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CLERK-AT-THE-TABLE:	Shibuko

THE AUDITOR-GENERAL

ON

**SALARIES AND REMUNERATION
COMMISSION MORTGAGE AND
CAR LOAN SCHEME FUND**

**FOR THE YEAR ENDED
30 JUNE, 2023**





Salaries & Remuneration
Commission
Rewarding productivity

**SALARIES AND REMUNERATION COMMISSION
MORTGAGE AND CAR LOAN SCHEME FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2023**

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

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30th June 2023**

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1. ABBREVIATIONS AND ACRONYMS

FY	Financial Year
HR	Human Resource
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
Ksh	Kenya Shillings
MOU	Memorandum of Understanding
PFM	Public Finance Management Act / Regulations
SRC	Salaries and Remuneration Commission

Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund Annual Report and Financial Statements for the year ended 30 June 2023

2. KEY FUND INFORMATION AND MANAGEMENT

a) Background information

Salaries and Remuneration Commission (SRC) is established under Article 230 of the Constitution of Kenya, 2010, to:

- i. Set and regularly review the remuneration and benefits of all State officers; and
- ii. Advise the national and county governments on the remuneration and benefits of all other public officers.

Scheme Fund was established in 2017 line with the constitutional principles under Article 230(5) of the Constitution of Kenya, 2010 on attraction and retention of requisite skills in the public service. The scheme's operations commenced in 2019 upon disbursement of first tranche of the seed capital to the Fund's bank account. The Scheme Fund is owned by the Commission and domiciled in Kenya.

b) Principal activities

The Scheme Fund's principal activity is to offer low interest loan facilities to members of the Commission for the purchase of residential property, purchase of land, house construction, purchase of land and construction and/or improvement, loan takeover or equity release and purchase of motor vehicles for personal use.

c) Key management

The Scheme Fund is administered by Co-operative Bank. It therefore does not have a Fund Administration Committee.

d.) Fiduciary Oversight Arrangements

The Mortgage and Car Loan Scheme Fund Advisory Committee is made up of the management team representatives and officers of the Commission who are appointed by the CEO. They oversee the implementation and administration of the scheme.

The Scheme Fund's Committee members, who served during the financial year ended 30 June 2023, and who had direct fiduciary responsibility were;

SN	Position	Name
1	Director Corporate Services (Chairperson)	CPA Margaret Njoka
2	Director Remuneration Services	Dr. Hillary Patroba
3	Head, Human Resource and Administration (Secretary	Samuel Makori
4	Head, Legal Services Department	James Sitienei
5	Head, Corporate Communications Department	Anthony Mwangi
6	Head, Finance and Accounts Department	CPA Mary Konuche
7	Principal Officer Job Evaluation and Salary Structure Department	Gregory Ogwel
8	Records Management Officer, Registry	Milka Kiplagat

d) Scheme Fund Registered Offices

Williamson House, 6th Floor,
4th Ngong Avenue
P.O. Box 43126, GPO-00100,
Nairobi, Kenya

Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund Annual Report and Financial Statements for the year ended 30 June 2023

e) Contacts information

Tel: +254 (20) 2710065/71/73/81

Tel: +254 794 587 903

Email: info@src.go.ke

Website: <https://www.src.go.ke/>

Twitter – @srckenya: <https://mobile.twitter.com/srckenya>

Instagram – @srckenya: <https://www.instagram.com/srckenya/>

Threads – @srckenya: <https://www.threads.net/@srckenya>

Flickr – srckenya: <https://www.flickr.com/photos/186707933@N05>

Facebook – @SRCKE: <https://www.facebook.com/SRCKE>

LinkedIn – Salaries and Remuneration Commission: <https://tinyurl.com/2bkawvae>

YouTube – Salaries and Remuneration Commission: https://www.youtube.com/@SRC_Kenya

