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REPORT

OF

THE AUDITOR-GENERAL

ON

MUNICIPALITY OF MALINDI

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



**COUNTY GOVERNMENT OF KILIFI
MUNICIPALITY OF MALINDI**

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

OFFICE OF THE AUDITOR GENERAL
P.O.Box 95202.MOMBASA

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Municipality of Malindi
Reports and Financial Statements
For 12 Months ended June 30, 2021

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

Municipality of Malindi is established by and derives its authority and accountability from the Urban Areas and Cities Act 2011 which was amended and Assented by an Act of Parliament on 12th March, 2019 and Commenced on 28th March, 2019.

The entity has a principal agent relationship with the County Government of Kilifi.

The Municipality's objective is to provide for efficient and accountable management of the affairs of the Municipality while vigorously pursuing the developmental opportunities available.

The Boards principal activity is undertaking infrastructural development while ensuring efficient and effective service delivery to the residents of the Municipality.

b) Principal Activities

The principal activity of the Board is to:

- Oversee the affairs of the Municipality
- Develop or adopt policies, plans, strategies and programmes and set targets for service delivery
- Entering into contracts, partnerships or joint ventures as it may consider necessary for the discharge of its functions
- Monitoring and where appropriate regulating Municipal services where these services are provided by service providers other than the Board of Municipality
- Collecting rates, taxes levies, duties, fees and surcharges o.a fees as delegated by the County Government of Kilifi
- Performing such other functions as delegated by the County Government of Kilifi

c) Board of Municipality

Ref	Name	Position
1	Geoffrey Katsoleh	Interim Chairman
2	Maureen Mwangovya	Member
3	Johnson Toya	Member
4	Moses Gunda	Member
5	Benjamin Sholo	Member
6	Sumayya Hassan	Member
7	Yvonne Mafunga	Member

d) Key Management

Ref	Name	Position
1	Assad S. Sheyumbe	Ag. Municipal Manager
2	Sifa Karabu	Municipal Board Accountant
3	Julius Fondo	Adminstrator
4	Hussein Mwasimba	Enviromental Health Officer
5	Jacinta Makau	Physical Planner

e) Registered Offices

P.O. Box 371
Municipal Hall
Hospital Road
Malindi, KENYA

f) Municipality of Malindi Contacts

Telephone: (254) 708158448
E-mail: malindimunicipality@kilifi.go.ke
Website: www.kilifi.go.ke

g) Fund Bankers

NCBA BANK
P.O. Box 44599-00100
Nairobi
Malindi, Branch




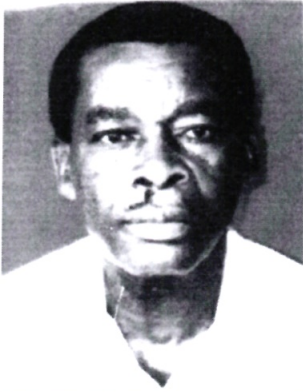
h) Independent Auditors




Auditor General
The office of the Auditor-general
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

i) Principal Legal Adviser

The County Attorney
County Government of Kilifi
P.O. Box 519-80108
Kilifi.

2. THE MUNICIPALITY BOARD

Name	Details of qualifications and experience
<p>Geoffrey Katsoleh</p> 	<p>a. Date of birth: 1969 b. Academic Qualification: PhD Law Enforcement and Justice Administration c. Experience: 24 Years Area of responsibility – Chairman Water, Sanitation, Environment and Blue Economy of Malindi Municipal</p>
<p>Sumayya Hassan</p> 	<p>Master of Law in Commercial Law chairs the Transport and Disaster Management committee</p>
<p>Yvonne Mafunga</p> 	<p>a. Date of birth: b. Academic Qualification: Masters in Education c. Work experience: 21 Years Area of responsibility – Chairman Trade, Tourism, Social Services, Education, Youth and Sports of Malindi Municipal</p>
<p>Johnson Toya</p> 	<p>Diploma in Education Chair: Urban Development, Housing and Public Works</p>

<p style="text-align: center;">Moses Gunda</p> 	<p>a. Date of Birth 24th 06.1982</p> <p>b. Academic Qualification: Bachelors of Architecture</p> <p>c. Experience: 1. He is an architect with 12years experience in handling various Development projects in the county</p> <p>2. Registered member of the Board of Registration of Architects and Quantity Surveyors of Kenya (BORAQS)</p>
<p style="text-align: center;">Benjamin Sholo</p> 	<p>Date of birth: 26.04.1972</p> <p>Academic Qualification: Masters of Art</p> <p>Work experience: 24 Years</p> <p>Area of responsibility – Chairman Finance, Administration and Governance of Malindi Municipal.</p>
<p style="text-align: center;">Hon. Maureen Mwangovya</p> 	<p>a. Date of Birth:10th .10.1964</p> <p>b. Academic Qualification: M.A in Project Planning and Management and a B.A in Economics Government a University of Nairobi</p> <p>c. Experience: 1. She is a development programmes specialist with more than fifteen years’ experience in strategic planning, policy advocacy, monitoring and evaluation, gender mainstreaming and managing partnerships with international donor for sustainable Development.</p> <p>2.She served as the Chief Executive Officer of Solidarity</p>

