistics costs for the Board members during the induction training.

### **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. The Lamu Municipality is looking forward to continue to foster the achievement of its mandate in close collaboration with the county government as well as other interested development partners.

### **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 Lamu Municipality 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.



**Ummulkheir Athman**  
**ACTING CHAIRPERSON, LAMU MUNICIPALITY BOARD.**

## 6. REPORT OF THE MUNICIPAL MANAGER

The Lamu Municipal 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. 14,238,060 for UDG expenditures.

#### b) Expenditures

The Lamu Municipality utilized Ksh. 18,001,366.09 under the UDG for the renovation and extension of Amu Market which is currently at 75% completion rate. A total of Ksh. 6,318,720.55 was used under the UIG for payment of consultancy services for the development of policy documents for the Municipality. In addition, the Municipality also used Ksh. 150,000.00 to facilitate payment of logistics costs for the Board members during the induction training.

### Conclusion

FY 2020/2021 was a good year generally despite the emergence of COVID 19 changes in the management and Board. 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 Lamu Municipality achieves its mission.

Signed: \_\_\_\_\_

Omar Famau  
Municipal Manager.

Date: 26<sup>th</sup> September 2021

## **7. CORPORATE GOVERNANCE STATEMENT**

### **THE BOARD**

Lamu Municipality Board 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 five full board meetings during the FY 2020/2021.

## **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 Municipality 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 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 Lamu Municipality utilizes Ksh 18,001,366.09 under the UDG for the renovation and extension of Amu Market which is at 75% to completion. Ksh. 6,318,720.55 was used under the UIG for consultancy services of policy documents for the Municipality. The Lamu Municipality used Ksh 150,000.00 to facilitate Board members logistics to attend induction program. 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.
2. Construction of Mokowe market whose tender process has just been finalized
3. Consultancy services for development of :
  - Lamu Island Integrated development Plan
  - Lamu solid waste management plan.
  - Lamu urban development plan

### **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 2012.

### **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 2020/2021.

**9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT / SUSTAINABILITY REPORTING**

The Board was involved corporate social responsibility activities: where the municipality engaged in Beach cleaning exercise organized by Save Lamu. In this event, the Lamu Municipality volunteered over 15 cleaners .and provided equipment worth 20,000 for use.

## 10. REPORT OF THE TRUSTEES

The Board submitted their report together with the audited financial statements for the year ended 30<sup>th</sup> June, 2021 which showed the state of the Fund affairs.

### Principal activities

Lamu Municipality 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 30<sup>th</sup> June, 2021 are set out on page 23 - 26.

### Board

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

### 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



**Ummulkheir Athman**  
**ACTING CHAIRPERSON, LAMU MUNICIPALITY BOARD.**

Date: 26<sup>th</sup> September, 2021

## 11. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Manager of a County Public Fund established by Urban and Cities Act 2012 shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Municipal manager of the Lamu Municipality Board is responsible for the preparation and presentation of the Fund financial statements, which gives a true and fair view of the state of affairs of the Fund at the end of the financial year ended on 30<sup>th</sup> June ,2021.

This responsibility includes:

- a) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- b) Maintaining proper accounting records, which discloses reasonable accuracy at any given time;
- c) 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, due to error or fraud;
- d) Safeguarding the assets of the Fund;
- e) Selecting and applying appropriate accounting policies; and
- f) Making accounting estimates that are reasonable in the circumstances.

The Municipal Manager of the Lamu Municipality Board accepts responsibility for the Fund financial statements, which has been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 , Urban and cities Act 2011 and Lamu Municipal Charter.

The Municipal manager is of the opinion that the Board financial statements gives a true and fair view of the state of Fund transactions during the financial year ended June 30, 2021, and of the Fund financial position as at that date. The Administrator further confirms the completion of the accounting records maintained for the Fund, which has been relied upon in the preparation of the Fund financial statements as well as the adequacy of the systems of internal financial control.

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**STATEMENT OF MANAGER'S RESPONSIBILITY (Continued)**

In preparing the financial statements, the Municipal manager of the Lamu Municipality Board has assessed the Fund ability to continue as an ongoing concern and disclosed, as applicable, matters relating to the use of such concern as a basis for preparation of the financial statements.