f) Fund Bankers and Administrators

Co-operative Bank of Kenya Limited

Haile Selassie Avenue

P.O Box 48231, GPO-00100

Nairobi, Kenya

g) Independent Auditor

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084, GPO-00100

Nairobi, Kenya

h) Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue





P.O. Box 40112

City Square 00200


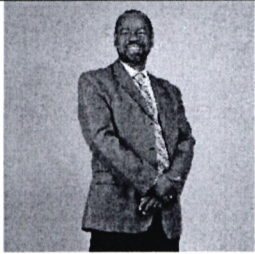


Nairobi, Kenya

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

3. SCHEME FUND ADVISORY COMMITTEE

 <p>Margaret Njoka Chairperson/Director Corporate Services</p>	<p>CPA Margaret Njoka is the Director of Corporate Services. She holds a Master’s Degree in Business Administration and Bachelor’s Degree in Commerce (Accounting), both from the Kenyatta University. She is a Certified Public Accountant (K), Credit Management Professional and a qualified and Human Resource and Administration practitioner.</p> <p>Ms. Njoka has over 15 years of experience in finance and HR in senior management in both the public and private sector.</p>
 <p>Dr. Hillary Patroba, Director, Remuneration Services</p>	<p>Dr. Hillary Patroba is the Director, Remuneration Services, appointed to the position in January 2020. His experience spans public and private sector organisations. He holds a PhD in Economics from Stellenbosch University.</p>
 <p>Samuel K. Makori Member/Head, Human Resources and Administration</p>	<p>Mr. Makori is the Head of Human Resources and Administration, with more than 25 years of experience in the public service. He has a Master’s degree in Business Administration (MBA-HRM option) and a Post Graduate Diploma in HR and Business Management and a member of the Institute of Human Resource Management.</p> <p>He Joined the Commission in 2013 where he has steered the HR and Administration function from inception to the current status. Mr. Makori has previously worked with the Kenya Revenue Authority, Kenya Instituted of Curriculum Development and the Kenya Railways, among others.</p>
 <p>James Sitienei Member/Head, Legal Services</p>	<p>Mr. Sitienei is the Head of Legal Services. He holds a Bachelor’s and Master’s degrees in law and is an advocate of the High Court of Kenya. He has more than 20 years of experience in the private and public sectors.</p>

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

 <p>Mary Konuche Member/ Head, Finance and Accounts</p>	<p>CPA. Mary Konuche is the Head of Finance and Accounting at the Commission and has over 14 years of experience in the public service. She is a Certified Public Accountant and holds a Master degree in Business Administration.</p>
 <p>Anthony Mwangi Member/Head, Corporate Communications</p>	<p>Mr. Mwangi is the Head of Corporate Communications, with more than 20 years of experience. He possesses a Bachelor’s and Master’s degrees in Mass Communication and Journalism.</p> <p>He has past work experience in the communications field with the United Nations system, international organisations, civil society organisations and the private sector, having also worked in some countries at the international level.</p>
 <p>Gregory Ogwel Member/Principal Officer, Job Evaluation and Salary Structure</p>	<p>Mr. Ogwel is the Principal Officer in the Job Evaluation and Salary Structure Department. He holds a Master’s Degree in Economics from the University of Nairobi and Bachelor’s Degree in Economics and Mathematics from Egerton University.</p> <p>He has more than 11 years of experience in the public service. He previously worked with the Ministry of State for Planning and National Development as an Economist/Statistician II.</p>
 <p>Milka Kiplagat Member/Records Management Officer, Registry</p>	<p>Ms. Kiplagat works in the Human Resource and Administration Department as a Records Management Officer. She holds a Bachelor’s Degree in Library and Information Science, with more than 34 years of experience in the public service.</p>

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

4. CHAIRPERSON’S REPORT

The Salaries and Remuneration Commission established a Staff Mortgage and Car Loan Scheme Fund Committee whose objective is to coordinate and engage with the Co-operative Bank in the management of the Scheme Fund on behalf of SRC. The Scheme Fund’s Committee members are drawn from all the two directorates and three departments.

The Commission in consultation with the Co-operative Bank, developed internal rules and Memorandum of Understanding, which are binding on matters relating to the Scheme Fund. Scheme rules, regulations and guidelines on accessibility of the loans, as well as requirements to be met by the applicants are clearly stipulated.

The key objective of the Scheme Fund is to support employees acquire defined mortgage facilities and car loan as a way of motivation and retention of staff at the Commission.

The Scheme Fund has since supported forty (40) members of staff and disbursed **Ksh 218,270,151**. The Co-operative Bank continues to carry out due diligence for all loan applications so as to minimise risks in acquiring property.

The Committee shall endeavour to support staff through the continuous engagement with the Co-operative Bank and ensure more employees benefit from the Fund.



CPA. Margaret N. Njoka
Chairperson,
SRC Staff Mortgage and Car Loan Scheme Fund

Date: 27 November 2023

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

5. REPORT OF THE OFFICER ADMINISTERING THE FUND

The Staff Mortgage and Car Loan Scheme Fund was established in February 2019. As at the close of the year, the Scheme Fund had received **Ksh 288,675,603** from the National Treasury in capital, earned **Ksh.7,293,430** in interest and disbursed **Ksh 218,270,151** to successful applicants.

The Scheme Fund closed with a cash and cash equivalent balance of **Ksh 133,911,291** of which **Ksh 60 million** was held in a fixed deposit account, **Ksh 31.3Million** committed for applications awaiting the verification process, and the actual cash available for lending being **Ksh 42,611,291**.

The Scheme funds were utilised in accordance with the provisions of the Public Finance Management (PFM) Act, 2012, the Public Financial Management Regulation, 2015 , and all other applicable legislation and for the purpose for which it was intended.

The Scheme Fund's principal activity is to offer low interest loan facilities to members of the Commission for the purchase of residential property, purchase of land, house construction, purchase of land and construction and/or improvement, loan takeover or equity release and purchase of motor vehicles for personal use.

The Scheme Fund's administrators hereby submit the report together with the audited financial statements for the year ended 30 June 2023, which show the state of the Scheme Fund's affairs.



Mrs. Anne R. Gitau, MBS
Commission Secretary/Chief Executive Officer

Date: 27 November 2023

Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund Annual Report and Financial Statements for the year ended 30 June 2023

6. CORPORATE GOVERNANCE STATEMENT

The Salaries and Remuneration Commission established a Mortgage and Car Loan Scheme Fund Advisory Committee, which oversees the implementation and administration of the Scheme, as well as coordinates and engages with the Co-operative Bank in the management of the Scheme Fund on behalf of SRC.