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

The objective of the Municipality of Malindi, among others, is to provide sustainable urbanisation for efficient and accountable management of affairs of the Municipality that will foster economic, social and environmental well-being even as it provides governance mechanisms that will enable the inhabitants enjoy efficiency in service delivery.

The Municipality of Malindi development budget for the year 2020/2021 is mostly focused towards improving the town aesthetics through beautification and infrastructural development which for the longest time has been dilapidated.

Support from the World Bank through the Kenya Urban Support Programme (KUSP) has seen the Municipality making a leap forward towards attaining its objectives particularly infrastructural development and the general regeneration of the town.

Introduction

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

The key development objectives of the Municipality of Malindi County Government Entity's 2018-2022 plans are to:

- a) Provide quality physical infrastructure in the Municipality
- b) Ensure efficient and effective service delivery
- c) Formulate and implement an integrated development plan
- d) Provide a high standard of social services in a cost-effective manner to inhabitants of the Municipality
- e) Providing for services, by-laws and other matters for the Municipality's benefit

Progress on attainment of Strategic development objectives





Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
Regeneration of the Malindi public Water front and tourist infrastructure Project	To provide a key infrastructure for the development of foreign and domestic tourism	Increase of tourists and revenue which will in turn create economic development and employment opportunities	% in the number of tourists visiting Malindi	The project is currently 99.5% complete

Municipality of Malindi
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For 12 Months ended June 30, 2021

Construction of outfall water drainage within Malindi	To arrest the perennial flooding in the town	Enhanced motor ability and ease of doing business during the rainy season	Reduced inconveniences to traffic and pedestrians	The project is at 16% completion
Non-motorized transport at Barani	Create a conducive environment and space for doing business on a 24hr basis	Increase in the number of people doing business	% of new businesses registered	The project is at 99% completion
Upgrading to bitumen standard of Barclays Mtangani Road	Create a conducive environment and space for doing business on a 24hr basis	Increase in the number of people doing business	% of new businesses registered	The project is at 95.5% completion

4. MANAGEMENT TEAM

<p>Assad S. Sheyumbe</p> 	<p>Date of birth: 12-6-1969 Academic Qualification: 1. Diploma in human resource management, 2. Bachelor of Education, 3. Masters of Arts in religious studies and 4. PhD in Islamic studies Work experience: a. Part time lecturer Pwani University b. Subcounty Administrator c. Ag. Municipal Manager</p>
<p>Sifa karabu</p> 	<p>a. Date of Birth: 6th July 1987 b. Academic Qualification: 1. Bachelor of Commerce in Accounting 2. CPA Sec 2 c. Experience: 1. Senior Accountant Municipality of malindi, 2. Internal auditor KMFRI</p>
<p>Julius Fondo</p> 	<p>Date of birth: 1-07-1971 Academic Qualification: Diploma in Human Resources Work experience: 26 years Area of responsibility – Administrator</p>
<p>Hussein Mwasimba</p> 	<p>Date of birth: 12.06.1963 Academic Qualification: BSc Environmental Health Science Work experience: 33 Years Area of responsibility – Environmental Health Officer</p>

5. BOARD CHAIRPERSON'S REPORT

I take this opportunity to present the Financial Statement for the Municipality of Malindi for the 12 months ended 30th June, 2021.

The Board of the Municipality of Malindi is currently made up of 8 members (having lost one of its members) drawn from various professional and other sectors of the Society.

Malindi was once a vibrant town and a major tourist attraction, whose standard has deteriorated over time due to various reasons ranging from insecurity to lack of effective service delivery. Due to the aforementioned, the Board has embarked on infrastructural development projects as part of the broad agenda of bringing back the glory of the town

The projects which are for the year 2020/2021 are supported by the World Bank and implemented by the Municipality through the Kenya Urban Support Programme are:

1. Design build of Urban Renewal for the Malindi Waterfront public park and tourism infrastructure
2. Design build of commercial and non-motorized transport street upgrading at Barani
3. Construction of outfall water drainage within Malindi
4. Upgrading to bitumen standard of Barclays Mtangani Road

In the current year 2020/ 2021 and under the same programme, the Municipality shall again have three major projects:

1. Construction of outfall water drainage within malindi.
2. Upgrade of Timboni-Jacaranda road to bitumen standards with sidewalks, storm drainage and street light
3. Upgrade of Cossovo road to bitumen standards with sidewalks, storm drainage and street light

The Municipality also welcomes the partnership of the British Government through DFID and the Sustainable Urban Economic Development (SUED) programme which is currently in the initial set up stage.