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

**Approval of financial statement**

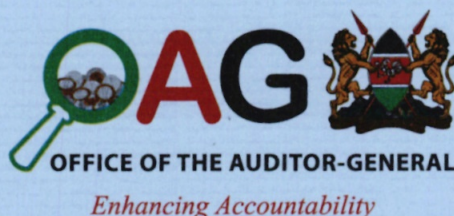
The Municipal financial statement was approved by the Board on 26<sup>th</sup> September 2021 and signed on its behalf by:

  
Omar Famau,  
Municipal Manager,  
Lamu Municipality Board.

*[A light blue rectangular stamp is partially visible behind the signature, containing the text 'MUNICIPAL MANAGER QUALITY' and a red date stamp '26 SEP 2021'.]*

# 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 LAMU MUNICIPALITY BOARD FOR THE YEAR ENDED 30 JUNE, 2021**

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### **PREAMBLE**

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

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

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

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

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Opinion**

I have audited the accompanying financial statements of Lamu Municipality Board set out on pages 22 to 41, which comprise of the statement of financial position as at 30 June, 2021, and the statement of financial performance, 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, the financial statements present fairly, in all material respects, the financial position of Lamu Municipality Board as at 30 June, 2021, 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 Urban Areas and Cities Act, 2011 and Municipality of Lamu Charter of 2018.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Lamu Municipality Board Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified 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 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 Municipality Board which were by law to be submitted to the Office of the Auditor-General on or before 30 September, 2021, were instead received three (3) months later on 28 December, 2021. No explanation was provided for the delay in their submission.

In the circumstance, the Board was in breach of the Constitution, the Public Finance Management Act, 2012, and Section 47(1) of the Public Audit Act, 2015.

## **2. Performance Security**

Examination of procurement of records revealed that the Municipality Board entered into contract with a firm on 26 June, 2019 for a period of twelve (12) months ending on 26 June, 2020. The contract period was extended to 21 July, 2021 and again on 21 October, 2021. However, the performance security was issued by the contractor's bank in July, 2019 after the contract had been signed and further the bond was not renewed to cover the extended period of the contract. This was contrary to Section 142(1) of the Public Procurement and Asset Disposal Act, 2015 on performance security which requires each successful bidder for a public contract to, before signing the contract, submit a performance security equivalent to not more than ten per cent of the contract amount.

In the circumstances, Management was in breach of the law and the Board may not be able to directly recover any loss arising from unsatisfactory execution of the contract.

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 matter described in the Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

#### **Basis for Conclusion**

##### **Lack of Risk Management Policy**

Review of internal control and risk management operations indicated that contrary to the requirements of Regulation 158(1)(a) and Regulation 158(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, the Board did not have a documented risk management policy. The provision requires the Accounting Officer to develop risk management strategies which include fraud prevention mechanisms and internal control that builds robust business operations.

In the circumstance, Management lacked objective means to identify, assess and mitigate operational and other risks faced by the Board.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were

operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material 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 Board's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the Board or to cease operations.

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

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

Those charged with governance are responsible for overseeing the 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, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Board's policies and procedures may deteriorate.

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

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

- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

19 September, 2022

13. FINANCIAL STATEMENTS


13.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED  
 30<sup>th</sup> JUNE 2021

	Notes	2020/2021	2019/2020
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>		<b>Ksh</b>	<b>Ksh</b>
Transfers from County Government	1	14,238,060	44,561,940
Interest Income		-	-
<b>Total Revenue</b>		<b>14,238,060</b>	<b>44,561,940</b>
<b>EXPENSES</b>			
General Expenses	2	4,800	2,880
Fund administration	3	24,479,087	16,111,333
<b>Total Payment</b>		<b>24,483,887</b>	<b>16,114,213</b>
<b>Surplus/Deficit</b>		<b>(10,245,827)</b>	<b>28,447,727</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statement was approved on 26<sup>th</sup> September 2021 and signed by:

  
 Omar Famau  
 Municipal Manager

*(Stamp: MUNICIPAL MANAGER, LAMU MUNICIPALITY, 26 SEP 2021, P.O. Box 74-80500)*

  
 Said Bwanamkuu  
 Chief Officer- Lands, Urban Development


The notes set out on pages 27 to 41 form an integral part of these Financial Statements