The authority to appoint members of the Advisory Committee is vested on the Commission Secretary/CEO. The Scheme Fund's Committee members comprise of the Heads of Directorates, and six other members of staff appointed by the Commission Secretary/Chief Executive Officer.

The functions and duties of the Advisory Committee are as follows:

- a) Liaise with the service provider to set up a revolving fund for the disbursement of the loans;
- b) Supervise the day-to-day running of the Scheme Fund;
- c) Forward the successful applications with recommendations to the service provider for approval;
- d) Process applications for loans in accordance with the existing terms and conditions of borrowing;
and
- e) Any other scheme related administration activities.

The membership of the Committee nominates, from among themselves, a liaison officer whose roles include:

- a) To open and manage a bank account for the Scheme Fund;
- b) Supervise the administration of the Scheme Fund;
- c) Cause to be kept books of account in relation to the Scheme Fund of all the loans financed from the Scheme Fund;
- d) Furnish such information regarding the administration of the Scheme Fund as may be required for examination and audit by the Auditor General or under any law;
- e) Designate or appoint such staff as may be necessary to assist the administration of the Scheme Fund and may require such staff to carry out such inspections as may be necessary to verify any information submitted under the regulations.

During the year, the Committee held three meetings. Further, the Committee, jointly with the Co-operative Bank carried out one staff sensitisation session during the financial year.

Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund Annual Report and Financial Statements for the year ended 30 June 2023

7. MANAGEMENT DISCUSSION AND ANALYSIS

A) OPERATIONAL AND FINANCIAL PERFORMANCE

1. Strategic direction

The Scheme Fund is now in its fourth year of operation. The main objective of the Scheme Fund is to provide financial support for the acquisition of mortgage facility and car loan at a subsidised interest rate relating to;

- i. Home development loans
- ii. Acquisition or purchase of residential homes
- iii. Purchase of land for home construction
- iv. Purchase of motor vehicles

As at the close of the year, the Scheme Fund's financial position was **Ksh.288,675,603** in capital, and **Ksh. 7,293,430** in interest earned from unutilised funds held in the call-deposit account and fixed deposit account.

During the financial year, a total of five (5) disbursements were made to successful applicants, Two (2) being for motor vehicle purchase amounting to **Ksh.3.9Million** and three (3) for mortgage facilities amounting to **Ksh.12.1 Million**. A total of **Ksh. 14.8Million** was recovered during the financial year from the outstanding loans. The total recoveries from successful applicants to date is **Ksh.46.7Million** comprising of **Ksh.37.9Million** from Mortgage related facilities and **Ksh.8.8Million** from motor vehicle loans.

The uptake of funds in the year was below the expected rate. However, in October 2022 management carried out an internal survey of the scheme with the aim of establishing the projected level of uptake and also the level of funding requirement for the scheme in the next three years. Twenty (20) staff expressed interest in taking the facility in the next three years. Out of the twenty (20), Eleven (11) stated that they would take up mortgage while five (5) would buy land and four (4) would apply for the funds towards purchase of motor vehicle. The total projected cost of the uptake in the next three years is **Ksh. 77.5 Million**. Management has continued to sensitize staff on the need to take up the facility and additionally Cooperative Bank continues to holds in person sessions on monthly basis to address any administrative challenges that maybe experienced during the loan appraisal. The uptake of the funds is therefore expected to improve in the subsequent financial year.

The Scheme Fund closed with a cash and cash equivalent balance of **Ksh 133,911,291** of which **Ksh 60 million** was held in a fixed deposit account, **Ksh 31.3Million** committed for applications awaiting the verification process, and the actual cash available for lending being **Ksh 42,611,291**.

2.) Financial performance analysis

The Scheme Fund's final approved budget for the financial year is **Ksh 16.125 million**, with the provision for interest income from unutilised funds amounting to **Ksh 4 million**. The previous financial year's approved budget was **Ksh 55.3 million**, with **Ksh 4 million** provided for interest earned from unutilised funds. The final budget allocation of **Ksh 16.125 million** was received and transferred to the Scheme Fund.

Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund Annual Report and Financial Statements for the year ended 30 June 2023

B.) FUND'S KEY PROJECTS OR INVESTMENTS DECISION IMPLEMENTED OR ONGOING

The Scheme's unspent funds were invested in an on-call deposit account and fixed deposit. As at the close of the year, the prevailing interest rate was three (3) per cent for on-call and eight (8) per cent for fixed deposit. The total interest earned at the close of the year was **Ksh 4,625,199**.

C.) COMPLIANCE WITH STATUTORY REQUIREMENTS

The Scheme Fund administrators are required to comply with various laws and constitutional provisions, which include the PFM Act 2012, PFM Regulations 2015, SRC Act 2011, among others. The Scheme Fund is compliant with the statutory requirements.