Board and Management Changes

During the year, the Municipal manager Mr. Silas Ngundo was replaced by Mr. Assad Sheyumbe Shembwana on May 2021.

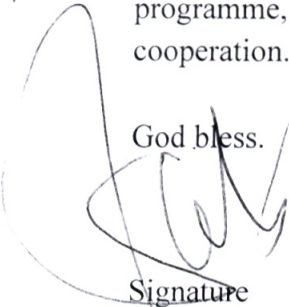
Future Outlook

The Board is in the process of developing a five (5) year Strategic Plan to guide its operations. The Board will ensure that the Public is involved in all its undertaking as provided in the Constitution, the Urban Areas and Cities Act and the Municipal Charter.

Appreciation

I wish to appreciate the County Government of Kilifi under the stewardship of HE Amason Jefwa Kingi for the steadfast support it has accorded the Municipality especially budgetary support, our development partners World Bank and the British Government through the SUED programme, my fellow Board members and the Municipal Administration for their continued cooperation.

God bless.



Signature

Geoffrey K. Katsoleh
Interim Board Chairperson

6. REPORT OF THE FUND MANAGER

The 1st Board of Municipality of Malindi was formed in 2018 with the membership of 9 (nine) recruited from a rich mix of highly qualified men and women representing professional associations, the private sector, registered associations of the informal sector and neighbourhood associations. It was sworn into office by HE Governor Amason Jefwa Kingi in August 2019 after which it assumed its official role.

The Municipality has 5 Committees i.e. Water, Sanitation, Environment and the Blue Economy, Finance, Administration and Governance, Urban Development, Housing and Public Works, Trade, Tourism, Social Services, Education and Sports and Transport and Disaster Management through which the functions of the Municipality are discussed, decisions made before it is placed before the Municipal Manager for implementation.

These initial projects that the Municipality identified in the year 2018/2019 were meant to supplement the Urbanization agenda which on the other hand is being actualized through major infrastructure projects supported by the World Bank through the Kenya Urban Support Programme. It is also expected that the projects shall lay a foundation for the eventual regeneration of the Municipality and bring back the glory that has been lost over the years.

In the year 2020/ 2021, the Municipality was allocated a vote number 3135 and supported with a recurrent budget of Ksh.35m which was expended on setting up of basic Administrative structures and development budget of Ksh. 36m.

Apart from the Municipal Manager, the Municipality currently has inadequate staff and depends on the ones that have been seconded from the County Government Executive. Plans are underway in the coming year to employ.

In conclusion therefore, it is the Administration's resolve to ensure that all decisions of the Board are implemented without undue delay for the purpose of attaining the vision of sustainable urbanisation and bringing back the lost glory to Malindi for the socio-economic enhancement of the inhabitants.

Signed: _____



Assad S. Sheyumba
Ag. Malindi Municipal Manager

7. CORPORATE GOVERNANCE STATEMENT

The Board

The Municipality of Malindi is established by and derives its authority and accountability from Urban Areas and Cities Act of 2011 and as amended in 2019

The Municipality has a gazetted Municipal Charter.

The Malindi Municipality Board was sworn in on 21st August 2019.

The Board has the overall mandate to oversight.

The Board of the Municipality of Malindi is guided in its functions by the Urban Areas and Cities Act 2011 and the Municipality of Malindi Charter.

This Municipality undertakes to perform the following functions within its boundaries: -

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

Board Meetings

The Board was inducted and thereafter held Eight (8) Board meetings attended by all Board members

The Board is required to meet 4 times per year in ordinary meetings

The Board operates through Committees

Organization structure

The Municipality of Malindi organogram and staff establishment is currently with the Finance, Administration and Governance committee awaiting presentation to the Board for approval and adoption before it is forwarded to the County Public Service Board

8. MANAGEMENT DISCUSSION AND ANALYSIS

In the year 2020/2021, the Municipality was allocated a vote number 3135 and supported with a recurrent budget of Kshs. 35M, a development budget of Kshs.36M and Kshs. 233.M from the Urban Development Grant (UDG).