**13.2 STATEMENT OF FINANCIAL POSITION AS AT 30<sup>th</sup> JUNE 2021**

	Notes	2020/2021 Ksh.	2019/2020 Ksh.
<b>CURRENT ASSETS</b>			
Cash and cash equivalent	5	107,649,300	117,895,728
<b>Total Current Asset</b>		<b>107,649,300</b>	<b>117,895,728</b>
<b>NON - CURRENT ASSETS</b>			
		-	
<b>Total Financial Assets</b>		<b>107,649,300</b>	<b>117,895,728</b>
<b>Less: Non- Current Liabilities</b>		-	
<b>NET ASSETS</b>		<b>107,649,300</b>	<b>117,895,728</b>
<b>PRESENTED BY</b>			
Fund balance b/fwd		117,895,127	89,447,400
Surplus / deficit for the year		(10,245,827)	28,447,727
Prior year adjustments		-	
<b>NET FINANCIAL POSITION</b>		<b>107,649,300</b>	<b>117,895,127</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statement was approved on 26<sup>th</sup> September 2021 and signed by:

  
 Omar Famau  
 Municipal Manager

  
 Said Bwanamkuu  
 Chief Officer- Lands, Urban Development

**13.3 STATEMENT OF CHANGES IN NET ASSETS AS AT 30<sup>th</sup> JUNE 2021**


DESCRIPTION		ACCUMULATED SURPLUS	TOTAL
	KSH.	KSH.	KSH.
Balance as at 1 <sup>st</sup> July 2019	89,447,400.00		89,447,400
Surplus / deficit for the period	28,447,727.00		28,447,727
Interest income	-		-
Balance as at 30 <sup>th</sup> June 2020	117,895,127.00		117,895,127.00
			-
Balance as at 1 <sup>st</sup> July 2020	117,895,127.00		117,895,127.00
Surplus / deficit for the period	(10,245,827)		(10,245,827)
Interest income			-
Balance as at 30 <sup>th</sup> June 2021	107,649,300.00		107,649,300.00

**13.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2021**

	Notes	2020/2021 Ksh.	2019/2020 Ksh.
<b>CASHFLOW FROM OPERATING ACTIVITIES</b>			
<b>Receipts from operating expenses</b>			
Tax revenue	1	14,238,060	44,561,940
		<u>14,238,060</u>	<u>44,561,940</u>
<b>Payments for operating expenses</b>			
General Expenses	2	4,800	2,880
Fund Administration expense	3	24,479,087	16,111,333
		<u>24,483,887</u>	<u>16,114,213</u>
<b>Adjusted For:</b>			
Adjustment during the year			
Net cash flow from operating activities		<u>(10,245,827)</u>	<u>28,447,727</u>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
Net cash flow from investing activities			
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>			
		<u>(10,245,827)</u>	<u>28,447,727</u>
Cash and cash equivalent at 1ST July 2020		117,895,127	89,447,400
Cash and cash equivalent at 30th June 2021		107,649,300	117,895,127

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statement was approved on 26<sup>th</sup> September 2021 and signed by:

  
 Omar Famau  
 Municipal Manager

  
 Said Bwanamkuu  
 Chief Officer- Lands, Urban Development

**13.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30<sup>th</sup> JUNE 2021**

code	Revenues /expense	Original Budget	Adjustments	Final Budget	Actual on comparable bases	Budget on utilization differences	%Utilization difference to final budget
		a	B	c=a+b	d	e=c-d	f=d/c%
1	<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>						
	Transfers from County Government	14,238,060	-	14,238,060	14,238,060	-	100
	Interest Income	-	-	-	-		
	Balance brought forward	117,895,728	-	117,895,728	117,895,728		
	<b>Total Receipts</b>	<b>132,133,788</b>	<b>-</b>	<b>132,133,788</b>	<b>132,133,788</b>	<b>-</b>	<b>100</b>
2	<b>EXPENSES</b>						
	General Expenses	-	-	-	4,800	(4,800)	
	Fund Administrative expenses	132,133,788	-	132,133,788	24,479,087	107,654,701	
	<b>Total</b>	<b>132,133,788</b>	<b>-</b>	<b>132,133,788</b>	<b>24,483,887</b>	<b>107,649,300</b>	<b>19</b>

## **13.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **1. Statement of compliance and basis of preparation**

The Fund financial statement has been prepared in accordance with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Board. The accounting policies have been consistently applied to all the years presented.