D.) MAJOR RISKS FACING THE SCHEME

i. Liquidity risk

Liquidity risk is the risk that the Scheme Fund will not be able to meet financial obligations when they fall due. This risk is managed by ensuring that the Scheme Fund is liquid enough to meet its obligations whenever they fall due. This has since been managed over the previous years by ensuring sufficient budget allocations are appropriated to the Scheme Fund.

ii. Credit risk

Credit risk is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. The Scheme Fund's exposure to credit risk is low owing to the fact that properties acquired are charged to the bank, and thus, held as security. The administrator also mitigates the risk by strictly scrutinising the prevailing financial state of the borrower before processing an application.

iii. Market and inflationary risks

Market risk is a risk inherent to the Scheme Fund. The properties in the market are affected by the prevailing economic conditions in the country. The increase in the Central Bank of Kenya rate from 7.5 to 10.5 per cent is likely to subject the properties to inflation risk, making them inaccessible to potential applicants. Inflationary risk will also erode the purchasing power of the revolving fund.

In order to mitigate these risks, strategies on how to grow the fund, as well as raising additional funds, are being explored. This includes investing funds in avenues of higher returns and looking out for service providers that may offer credible services at lower administrative costs. The loan limit imposed on individuals so as to enable them purchase their preferred properties will also be reviewed in the event of significant rise in cost of properties.

E.) MAJOR RISKS FACING THE FUND, MATERIAL ARREARS IN STATUTORY AND OTHER FINANCIAL OBLIGATIONS

The Scheme Fund does not have any material arrears in statutory of financial obligations.

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

F.) THE SCHEME FUND'S FINANCIAL PROBITY AND GOVERNANCE ISSUES

The Scheme Fund operates through a Committee, whose main role is to oversee its operations and implementation by both the Administrator and the Commission. The Committee's membership is drawn from two directorates and three departments of the Commission for inclusivity purposes.

Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund Annual Report and Financial Statements for the year ended 30 June 2023

8. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The Salaries and Remuneration Commission Mortgage and Car loan scheme was established in February 2019 pursuant to section 20,22 and 31 of the Salaries and Remuneration Commission Act,2011 and the Salaries and Remuneration Commission Circular No. SRC/ADM/CIR/1/13 Vol. III of 17th December, 2014 on Car Loan and Mortgage Schemes for State officers and other Public Officers of the Government of Kenya. The Scheme's funds are utilised in accordance with the provisions of the Public Finance Management (PFM) Act, 2012, the Public Financial Management Regulation, 2015, and all other applicable legislation and for the purpose for which it was intended. The Scheme Fund's principal activity is to offer low interest loan facilities to members of the Commission for the purchase of existing residential property, purchase of land, construction, purchase of land and construction and improvement, loan takeover or equity release and purchase of motor vehicles for personal use.

a.) Sustainability strategy and profile

The seed capital of the Scheme Fund is **Ksh 400 million**, which is based on the number of staff and expected loan uptake. For the past three financial years, the Commission has disbursed **Ksh 288,675,603** to the Scheme Fund, and has factored **Ksh 6.4 million** in the approved budget for the financial year 2023/24. The Scheme Fund is revolving and closed with cash and cash equivalent amounting to **Ksh.134 M**. Measures have been put in place to ensure that funds will be available to staff both in the medium and long term. This includes continuous follow up with the National Treasury to ensure that the full seed capital of **Ksh. 400M** is disbursed to the fund. The Fund Advisory Committee has also continued to ensure that the unutilised funds are invested in high interest earning avenues. There are currently no loan repayment defaults and stringent measures are in place to ensure staff repay their loan as per the signed loan agreements.

b.) Environmental performance

The Fund operates within the Commission's environment. The Commission initiated programmes to ensure that its environmental activities remained sustainable in the long run. This effort is demonstrated by operationalising policies relating to the disposal of electronic waste, pooling of water dispenser units, sharing of IT assets, sharing and circulation of soft copies of documents as opposed to hard copies, applying Just-In-Time philosophy for the replenishment of store items (minimises storage of large stocks), and printing on both sides of paper documents. In addition, SRC commenced the digitisation of its work processes by developing and implementing an Intranet, an Electronic Document Management System (EDMS), an SRC App, a Bulk SMS System, an Integrated Job Evaluation System, and a Monitoring and Evaluation System.

c.) Employee welfare

The Scheme Fund is anchored under the Affordable housing plan which is an intervention by the government to offer housing to both public servants as well as all other citizens. This is derived from the Vision 2030 and Medium Term Plans. By setting up the fund with lower interest of 3%, the Fund has enabled employees to purchase their dream homes and motor vehicles at affordable interest rates.

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

9. REPORT OF THE FUND ADMINISTRATION COMMITTEE

The Chairperson and Members of the Staff Mortgage and Car Loan Advisory Committee submitted their reports together with the audited financial statements for the year ended 30 June 2023, which show the state of the Scheme Fund affairs.

Principal activities

The principal activity of the Scheme Fund is to provide financial support for the acquisition of mortgage facility and car loan at a subsidised interest rate relating to;

- i. Home development loans.
- ii. Acquisition or purchase of residential homes.
- iii. Construction of residential homes.
- iv. Purchase of land for home construction.
- v. Equity release.
- vi. Purchase of motor vehicles.