Prudent financial management is a priority to the Administration of Municipality of Malindi in ensuring that funds disbursed to are put to proper use.

There was a balance brought forward of Ksh. 45,364,029 under Urban Development Grant and Kshs. 96,498,127 was utilized on various projects.

The County Government of Kilifi allocated Kshs.35,000,000 for recurrent and Ksh.36,000,000 for development to the Municipality during the Financial year 2020/2021 of which Kshs. 17,992,068 was utilized for recurrent translating to 51% and Ksh 1,880,958 for development translating to 5%

9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

1. Sustainability strategy and profile -

In order to ensure sustainability of the Municipality projects, public participation was done in all wards within the Municipality's jurisdiction for all projects undertaken during the period under review.

2. Environmental performance

The Municipality ensures that the requirement that a feasibility study and environmental impact assessment (EIA) is conducted before any major projects are implemented.

3. Employee welfare

It is the intention of the Municipality that staff recruitment shall be done by the County Public Service Board to ensure fairness and attainment of best practice which also puts into consideration gender parity.

4. Community Engagements-

During the period under review, the Board of Municipality engaged the public in Shella, Watamu, Town, Kakuyuni, Ganda and Sabaki Wards in public participation meetings where the main agenda was to introduce the Members and get feedback about the community priority needs in developmental matters.

In ensuring further engagement with the community and as a way of appreciation for their cooperation, the Municipality of Malindi has started the process of forming and promoting sports teams with football for both men and women being prioritised as it is the most popular sport that is played out of school. The teams shall be composed of staff members and talented youths recruited through a competitive and open method.

10. REPORT OF THE BOARD

The Board submitted their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Fund affairs.

Principal activities

- Provide for efficient urban services to the people
- Provide for governance mechanism to enable the public to participate in public service delivery
- Pursue development opportunities
- Provide high standard social services involving public and stakeholders through public participation
- Develop and enforce municipal bylaws
- Foster the economic, social and environmental wellbeing of the inhabitants

Results

The results of the Fund for the year ended June 30, 2021 are set out on page 7 to 8


Trustees

The members of the Board who served during the year are shown on page 5 to 6

Auditors

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

By Order of the Board


Name: JOHNSON KAVIHA TOTA.

Member of the Board

Date: 22 / 8 / 2022

11. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

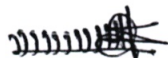
The Municipal Manager is responsible for the preparation and presentation of the Municipality's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the year ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Municipal Manager accepts responsibility for the Board's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the Urban and Cities Act. The Municipal Manager of the Board is of the opinion that the Board's financial statements give a true and fair view of the state of Board's transactions during the year ended June 30, 2021, and of the Board's financial position as at that date. The Municipal Manager further confirm the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Municipal Manager has assessed the Board'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 Municipal Manager to indicate that the Municipality Board will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

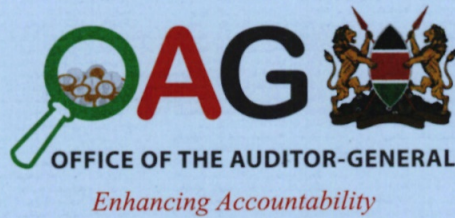
The Municipalities financial statements were approved by the Board on 30th September 2021 and signed on its behalf by:



Assad Sheyumbe Shembwana
Ag. Municipal Manager
Municipality of Malindi

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 MALINDI FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Municipality of Malindi set out on pages 19 to 39, which comprise of the statement of financial position as at 30 June, 2021 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 and for the year then ended, and a summary of significant accounting policies

and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Municipality of Malindi 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 (Amendment) Act, 2011, Kilifi County Subsidiary Legislation, 2019 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in Statement of Changes in Net Assets

The statement of changes in net assets reflects accumulated surplus of Kshs.187,269,991 which differs with the recalculated total of Kshs.187,043,367 resulting in an unexplained variance of Kshs.226,624 .

In the circumstances, the accuracy of the accumulated surplus of Kshs.187,269,991 could not be confirmed.

2. Unsupported Increase in Accounts Payable

The statement of cash flows reflects an increase in accounts payable of Kshs.4,524,943 which differs with the recalculated decrease in accounts payable in the statement of financial position of Kshs.3,096,905 resulting to an unexplained variance of Kshs.7,621,848.

In the circumstances, the accuracy and completeness of the increase in accounts payables of Kshs.4,524,943 could not be confirmed.

3. Inaccuracies in the Statement of Financial Position

The statement of financial position reflects total assets, total liabilities and net assets balances of Kshs.191,794,934, Kshs.4,524,943 and Kshs.187,269,991 respectively. However, the statement has not reflected the accumulated surplus balance of Kshs.187,043.369 and erroneously reflected total net assets and liabilities balance of Kshs.187,269,991 instead of the recalculated balance of Kshs.187,043,369 resulting to an unexplained variance of Kshs.226,622.