The financial statement has been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statement is prepared on accrual basis.

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**1. Adoption of new and revised standards**

**a) Relevant new standards and amendments to published standards effective for the year ended 30<sup>th</sup> June 2021**

Standard/ Amendments : Applicable: 1 <sup>st</sup> January 2021:	Impact
a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks	There was no impact of the amendment to IPSAS 13 with respect to the current financial report
b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved	There was no impact of the amendment to IPSAS 13 and IPSAS 17 with respect to the current financial report as the entity did not apply any of the transitional provisions in the FY 2020/2021
c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.	There was no impact of the amendment to IPSAS 21 and IPSAS 26 with respect to the current financial report as the entity does not have Non-Cash Generating Assets and neither did it have impaired cash generating assets.

<p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards(IPSASs).           Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</p>	<p><i>Document the impact if the fund is reporting for the first time on accrual/ Otherwise indicate that there was no impact</i></p>
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**b) New and amended standards and interpretations in issue but not yet effective in the yearended 30 June 2021**

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p><b>Applicable: 1<sup>st</sup> January 2022:</b></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"> <li>• 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;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that Broadens the hedging arrangements in scope of the guidance.</li> </ul> <p>The model develops a strong link between an</p>

Standard	Effective date and impact:
	entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy
<b>IPSAS 42: Social Benefits</b>	<b>Applicable: 1<sup>st</sup> January 2022</b> 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: <ul style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the entity;</li> <li>(b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the entity's Financial performance, financial position and cash flows.</li> </ul> <i>(State the impact of the standard to the entity if relevant)</i>
<b>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</b>	<b>Applicable: 1st January 2022:</b> <ul style="list-style-type: none"> <li>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.</li> <li>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</li> <li>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</li> </ul> Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual

Standard	Effective date and impact:
	basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.

**a) Early adoption of standards**

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

**2. Revenue recognition**

**i) Revenue from non-exchange transactions**

**Transfers from other government entities**

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

**ii) Revenue from exchange transactions**

***Interest income***

The entity did not accrue any interest income.

**3. Budget information**

The original budget for FY 2020/2021 was approved by the County Assembly on June 2020. 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 Board upon receiving the respective approvals in order to conclude the final budget.

The Fund budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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

presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 12.5 of these financial statements

#### **4. Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The fund uses straight line method for calculating depreciation at 30%. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

#### **5. 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.

#### **6. 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*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial

assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

### *Held-to-maturity*

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

### *Impairment of financial assets*

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

- The debtors or 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.

## 7. Inventories

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

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

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

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

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

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

## 8. Provisions

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

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

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

### *Contingent liabilities*

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

### *Contingent assets*

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

## **9. Nature and purpose of reserves**

The Lamu Municipality Board does not maintain any reserves.

## **10. Changes in accounting policies and estimates**

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

## **11. Employee benefits – Retirement benefit plans**

The fund uses employees/staff seconded from other departments hence does not have any retirement benefit plan in place.

## **12. Foreign currency transactions**

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

## **13. 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. During the financial year under review the Lamu Municipality Board did not borrow any funds.

#### **14. Related parties**

The Lamu Municipality Board regard a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the Fund Administrator and the Board of trustees.

#### **15. Cash and cash equivalents**

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

#### **16. Comparative figures**

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

#### **17. Events after the reporting period**

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

#### **18. Ultimate and Holding Entity**

The Fund is a County Public Fund established by Urban and Cities Act of 2012 and the Lamu Municipality Act approved by the County Assembly. Its ultimate parent is the County Government of Lamu.

#### **19. Currency**

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

#### **20. Significant judgments and sources of estimation uncertainty**

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

**Estimates and assumptions** – The key assumptions concerning the future and other key

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

### **Useful lives and residual values**

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

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

### **Provisions**

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. The fund did not maintain any provisions for the financial year under review.