Results

The results of the Scheme Fund for the year ended 30 June 2023 are set out on Pages 1 to 6.


Chairperson and Members of the Advisory Committee

The Chairperson and Members of the Advisory Committee who served during the year are shown on Page iv to vii.

Auditors

The Auditor General is responsible for the statutory audit of the Commission in accordance with Article 229 of the constitution and the Public Audit Act, 2015.

By Order of the Advisory Committee



CPA. Margaret N. Njoka
Chairperson,
SRC Staff Mortgage and Car Loan Scheme Fund

Date: 27 November 2023

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

10. STATEMENT OF THE RESPONSIBILITIES OF THE CHAIRPERSON AND MEMBERS OF THE COMMISSION

Section 84(1) of the PFM Act, 2012, requires that, at the end of each financial year, the Administrator of a Fund established by the Salaries and Remuneration Commission circular SRC/ADM/CIR/1/13 Vol.III (128) of 17 December 2014, on Car Loan and Mortgage Scheme for State officers and other public officers of the Government of Kenya, shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Administrator of the Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on 30 June 2023.

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 disclose with reasonable accuracy at any time the financial position of the fund, (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, whether 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 Administrator of the Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act 2012, and Salaries and Remuneration Commission circular SRC/ADM/CIR/1/13 Vol.III (128) of 17 December 2014 on Car Loan and Mortgage Scheme for State officers and other Public Officers of Government of Kenya.

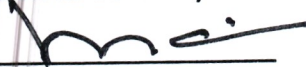
The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended 30 June 2023, and of the Fund's financial position as at that date.

The Administrator confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements, and the adequacy of the systems of internal financial control. In preparing the financial statements, the Administrator of the Fund has assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements.

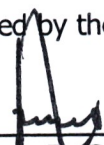
Nothing has come to the attention of the Administrator to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Scheme Fund's financial statements were approved by the Commission on 29 August 2023 and signed on its behalf by:



Mrs. Lyn C. Mengich
Chairperson
Date: 27 November 2023



Mrs. Anne R. Gitau, MBS
Commission Secretary/Chief Executive Officer
Date: 27 November 2023

REPUBLIC OF KENYA

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Enhancing Accountability

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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON SALARIES AND REMUNERATION COMMISSION MORTGAGE AND CAR LOAN SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2023

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 the 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 overall 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 Salaries and Remuneration Commission Mortgage and Car Loan Scheme Fund set out on pages 1 to 19, which

Report of the Auditor-General on Salaries and Remuneration Commission Mortgage and Car Loan Scheme Fund for the year ended 30 June, 2023

comprise the statement of financial position as at 30 June, 2023, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Salaries and Remuneration Commission Mortgage and Car Loan Scheme Fund as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Salaries and Remuneration Commission Act, 2011.

Basis for Opinion

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Salaries and Remuneration Commission Mortgage and Car Loan Scheme Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with 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 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, I confirm that, nothing 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

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

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

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how 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 control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal 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 Fund's policies and procedures may deteriorate.

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

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

I communicate with 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.


 FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

04 January, 2024


**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

12 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023


Description	Note	2022/23	2021/22
		Ksh	Ksh
Revenue from exchange transactions			
Interest income	19	4,625,199	3,956,618
Interest on individual staff mortgage and car loan	20	4,586,025	2,888,191
Total revenue		9,211,224	6,844,809
Expenses			
Fund administration expenses	21	4,586,025	2,888,191
General expenses		-	-
Withholding tax	22	693,780	593,492
Total expenses		5,279,805	3,481,684
Surplus for the year		3,931,419	3,363,125

{The notes set out on Pages 7 to 18 form an integral part of these Financial Statements}

The financial statements were approved and signed by:


Mrs. Lyn C. Mengich
Chairperson


Mrs. Anne R. Gitau, MBS
Commission Secretary/
Chief Executive Officer


CPA. Mary C. Konuche
Head of Finance and Accounts
ICPAK No: 9824

27 November 2023

27 November 2023

27 November 2023

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

13. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Note	2022/23	2021/22
		Ksh	Ksh
Assets			
Current assets			
Cash and cash equivalents	23	133,911,291	111,913,099
Current receivables from exchange transactions for car loan	24	4,489,127	3,741,114
Current receivables from exchange transactions for mortgage	24	10,485,721	9,452,874
Total current assets		148,886,139	125,107,087
Non-current assets			
Long term receivables from exchange transactions for car loan	24	9,325,991	10,283,769
Long term receivables from exchange transactions for mortgage	24	139,726,276	141,797,351
Total non-current assets		149,052,268	152,081,120
Total assets		297,938,407	277,188,207
Liabilities			
Trade and other payables from exchange transactions	25	1,341,905	648,125
Total liabilities		1,341,905	648,125
Net assets		296,596,502	276,540,082
Equity			
Revolving Fund	26	288,675,603	272,550,603
Accumulated surplus		7,920,898	3,989,479
Total net assets		296,596,502	276,540,082
Total net assets and liabilities		296,596,502	276,540,082

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Scheme Fund financial statements were approved and signed by:


Mrs. Lyn C. Mengich
Chairperson


Mrs. Anne R. Gitau, MBS
Commission Secretary/
Chief Executive Officer


CPA. Mary C. Konuche
Head of Finance and Accounts
ICPAK No: 9824

27 November 2023

27 November 2023

27 November 2023

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

14. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2023

	Note	Revolving Fund	Accumulated Surplus	Total
				Ksh
Balance as at 1 July 2021		217,250,603	626,354	217,876,957
Surplus for the year		-	3,363,125	3,363,125
Funds received during the year		55,300,000	-	55,300,000
Balance as at 30 June 2022		272,550,603	3,989,479	276,540,082
Balance as at 1 July 2022		272,550,603	3,989,479	276,540,082
Surplus for the year		-	3,931,419	3,931,419
Funds received during the year	18	16,125,000	-	16,125,000
Balance as at 30 June 2023		288,675,603	7,920,898	296,596,501

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

15. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

	Note	2022/23	2021/22
		Ksh	Ksh
Cash flows from operating activities			
Surplus		3,931,419	3,363,125
Withholding Tax (15%)	22	693,780	593,493
(Increase) in current receivables	24	(1,780,860)	(4,082,489)
(Increase) in non-current receivables	24	3,028,852	(56,206,807)
Net cash flows from operating activities	27	5,873,191	(56,332,678)
Cash flows from investing activities			
Additional capital during the year	18	16,125,000	55,300,000
Net cash flows used in investing activities		16,125,000	55,300,000
Cash flows from financing activities			
Net cash flows used in financing activities		21,998,191	-
Net increase/(decrease) in cash and cash equivalents			(1,032,678)
Cash and cash equivalents at 1 July (Beginning)	23	111,913,099	112,945,777
Cash and cash equivalents at 30 June (End)	23	133,911,290	111,913,099

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

16. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2023

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	a	b	C=(a+b)	d		E=(d/c)
Revenue	Ksh	Ksh	Ksh	Ksh	Ksh	%
Commission Transfers	64,500,000	(48,375,000)	16,125,000	16,125,000	-	100
Interest income	-	-	-	4,625,199	4,625,199	100
Interest on individual staff mortgage and car loan	-	-	-	4,586,025	4,586,025	100
Total income	64,500,000	(48,375,000)	16,125,000	25,336,224	9,211,224	160
Expenses						
Fund administration expenses	-	-	-	4,586,025	-	100
Total expenditure	-	-	-	4,586,025	-	-
Net Income	64,500,000	(48,375,000)	16,125,000	20,750,199	-	129

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30th June 2023**

- a) **Explanation notes for the differences between the actual and budgeted amounts (10 per cent and over/under):** The interest amount is an initiative by the Management to grow the Scheme Fund by utilising uncommitted funds. This is usually not included in the government budget.
- b) **Explanation note for the changes between the original and final budget:** The changes in the original and final budget for transfers was due to austerity measures undertaken by the National Treasury which led to reduction of the approved budget.
- c) **The Scheme Fund is administered by the Co-operative Bank at an administrative cost of three 3 per cent:** This cost is borne by the successful applicants on a reducing balance basis.

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30th June 2023**

17. NOTES TO THE FINANCIAL STATEMENTS

17.1 General Information

SRC is established by and derives its authority and accountability from Article 230 of the Constitution, and was operationalised by SRC Act, 2011. The Commission is wholly owned by Government of Kenya (GoK) and is domiciled in Kenya. The Commission’s principal activity is to set and regularly review the remuneration and benefits of all State officers, and to advise the national and county governments on the remuneration and benefits of all public officers.

The Staff Mortgage and Car Loan Scheme Fund is established by, and derives its authority and accountability from the Salaries and Remuneration Regulations of 2017.

17.2 Statement of compliance and basis of preparation

The Scheme Fund’s financial statements have been prepared in accordance with and comply with IPSAS. The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Scheme 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.

17.3 Adoption Of New and Revised Standards

IPSASB set the provided the below listed new and amended standards and interpretations in issue effective in the year ended 30 June 2023.

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

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

Standard	Effective date and impact:
	<p>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> <p>The Standard has no impact on the Salaries and Remuneration Commission staff Mortgage and Car loan Scheme Fund.</p>
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness, and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ul style="list-style-type: none"> (a) The nature of such social benefits provided by the Entity. (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows. <p>The Standard has no impact on the Salaries and Remuneration Commission staff Mortgage and Car loan Scheme Fund.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</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. d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued. <p>The Standard has no impact on the Salaries and Remuneration Commission staff Mortgage and Car loan Scheme Fund.</p>

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

Standard	Effective date and impact:
Other improvements to IPSAS	<p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • IPSAS 22 Disclosure of Financial Information about the General Government Sector. Amendments to refer to the latest System of National Accounts (SNA 2008). • IPSAS 39: Employee Benefits Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • IPSAS 29: Financial instruments: Recognition and Measurement Standard no longer included in the 2023 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023. <p>The Standard has no impact on the Salaries and Remuneration Commission staff Mortgage and Car loan Scheme Fund.</p>

17.3 Early adoption of standards

The Scheme Fund did not early- adopt any new or amended standards in year 2022/23.