In addition, the statement reflects cash and cash equivalent balance of Kshs.187,269,991 which differs with the recalculated cash and cash equivalent balance in the cash flow statement of Kshs.179,421,520 resulting to an unexplained variance of Kshs.7,848,471.

In the circumstances, the accuracy and completeness of the above balances could not be confirmed.

4. Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects cash and cash equivalents as at 1 July, 2020 balance of Kshs.187,269,991 instead of Kshs.45,364,029 comparative balance for the previous year resulting to an unexplained variance of Kshs.141,905,962.

Further, the statement of cash flows reflects an increase in accounts payable of Kshs.4,524,943 however the recalculated amount is a decrease of Kshs.3,096,905 resulting to an unexplained variance of Kshs.7,621,848.

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

Key Audit Matters

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

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.309,967,704 and Kshs.256,959,772 respectively resulting to an under-funding of Kshs.53,007,932 or 17% of the budget. Similarly, the Municipality expended Kshs.114,490,195 against an approved budget of Kshs.304,784,400 resulting to an under-expenditure of Kshs.190,294,204 or 62% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised. However, Management has not resolved and disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board templates. Management has not provided satisfactory explanation for the delay in resolving the issues.

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. Delayed Projects Implementation

Review of contracts documents for Urban Development Grant Projects is an expenditure of Kshs.14,293,756 incurred in respect of contract for Design - Build Urban Renewal of Malindi Water Front Public Park and Tourism Infrastructure Project (Tender No. KCG/LEHPPUD/WORKS/004/2018/2019). However, the winning bid documents and the performance bond of Kshs.8,919,011 which was to expire on 13 May, 2020 were not provided for audit verification.

Further, there was a delay in completion of work by four hundred and ten (410) days from the contract's expected completion date of 14 November, 2019 resulted in liquidated damages amounting to Kshs.8,200,000 which had not been recovered contrary to Regulation 133(1) of the Public Procurement and Asset Disposal Regulations, 2020, which provides that, "any ascertained liquidated damages shall be deducted from the amount of approved invoices due for payment or the performance security. Such damages may emanate from delayed completion of activities or poorly executed activities or both".

In the circumstances the delayed completion of the project has denied the citizens the benefits that could be derived from the projects.

2. Anomalies in the contract on Upgrading of Barclays/Mtangani Road

Review of contracts documents revealed an expenditure of Kshs.67,346,821 incurred on proposed upgrading to bitumen standard of Barclays/Mtangani Road. The contract No. KCG/MM/791257-1/2019/2020 dated 16 July, 2020 was awarded at a contract sum of Kshs.67,524,771. However, the following anomalies were noted:

- i. The winning bidder did not provide a bid bond of Kshs.1,296,000.
- ii. The bidder attained a technical evaluation score of 70 against a score threshold of 60 and therefore the only bidder supposed to proceed to financial evaluation. However, the other two bidders who did not meet the minimum technical evaluation score threshold were irregularly passed on to the financial evaluation with the bidder who had attained a technical score of 50 being awarded the contract.
- iii. The contractor raised invoice No.SWC003 on 25 August, 2020 amounting to Kshs.21,700,287.60 which was not supported by evidence of actual work done and inspection and acceptance report did not itemize the actual work inspected or supported the measured works valued at Kshs.21,700,287.
- iv. Payment certificate No.2 for Kshs.14,087,436 was not supported with details of actual work inspected by the inspection and acceptance committee.
- v. The summary of statement for payments on account No.1 issued by the Department of Roads, Transport and Public Works on 13 August, 2020 for Kshs.21,700,287 includes an amount of Kshs.7,361,300 for earthworks for which the cost as per Bill of Quantities was Kshs.6,345,000.

- vi. The payment on account No.2 for Kshs.12,357,400 issued on 25 September, 2020 includes earthworks amount of Kshs.3,980,000 which was not provided for in the Bill of Quantities, resulting to an unexplained variance of Kshs.4,996,300.
- vii. Remittance of the 2% Withholding VAT of Kshs.321,194 and retention money of Kshs.1,408,744 deducted on Certificate No.2 had not been made by November, 2021, which was a delay of 191 days. This is contrary to the VAT Act, 2021 which states that Withholding tax deducted should be remitted to KRA by the 20th day of the month following the month in which the tax was deducted. A late payment penalty of 5% shall also apply on the tax due together with a late payment interest of 1% per month for the period that the tax remains unpaid.