## **21. Financial risk management**

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

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

### **a) Credit risk**

The Fund has no 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.

**b) Liquidity risk management**

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

**c) Market risk**

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

**i. Foreign currency risk**

The Lamu Municipality Board has no transactional currency exposures arising through purchases of goods and services that are done in currencies other than the local currency.

**Foreign currency sensitivity analysis**

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

	Change in currency rate	Effect on surplus/ deficit	Effect on equity
	Ksh	Ksh	Ksh
<b>2020</b>			
Euro	10%		
USD	10%		
<b>2019</b>			
Euro	10%		
USD	10%		

**ii. Interest rate risk**

**ii. Interest rate risk**

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The 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 endeavored to bank with institutions that offer favorable interest rates.

*Sensitivity analysis*

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

**d) Capital risk management**

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

	2020/2021	2019/2020
	Ksh.	Ksh.
Revaluation reserve		
Transfers from County Government	14,238,060	44,561,940
Accumulated surplus	28,447,727	89,447,400
<b>Total funds</b>	<b>42,685,787</b>	<b>134,009,340</b>
Total borrowings	-	-
Less: cash and bank balances	107,649,901	117,895,127
Net debt/(excess cash and cashequivalents)		16,114,213
<b>Gearing</b>		

1.4 NOTES TO THE FINANCIAL STATEMENTS

	2020/2021	2019/2020
<b>1 Revenue From Non-Exchange Transactions</b>	<b>Ksh.</b>	<b>Ksh.</b>
Transfers form County Government UIG	-	8,800,000
Transfers form County Government UDG	14,238,060	35,761,940
<b>Total Revenue</b>	<b>14,238,060</b>	<b>44,561,940</b>
<b>2 General Expenses</b>	<b>2020/2021</b>	<b>2019/2020</b>
	<b>Ksh.</b>	<b>Ksh.</b>
Bank Charges	4,800	2,880
<b>Total</b>	<b>4,800</b>	<b>2,880</b>
<b>3 Fund Administration Expenses</b>	<b>2020/2021</b>	<b>2019/2020</b>
	<b>Ksh.</b>	<b>Ksh.</b>
Construction services	18,001,366	14,372,583
Consultancy service	6,318,721	-
Travel Cost	159,000	1,738,750
<b>Total</b>	<b>24,479,087</b>	<b>16,111,333</b>

4 Bank Accounts

Name of Bank, Account No.	Indicate whether recurrent ,Development ,Deposit, Revenue,CRF	2020/2021	2019/2020
		Ksh.	Ksh.
Lamu Municipality Urban Institution Grants (UIG) - Equity Bank 1590279012840	GRANT	32,981,009	39,461,250
Lamu Municipality Urban Development Grants (UDG) - Equity Bank 1590279012879		15,868,291	33,872,538
Lamu County Kenya Urban Support Programme (UDG) - CBK - 1000371234		50,000,000	35,761,940
Lamu County Kenya Urban Support Programme (UIG) - CBK - 1000419008		8,800,000	8,800,000
<b>Total</b>		<b>107,649,300</b>	<b>117,895,728</b>

5 Cash and Cash equivalent

Name of Bank, Account No.	Indicate whether recurrent ,Development ,Deposit, Revenue,CRF	2020/2021	2019/2020
		Ksh.	Ksh.
Lamu Municipality Urban Institution Grants (UIG) - Equity Bank 1590279012840	GRANT	32,981,009	39,461,250
Lamu Municipality Urban Development Grants (UDG) - Equity Bank 1590279012879		15,868,291	33,872,538
Lamu County Kenya Urban Support Programme (UDG) - CBK - 1000371234		50,000,000	35,761,940
Lamu County Kenya Urban Support Programme (UIG) - CBK - 1000419008		8,800,000	8,800,000
<b>Total</b>		<b>107,649,300</b>	<b>117,895,728</b>

**15. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS**

<b>ReferenceNo. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (<i>Nameand designation</i>)</b>	<b>Status: (<i>Resolved /Not Resolved</i>)</b>	<b>Timeframe: (<i>Put a date when you expect the issue to be resolved</i>)</b>