Summary of significant accounting policies and notes to the financial statement

a) Revenue recognition

(i) Revenue from non-exchange transactions

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

(ii) Revenue from exchange transactions

Interest Income

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

b) Budget information

The original budget for the FY 2022/2023 was approved. Subsequent revisions or additional appropriations may be 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 Scheme Fund upon receiving the respective approvals to conclude the final budget.

Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund Annual Report and Financial Statements for the year ended 30 June 2023

Accordingly, the Scheme Fund did not have any additional budgetary allocation on the appropriations for the FY 2022/2023 budget.

c.) Financial instruments

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 fund 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 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 Fund has the positive intention and ability to hold into maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, with 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 Fund assesses at each reporting date whether there is objective evidence that a financial asset of a Fund of financial assets is impaired. Management then follows the procedure required by Regulation 145 of the PFM Act, 2012. A financial asset of the Fund 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 has an impact on the estimated future cashflows of the Fund that can be reliably estimated. Evidence of impairment may include the following indicators:

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

Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund Annual Report and Financial Statements for the year ended 30 June 2023

d.) Related parties

The Fund regards a related party as a person or entity with the ability to exert control individually or jointly, or to exercise significant influence over the Fund, or vice versa. The Fund is administrator if Co-operative bank in line with the MOU and the scheme's approved regulations.

e.) 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 Co-operative bank at the end of the financial year.

f.) Fund Account

The Scheme Fund is enhanced gradually on an annual basis through appropriations from the Commission's budget. Further, all interest is recouped back to the Scheme Fund. The Scheme Fund was mainly established in order to enable members purchase motor vehicles, acquire existing residential property, purchase of land and construct, renovate and improve existing residential property, and takeover loans on existing mortgages or equity release. The facility is extended to applicants at an interest rate of 3 per cent, which are funds utilised by the bank for administration of the Scheme Fund. The account is a revolving fund, which receives recoveries made from the disbursed funds.

g.) Comparative figures

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

h.) Events after the reporting period

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

i.) Ultimate and Holding Entity

The Scheme Fund is a Public Fund established under the Salaries and Remuneration Commission. Its ultimate parent is the Salaries and Remuneration Commission.

j.) Currency

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

i.) Financial risk management

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

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

Credit risk management

Credit risk is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations.

Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund Annual Report and Financial Statements for the year ended 30 June 2023

The Scheme Fund's exposure to credit risk is low owing to the fact that properties acquired are charged to the bank and thus held as security. The Administrator also mitigates the risk by strictly scrutinising the prevailing financial state of the borrower before processing an application.

Liquidity risk management

Liquidity risk is the risk that the Scheme Fund will not be able to meet financial obligations when they fall due. This risk is managed by ensuring that the Scheme Fund is liquid enough to meet its obligations whenever they fall due. This has since been managed over the previous years by ensuring sufficient budgetary allocations are appropriated to the Scheme Fund.

Interest rate risk

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

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with a local commercial Bank regulated by the Central Bank of Kenya and negotiate for favourable interest rates from time to time in tandem with prevailing market rates and economic conditions.

Capital risk management

The objective of the Scheme Fund's capital risk management is to safeguard the Scheme Fund's ability to continue as a going concern. The Scheme Fund capital structure comprises of reserves, recoveries and additional transfers.

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

18. Transfers from the National Treasury

Description	Cumulative to date 2022/23	Comparative Prior Year 2021/22
	Ksh	Ksh
Transfers from the National Treasury	16,125,000	58,150,603
Total other income	16,125,000	58,150,603

19. Interest Income

Description	Cumulative to date 2022/23	Comparative Prior Year 2021/22
	Ksh	Ksh
Interest from on-call deposit account at 3%	2,820,376	3,956,618
Interest from fixed deposit at 8%	1,804,823	-
Interest income	4,625,199	3,956,618

20. Interest on individual staff mortgage and car loan; 3%

Description	Cumulative to date 2022/23	Comparative Prior Year 2021/22
	Ksh	Ksh
Interest on individual staff mortgage and car loans	4,586,025	2,888,191
Total other income	4,586,025	2,888,191

21. Fund administration expenses

Description	Cumulative to date 2022/23	Comparative Prior Year 2021/22
	Ksh	Ksh
Administrative cost	4,586,025	2,888,191
Total cost	4,586,025	2,888,191

Note: The Fund administration expense is charged on the applicants at the rate of three (3) per cent per annum, payable by the loanees on a reducing balance basis.

22. Withholding tax

Description	Cumulative to date 2022/23	Comparative Prior Year 2021/22
	Ksh	Ksh
15% withholding tax on interest income	693,780	593,492

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

23. Cash and cash equivalents

Description	Cumulative to date Year 2022/23	Comparative Prior Year 2021/22
	Ksh	Ksh
On-call deposits	73,911,291	111,913,099
Current account	-	-
Fixed deposit	60,000,000	-
Total cash and cash equivalents	133,911,291	111,913,099

Four(4) applications worth **Ksh 31.3 million** were at various stages of verification process. These funds had already been set aside and factored within the **Ksh. 73,911,291**, therefore, the actual cash available for lending was **Ksh 42,611,291**.