In the circumstances, value for money may not have been obtained from the project and Management is in breach of the law

3. Anomalies in the consultancy contract of Solid Waste Recycling Facility at Casuarina Malindi

Review of the contract documents revealed that Kshs.3,080,000 was spent on the consultancy for design, construction and supervision of a solid waste recycling facility at Casuarina, Malindi contract Ref. No. KCG/MM/792669-2/2019/2020 dated 16 July, 2020 for a contract sum of Kshs.4,400,000. The agreed contract period was two (2) months starting from 20 July, 2020 and ending on 25 September, 2020. However, the following anomalies were noted:

- i. The winning bidder's site visit certificate was not provided for review yet it was a prequalification requirement.
- ii. The contractor raised a fee Note No.1 on 16 September, 2020 for Kshs.3,080,000, being 70% of the fees charged. However, according to the terms of the contract, 70% of the fees was payable upon completion of Phases 1 and 2 which involved submission of inception report, final designs drawings and costed Bill of Quantities and statutory approvals for the final design drawings.
- iii. The Bill of Quantities that was submitted and received by the Department of Lands on 30 September, 2020 did not have costing as per the contract agreement and the necessary statutory approvals.
- iv. The Inspection and Acceptance Committee appointed on 3 September, 2020 vide Letter Ref: KCG/LEHPP/PROC/AC-10/Vol.1/1) issued an inspection report on 3 September, 2020 while another inspection report was issued on 4 September, 2020 which indicated work completion at 70%, thus certifying Kshs.3,080,000 for payment. However, the final design drawings were submitted on 16 September, 2020 as per the letter of request for 1st certificate and the Bill of Quantities which were submitted and received on 30 September, 2020, it is not clear what work was certified by the committee on 4 September, 2020.

4. Unsupported Payments Certificate and Unrecovered Liquidated Damages

Review of contracts documents revealed that Kshs.6,689,404 was incurred on a project for Design-Build Commercial and Non-Commercial Motorized Transport,

Street Upgrading in Barani in Malindi. The contract price was Kshs.64,639,788 for a contract period of 8 months from 15 March, 2019 to 14 November, 2019. However, certificate No.5 for Kshs.858,604 that was paid on 28 January, 2021 was not supported by itemized measured works while payment certificate No.5 for Kshs.5,830,800 was not provided for audit.

Further, Management failed to recover liquidated damages amounting to Kshs.7,640,000 for a delayed completion period of 382 days, contrary to the contract conditions.

In the circumstances, the value for money realized from the project could not be confirmed.

5. Lack of Integrated Development Plan

The Municipality was established without an approved Urban Area Integrated Development Plan. This is contrary to Section 9(3)(b) of the Urban Areas and Cities Act, 2011 which states that, a town is eligible for the conferment of municipal status under the Act if the town satisfies a number of criteria including having an integrated development plan in accordance with the Act.

In the circumstances, Management was in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter 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

Failure to Appoint a Board Member

Review of documents revealed that during the year under review, there were only three Board Members instead of four Board Members as required under Section 9(1) of the Municipality Charter which provides for (4) Board members.

In the circumstances, failure to appoint a Board Member denied the Municipality the benefit of oversight and governance.

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

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

In preparing the financial statements, the Management is responsible for assessing the Municipality's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Municipality or 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 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements

are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 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 controls 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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Municipality'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 Municipality 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 Municipality to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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 to 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

23 September, 2022

13. FINANCIAL STATEMENTS

**13.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE 12 MONTHS
ENDED 30th JUNE 2021**

	Note	2020/2021	2019/2020
		Kshs	Kshs
Revenue from non-exchange transactions			
Urban Development Grant	1	233,784,400	233,784,400
Payments by County on behalf of the entity	2	17,992,068	7,480,678
			241,265,078
Revenue from exchange transactions			
Interest income	3	5,183,305	151,088
Total revenue		256,959,772	241,416,166
Expenses			
Urban Development Grant Projects	4	96,498,127	188,526,111
Staff costs	5	6,684,692	3,050,098
General expenses	6	12,097,615	4,475,928
Total expenses		115,280,434	196,052,137
Other gains/losses			
Gain/loss on disposal of assets			
Surplus/(deficit) for the period		141,679,338	45,364,029

The notes set out on pages 36 to 38 form an integral part of the e Financial Statements