In the interest of growing the revolving fund, the Committee factored in the pending applications and the projected disbursements in the next six(6) months. Arising from the projections, the balance of **Ksh. 60Million** was placed in fixed deposit to earn interest at a higher rate of 9% as compared to 3% that was being earned from funds in the on-call deposit account.

24. Receivables from exchange transactions

Description	Cumulative to date	Comparative Prior Year
	Ksh	Ksh
Current receivables		
Current loan repayments from car loan	4,489,127	3,741,114
Current loan repayments from mortgage	10,485,721	9,452,874
Less: impairment allowance	-	-
Total current receivables	14,974,848	13,193,988
Non-current receivables		
Long term loan repayments due from car loan	9,325,991	10,283,769
Long term loan repayments due from mortgage	139,726,276	141,797,351
Total receivables	149,052,267	152,081,120
Total receivables	164,027,115	165,275,108

25. Trade and other payables from exchange transactions

Description	Cumulative to date Year 2022/23	Comparative Prior Year 2021/22
	Ksh	Ksh
Trade payables	-	-
With holding tax	1,341,905	648,125
Total trade and other payables	1,341,905	648,125

**Salaries and Remuneration Commission – Mortgage and Car Loan Scheme Fund
Annual Report and Financial Statements for the year ended 30 June 2023**

26. Revolving Fund

	Revolving Fund	Accumulated Surplus	Total
Balance as at July 2021	217,250,603	626,354	217,876,957
Fund transfer during the year	55,300,000	-	55,300,000
Surplus for the year		3,363,125	3,363,125
Balance as at July 2022	272,550,603	3,989,479	276,540,082
Fund transfer during the year	16,125,000	-	16,125,000
Surplus for the year	-	3,931,419	3,931,419
Balance as at June 2023	288,675,603	7,920,898	296,596,501

27. Net cash flow from operating activities

Description	Year 2022/23	Comparative Prior Year 2021/22
	Ksh	Ksh
Surplus for the year before tax	4,625,199	3,956,618
Increase in current receivables	(1,780,860)	(4,082,489)
Increase in non-current receivables	3,028,852	(56,206,807)
Net cash flow from operating activities	5,873,191	56,332,678

28. Financial risk management

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The Fund does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

a) Credit risk

The Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Fund's management based on prior experience and their assessment of the current economic environment.

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

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Description	Total amount Kshs.	Fully performing Kshs.	Past due Kshs.	Impaired Kshs.
At 30 June 2023				
Receivables From Exchange Transactions-Car loans and mortgages	164,027,115	164,027,115	-	-
Bank Balances	133,911,291	133,911,291	-	-
Total	297,938,406	297,938,406	-	-
At 30 June 2022				
Receivables From Exchange Transactions- Car loans and mortgages	165,275,108	165,275,108	-	-
Bank Balances	111,913,099	111,913,099	-	-
Total	277,188,207	277,188,207	-	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Fund has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The Fund has significant concentration of credit risk on amounts due from staff loan beneficiaries.

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

b) Liquidity risk management

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

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

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Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs.	Kshs.	Kshs.	Kshs.
At 30 June 2023				
Accrued withholding tax	-	270,723	1,071,181	1,341,904
Total	-	270,723	1,071,181	1,341,904
At 30 June 2022				
Accrued withholding tax	-	-	648,125	648,125
Total	-	-	648,125	648,125

c) Market risk

The Commission has put in place an internal audit function to assist it in assessing the risk faced by the Fund 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 Fund'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 Mortgage and Car Loan Scheme Fund Advisory Committee is responsible for the development of detailed risk management policies (*subject to review and approval by the Audit and Risk Management Committee*) and for the day-to-day implementation of those policies.

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

d) Interest rate risk

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

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates and are regulated by the Central Bank of Kenya.

e) 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 Fund capital structure comprises of the following funds:

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Description	Year 2022/23	Comparative Prior Year 2021/22
	Kshs.	Kshs.
Revolving fund	288,675,603	272,550,603
Accumulated surplus (<i>Reserves</i>)	7,920,898	3,989,479
Total funds	296,596,501	276,540,082
Less: cash and bank balances	(133,911,291)	(111,913,099)
Net debt/(excess cash and cash equivalents)	162,685,210	164,626,983
Gearing	55%	60%

29. Related party balances

a) Nature of related party relationships

Entities and other parties related to the Fund include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members. The fund is related to the Salaries and Remuneration Commission which provides management and financial support to the scheme.

b) Related party transactions

Transfers from related parties

Description	Year 2022/23	Comparative Prior Year 2021/22
	Kshs.	Kshs.
Transfers from related parties	16,125,000	58,150,603

30. Events after the Reporting Period

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

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Appendix 1: Implementation Status of Auditor-General's Recommendations

The Commission does not have any unresolved issues raised by the external auditor.



Mrs. Anne R. Gitau, MBS
Commission Secretary/Chief Executive Officer
Date: 27 November 2023

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Appendix 2 SRC Transfers to the Fund

No.	Ref. No.	Period	Date	Amount Ksh
1	FT222452S9QQ	Quarter 1	2/9/2022	16,125,000