13.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	2020/2021 Kshs	2019/2020 Kshs
Assets			
Current assets			
Cash and cash equivalents	7	187,269,991	45,364,029
Trade and other receivables from exchange transactions	7a	4,524,943	-
		191,794,934	45,364,029
Non-current assets			
Total assets		191,794,934	45,364,029
			-
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	8	4,524,943	7,621,848
Non-current liabilities			
Total liabilities		4,524,943	7,621,848
Net assets		187,269,991	37,742,181
Revolving Fund		-	-
Reserves		-	-
Accumulated surplus		-	-
Total net assets and liabilities		187,269,991	37,742,181

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 22/8/2022 and signed by:



Municipal Manager
 Name: Assad Sheyumbe



Municipal Accountant
 Name: Sifa Karabu

13.3. STATEMENT OF CHANGES IN NET ASSETS FOR 12 MONTHS ENDED 30 JUNE 2021

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2020				
Surplus/(deficit) for the period	-	-	45,364,029	45,364,029
Funds received during the year	-	-	-	-
Revaluation gain	-	-	-	-
Balance as at 30 June 2020	-	-	45,364,029	45,364,029
	-	-	-	
Balance as at 1 July 2020			45,364,029	45,364,029
Surplus/(deficit) for the period	-	-	141,679,338	141,679,338
Funds received during the year	-	-		-
Revaluation gain	-	-	-	-
Balance as at 30 June 2021	-	-	187,269,991	187,269,991

(The surplus is for uncompleted KUSP projects to be paid on completion)

13.4. STATEMENT OF CASH FLOWS FOR THE 12 MONTHS ENDED 30 JUNE 2021

	Note	2020/2021	2019/2020
		KShs	KShs
Cash flows from operating activities			
Receipts			
Urban Development Grant	1	233,784,400	233,784,400
Transfers from the County Government	2	17,992,068	7,480,678
Interest received	3	5,183,305	151,087
Total Receipts		256,959,772	241,416,165
Payments			
Urban Development Grant Projects		96,498,127	196,147,959.00
Staff costs	5	6,684,692	3,050,098
General expenses	6	12,097,615	4,475,928
Other operating expenses			
		115,280,434	203,673,985
Adjusted for:			
Decrease/(Increase) in Accounts receivable: (outstanding imprest)		(4,524,943)	-
Increase/(Decrease) in Accounts Payable: (deposits and retention)	8	4,524,943	7,621,848
Net cash flows from operating activities		141,679,338	45,364,029
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		-	-
Proceeds from sale of property, plant and equipment		-	-
Net cash flows used in investing activities		-	-
Cash flows from financing activities			
Proceeds from revolving fund receipts		-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at 1 JULY 2020		187,269,991-	45,364,029
Cash and cash equivalents at 30 JUNE 2021	7	187,269,991	45,364,029

(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)

13.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE 12 MONTHS ENDED 30th JUNE 2021

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021
	KShs	KShs	KShs	KShs	KShs	
Revenue						
Urban Development Grant	233,784,400	-	233,784,400	233,784,400	-	100%
Transfers from the County Government	71,000,000	-	71,000,000	17,992,068	53,007,932	25%
Interest income		-	5,183,305	5,183,305	-	100%
Other income		-			-	
Total income	304,784,400	-	309,967,704	256,959,772	53,007,932	83%
Expenses						
Urban Development Grant Projects	233,784,400	-	233,784,400	96,498,127	137,286,272	41%
Fund administration expenses						
General expenses	71,000,000	-	71,000,000	17,992,068	53,007,932	25%
Finance cost					-	
Total expenditure	304,784,400	-	304,784,400	114,490,195	190,294,204	
Surplus for the period	-	-	5,183,305	142,469,577	(137,286,272)	

Budget notes

- The Municipality of Malindi budget was uploaded as part of the County executive budget. This meant that the MOM depended on the executive goodwill to make payments on its behalf. This resulted to some processed vouchers not being paid by the close of the financial year 2020-2021. Hence the MOM wasn't able to fully utilize the budget*

13.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

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

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

2. Adoption of new and revised standards

a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

Standard	Impact
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019 The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	Applicable: 1st January 2022: 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. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: <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

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Standard	Effective date and impact:
	<p>model that is applicable to all financial instruments subject to impairment testing; and</p> <ul style="list-style-type: none"> • 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 2022</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; (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 2022:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. <p>Amendments to IPSAS 33, to update the guidance on class gearing 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 2021:</p> <ul style="list-style-type: none"> 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 b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. <p>Amendments to remove transitional provisions which</p>

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Standard	Effective date and impact:
	<p>should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved</p> <p>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.</p> <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>IPSAS 40, Public Sector Combinations. Amendments to include the effective date paragraph which was inadvertently omitted when IPSAS 40 was issued</p>

c) Early adoption of standards

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

ii) Revenue from exchange transactions

Interest income

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

4. Budget information

The original budget for year 2020/2021 was approved by the County Assembly on 24th June 2020.

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

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Property, plant and equipment

All property, plant and equipment in use by Municipality of Malindi are not stated at any value in the statement. The furniture, office machines and computers being used by the entity are from the County Government and the Urban Institutional Grant (UIG). Subsequently the values of these assets are excluded from the financial statements in accordance IPSAS 33: First time adoption paragraph 36-62 of IPSAS accrual.

6. Intangible assets

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

7. Financial instruments

Financial assets

Initial recognition and measurement

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held-to-maturity

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

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a 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 are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Inventories

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

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

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

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

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

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

9. Provisions

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

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

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

Contingent liabilities

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent assets

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

10. Nature and purpose of reserves

The reserves are for ongoing projects yet to be complete upon which the relevant contractors will be paid.

11. Changes in accounting policies and estimates

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

12. Employee benefits – Retirement benefit plans

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

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

13. Foreign currency transactions

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Borrowing costs

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

15. Related parties

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

16. Cash and cash equivalents

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

17. Comparative figures

There are no comparative figures since this is the first period the entity has been operating and these are its first Financial Statements

18. Events after the reporting period

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

19. Ultimate and Holding Entity

The entity is a Municipality established by the Urban Areas and Cities Act 2011 and was amended in 2019. Its ultimate parent is the County Government of Kilifi.

20. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21. Significant judgments and sources of estimation uncertainty

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

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 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

No Provisions were raised

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

22. Financial risk management

The Municipality of Malindi activities are exposed to a variety of financial risks including liquidity risks as it relies on Kilifi County Treasury for cash flows and Grant transfers.

a) Credit risk

The Municipality has no exposure to credit risk.

b) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Municipal Manager, 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.

c) Market risk

The Municipality Board liaises with the County Internal Audit Directorate, to assist in assessing the risk faced by the entity on an on-going basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

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

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

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

14. NOTES TO THE FINANCIAL STATEMENTS.

1. Public contributions and donations

Description	2020/2021	2019/2020
	KShs	KShs
Donation from development partners (Urban Development Grant)	233,784,399	233,784,400
Total	233,784,399	233,784,400

2. Transfers from County Government

Description	2020/2021	2019/2020
	KShs	KShs
Payments by County on behalf of the entity	17,992,068	7,480,678
Total	17,992,068	7,480,678

3. Interest income

Description	2020/2021	2019/2020
	KShs	KShs
Interest income on bank deposits	5,183,305	151,088
Total interest income	5,183,305	151,088

4. Urban Development Grant

	2020/2021	2019/2020
Urban Development Grant Projects	96,498,127	188,526,111

5. Staff costs

Description	2020/2021	2019/2020
	KShs	KShs
Salaries and wages	6,674,092	3,036,498
Social security contribution	10,600	13,600
Total	6,684,692	3,050,098

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6. General expenses

Description	2020/2021	2019/2020
	KShs	KShs
Training Expenses	138,240	
Specialized materials	2,876,958	
Office General supplies & service (Consumables)	743,897	60,740
Printing and stationery		1,463,000
Rental costs		525,000
Communication, Supplies & Service (Telecommunication)	240,900	300,000
Bank Charges	790,239	45,348
Hospitality	1,960,455	1,030,200
Utilities, Supplies & Service	1,057,117	
Fuel, Oil & Lubricants	412,679	
Routine Maintenance - Other Assets	10,980	
Other Operating Expenses (Security costs)	1,436,400	
Domestic Travel (Other expenses)	2,429,750	1,051,640
Total	12,097,615	4,475,928

7. Cash and cash equivalents

Description	2020/2021	2019/2020
	KShs	KShs
Current account (KCG-MALINDI MUNICIPALITY UDG A/C)	187,269,991	45,364,029
Total cash and cash equivalents	187,269,991	45,364,029

(The amount should agree with the closing and opening balances as included in the statement of cash flows)

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7a. Trade and other receivables from exchange transactions

Description	2020/2021	2019/2020
	KShs	KShs
Trade Payables	4,524,943.00	
Total	4,524,943.00	

8. Trade and other payables from exchange transactions

Description	2020/2021	2019/2020
	KShs	KShs
Trade Payables	4,524,943.00	7,621,848.00
Total	4,524,943.00	7,621,848.00

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

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.2	Under absorption of budget	This was caused by late disbursement of funds Covid 19 lead to suspension of services for 3 months Late upload of budget	Jacinta Ismail Principal Accountant	Resolved	

Guidance Notes:

- a) Use the same reference numbers as contained in the external audit report;

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

